CREDIT MANAGEMENT OF NEPAL INVESTMENT BANK LIMITED

By:

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Tribhuvan Multiple Campus

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submitted to:
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In partial Fulfillment of the requirements for the Degree of
Master of Business Studies (M.B.S)

Tansen, Palpa

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This is to certify that **Mr. Kamal Shrestha** has prepared the thesis entitled **CREDIT MANAGEMENT OF NEPAL INVESTMENT BANK LIMITED** under my supervision and guidance. I am satisfied with the work in terms of Research methodology, presentation and describes of data.

This thesis has been prepared in the form as required by the institute of Management for the partial fulfillment of the degree of Master of Business Studies (M.B.S.).

This thesis is forwarded for examination. I recommend this thesis for approval and acceptance.

Date :

(Dhanendra Raj Ghimire)

Thesis Supervisor

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APPROVAL SHEET

This is to certify that the thesis

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has been prepared as approved by this department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

....	....	....
Signature	Signature	Signature
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Supervisor	Head of Research	Campus Chief

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VIVA-VOCE SHEET

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And found the thesis to be the original work of the student written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for

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Viva-Voce Committee

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DECLARATION

I hereby declare that the work reported in this entitled **CREDIT MANAGEMENT OF NEPAL INVESTMENT BANK** has been submitted to Tribhuvan Multiple Campus, Palpa, Faculty of Management, Tribhuvan University, is my own credit work reported in the form of partial fulfillment of the requirement of Master's of Business Studies (M.B.S.) course under the guidance and supervision of respected **Mr. Dhanendra Raj Ghimire,** lecturer of Tribhuvan Multiple Campus, Tansen - Palpa.

… …………

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This entitled thesis **Credit Management of Nepal Investment Bank Limited** has been prepared for the partial fulfillment of the requirement of Master's Degree of Business Studies(M.B.S) under the faculty of Managemtn, Tribhuvan Multiple Campus, Tansen Palpa, is based on research models involving the use of quantitative as well as qualitative aspect of Credit Management.

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Kamal Shrestha

September, 2011

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ABBREVIATION

ADB	Agriculture Development Bank
AGM	Annual General Meeting
BOK	Bank of Kathmandu Limited
BPS	Book- Value Per Share
BS	Bikram Sambat(Abbreviation of Bikram Era)
CEO	Chief Executives Officer
CV	Coefficient of Variation
DPS	Dividend Per Share
EBL	Everest Bank Limited
EMLV	Estimate Market Level Value
EPS	Earnings Per Share
GDP	Gross Domestic Product
HBL	Himalyan Bank Limited
G/N	Government of Nepal
IMC	International Money Conference
IMF	International Monetary Fund
MPS	Market Per Share
NABIL	Nabil Bank Limited
NBl	Nepal Bank Limited
NEPSE	Nepal Stock Exchange
NIB	Nepal Investment Bank Limited
NICB	Nepal Industrial & Commercial Bank Limited
NPV	Net Present Value
NRB	Nepal Rastra Bank
PE	Price Earning
RBB	Rastriya Banijya Bank
SBI	Nepal State Bank of India Limited
SCBNL	Standard Chartered Bank Nepal Limited
SEBO/N	Security Board of Nepal

CHAPTER-1

INTRODUCTION

1.1 Background of the study

Nepal lies in between two large and popular countries China in the North and India in the South. It is a landlocked and mountains country. The Nepalese economy is predominantly an agricultural economy. About 74 percent of the population is engaged in the agriculture sector whereas about 76 percent of population lives in the rural sector of the country. Agricultural sector contribute 40 percent to Gross Domestic Product (GDP) of the country. Agricultural sector countries 40 percent to Gross Domestic Product (GDP) of the country. As most of the labor Forces are unemployed, it is necessary to transform the huge labor forces in to industrial sector. Only few percent of total population is involved in industrial sector and services sector. Here 38% of the population was found to be living below poverty line.

For the development of any country, the financial sector of the country is responsible and must be strong. Financial sector comprises of bank, co-operatives, insurance companies, financial companies, stock exchange markets, mutual funds etc. Financial institution play a major role in the proper functioning of an economy . These institutions collect idle and scattered money from the general public and finally invest in different enterprises of the national economy that consequently help in increasing employment opportunities, increasing in life style of people, reducing poverty and thereby developing he society and the nation as a whole.

Nepal has been facing the problem of accelerating the pace of economic development. Economic development of ac country depends upon the up liftment of the rural people through increasing their productivity thereby raising their income, which ultimately help them to cross the poverty line. The commercial banking system in Nepal is still in its infant stage as compared to other developed countries. However, their important role in the economic development of the country has been fully realized and these banks are being oriented in their activities best suited for the overall economic development of a country.

For the up liftment of the rural people and economic development of a country as a whole, the government has initiated different priority sector lending program focusing for poverty alleviation. The priority sector lending programs were area based or target/ group oriented, need based and complementary, timely and consistent with the national goals and suited to he specific needs of Nepal's rural economy.

Banks play a significant role in the development of a country . Bank is a financial institution, which maintains the self - confidence of various segments of society and extends credit to the people. The financial institution is an indispensable part for the upliftment of a country. The financial institution is a very field comprising of banks, financial companies, insurance companies, co-operatives, stock exchanges and foreign exchange markets, mutual funds, etc. These institutions collect idle and scattered money from the general public and finally invest in different enterprises that consequently help in reducing poverty, increase in life style of people, increase employment opportunities and thereby developing society and the country as a whole. Thus, today the financial institutions have became the base for measuring the level of economic development of a country.

1.2 Origin of Bank in Nepal

The history of modern financial system of Nepal was begun in 1994 BS, wih the establishment of the Nepal Bank ltd.(NBL) as the first commercial bank of Nepal with the joint ownership of government and general public. It was established under "Special banking act 1993" having elementary function of commercial banks. Later, Nepal Rastra Bank(NRB) was established after 19 years since the establishment of commercial banks. i.e, Nepal Bank Limited in 2013 BS Under "Nepal Rastra Bank act 2012 " with an objective of supervising, protecting and directing the function of commercial bank activities. After the establishment of NRB, Nepal witnessed a systematic development of the financial system. After the restoration of democracy in 1991, Nepal has clearly been following a liberalized economic policy and witnessing diversification in financial system. As a result various banking and non-banking financial institution have come into existence. Then fter in 2016 Nepal Industrial Development corporation, in 2022 Rastriya Banijya Bank(RBB) under Rastriya Banijya Bank act 2021" and in 2024 Agriculture Development Bank was established in Nepalese financial sector. Nepal Bank Limited and Rastriya Banijya Bank are the two major commercial banks in Nepal that are providing credit under different priority sector credit programs in rural areas from their initial stage. They have contributed a lot in the upliftment of rural people and socio- economic development of a country . As both banks are established as public enterprises in the development of a country, they have main objective to maximum social benefit rather than profit maximization as profit making motive is their secondary objectives. He financial scenario has changed to a new horizon with the established of joint venture bank in the year 2041 B.S. The efficient operation practice and policy adopted by these joint venture banks helps Nepal to take a step in this banking field.

With the opening of Nabil bank in 1985 the door of opening commercial banks was opened to the private sector then whole lot of commercial banks was opened in Nepal. Today all the banks except Nepal Bank except Nepal bank ltd and Rastriya Banijya Bank are making profit. The efficiency of these two public sector banks has led to the success of other private banks.

Financial liberation took place in Nepal in the mid 1980's then after bank innovates to remain forefront. Better use of funds, easily availability of funds to the entrepreneurs, better returns o the depositors, professional approach towards customer's satisfaction. As he mid-Jan 2008 altogether there are 26 commercial banks, 59 Development banks, 78 finance companies, and 12 micro credit development banks, 16 saving and credit cooperatives and 47 NGOs functioning in the country. These financial institutions are under the regulation and supervision of the NRB. Besides these institutions, there are more than 1500 registered saving and credit cooperatives operating in the different part of country and there are many NGOs involves in this sector.

1.3 Nepal Investment Bank Limited (NIBL)

Nepal Investment Bank Ltd(NIBL), previously known as Nepal Indosuez Bank(Ltd) was established in 1986 as a joint venture between Nepalese and French partners. The French partner(holding 50% of the capital of NIB) was credit Agricola Indosuez, a subsidiary of one largest banking group in the world .

With the decision of credit Agricola Indosuez to divest, a group of companies comprising of bankers, professionals, industrialistics and businessmen has acquired on April 2002 the 50% shareholdings of credit Agricola Indosuez in Nepal Indosuez Bank Ltd. The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting. Nepal Rastra Bank and company Register's office with the following shareholding structure. Rastriya Banijya Bank holds 15% Rastriya Beema Sansthan holds 15%, General public holds 20% and Nepalese promoters hold 50%.

We believe that NIBL, which is managed by a team of experience bankers and professionals having proven track record, can offer you what you're looking for.

Besides commercial banking services, the bank also offers industrial and merchant banking services. The bank has forty one branches till to date. These are as below;

1. KATHMANDU HEAD OFFICE Durbar Marg, P.O. Box 3412 Tel: 4228229, 4242530 (DISA) Fax: 977-1-4226349, 4228927 Swift: NIBLNPKT	
2. SEEPADOLE BRANCH Suryabinayak, Bhaktapur Tel: 6615617, 6612832 Fax: 6616617	**3. BIRGUNJ BRANCH** Adarshanagar, P.O. Box 101 Tel (051) 523327, 525277 Fax: (051) 525297, 534271
4. PULCHOWK BRANCH Pulchowk, Lalitpur Tel: 5010188, 5010042 Fax: 5010142	**5. BANEPA BRANCH** Banepa, Kavre Tel: (011) 664315,662401 Fax: (011) 662402
6. JEETPUR BRANCH Jeetpur, Bara Tel: (053) 520297 Fax: (053) 520877	**7. NEWROAD BRANCH** Newroad, Kathmandu Tel: 4242858, 4230374 Tel(Basantapur): 4227688, 4227167, 4227290 Fax: 4227050
8. BIRATNAGAR BRANCH Golcha Chowk, Biratnagar Tel: (021) 534523, 534524, 534525 Fax: (021) 534526	**9. BUTWAL BRANCH** Traffic Chowk, Butwal Tel: (071) 549991, 549992, 549993 Fax: (071) 549888
10. BHAIRAHAWA BRANCH Maitri Road, Bhairahawa Tel: (071) 526991, 526992 Fax: (071) 526990	**11. POKHARA BRANCH** Chiple Dunga,Pokhara Tel: (061) 538919, 539276 Fax: (061) 538920
12. PUTALISADAK BRANCH Putalisadak, Kathmandu Tel: 4445302, 4445303 Fax: 4445304	**13. NARAYANGARH BRANCH** Pulchowk, Narayangarh Tel: (056) 571921,571922, 571923, 571924 Fax: (056) 571925
14. JANAKPUR BRANCH Mills Area, Janakpur Tel: (041) 527331 Fax: (041) 527332	**15. NEPALGUNJ BRANCH** Dhamboji, Nepalgunj Tel: (081) 525978,525682 Fax: (081) 521664
16. THAMEL BRANCH Chaksibari, Thamel Tel: 4218431,4218434, 4218485,4218486 Fax: 4218434	**17. KALIMATI BRANCH** Kalimati Chowk, Kalimati Tel: 4672493,4672494 4672495,4672548 Fax: 4272612
18. BIRTAMOD BRANCH Traffic Chowk, Birtamod Tel:(023) 543810,543811 Fax: (023)543815	**19. BATTISPUTALI BRANCH** Battisputali, Kathmandu Tel: 4471690,4471790 Fax: 4470202
20. DHANGADI BRANCH Main Road, Dhangadi Tel:(091) 523620,523706	**21. GONGABU BRANCH** Gongabu Chowk, Kathmandu Tel: 4365318,4365077

Fax: (091) 524090	Fax: 4365302
22. SURKHET BRANCH Neta Chowk, Surkhet Tel: (083) 524330, 524331 Fax: 524332	**23.** JUMLA BRANCH Khalang Bazaar, Jumla Tel: (087) 520132 Fax: 520304
24. BOUDHA BRANCH Boudha, Kathmandu Tel: 4915121,4915722 Fax: 4915123	**25.** HETAUDA BRANCH Bank Road, Hetauda Tel: (057) 526001, 525946 Fax: (057) 526005
26. PALPA BRANCH Tansen,Palpa Tel: (075) 520832,520833 Fax:(075)-520891	**27.** LUKLA BRANCH Chaurikharka, Lukla Tel:(038) 550120 Fax: (038) 550220
28. NAYA BANESHWOR BRANCH Naya Baneshwor, Kathmandu Tel:4785529,4782289,4782520 Fax: 4785537	**29.** DHUMBARAHI BRANCH Pipalbot Chowk, Kathmandu Tel: 4009006, 4009007 Fax: 4009009
30. BHOTAHITI BRANCH Bhotahiti, Kathmandu Tel: 4230797, 4230788 Fax: 4230771	**31.** TULSIPUR BRANCH Tulsipur, Dang Tel:(082)521613,521614 Fax: 521615
32. TRIPURESHWOR BRANCH Tripureshwor, Kathmandu Tel: 4259780, 4259980 Fax: 4260324	**33.** DAMAULI BRANCH Safasadak, Damouli Tel:(065) 562500,562600 Fax: (065) 562700
34. KRISHNANAGAR BRANCH Krishnanagar, Kapilvastu Tel: (076) 520764, 520765, 520766 Fax: (076) 520354	**35. GAIGHAT BRANCH** Gaighat, Udayapur Tel: (035) 420952, 420953 Fax: (035) 420954
36. LAZIMPAT BRANCH Lazimpat, Kathmandu Tel:4005058, 4005069, 4005068 Fax:4005065	**37.** PARSA BRANCH Parsa, Chitwan Tel: (056) 583623, 583624 Fax: (056) 583625
38. MAHARAJGUNJ BRANCH Maharajgunj, Kathmandu Tel:4016151, 4016152 Fax:4016155	**39.** LALBANDHI BRANCH Lalbandhi, Sarlahi Tel: (046) 501583, 501584 Fax:(046) 501585
40. LAGANKHEL BRANCH Lagankhel, Lalitpur Tel: 5552980 Fax: 5552990	**41.** WALING BRANCH Waling, Syangja Tel: (063) 440573, 440574 Fax: (063) 440575

and other will be aggressively opening new branches at different parts of the kingdom to serve its customers better. Investment Bank Limited has always been committed to providing a quality service to its valued customers, being truly a Nepali Bank. ALl customers are treated with utmost courtesy as valued clients.

The bank wherever possible, offers tailor made facilities to its clients, based on the unique needs and requirements of different clients. To further extends he reliable and efficient services to its valued customers, Investment Bank limited has adopted the latest baking technology. This has not only helped the bank to constantly improve its service level but has also prepared the bank for future adaptation to new technology. The bank already offers unique services such as the post paid mobile recharging system, e-banking, to customers and will be introducing more services like these in the near future. It has brought a new scheme that everyone can open its Account in Rs 1.00

Table no 1.1

Capital Structure of Investment Bank Limited

Capital as at 2010	Amount in RS'000'
Authorized Capital	4,000,000
Issued Capital	2409097
Paid up Capital	2409098

1.4 Factors of the study

Although joint venture banks have managed credit than other local commercial banks within sort span of time, they have been facing a neck-to-neck competition against one another. Among this joint venture banks, this research is based on mainly joint venture banks, namely Everest Bank Limited Joint Venture commercial banks play a tremendous role in a developed or developing nation also helps to improve the economic sector of the country. Typically commercial banks main motive is to make profit by providing quality services to the customers. In Nepal, there exists 25 commercial banks in terms of loans and advances and investments and its commercial banks are the heart of financial system. They hold the deposit of money persons, government establishment and business. The study focus on evaluating the deposits utilization of the bank in terms of loans and advances and investments and its commercial banks are the heart of financial system. They hold the deposit of money persons, government establishment and business. The study focuses on evaluating the deposits utilization of the bank in terms of loans and advances and investments and its contribution in the profitability of the bank. It also focuses on the contribution in the profitability of the bank. Commercial banks are the heart of financial system. They hold the deposit of many persons, government establishment and business units. They make fund available through their lending and investing activities to borrowing individual's business firms and government establishment. In doing, so they assist both the flow of goods and services from the producers to consumers and the financial activities of the government. They provided a large portion of medium of exchange and they are media through which monetary policy is affected. These facts show that commercial banking system of nation is important to the functioning of the economy.

Financial institution is currently viewed as catalyst in the process of economic growth of country. A key factor in the development of an economy is the mobilization of the domestic resources and intermediaries, the financial institution helps the process of resources mobilization. The importance of financial institutions in the economy has of late growth to an enormous extent. The government in turn is required to regulate their activities. So, the financial policies are implemented as per the requirements of the country.

Therefore, this researcher has focused this resource mainly to highlight and examine the credit management of the selected bank ignoring other aspects of bank transaction. To highlight the credit management of the bank, the research is based on the certain statistical tools i.e. mean with a view to find out the true picture of the bank. The main objective of this research is to analyze the credit management through the use of appropriate financial tool.

1.5 Statement of the problem

Commercial banks in Nepal have been facing various challenges and problems. Some of them arising due to the economic condition of the country, some of them arising due to confused policy of government and many of them arising due of default borrowers. After liberalization of economy, banking sector has various opportunities. Lending in industries and production sectors are very risky projects. Banks are investing in house loan, hire purchase loan, and safety purpose. Lack of lending opportunities, banks are facing problem of over liquidity. Now a day's banks have increasing number of deposits in fixed and saving accounts but have decreasing trend in lending behavior. So, this has caused major problems in commercial banks. Now days due to competition among banks, the interest rate change for loan is in decreasing trend on- performing assets have become a large problem in the commercial banks. Liquidity is maximum with the financial institutions. Hence, the banks and financial institutions are competing among themselves to advance credit to limited opportunity sector. Lack of good lending opportunities, banks is facing problems of over liquidity. Due to unhealthily competition among the banks, the recovery of the bank credit is going towards negative trends. Non- Performing Credits of the banks are increasing year by year. To control such type of state, the regulatory body of the banks and financial institution, NRB has renewed its directives of the credit loss provision. In order to analyze the Credit management of commercial bank following research problems are formulated.

- Is the bank mobilizations and credit management effective and efficient?
- Is credit efficiency of NIB influences the profitability?
- What is the impact of deposit and loan advance in liquidity?
- What is the proportion of Non- performing Asset on total loans and advances of the bank?
- Is NIB maintaining lending efficiency?
- What is the situation of total loans and advances with total deposits and its net profit?

1.6. Objectives of the study

Undoubtedly, the role of commercial bank in mobilizing and utilizing scattered resources of nation is praiseworthy one. The basic objectives of the study are to have true insight into the credit management aspects of Nepal Investment Bank. This aims to examine its efficient in effectiveness, systematization and sincerity in disbursing and recovery loan as well within the directives of NRB,, financial institution act and its own policy.

The main objective of this study is to evaluate the credit management of Nepal Investment Bank Limited. Besides there may be other objectives as well.

1. To examine and evaluate the various stages occurred in loan management procedure.
2. To analyze the lending efficiency of the Nepal Investment Bank Limited.
3. To examine the assets management efficiency and portfolio ratios of Nepal Investment Bank Limited.
4. To suggestions based on Major findings.

1.7. Need of the study

The needs of the study are:

1. The study will give a clear picture of financial position of the company under study.
2. This study will provide information to those who ar planning to invest in Nepal Investment Bank Limited.
3. With the help of the report of this study, the management may apply corrective measures for the improvements of the bank's performance.
4. The policy formulates of the bank may gain something with the help of the result of this study.
5. The study will help general public to know about the overall financial position of the Nepal Investment Bank Limited
6. After the completion, this report will be kept in library, which plays the role of reference to the students making the similar study in future.

1.8 Limitation of the study

The studies being the partial fulfillment of master degree in business studies has the following limitation: Being a student, lack of the sufficient time and resources are the major limitations. Proper information and data are not available. Therefore the study has been conducted as partial fulfillment of the requirement for the "Master of Business study" of management faculty of T.U.

- Study is based on Secondary data.
- Data are used of the period of 5 years.

1.9 Organization of the study

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

Chapter -I: Introduction

This chapter describes the basic concept and background of the study. 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.

Chapter -II: Review of literature

The second chapter of the study assures readers that they are familiar with important research that has been carried out in similar areas. It also established that the study as a link in a claim of research that has been carried out in similar areas. It also established that the study as a link in a chain of research that is developing and emerging knowledge about concern field.

Chapter- III: Research Methodology

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. It describes about the various sources of data related with Study and various tools and techniques employed for presenting the data.

Chapter IV: Presentation and Analysis of data

This chapter analysis the data related with study and presents the findings of study and also comments briefly on them.

Chapter V: Summary, Conclusion and Recommendation

On the basis of the result from data analysis, the research concluded about the performance of the concerned organization for better improvement.

CHAPTER: II

REVIEW OF LITERATURE

Review of literature means reviewing research studies or other relevant proposition in the related area of the study so that all the past and previous studies, their conclusion and perspective of deficiency may be known and further researcher can be conducted or done. In other word's it's just like fact are findings based on sound theoretical framework oriented towards discovery of relationship guided by experience, resonating and empirical investigation.

The primary purpose of literature is to learn and it helps researcher to find out what research studies have been conducted in one's chosen filed of study, and what remains to be done. For review study, the researcher uses different books and journal, reviews and abstracts, indexes, reports and dissertation or research studies published by various institution, encyclopedia etc.

We study the review of literature in dividing two headings:

Conceptual Review

Review of related studies

2.1 Theoretical/ Conceptual Review

2.1.1 Concept of Bank

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

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

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

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

2.1.2 Concept of Commercial Bank

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

"A commercial bank is the bank which exchanges money, accepts deposit transfer loan and performs banking function": (commercial Bank, 2031 B.S)

"Principally commercial bank accepts deposits and provides loans, primarily to business firms there by facilitating the transfer of fund in economy"(Rose,1989:9)

"The commercial bank has its own role and contribution in the economic development. It is a resource for the economic development, it maintain econmic confluence of various segments and extends credit to people"(Ronald,1999:87)

" A Bank is a business organization that's receives and holds and funds from others make loans and extend credits and transfer funds by written order of depositors"(Grolier incorporation, 2000)

Commercial banks functions as an intermediary, accepting deposits and providing credits to the needy area. The primary source of funds for commercial bank are capital (shareholder equity) reserve (retain earning) and other main source of the commercial bank is current deposits issue of commercial paper bond etc. Commercial banks are restricted to invest their funds in corporate securities. They invest their funds in long term as well as short- term needs of any trade and industry. They grant credits in the form of cash credits and overdraft. Banks undertaking business with the objective f earning profits are commercial banks. Commercial banks pool scattered fund and channels it to productive use. Commercial Banks Apart from financing, they also render a variety of service like collection of bills and cheques, safekeeping of valuables, financial advising, agencies functions, keeping of guarantee etc to their value customers.

2.1.3 Functions of commercial Banks

The business of commercial bank is primarily to hold deposits and make credits and investments with the object of securing profits for its shareholders. Its primary motive is profit, other considerations are secondary. The major functions of commercial banks are as follows.

Accepting Deposit, Advancing credits, Agency Services, Credit Creation, Financing of Foreign Trade, Safekeeping of valuables, Making Venture capital Credits , Financial Advising and Offers Security Brokerage Services. They also function as issue of commercial paper, bond and debenture; invest in government security as well as underwriting function under rules and regulation of their Central Bank.

I. Assist in Foreign Trade:

The bank assists the traders engaged in foreign trade of the country. He discounts the bills of exchange drawn by exporters on the foreign importers and enables the exporters to receive money in the home currency. Similarly, he also accepts the bills drawn by foreign exports.

II. Offers Investment Banking and Merchant Banking Services

Banks today are following in the footsteps of leading financial institution al over the globe in Banks today are following in the footsteps of leading financial institutions all over the globe in offering investment banking and merchant banking services to corporations. These services include identifying possible merger targets, financing acquisitions of other companies, dealing in security under writing, providing strategies marketing advice and offering hedging services to protect their customers against risk from fluctuating world currency prices and changing interest rate. In this way they support the overall economic development of the country by various modes of financing.

III. Concepts of credit

Credit is the sum amount of money lent by the creditor (bank) to the borrower (customers) either on the basis of security or without security. Sum of the money lent by a bank, is known either on teh basis of security or without security. Sum of the money lent by a bank, is known as crdit(Oxford Advanced Learners Dictionary,1992). Credit and advances in an important item on the assets side of the balance sheet of a commercial bank. Bank earns interest on credits and advances, which is one of the major sources of income for banks. Banks prepares credit portfolio, otherwise it will not only add bad debts but also affects profitability adversely (Varshney and Swaroop,1994:42)

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

Over draft	Direct Credit
Cash Credit	Discounting of Bills

2.1.4 Concept of Credit

Credit is the sum amount of money lent by the creditors (Bank) to the borrowers (customers) either on the basis of security or without security. Sum of the money lent by a bank, is known as credit (Oxford Advanced learners Dictionary, 1992)3. Credit and advances is an important item on the asset side of the balance sheet of a commercial bank. Bank earns interest on credits and advances, which is one of the major sources of income for banks. Bank prepares credit portfolio, otherwise it will no only add bad debts but also affect profitability adversely (Varshney and Swaroop, 1994:42).

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- Overdraft
- Cash Credit
- Direct Credit
- Discounting of Bills

2.1.5 Types of Credit

Overdrafts:
it denotes the excess amount withdrawn over their deposits. In other words bank provide sum limit of money to their value customer according to their believeness and level of transaction.

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

Term Credit :

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

Barely and Myers urge that bank credits with maturities exceeding. 1 year are called term credits. The firm agrees to pay interest based on the bank's prime rate and to repay principle in the regular installments. Special patterns of principle payments over time can be negotiated to meet the firm's special needs (Richard 1996 :89)

Working Capital Credit :

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

Priority or Deprived Sector Credit

Commercial banks are required to extends advances to the priority and deprived sector 12% of the total credit must be toward priority sector including deprived sector. Rs 2 million for agriculture cum service sector and Rs 2.5 million for single borrowers are limit sanctioned to priority sector. Institutional support to 'Agriculture Development bank' and 'Rural Development Bank' are also considered under this category. Deprived sector lending includes: Advances to poor/ downtrodden/weak/deprived people up to RS 30,000 for generating income or employment.

Institutional Credit to Rural Development Bank

Credits to NGOs those are permitted to carryout banking transactions for lending up to Rs 30,000.

Hire Purchase Financing (Installment Credit)

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

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

Housing Credit (Real Estate Credit) :

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

Project Credit:

Project credit is granted to the customers as per project viability. The borrowers have to invest certain proportion to the project from their equity and the rest will be financed as project credit. Construction credit is short- term credits made to developers for the purpose of completing proposed projects. Maturities on developers for completing proposed projects. Maturities on construction credits range from 12 months to as long as 4 to 5 years, depending on the construction credits range from 12 months as long as 4 to 5 years, depending on the size of the specific projects. The basic guideline principle involved in disbursement policy is to advance funds corresponding to the completion policy is to advance funds corresponding to the completion stage of the project. Term of credit needed for project fall under it. (Johnson,1940:83)

Consortium Credit:

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

Credit Cards and Revolving Lines of Credit

Banks are increasingly utilizing cards and revolving lines of credit to make unsecured consumer credit. Revolving credit line lowers the cost of making credit since operating and processing cost are reduced. Due to standardization, Centralized department process revolving credits resulting reduction on administration cost. Continued borrowing arrangement enhances cost advantages.

Once the credit line is established, the customer can borrow and repay according to his needs and the bank can provide the fund to the customer at lower cost.

Off- Balance Sheet Transaction:

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

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

Bank Guarantee:

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

Letter of Credit (L/C)

It is issued on behalf of the customer (buyer/importer) in favor of the exporter (seller) for the import of goods and services stating to pay certain sum of money on the submission of certain documents complying the stipulated terms and conditions as per agreement of L/C. It is also known as importers letter of credit since the bank of importer do not open separate L/C for the trade of same commodities (Jhonson,1940:85)

2.1.6 Objectives of the sound Credit Policy

The purpose of a written credit policy are :

To assure compliance by lending personnel with the bank's polices and objectives regarding the portfolio of credits. To provide personnel with a frame work of standards within which they can operate.

2.1.7 Lending Criteria

While screening a credit application, 5-cs to be first considered supported by documents

i. Character

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

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

ii. Capacity

It describes the customer's ability to pay. It is measured by applicants past performance record and followed by physical observation. For this, and interview with applicant's customers/ suppliers/ will further clarify the situation. Documents relating to this area were: Certified balance sheet and profit and loss account for at least past 3 years.

References or other lenders with whom the applicants has dealt in the past or bank A/C.

iii. Capital

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

iv. Collateral

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

v. Conditions

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

2.1.8 Features of sound lending policy

The income and profit of the commercial banks depends upon its lending procedure. The greater the credit created by bank, the higher wills the profitability. A sound lending policy is not only pre-requisite for commercial banks profitability, but also crucially significant for the portion of commercial saving of backward country like Nepal. Some features of sound lending policy are considered as under:

A. Safety

Safety is the most important principle of good lending. When a banker leds, he must feel certain that the advance is safe, that is, the money will definitely come back. For example, if borrower invests the money in an unproductive or speculative venture, or if the borrower himself is dishonest, the advance would be in jeopardy . Similarly, if the borrower suffers losses in his business due to his incompetence, the recovery of the money may become difficult. The banker ensure that the money advanced by him goes to the right type of borrower and is utilized in such a way that it will not only be safe at the time of lending but will remain so throughout, and after serving a useful purpose in the trade or industries where it is employed, is repaid with interest.

B. Liquidity

It is not enough that the money will come back. It is also necessary that it must come back on demand or in accordance with agreed terms of repayment is made. This can be possible only if the money is employed by borrower for short term requirements and not locked up in acquiring fixed assets or in schemes, which take a long time to pay their way. The source of repayment must also be definite. The reason why bankers attach as much importance to "liquidity" as to "safety" of their funds is that a bulk of their deposits is repayable on demand or at short notice.

C. Purpose

The purpose should be productive so that the money not only remains safe but also provide a definite source of repayment. The banker must closely scrutinize the purpose for which the money is required, and ensure, as far as he can, that the borrower applies the money borrowed for a particular purpose accordingly.

D. Profitability

Equally important is the principle of profitability in bank advance. Like other commercial institutions, banks make profit. They have to pay interest on deposits received by them. They have to incur expenses on establishment, rent, stationery, salary and other operating expenses so on. They have to make provision for depreciation of their fixed assets, and also for possible bad or doubtful debts. After meeting all these items of expenditure which enter the running cost of banks, a reasonable profit must be made; otherwise, it will not be possible to carry anything to the reserve of pay dividend to shareholders. It is after considering all factors that a bank decides upon its lending rate.

E. Collateral/ Security

It has been the practice of banks not to lend as far as possible except against security. Security can be considered as insurance. Security may be generally classified as personal and tangible, as well as primary and collateral. The banker carefully scrutinizes all the different aspects of an advance before granting it. At the same time, he provides for an unexpected change in circumstances, which may affect the safety or liquidity of advance.

F. Legality

Illegal securities will bring out many problems for the investor. Commercial banks must follow the rules and regulation as well as different directions issued by Nepal Rastra Bank, Ministry of Finance and other while mobilizing its funds.

G. Spread

Another important principle of good lending is the diversification of advances. An element of risk is always present in every advance; however it might appear to be. In fact, the entire banking business is one of taking calculated risks and successful banker is an expert in assessing such risks. He is keen on spreading the risks involved in lending, over a large number of borrowers, over a large number of industries and areas, and over different type of securities.

H. National Interest

Even when an advance satisfies al the aforesaid principles, it may still no be suitable. The advance may run counter to national interest. It in the changing concept of banking factors such as purpose of the advance, viability of the proposal and national interest are assuming greater important than security, small borrowers and export-oriented industries.

2.1.9 Principle of credit policy

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

i. Principle of safety fund

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

ii. Principle of liquidity

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

iii. Principle of security

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

iv. Principle of purpose of credit

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

v. **Principle of profitability**

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

vi. **Principle of spread**

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

vii. **Principle of National Interest**

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

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

2.1.10 Lending/ Credit Process

Commercial bank follows several steps to disburse loan to the borrowers. The lending policies might be different from one bank to another. In general these steps can be pointed out of follows

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

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

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

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

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

The bank tries to ascertain the following during loan processing..

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

2.1.11 Right of commercial Banks against Breach of Lending Agreement

A commercial bank reaches a decision as to whether it should provide loan and advances or not. After many discussion between the person or the businessmen who comes with a proposal of loan to the commercial bank and bank while carrying out any banking transaction, the bank and customer should follow the law, policy and instructions. The concerning law means, the Nepal Rastra Bank Act 2058(2002) commercial Bank Act 2031(1974) so on. Under section 47. A of the commercial Bank Act 2031(1974) the bank has been following rights and power to recover the loan.

- The bank may write the appropriate office for registration or transfer, in accordance with prevailing law, of the assets auctioned by it pursuant to this section in the name of the person whose bid has been approved.
- The concerned office shall do the registration or transfer if it receives such written request from any commercial bank for registration or tranfer if it receives such written request fro any commercial bank for registration or transfer of assets, and in such situation, government offices must register or transfer those assets in their records as notified by the bank.
- If any person , institution or industry fails to comply with the terms of agreement or any terms regarding loans and advances, with the bank, or fails to repay loans to the commercial bank within the time limit stipulated in the documents, or increase the bank finds through investigation that any person, institution or industries concerned has not invested the amount of the loan and advance for the concerned purpose, or has misappropriated in the documents or not withstanding anything mentioned in prevailing law the bank may auction or otherwise dispose of any property pledged to it, or the security deposited with it, and thus recover the principle and interest
- If the borrowing person, institution, or industry concern relinquishes in any manner title to the property pledge to the commercial bank as collateral, or in case the value of such collateral declines due to any other reason, the commercial bank may, not with outstanding anything mentioned in prevailing law, ask the concern to furnish additional collateral with in a period specified by it. In case the concerned person, institution or industry concern fails to furnish additional collateral within the specified time limit, the commercial bank may recover its principle and interest by auctioning or otherwise disposing of the collateral pledged to it.
- If principle and interest can't be recovered through the auction sale of the collateral pledge to the bank pursuant to subsection(1) and (2) section 47.A of the commercial Bank Act 2031(1974), the bank may recover the valance by auctioning the other assets of the concerned person, institution or industries concern.

- The amount of principle and interest and expenses incurred in auction, or in other kind of disposal shall be deducted from the amount raised through the auction or disposal otherwise of assets pursuant to this section and the balance shall be refunded to the concerned person, institution or industry concern.
- In case a complaints is field to the effect that the person who is required to relinquish the assets after their transfer under sub-section(6) and (7) of section 47.A of the commercial Bank Act 2031(1974) of the has created any obstacle or used force while the concerned person or the commercial Bank Act 2031(1974) bank itself seeks to utilized such assets, action shall be taken according to prevailing law to have possession in the assets.

2.1.11 Project Appraisal

Before providing credit to the customer, bank makes analysis of project from various aspects and angles. It will help the bank to see whether project is rally suitable to invest. The purpose of project appraisal answers the following questions;

- Is the project technically sound?
- will the projects provide a reasonable return?
- Is the project in line with the overall economic objectives of the country ?
- Generally, the project appraisal involves the investigation from the following aspects(Gautam 2004)

1 Financial aspect
2 Economic aspect
3 Management/ Organizational aspects
4 Legal aspects

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

1 Credit classified and provisioning
Classification Provision

1)	Pass credit	1%
2)	Sub standard Credit	25%
3)	Doubtful Credit	50%
4)	Bad Credit	100%

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

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

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

2. Limit or credit and Advances in a particular sector.

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

  Note : The core capital includes(paid up capital+ Share premium + Non -redeemable preference share+ general fund+ accumulated profit(loss)- good will(if any included).

  Group of related customer

- If a company takes 25% or more share of another company and such member and shareholders with others in a single house, even if husband, wife, son, daughter, father, mother, stepmother, brothers, and sisters whom be should look after. And the above members personally or combined take 25% or more share of another company.
- Firm, company and members as a related group.
- Members of board of directors, shareholders and other relatives and stated in serial number 'b' takes less than 25% of board of directors of the company solely or combined but have control on the other company by the following ways.
- Being president of board of directors of the company.
- Being president of board of directors of the company
- Being executive directors of of the company.
- Nominating more than 25% of member of board of directors of the company.
- If cross guarantee is given by one company to another company.

2.2 Review of NRB Directives

NRB is the apex institution in the money and capital market. Being the nation central bank, it directs , supervises and controls the functions of the commercial Bank and other financial institutions. Nepal Rastra Bank has issued directives to all commercial bank and financial institution ensuring transparency during loan disbursement. As per provision, all commercial banks as well as financial institutions are now required to disclose the name of loan defaulters in every six months. Until now there was no such legal system of disclosing the loan defaulter's name. The new directives have also barred the financial institutions from lending any amount to the blacklisted defaulter and his family members. The credit information Bureau (CIB) can blacklist the firm, company or clear the debt with in the stipulated period. As per the set criteria for black listening the CIB would monitor those individuals and companies that have the principle loans of above Rs one million. If the creditor fails to clear the amount with in time or is found mission the loans among others, the creditor can be blacklisted.

NRB has issued various directives in order to develop a healthy, competitive and secured banking and economic system to ensure national development. The new, updated and comprehensive set of directive has been issued on 2062-03-29 and is effective from 2062-04-01 . While some of them are collections of existing directives, some other is new additions, it can be safely assumed that with the updated and comprehensive set the directive, the functioning of commercial banks would be more transparent and systematic. The new and updated directive which is related with lending are briefly discussed below.

Capital Structure of Banks

The current regulation of NRB prescribes that all the new commercial banks are to be established in Kathmandu at national level should have minimum paid up capital RS 2000 millions, the existing bank in operation are required to enhance the capital level to Rs 2000 million by the end of FY 2065/066. For this purpose and objective all the commercial banks have finished their plans to enhance the level of capital accordingly. With effect from fiscal year 2062/063, the commercial banks need to have minimum of capital adequacy as below.

Table no 2.3

Maintenance Minimum Capital Fund

Time Table	Required capital on the basis of Risk weighted assists	
For FY 2061/062	5.5%	11%
For FY 2062/2063	6.00%	12%
For FY 2063/064	5%	11%

It is to be noted that capital fund comprises of both primary capital and supplementary capital. Similarly the risk- weighted assets will include both on-balance sheet and off- balance sheet items. Standard format and weighted percentage is given in the directive itself and commercial bank need just to fill the columns to see whether required percentage is maintained or not.

General Loan Loss Provision

Under this head provision made only against the pass loan should be included. The amount should be limited up to 1.25% of the total risk weighted assets. However, loan loss provision on sub standard and doubtful loans should be available for inclusion under the supplementary capital during the period as follows.

Table no 2.2

General Loan Loss Provision

Time Period	Loan Loss Provision available for Supplementary capital
For FY 2062/063	Pass, Sub- Standard and Doubtful
For FY 2063/064	Pass, Sub- Standard
For FY 2064/065	Pass(Up to 1.25% OF Total risk weighted assists)
For FY 2065/066	Pass(Up to 1.25% of total risk weighted assets)
For FY 2066/067	Pass (Up to 1.25% of total risk weight assets) and so on.

Classification of outstanding loan and advances on the basis of aging

From the effective Fiscal year 2058/59, banks should classify outstanding amount of Loans and Advances on the basis of aging. Loan and Advantages should be classified into the following four categories.

1. **Pass Loan :**
   Loan and advance whose principle amount not due and past due for a period up to 3 month shall be included in this category. These are clasified as performing loans.

2. **Sub- Standard Loan :**
   All loans and advances that are past due for a period of 3 month to 6 month shall be included in this category.

3. **Doubtful Loan :**
   All loans and advances, which are past due for a period of 6 month to one year, shall be included in this category.

4. **Loss Loans :**
   All loans and advances which are past due for a period of more than one year as well as advances which have least possibility of even partial recovery in future shall be included in this category.

Provision for good loan

Loan and advances fully secured by gold, silver, fixed deposits receipts and Nepal Government securities should be included under "Pass" category. Where collateral of fixed deposit receipt or Nepal Government Securities or NRB bonds is placed as securities against loan for other purposes, such loan is classified on the basis of aging.

Additional arrangement for "Loss" Loan provision

Even if the loan is not due, loans having any or all of the following discrepancies shall be classified as "Loss"

- The borrower has been declared bankrupt.
- The credit has not been used for the purpose originally intend.
- The borrower is absconding or cannot be found
- Owing to non- recovery, initiations as to auctioning of the collateral has passed six months and if the recovery process is under litigation..
- Loans provided to the borrowers included in the blacklist and where
- the credit information bureau blacklists the borrower
- Non- security at all or security that is not in accordance with the borrower's agreement with the bank.
- Purchased or discounted bills are not realized with in 90 days from the due date.

Additional arrangement in respect of term loan

In respect of term loans, the classified shall be made against the entire outstanding loan on the basis of the past due period of overdue installment.

Loan Loss Provision Policy

NRB has issued the directives which commercial banks should make provision against the loan disbursed them. The loan loss provision on the basis of the outstanding loans and advances classified as per NRB Directives should be provided as follows:

Table 2.3

Loan Loss Provision Policy

SN	Classification of Loans	Define as	Age	Loans Loss Provision
01	Pass or Good	Performing Loan	Principle not overdue up to 3 months	1%
02	Sub- Standard	Non- Performing Loan	principle overdue by more than 3 month to 6 months	25%
03	Doubtful	Non- Performing loan	principle overdue by more 6 months to 12 months	50%
04	Loss or Bad	Non- performing Loan	Principle overdue by more than 12 months	100%

Additional Provisioning for Personal Guarantee Loans

Where the loan is extended only against personal guarantee, a statement of the assets, equivalent to the personal guarantee amount not claimable by any other shall be obtained. Such loans shall be classified as per above and where the loans fall under the category of Pass, substandard and Doubtful in addition to the normal loan or loss provision applicable for the category, an additional provision by 20% point shall be provided. Classification of such loans and advances shall be prepared separately. Hence the loan loss provision required against the personal guarantee loan will be 21%, 45%, and 70% for pass. Standard and Doubtful category respectively.

Rescheduling and restructuring of loan

In respect of loans and advances falling under the category of substandard, Doubtful or loss banks may reschedule or restructure such loans only receipts of a written plan of action form the borrower citing the following reasons.

- Evidence of existing of adequate loan documentation
- The internal and external cause contribution to deterioration of the quality of loan

- The reduced or risk inherent to borrower/ enterprise determined by analyzing its balance sheet and profit and loss account in order to estimate recent cash flows and to project future ones, in addition to assessing market condition.
- An evaluation of the borrower/ enterprise's management with particular emphasis on efficiency, commitment and high standards of business ethics.

Loan Loss Provision in respect of rescheduled, restructured or swapped loan

- Expect for priority sector, in respect of all types of rescheduling or restructured or swapped loan, if such credit falls under pass category according to Nepal Rastra Bank directives, loan loss provision shall be provided at minimum 12.50%
- In case of rescheduling or restructuring or swapping or insured of insured or guaranteed priority sector, credit, the loan loss provisioning shall be provided at one fourth of the percentage.
- In respect of swapped loans, the bank accepting the loans in swapping has to provide loan loss provision classify the loan is swapping shall obtain certification from the concerned bank of financial institution as to the existing classification.

Loss Loan provision for priority sector lending

Full provision as per normal loan loss provisioning shall be made against the uninsured priority and deprived sector loans. However in respect of insured loans the requisite provisioning shall be 25% of the percentage normal loan loss provisioning. The required provisioning in the case of insured priority/ deprived sector credit is as follows:

Table no 2.4

Loss Loan provision for priority sector lending

Classification of loans	Loans Loss provision for priority/ deprived sector lending
Pass or Good	0.25%
Sub- standard	5.00%
Doubtful	12.50%
Loss or Bad	25.00%

2..3 Review of Related studies

Baidhya(1996) has given his view on sound credit policy. He has said that, a sound credit policy of a bank is such that its funds are distributed on different types of assets with good profitability on the one hand and provides maximum safety and security to depositors and bank. On the other hand, moreover risk in banking sector trends to be concentrated in the loan portfolios. When a bank gets into serious financial trouble its problem usually spring for significant amount of loan that have become uncollectible due to mismanagement, illegal manipulation of loan misguided lending policy or unexpected economic downturn. Therefore the banks credit policy must be such that it is sound and pendent in order to protect public funds..

The article published in Annual Bank supervision Report(NRB(2009/2010). Bank supervision Department, conclude that the loan and advances extended by banking industry. The loan and advances of the public banks(excluding ADB) have remained more or less the same for the last three years, while the private banks have enhanced their portfolios by more than Rs20.50 billion resulting in the dilution of the concentration of public banks. However, the three public banks are still the three largest individual's banks in Nepal, in respect of the size of their loans portfolios.

The Nepalese banking system is riddled with a significant amount of non-performing assets (NPA). It is clearly evident from the following picture that the volume of non- performing assets is on the decline while total loans are continuously increasing thus resulting in a favorable proportion of non-performing assts. The NPA ratio, however is still a long way from being at satisfactory level with regard to quality of the loan portfolio of the individual banks, RBB was the worst closely followed by Nepal Bangladesh Bank, Lumbini Bank and NCC Bank Ltd. Along the private banks, it was Nepal Bangladesh bank, Lumbini Bank and NCC who had the largest proportion of NPA in their portofolio, while the lowest and the best NPA ratio belonged to Machha Puchhre Bank Ltd. RBB has 60% of Bad debts and according to FY 2065/2066 NPA of RBB has 26%. In FY 2065/066 Bad debt and according to FY 2065/066 Bad debt principle is Rs 40 million. The large volume NPA has traditionally been a problem in public banks and three private banks. After a reform program was initiated in the public banks, the volume of NPA, both gross as well as net has come down, significantly. The fact is also reflected in the following chart, where a wide gap between NPA and provision can be observed.

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

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

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

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

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

- Total return Swap (TRS)
- Credit Default Swaps(CDS)
- Credit linked notes(CLN)
- Credit Spread option (CSO)

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

2.4 Review of Thesis

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

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

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

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

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

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

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

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

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

Regmi, P(2004) in the study Entitled" Credit Management of Commercial Banks with reference to Nepal Bagladesh Bank and Bank of Kathmandu" states that commercial banks are those banks, which works from commercial view point. They perform all kinds of banking functions such as, accepting deposits, advancing credits, credit creation and management of credit and advances, Portfolio management helps to minimize or manage the credit risks and spreading over the risks to various portfolios. Banks earn interest on credit and advances which is one of the major source of income for banks. On average 5 years of research period, cash and bank balance to total deposits of ratio of NB bank and BOk is 12.75% and 14.12% respectively. Likewise NB bank and cash and bank balance 1.584 times of current deposits and BOK has cash and bank balance 1.14 times of current assets NB bank: most of the credit and advances almost 70% is provided an assets guarantee. The assets guarantee credit is increasing period by period. After assets guarantee bank has provided credit based on bills guarantee credit is 3421 million (76.1% of total credit) and in the last period it is 3347.99 million (58.2% of total credit)

The main statement of the problem of his research is the Nepal is a small country with small market. Economic condition of the country is degrading. Nepal being an agriculture country needs more investment in this sector. Nevertheless, commercial banks are rather concerned in industrial and foreign projects. As a result, the credit extended to this sector is unsatisfactory. Besides, they are not even fulfilling the NR's regulation of 12% investment of their total loans to priority sectors like agriculture, cottage and small industries and services. Similarly the banks are not following the diversification principle i.e. they are not considering the investment portfolio position. A good portfolio theory indicates diversification of invest able funds to reduce risks. Hence, the principles "do not put all the eggs in basket rally do not apply in context of Nepalese commercial banks. As a result, many banks today could no recover their loan because, in the past, a major portion of their investment were made in garment, carpets and hotel sectors that now come to the brick of extinction. The objectives of this research are to analyze the functions, objectives, activities reedits and advances procedure and recovery status of the NB bank and BOK.

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

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

Gurung, A.K (2006) explored in his research "Lending policy and recovery management of Standard Charted Bank Nepal ltd and NABIL Bank Limited" has found out that the deposit collection by the banks shows that increasing but in a fluctuating trend. The trend analysis of deposit collection the increase in deposit collection in the forthcoming years will continue. Out of different types of deposit collection account , higher account has been collected in saving deposit account. Out of the total deposit collection account, higher account has been collected in saving deposit account. Out of the total deposit collection, SCBNL has disbursed 36% of average as a loan and Nabil has disbursed 52% of its deposit collection as a loan disbursement to deposit collection ratio of commercial banks, it is around 60%. Thus, this ratio is quite low incasing of sample bank especially of SCBNL. It is further proved by the calculation of correlation coefficient, which is 0.75 and 0.23 of SCBNL and Nabil respectively.

In order to analyze the recovery management of these banks, their loan loss provision and NPL were analyzed. While looking at the loan loss provision of SCBNL it is in decreasing trend from 2002. The correlation coefficient of loan loss provision and loan disbursement of SCBNL is 0.36. While looking at he future trend of loan loss provision its shows the increasing trend in case of SCBNL and the trend of Loan Loss Provision is decreasing every year in case of Nabil which is proved by the trend analysis. The correlation of loan loss Provision an Loan disbursement of Nabil is negative.

The main statement of his problem is there many banks are mushrooming although banks are not interested to expand their branch in remote rural area. There are difficulty and length formality of procedure for long term and medium term as well as short- term loan, low deposit habit of Nepalese people and lack of strong recovery act of lending and bad debt. The main objectives of the dissertation are loan and advance providing procedure of bank, lending and investment sector of bank, recovery condition of both SCBNL and NABIL bank.

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

In the aspect of profitability position, interest income to interest expenses ratio shows the more profitable salivation. In addition, total income to total expenses ratio shows the overall predominance of the bank is satisfactory operation income.

Return on loan advances are showing position that is more profitable on of the EBL. Analysis of the assets management ration, loan advances to total assets ratio shows the better performance but loan and advances to total deposit position in minimum that the averages. Whereas investment in loan and advances is safely and not taking more risk. That's why assets management position of the bank shows better performance in the latest year.

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

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

Limbu R92008) in his dissertation " Credit Management of NABIL Bank Limited" highlighted that aggregate performance and condition of Nabil Bank. In the aspect of liquidity position, Cash and bank balance reserve ratio shows the more liquidity position. Cash and bank balance to total deposit has fluctuating trend in 5 years study period. Cash and bank balance to current deposit is also functioning. The average mean of Cash and Bank balance to interest sensitive ratio is able to maintain good financial condition.

In the aspect of assets management ratio, assets management position of the bank shows better performance in the recent yars. Non- performing assets to total ratio is decreasing trend. The bank is able to obtain higher lending opportunity during the study period. Therefore, credit management is in good position of the bank. In leverage ratio, Debt to equity ratio is in an increasing trend. High total debt to total assets ratio posses" higher financial risk and vice versa. It represents good condition of total assets to net worth ration. In the aspect of profitability position, total net profit to gross income, the total interest income to total income ratio of bank is in increasing trend. The study shows the little high earning capacity of NABIL is through loan and advances. Earnings per share and the price earnings ratio of NABIL is in increasing trend. These mean that the better profitability in the coming last years. It represents high expectation of company in market and high demand of share. Loan Loss Provision to total loan and advances ratio an none- performing loan to total loan and advance ratio of NABIL is in decreasing trend . The ratio is continuously decreasing this indicates that bank increasing performance. Thus, credit management is in a good position.

The main objective of the research study are to evaluate various financial ration of the Nabil Bank, To analyze the portfolio of lending of selected sector of banks. to determine the impact of deposit in liquidity and its effect on lending practices and To offer suitable suggestions based on findings of this study.

In the statistical tools analysis, average mean, correlation analysis and trend analysis have been calculated, correlation coefficient between total deposit and loan and advances has high degree of positive correlation it is concluded that increasing total deposit will have positive impact towards loan and advances.

2.5 Research Gap

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make this study meaningful and purposeful. There are various researcher conduct on lending practice, credit policy, financial performance and credit management is determined by various factors. In this research various ratio are systematically analyzed and generalized. Past researchers are not properly analyzed about lending and its impact on the profitability. Her in this research all ratios are categorized according to their area and nature.

In this study of credit management of Nepal Investment Bank Limited is measuring by various ratios, trend analysis and various statistical tools as well and financial tools are used for analyzing survey data. Since the researcher have used data only five fiscal year but all the data are current and fact. Clearly these are the issue in Nepalese commercial bank the previous Scholar could not the present facts. Thesis of Sunita Misara(2007)"credit management of Everest Bank Limited" has not use correlation, probable error and trend analysis. Ram

Limbu(2008)"Credit management of NABIL Bank Limited" has done using all financial as well as statistical tools. This study tries to define credit management by applying and analyzing various financial tools like liquidity ratio, leverage ratio, profitability ratio and lending efficiency ratio as well as different statistical tools like coefficient of correlation and trend analysis, probably this will be the appropriate research in the area of credit management of Bank and Financial institutions.

Secondary data are mostly used for this research purpose. The major sources of secondary data are as follows;

- Annual Report of Nepal Investment Bank
- NRB directives
- Economy survey of Government of Nepal and Ministry of finance
- Newspaper, Journals, articles and various magazines
- Dissertation of Central Library of T.U. and Library of TU palpa

3.4 Population and Sample

Population refers to the entire group of people, events or things of interest that the researcher wishes to investigate. A small portion chosen form the population for studying its properties is called sample. The researcher cannot normally survey everyone in the population so a small part of the total population is taken to represent the total population. Hence, a sample is a collection of items or elements from a population or inverse. The method of selecting for study a small portion of the population to draw conclusion about characteristics of the population on the basis of which a judgment or inference about the universe is made (Sharma and Chaudhary,2058:171-173)

Here, the total 26 commercial banks shall constitute the population of the data and single bank under the study constitute the sample under the study. So among the various commercial banks in the banking industry, Here Nepal Investment Bank limited has been selected as sample for the present study. Likewise, financial statement of five years (beginning from 2005/06 to 2009/10 are selected as samples for the purpose of it.

3.5 Data collection procedure

Especially the normal report of Nepal Investment Bank Limited and the website of concern Bank Limited are taken as main sources of data collection for purpose of study. NRB publication such as economic report and bulletin, banking and financial statistics, annual report of NRB

Chapter III

Research Methodology

3.1 Introduction

The topic of the study has been selected as" Credit Management of Nepal Investment Bank limited ". In order to reach and accomplish the objectives of the study, different activities will be carried out. for this purpose, the chapter aims to present and reflect the method and techniques that are carried out and followed during the study period. The research methodology that is adopted for the present study is mentioned in this chapter which deals with research design, sources of data, data collection, processing and tabulating procedure and methodology.

3.2 Research Design

A research design is a plan for the collection and analysis of data. If presents a series of guide posts of enable the researcher to progress in the right direction in order to achieve that goal. The present study follows the descriptive as well as exploratory design to meet the stated objectives of the study, The research design then focuses on the data- collection methods, the research instruments utilized , and sampling plan to be followed. Specially, research design describes the general plan for collecting, analyzing and evaluating data after identifying.

3.3. Sources of Data

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

a) Primary Source:

The way of data collection is by making questionnaire and distributed to the credit department of the concerned banks and also to the clients of the bank.\

b) Secondary Sources

Secondary data are mostly used for this research purpose. The major sources of secondary data are as follows:

- Annual Report of Nepal Investment bank
- NRB directives
- Economy survey of Government of Nepal and Ministry of Finance
- Newspaper, Journals, articles and various magazines
- Dissertation of Central library of TU, and Library of Tribhuvan Multiple Campus Tansen Palpa

3.4 Population and Sample

Population refers to the entire group of people, or things of interest that the researcher wishes to investigate. A small portion chose from the population for studying its properties is called sample. The researcher cannot normally survey everyone in the population. So a small part of the total population is taken to represent the total population. Hence, a sample is a collection of a item or elements from a population or universe. The method of selecting for study a small portion of the population to draw conclusion about characteristics of the populatio is known as sampling, sampling may be defined as the selection on part of the population on the basis of which a judgment or inference about teh universe is made(Sharma and Chaudhary: 2058:171-173)

Here, the total 26 commercial banks shall constitute the population of the data and single bank under the study constitute the sample under the study. So among the various commercial banks in the banking industry . Here Nepal Investment Bank Limited has been selected as sample for the present study, Likewise, financial statements of five years(beginning from 2005/06 to 2009/010) are selected as sample for the purpose of it.

3.5 Data Collection Procedure

Especially the annual report of Nepal Investment Bank Limited and the website of concern Bank limited are taken as main source of data collection for purpose of study. NRB publication such as economic report and bulletin, banking and financial statistics, annual report of NRB etc. Other main source is website of

NRB and Web site of Nepal Share market. Most of the data and substances are obtain from above source.

3.6 Method of Data Analysis Technique

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

1) Financial Analysis
2) Statistical Analysis

3.6.1 Financial Tools

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

3.6.1.1 Ratio Analysis

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

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

A. Liquidity Ratio

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

i) Cash Reserve Ratio

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

$$Cash\ Reserve\ Ratio = \frac{Cash\ and\ BankBalance}{Total\ Deposit}$$

ii) Cash and Bank Balance to Current Assets Ratio

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

$$Cash\ and\ Bank\ Balance\ to\ Current\ Assets\ ratio = \frac{Cash\ and\ Bank\ Balance}{Current\ Assets}$$

iii) Cash and Bank Balance to Interest Sensitive Deposit Ratio

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

$$Cash\ and\ Bank\ Blance\ to\ Interest\ Sensitive\ Deposit\ Ratio = \frac{Cash\ and\ Bank\ Balance}{Sensitive\ deposit}$$

B. Activity Ratio :

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

i) Credits Advances to Fixed Deposit Ratio:

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

$$Credits\ Advances\ to\ Total\ Deposits\ Ratio = \frac{Credit\ andAdvances}{Fixed\ Deposits}$$

ii) Credit Advances to Total Deposits Ratio :

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

$$Credit\ and\ Advances\ to\ Total\ Deposits\ Ratio = \frac{Credit\ andAdvances}{Total\ Deposits}$$

iii) Credit and Advances to Total Assets Ratios :

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

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

iv) Non- Performing Assets to Total Assets Ratio

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

$$Non - Performing\ Assets\ to\ Total\ Assets\ Ratio = \frac{Non\ PerformingAssets}{Total\ Assets}$$

C. Leverage Ratio

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

i. Total Debt to Equity Ratio:

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

Total Debt= Long term Debt+ Current liability

$$Total\ Debt\ to\ Equity\ Ratio = \frac{TotalDebt}{Equity} x\ 100\%$$

ii. Total Debt to Total Assets Ratio

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

$$Total\ Debt\ to\ Total\ Assets\ Ratio = \frac{TotalDebt}{Total\ Assets}\ x\ 100\%$$

iii. Total Assets to Net Worth Ratio :

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

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

D. Profitability Ratio

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

i. Net Profit to Gross Income Ratio

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

$$Net\ Profit\ to\ Gross\ Income\ Ratio = \frac{NetProfit}{Gross\ Income}$$

ii. Interest Income to Total Income Ratio

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

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

iii. Operating Profit to Loan and Advances Ratio

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

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

iv. Return on Loan and Advances Ratio:

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

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

v. Net Profit to Total Assets

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

$$Net\ Profit\ to\ Total\ Assets\ ratio = \frac{NetProfit}{Total\ Assets}$$

vi. Earnings Per Share(EPS)

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

$$Earning\ Per\ Share = \frac{Profit\ after\ tax}{No.of\ Common\ Share}$$

Vii. Price Earnings Ratio

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

$$Net\ Profit\ to\ total\ Assets\ Ratio = \frac{Earnings\ per\ Share}{Market\ Value\ Per\ share}$$

E. Lending Efficiency Ratio :

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

i. Loan Loss Provision to Total Loan and Advances ratio :

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

$$Loan\ Loss\ Provision\ to\ total\ loan\ and\ advances = \frac{Loan\ LossProvision}{Total\ Loan\ and\ Advances}$$

ii. Non- Performing Loan to Total Loan and Advances

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

$$Non - Performing\ loan\ to\ total\ loan\ and\ advances = \frac{Non - Performingloan}{Total\ Loan\ and\ Advances}$$

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 more the probability of generating loans, advances and vice versa.

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

3.6.2 Statistical Tools:

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

Arithmetic Means (average) :

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

$$\bar{X} = \frac{1}{n}\sum_{n-1}^{n} X1$$

Where , $\bar{X} = Mean\ Value\ or\ arithmetic\ mean$

$$\sum_{n-1}^{n} X1 \ = Sum\ of\ the\ observation$$

$$N = Number\ of\ Observation$$

Correlation Coefficient (r):

Correlation may be defined as the degree of liner relationship existing between two or more variables. These variables are said to be correlated when the change in the value of the one result change in another variable. Correlation is categorized three types. They are Simple, partial and multiple correlations. Correlation may be positive, negative or Zero. Correlation can be classified the effect of others is not included rather these are taken as constant considering them to have no serious effect on the dependent.

Formula

$$r_{xlx2} = \frac{N\Sigma X1X2-(\Sigma X1)(\Sigma X2)}{\sqrt{[N\Sigma X12-(\Sigma X1)2]}\sqrt{[N\Sigma X22-(\Sigma X2)2]}}$$

Whereas,

$r_{xlx2} =$ Correlation between X_1 annd X_2

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

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

i. Coefficient of Variation(C.V)

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

$$C.V = \frac{\sigma}{x} x100$$

$$\sigma = Stamdard\ Deviation$$

$$x = Sum\ of\ the\ observation$$

ii. Probable Error:

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

$$\mathrm{P.E} = 0.6745 \frac{1 - r2}{\sqrt{n}}$$

Here, r= correlation coefficient

N= Number of Pairs of observation

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

Time Series Analysis

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

Y= a+bx

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

Chapter- IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

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

4.2 Financial Statement Analysis

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

4.2.1 Liquidity Ratio

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

i) Cash and Bank Balance to Total Deposit Ratio

Cash and Bank Balance to total deposit ratio shows that percentage relation between cash and bank to total deposit. It means the liquid balance available in respect to total deposit of the bank where as the different between the cash and bank balance to total deposit is said as the investment of the bank. The reserve requirement below 10% of deposit liabilities is noted as fully liberalized 10%-15%

as largely liberalized, 155%-25% as partially repressed and above 25% as completely repressed, it is ranked by 3,2,1 and 0 respectively. The ratio calculation are as follows.

$$Cash\ an\ Bank\ Balance\ to\ Total\ Deposit = \frac{Cash\ and\ BankBalance}{Total\ Deposit}$$

Table no 4.1

Cash and Bank Balance to Total Deposit Ratio

(Amount in millions)

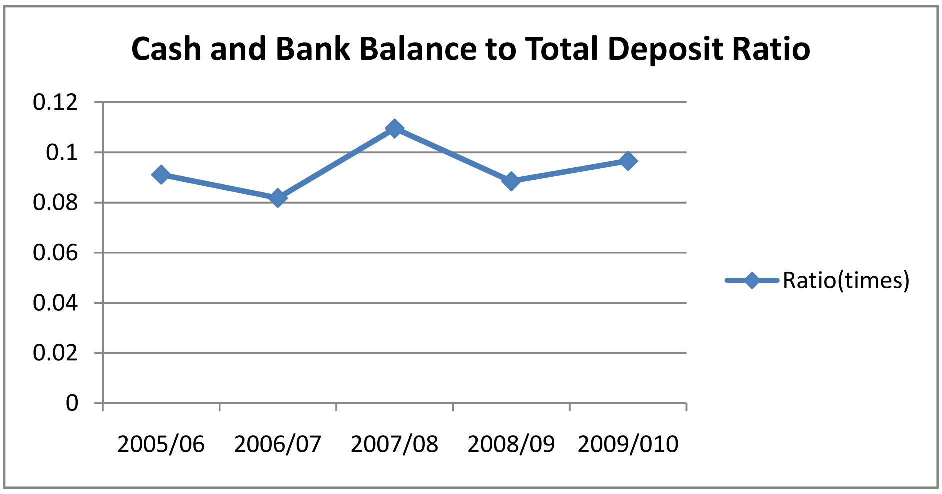
Year	Cash and Bank Balance	Total Deposit	Ratio(times)
2005/06	1226.92	13463.94	0.0991
2006/07	1340.48	16390.65	0.0818
2007/08	2335.52	21330.137	0.1095
2008/09	2441.514	27590.84	0.0885
2009/010	3754.94	38873	0.0966
Mean			0.0935

(Sources: Annual Report of Nepal Investment Bank)

In the above table shows that the cash and bank balance to total deposit ratio of NIB is in Fluctuating trend. The ratios are 0.0991, 0.0818, 0.1095, 0.0885 and 0.0966 respectively. The average mean ratio is 0.093 times in the study period. The highest ratio is 0.1095 times in the year 2007/08 and the lowest ratio 0.08186 times in year 2006/07. These all ratio shows that the bank is maintain the good liquidity position of the bank. These ratios shows low liquidity position of the bank. Therefore, it shows that the bank much utilization of resource. Cash reserve ratio in year 2006/07 is 1095% and only 8.18% in 2006/07. It's show the optimum utilization of resource by NIB bank Cash and Bank Balance to total deposit ratio is shown in the following graph.

Figure 4.1

Cash and Bank Balance to Total Deposit Ratio



ii) Cash and Bank Balance to Current Deposit Ratio:

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

$$Cash\ and\ Bank\ \ Balance\ to\ current\ Deposit = \frac{Cash\ and\ Bank\ Balance}{Current\ Deposit}$$

Table 4.2

Cash and Bank Balance to Current Deposit Ratio

(Amount in millions)

Year	Cash and Bank Balance	Current Deposit	Ratio(Times)
2005/06	1226.92	1500	0.818
2006/07	1340.48	1583	0.847

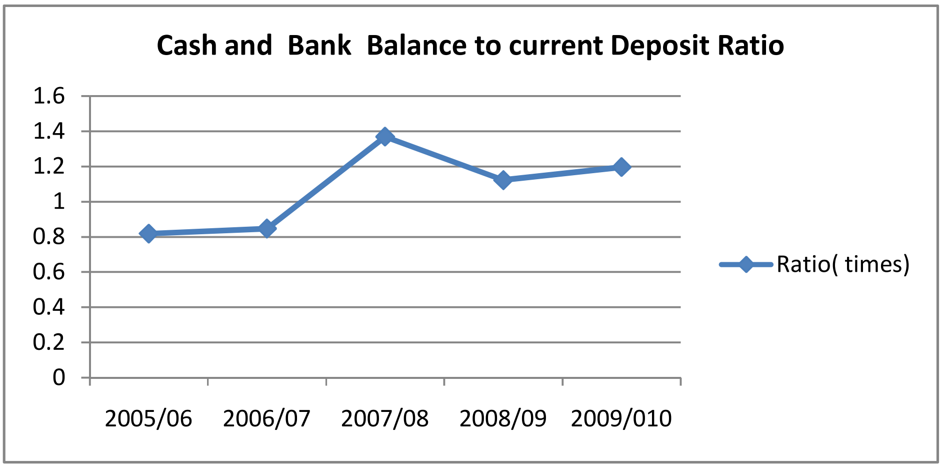
2007/08	2335.52	1705.7	1.369
2008/09	2441.514	2175	1.122
2009/010	3754.94	3139	1.196
Mean			1.070

(Sources: Annual Report of Nepal Investment Bank)

Above Table shows the calculation of Cash and bank balance to current deposit of NIB. The ratios are 0.818,0.847,1.369,1.122, and 1.196 times respectively from teh first year to last year of the research period. The mean average calculation is 1.070 times, which means consistency in this ratio during research period. Cash and bank balance would sufficient to meet the demand of current depositors. Therefore, here seems to be making more cash and bank balance to meet the current deposit. Otherwise, the bank would lose its image from the view points of customers if all current depositors demand their deposit. Here mean ratio is only 1.070 so more cash and bank balance is required to maintain the current depositor required.

Figure 4.2

Cash and Bank Balance to Current Deposit Ratio



iii) Cash and Bank Balance to Interest sensitive Deposit Ratio

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

Table 4.3

Cash and Bank Balance to interest sensitive deposit Ratio

(Amount in millions)

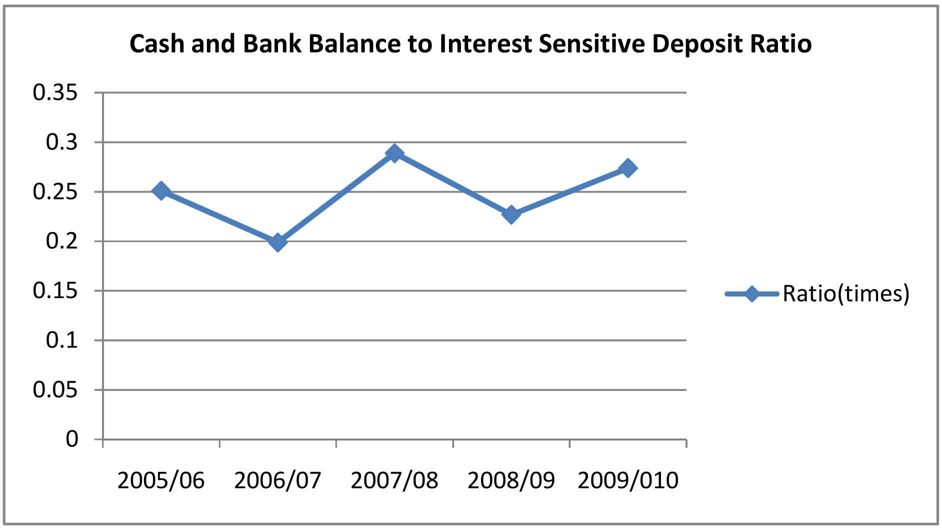
Year	Cash and Bank Balance	Sensitive Deposit	Ratio(times)
2005/06	1226.92	4886	0.251
2006/07	1340.48	6703	0.199
2007/08	2335.52	8082	0.289
2008/09	2441.514	10742	0.227
2009/010	3754.94	13689	0.274
Mean			0.248

(Sources: Annual Report of Nepal Investment Bank)

Table 4.3 shows that the cash and bank balance to interest sensitive ratio of NIB is in fluctuating trend. The ratios are 0.251,0.199, 0.289, 0.22 and 0.274 respectively according to consecutive year. The mean ratio is 0.284 times. This means that the bank is able to maintain this ratio in the good financial condition. The highest ratio is 0.289 times in the year 2007/08 and lowest ratio of 0.199 times in the year 2006/07. In year, 2007/08 this bank mobilized deposits 0.288 times and it maintained good financial condition. The sensitive deposit ratio is volatiles so the condition of sensitive of bank also fluctuating. Therefore, credit management neither good nor bad position of the NIB. Cash, Bank balance and interest sensitive deposit are presented following diagram.

Figure 4.3

Cash and Bank Balance to Interest Sensitive Deposit Ratio



4.2.2 Assets Management Ratio

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

i) Credit and Advances to Fixed Deposit Ratio:

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

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

Table No 4.4

Credit and Advances to Fixed Deposit Ratio

(Amount in millions)

Year	Credit and Advances	Fixed Deposit	Ratio(Times)
2005/06	7339	2295	3.198
2006/07	10453	3212	3.254
2007/08	13178	5413	2.434
2008/09	17769	7517	2.364
2009/010	27529	7944	3.465
Mean			2.9432

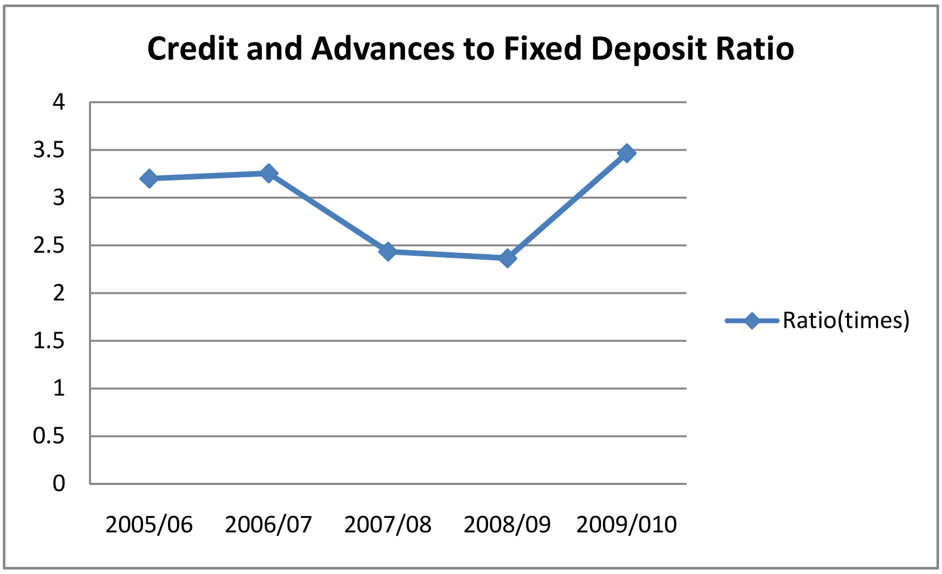
(Sources: Annual Report of Nepal Investment Bank)

From the above table it is visualized that Loan and advances to fixed deposits ratio are increasing trend in overall. The ratio of NIB Bank in 2005/06 was 3.198 and increased to 2009/010 year up to 3.465 times in the following years respectively.

The mean average of NIB is 2.9432 times at research period. Credit and advance to fixed deposit ratio is represented in figure as follow.

Figure 4.4

Credit and Advances to Fixed Deposit Ratio



ii) Credit and Advances to Total Deposit Ratio

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

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

Table 4.5

Credit and Advances to Total Deposit Ratio

(Amount in millions)

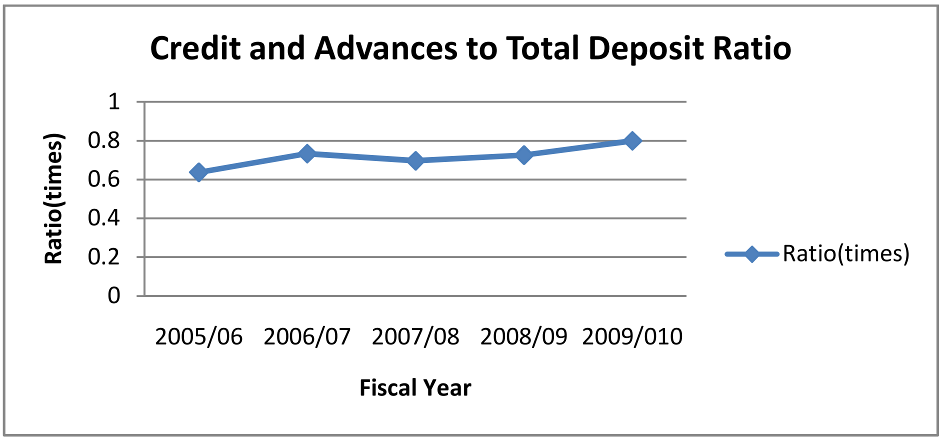
Year	Credit and Advances	Total Deposit	Ratio(Times)
2005/06	7339	11525	0.637
2006/07	10453	14255	0.733
2007/08	13178	18927	0.696
2008/09	17769	24489	0.725
2009/010	27529	34452	0.799
Mean			0.718

(Sources: Annual Report of Nepal Investment Bank)

Above table shows that the total loan advances to total deposit ratio of NIB is in increasing trend. The highest ratio is 0.799 times in year 2009/010 and lowest ratio 0.37 times in year 2005/06. The average mean ratio of NIB is 0.718 times in the study period. This means the bank is able to proper mobilization of collected deposit. According to NRB directives above 70% to 90% of loan and advances to total deposit ratio is able to better mobilization of collected deposit. So all of the year the bank has tries to meet the NRB requirement or it has utilized its deposit to provide loan. This means that credit management is in good position of the bank. Loan advances and total deposit are presented in the line diagram.

Figure 4.5

Credit and Advances to Total Deposit Ratio



iii) Credit and Advances to Total Assets Ratio

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

$$\text{Credit and Advances to total assets} = \frac{\text{Credit \& Advances}}{\text{Total Assets}} \; x\; 100\%$$

Table No 4.6

Credit and Advances to Total Assets

(Amount in millions)

Year	Credit and Advances	Total Assets	Ratio(Times)
2005/06	7339	13464	54.508
2006/07	10453	16391	63.773
2007/08	13178	21330	61.718
2008/09	17769	27591	64.401

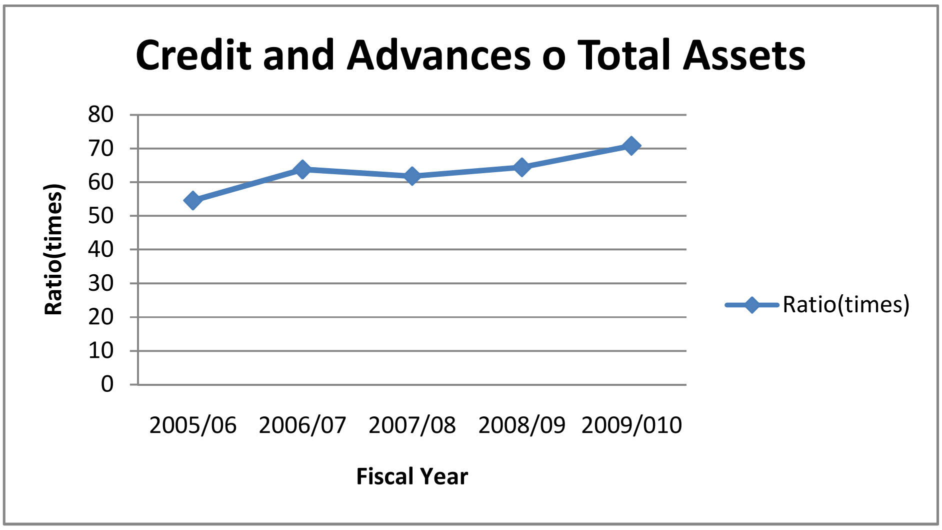
2009/010	27529	38873	70.818
Mean			63.06

(Sources: Annual Report of Nepal Investment Bank)

From the above table shows the NIB bank has generally mixed or fluctuating increasing trends of Credit and Advances to Total Assets ratio under the study period. The ratios are 54.508% , 63.773%, 61.781%, 64.401% and 70.818% in their respective year. The highest ratio is 70% in the year 2009/010 and the lowest ratio is 54% year 2005/006. The average mean ratio is 63.06%. It shows the bank has capability in utilizing total assets in the form of credit and advances. Consistency in the utilization of assets in the form of credit and advances is satisfactory because the fluctuation of the ratio is minimum Loan and Advances to total assets ratio is represented in figure as follow.

Figure no 4.6

Credit and Advances to Total Assets



iv) Non- Performing Assets to Total Assets Ratio

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

Table no 4.7

Non-Performing assets to Total Assets Ratio

Amount in millions)

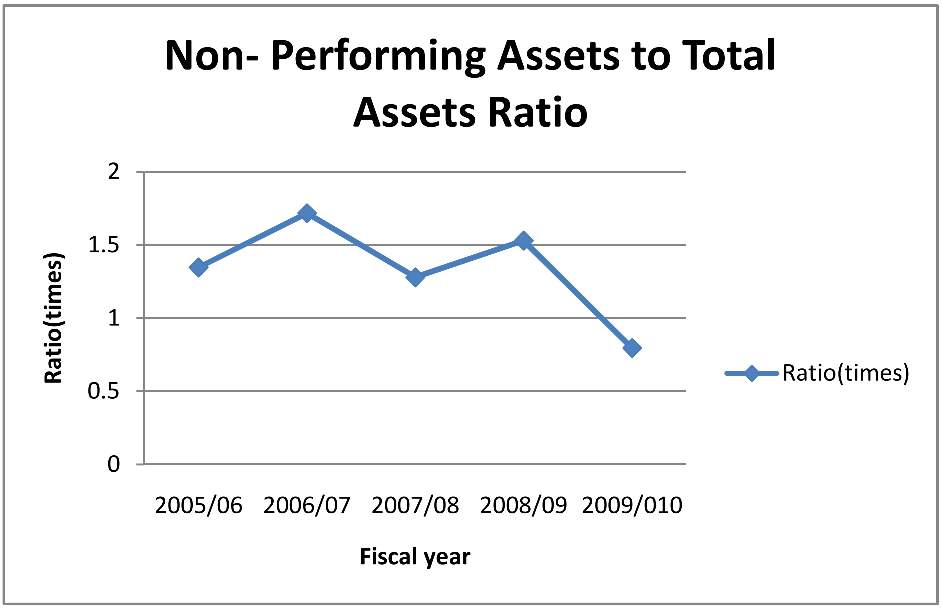
Year	Non- Performing Assets	Total Assets	Ratio(%)
2005/06	181.26	13464	1.3462
2006/07	281.19	16391	1.7155
2007/08	272.79	21330	1.279
2008/09	421.97	27591	1.529
2009/010	309.47	38873	0.796
Mean			1.333

(Sources: Annual Report of Nepal Investment Bank)

Table no 4.7 shows that the total non- performing assets to total assets ratio of NIB is in decreasing trend. The highest ratio is 1.7155% in the year 206/07 and lowest ratio 0.796 in year 2009/010. The mean ratio is 1.333% . The bank is able to obtain higher lending opportunity. The fluctuating trends ratios are 1.3462, 1.7155, 1.279, 1.529 and 0.796 respectively in year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/010 respectively. There are able to obtain higher lending opportunity. Therefore, credit management is in good position of the bank. According to the direction of NRB to the commercial banks, the ratios of non-performing assets to total assets should be about 5%. However, referring to this table, NIB is able to keep the level of non- performing assets at a satisfactory level, which is on an average 1.333%. Non- Performing assets to total assets ratio is represented clearly in the figure.

Figure no 4.7

Non- Performing assets to Total Assets ratio



4.2.3 Leverage Ratio:

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

i) Total Debt to Equity Ratio:

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

Total Debt= Debentures & Bonds+ Borrowing+ Deposits+ Bills payable+ Proposed& Undistributed + Income Tax Liabilities

Total Equity = Share Capital + Reserve and Surplus

$$Total\ Debt\ to\ Equity = \frac{Total\ Debt}{Equity}$$

Table No 4.8

Total Debt to Equity Ratio

(Amount in millions)

Year	Total Debt	Total Equity	Ratio(Times)
2005/06	12526	729	17.18
2006/07	15094	1180	12.79
2007/08	19915	1415	14.07
2008/09	25713	1878	13.69
2009/010	36187	2687	13.47
Mean			14.24

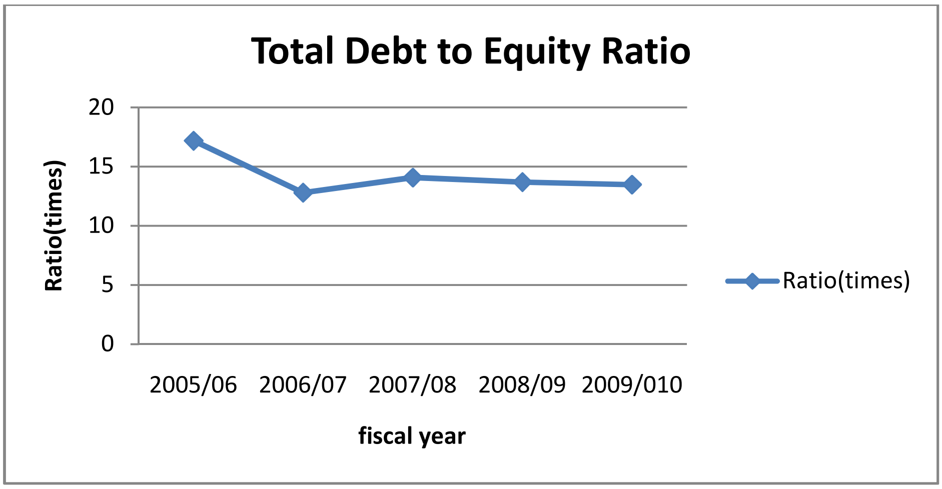
(Sources: Annual Report of Nepal Investment Bank)

Above table shows, Debt to total equity ratio is decrease in 2007 and continuously decreasing trend till research period. The ratio is 17.18 times in the first year 2005/06, 12.79 times in the second year 2006/07, 14.07 times in the third year 2007/08, 13.69 times in the fourth year 2008/09 and 13.47 times in the fifth year

2009/010 of the research period. The average mean ratio is 14.24 times. Excess amount of debt capital structure results heavy burden in payment of interest. Risk of liquidations increase if the debt cannot be repay in the time. High gearing ratio may provide high return to the equity shareholders if the bank makes profit. Ratio is represented in figure as follow.

Figure No 4.8

Total debt to Equity Ratio



ii) Total Debt to Total Assets

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

Table No 4.9

Total Debt to Total Assets

(Amount in millions)

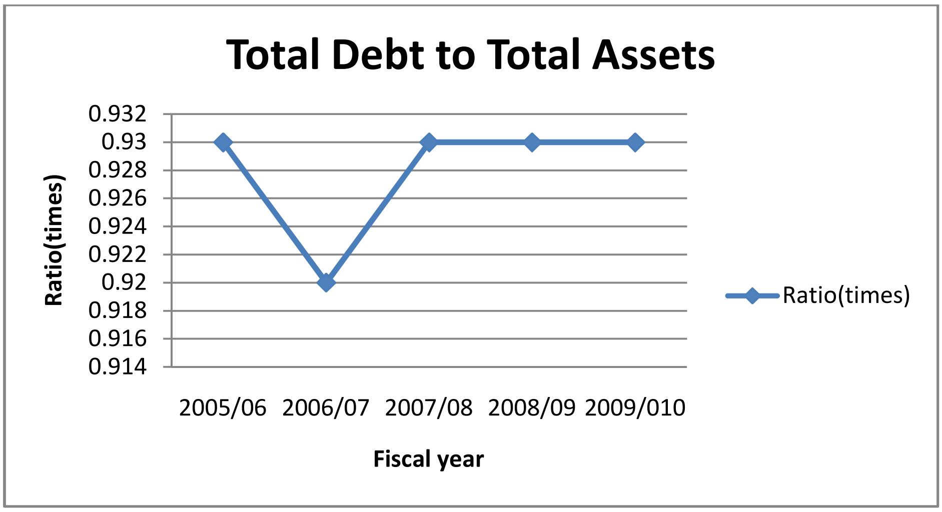
Year	Total debt	Total assets	Ratio(Times)
2005/06	12526	13464	0.93
2006/07	15094	16391	0.92
2007/08	19915	21330	0.93
2008/09	25713	27591	0.93
2009/010	36187	38873	0.93
Mean			0.93

(Sources: Annual Report of Nepal Investment Bank)

In above table the ratio is found as 0.93 times, 0.92 times, 0.93 times, and 0.93 times from 1st to 5th year of the study period 2005/06 to 2009/010 respectively. The average mean ratio in 5 years research period is 0.93 times. It means almost 93% of total assets is financed by the outsider's finds. It is seen that there is not much deviation in the ratio for the five years study period. It means no change in the policy on this ratio for the five years. Ratio is represented in figure as follow.

Figure No 4.9

Total Debt to Equity Ratio



iii) Total Assets to Total Book Net Worth Ratio:

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

Table No 4.10

Total Assets to Net Worth

(Amount in millions)

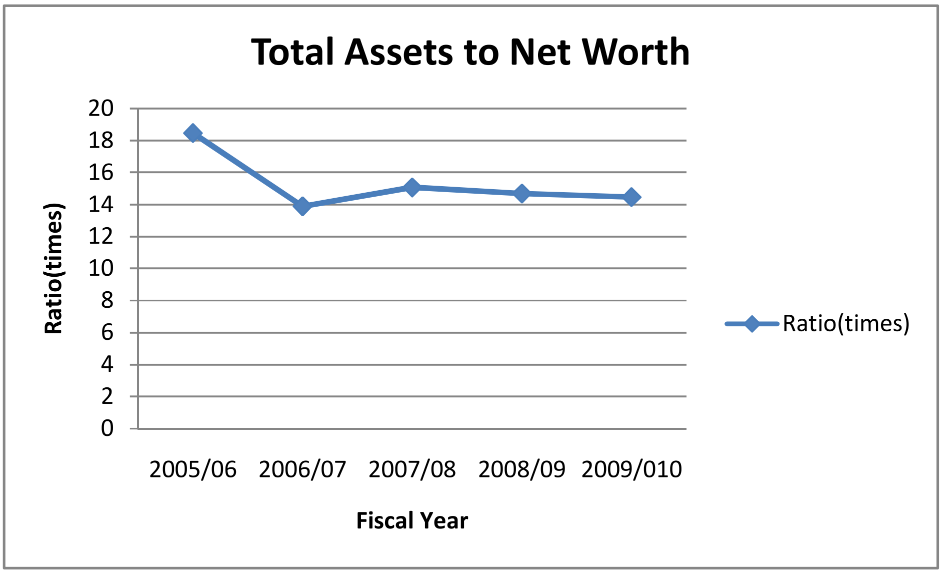
Year	Total Assets	Net Worth	Ratio(Times)
2005/06	13464	729	18.469
2006/07	16391	1180	13.890
2007/08	21330	1415	15.074
2008/09	27591	1878	14.692
2009/010	38873	2687	14.467
Mean			15.318

(Sources: Annual Report of Nepal Investment Bank)

Above table shows, Total assets to net worth ratio of the bank are decreasing and fluctuating trend thereafter. It is lowest 13.890 times in the second year 2006/07 and 18.469 times in 1st year 2005/06. In overall the study period the average ratio at that time is 15.318 times. The computed ratios are 15.074, 14.692 and 11.467 in consecutive year 2007/08, 2008/09 and 2009/010 respectively. It represents good condition of Total assets to net worth ratio. Here above table we see that total assets and net worth are increasing year by year on the study period. The figure shows the clarity. Total assets to net worth ratio of the bank

Figure 4.10

Total Assets to Net Worth



4.2.4 Profitability Ratio

Profit is major objective of any business organization. Profit is engine that drives the business enterprises. Profitability ratios are very helpful to measure the overall efficiency in operation of a financial institution. Profitability ratio is calculated based on sales and investment. In the context of banks, no bank can survive without profit. Profit is one the major indicates of efficient operation of a bank.

The bank banks acquire profit by providing different services to its customers or by providing loan and advances and making various kinds of investment opportunities. Profitability ratios measure the efficiency of bank. A higher profit ratio shows the higher efficiency of a bank. The following ratios are calculated.

i) Net Profit to Gross Income Ratio

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

Table no 4.11

Net Profit to Gross Income Ratio

(Amount in millions)

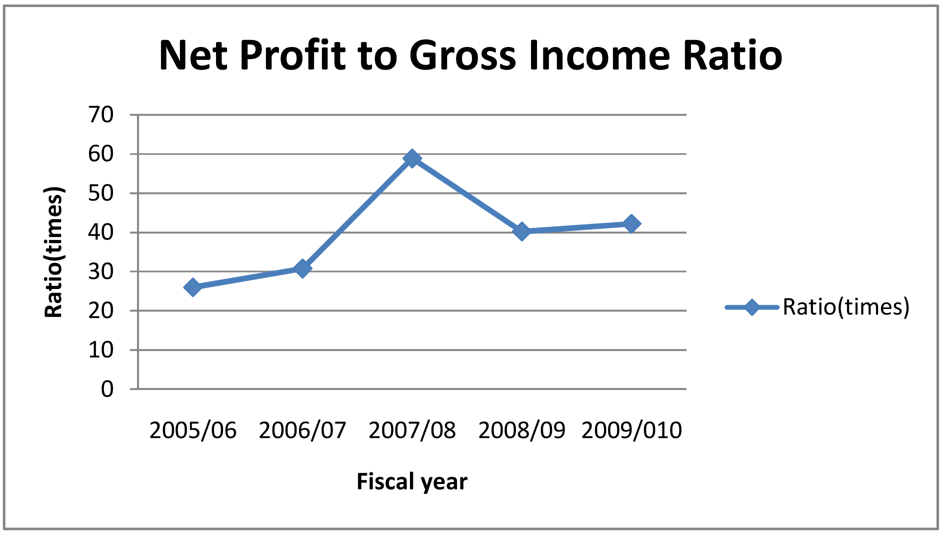
Year	Net Profit	Gross Income	Ratio(%)
2005/06	152.67	587	26.00
2006/07	232.15	753.89	30.79
2007/08	350.53	595.49	58.86
2008/09	501.4	1246.03	40.24
2009/010	696.73	1649.62	42.23
Mean			39.6

(Sources: Annual Report of Nepal Investment Bank)

Table no 4.11 shows that the total net profit to gross income ratio of NIB is in increasing and decreasing trend. The highest ratio is 58.86 in the year 2007/08 and lowest ratio 36% in year 2005/06. The mean ratio is 39.6% The Ratios are 30.79%, 40.24% and 42.23% in year 2006/07, 2008/09 and 2009/10 respectively. These are able to obtain higher efficiency of the bank. Therefore, credit management is in good position of the bank. Net profit to gross income ratio is represented in figure.

Figure No 4.11

Net Profit to Gross Income Ratio



ii) Interest Income o Total Income Ratio

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

Table no 4.12

Interest Income to Total Income Ratio

(Amount in millions)

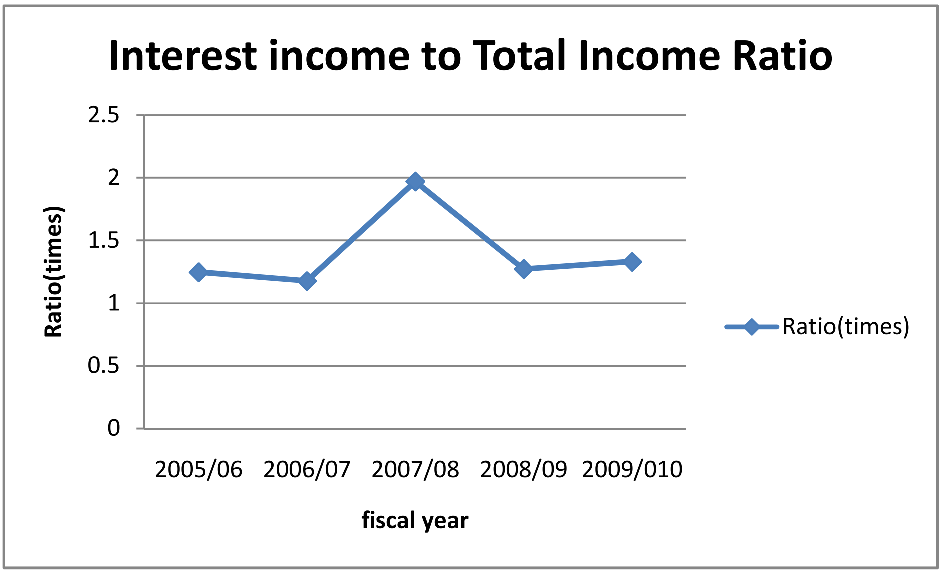
Year	Interest Income	Total Income	Ratio(Times)
2005/06	731.4	587	1.246
2006/07	887	753.89	1.1765
2007/08	1173	595.49	1.9698
2008/09	1585	1246.03	1.272
2009/010	2194	1649.62	1.33
Mean			1.399

(Sources: Annual Report of Nepal Investment Bank)

Table no 12 shows that the total interest income ratio of NIB is in fluctuating trend. The ratios are 1.246 times, 1.176 times, 1.97 times, 1.272 times and 1.133 times in fiscal year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/010 respectively. The highest ratio is 1.9698 times in year 2007/08 and lowest ratio 1.1765 times in year 2006/07 . The mean ratio is 1.399 times in the study period. the ratio indicates the high contribution made by lending and investing activities. The total interest income to total income is continuously increasing trend. Therefore, credit management is in a good position of the bank. Interest income and total income are presented in bar diagram as follows.

Figure 4.12

Interest Income to Total Income Ratio



iii) Operating Profit to Loan and Advances Ratio

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

$$Operating\ Profit\ to\ loan\ and\ advance\ ratio = \frac{Oprasting\ Profit}{Loan\ and\ Advance}$$

Table No 4.13

Operating Profit to Loan and Advances Ratio

(Amount in millions)

Years	Operating Profit	Credit and advances	Ratio (%)
2005/06	323	7339	4.4011
2006/07	333.57	10453	3.1911
2007/08	544.31	13178	4.1304
2008/09	727.51	17769	4.0943
2009/010	1013.33	27529	3.6809

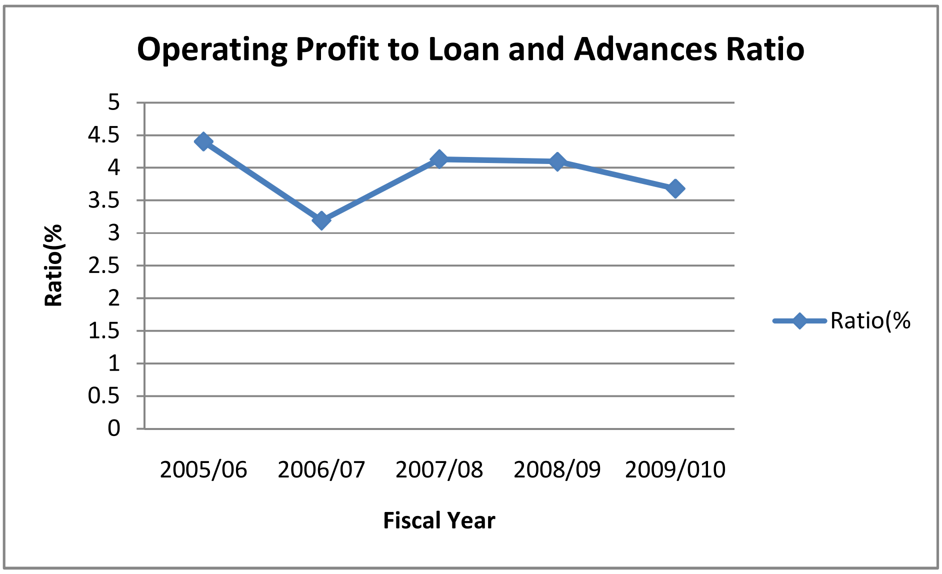
Mean			3.9

(Sources: Annual Report of Nepal Investment Bank)

Table no 4.13 shows that the operating profit to loan and advances ratio of NIB is in fluctuating trend. The highest ratio is 4.401% in the year 2005/06 and lowest ratio 3.191% in the year 2006/07. The average mean ratio over the period is 3.9%. This shows the high profitability in 2005/06 and low profitability in 2006/07 through loan and advance of the bank. The Ratios are 4.1304%, 4.094% and 3.68% in year 2007/08, 2008/09 and 2009/010 respectively. These show the fine profitability position of commercial bank, But there is a fluctuation operating profit to loan and advance ratio. Anyway, Credit management is in good position of the bank. Operating profit and loan advances are presented in the bar diagram as follows.

Figure No 4.13

Operating Profit to Loan and advances Ratio



iv) Return on Loan and Advances Ratio

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

Table No 44.14

Return on Loan and Advances Ratio

(Amount in millions)

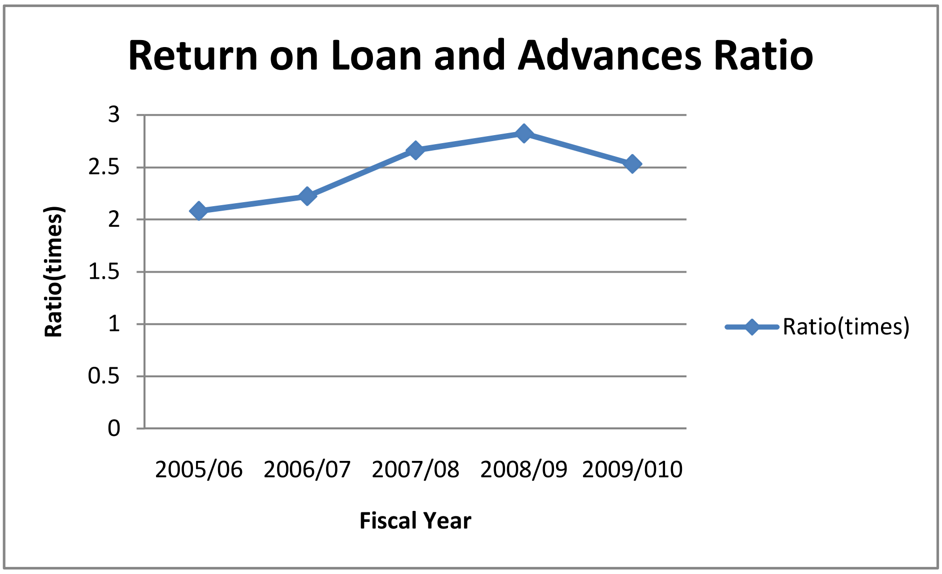
Year	Net Profit	Credit and Advances	Ratio (%)
2005/06	152.67	7339	2.0802
2006/07	232.15	10453	2.2209
2007/08	350.53	13178	2.6599
2008/09	501.4	17769	2.8217
2009/010	696.73	27529	2.5309
Mean			2.46

(Sources: Annual Report of Nepal Investment Bank)

Table no 14 shows that return on loan and advances ratio of NIB is in increasing trend. The highest ratio is 2.822 in the year 2008/09 and lowest ratio is 2.0802 in the year 2005/06. The average mean ratio is 2.46 % The Ratios are 2.2209%, 2.6599% and 2.5309% in years 2006/07, 2007/08 and 2009/010 respectively. These show the highest earning in 2008/09 and lowest earning capacity in 2005/06 from loan and advances. These show the little high earning capacity of NIB Bank through loan and advances. Thus, credit management is in good position. Net Profit and Loan advances are represented in the bar diagram as follows.

Figure 4.14

Return on Loan and Advances Ratio



v) Net Profit to Total assets

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

Table No 4.15

Net Profit to Total Assets

(Amount in millions)

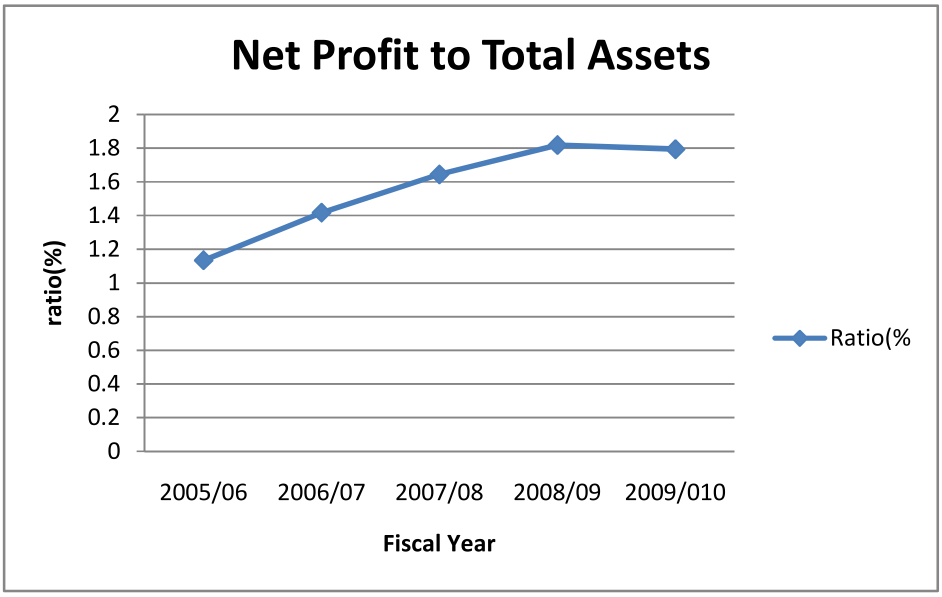
Year	Net Profit	Total Assets	Ratio(%)
2005/06	152.67	13464	1.1339
2006/07	232.15	16391	1.4163
2007/08	350.53	21330	1.6433
2008/09	501.4	27591	1.8172
2009/010	696.73	38873	1.7923
Mean			1.56

(Sources: Annual Report of Nepal Investment Bank)

In above table shows that the Net Profit to total assets ratio of NIB is in increasing trend. The ratio is 1.1339%, 1.416%, 1.6433%, 1.8172% and 1.7923% in year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/010 respectively. The highest ratio is 1.817 in 2008/09 and lowest ratio is 1.1339% in the year 2005/06. The mean ratio is 1.56%. This shows the normal earning capacity through assets utilization. In above the five- year research period net profit and total assets both are increasing trend.

Figure No 4.15

Net Profit to Total Assets



vi) Earnings per Share

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

Table No 4.16

Earnings per Share

(Amount in millions)

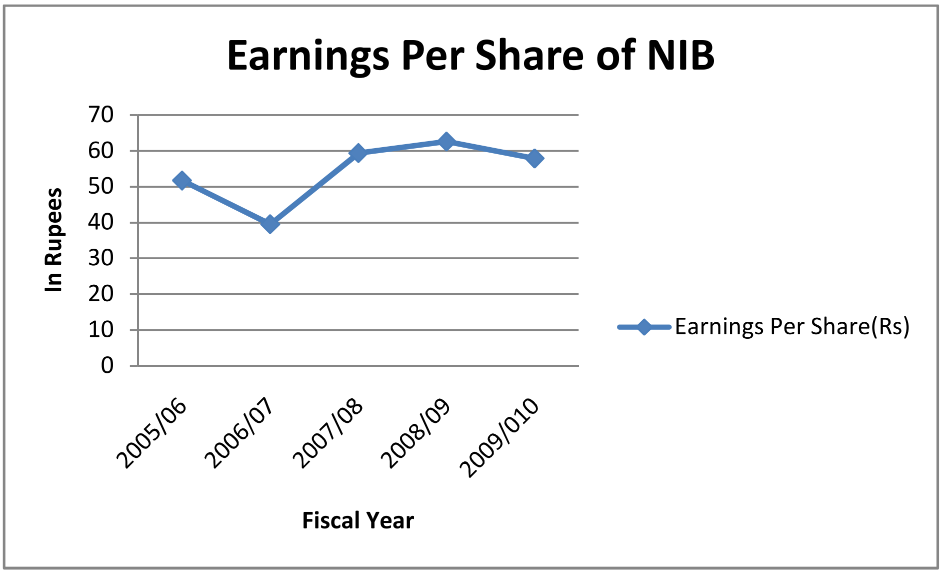
Year	Net Profit	No of equity shares	Earnings per Share(Rs)
2005/06	152.67	2952930	51.701
2006/07	232.15	5877385	34.499
2007/08	350.53	5905860	59.353
2008/09	501.4	8013526	62.569
2009/010	696.73	12039154	57.872
Mean			54.199

(Sources: Annual Report of Nepal Investment Bank)

Above table shows, that Earnings per share of NIB is in fluctuating trend. The higher EPS is RS 62.569 in year 2008/09 and lowest EPS Rs. 39.499 in year 2006/07. The average means EPS of NIB Bank is RS 54.199 in the study period. This shows the better profitability in the coming last years. Earnings per shares are Rs. 51.701, Rs.59.353 and RS.57.872 in year 2005/06, 2007/08 and 2009/010 respectively. This shows the better profitability in the study years. In the year 2006/07 EPS 39.499 is lower due to increased number of shareholders. Aggregate profit is in increasing trends. Therefore, credit management and overall performance of company is in good position. Earnings per share are represented in the following diagram.

Figure No 4.16

Earnings per Share of NIB



vii) Price Earnings Ratio

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

$$Price\ earnings\ ratio(\ PE\ ratio) = \frac{Market\ price\ per\ share}{Earnings\ per\ share}$$

Table no 4.17

Price Earnings Ratio

(Amount in millions)

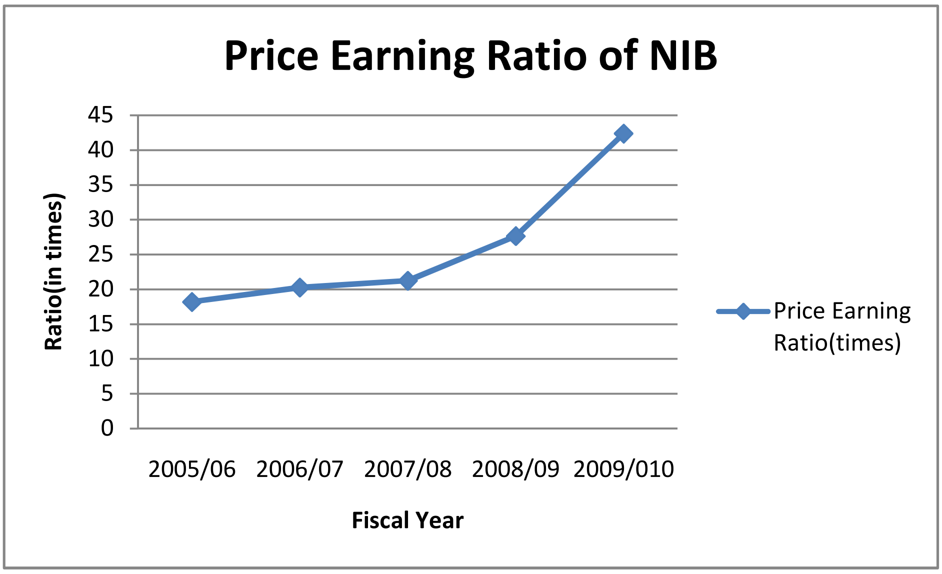
Year	Market Price per share	Earnings per share	Ratio(times)
2005/06	940	51.70	18.1818
2006/07	800	39.50	20.2531
2007/08	1260	59.35	21.2299
2008/09	1729	62.57	27.633
2009/010	2450	57.87	42.336
Mean			25.927

(Sources: Annual Report of Nepal Investment Bank)

Above table shows, that price- earnings ratio earning of NIB is in increasing Trend. The highest price- earnings ratio is 42.336 in the year 2009/010 and lowest ratio 18.1818 times in year 2005/06. The average mean ratio of the NIB is 25.927 times in the study period. This shows the better profitability in the last years. ratios are 20.253 times, 21.229 times and 27.633 times in year 2006/07, 2007/08 and 2008/09 respectively. These mean that the better profitability in the coming year last years. It represents high expectation of company in market and high demand of share. But it is recommended to risk in invest in market price. Anyway, creditability seems to be good position. Price- earnings ratios are represented in the diagram as follow.

Figure No 4.17

Price Earnings Ratio of NIB



4.2.5 Lending Efficiency Ratio

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

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

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

Table no 4.18

Loan Loss Provision to Total Loan and Advances Ratio

(Amount in millions)

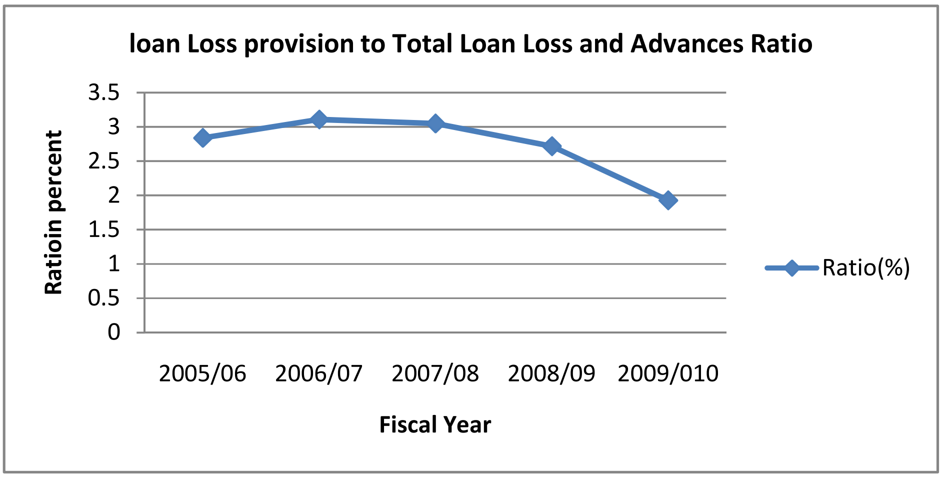
Year	Loan Loss Provision	Credit and advances	Ratio(%)
2005/06	208.44	7339	2.84
2006/07	325.16	10453	3.11
2007/08	401.94	13178	3.05
2008/09	482.67	17769	2.72
2009/010	532.65	27529	1.93
Mean			2.73

(Sources: Annual Report of Nepal Investment Bank)

Above table shows, that the loan loss provision to total loan and advances ratio of NIB is in decreasing trend. The highest ratio is 3.11% in year 2006/07 and lowest ratio 1.93% in year 2009/010 . The mean ratio of the study period is 2.73%. This shows that good quality of assets in total volume of loan and advances. Ratios are 2.84%, 3.05% and 2.72% in the year 2005/06, 2007/08 and 2008/09 respectively. These indicate the good quality of assets in total volume of loan and advances. The ratio is continuously decreasing this indicates that bank increasing performance. Thus, Credit management is in a good position. So all of the year, the bank has met the NRB requirement. Loan loss Provision and total loan and advances are represented in the following diagram clearly.

Figure No 4.18

Loan Loss Provision to Total Loan and Advances Ratio



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

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

Table No 4.19

Non- Performing Loan to Total Credit and Advances

(Amount in millions)

Year	Non- performing loan	Credit and Advances	Ratio(%)

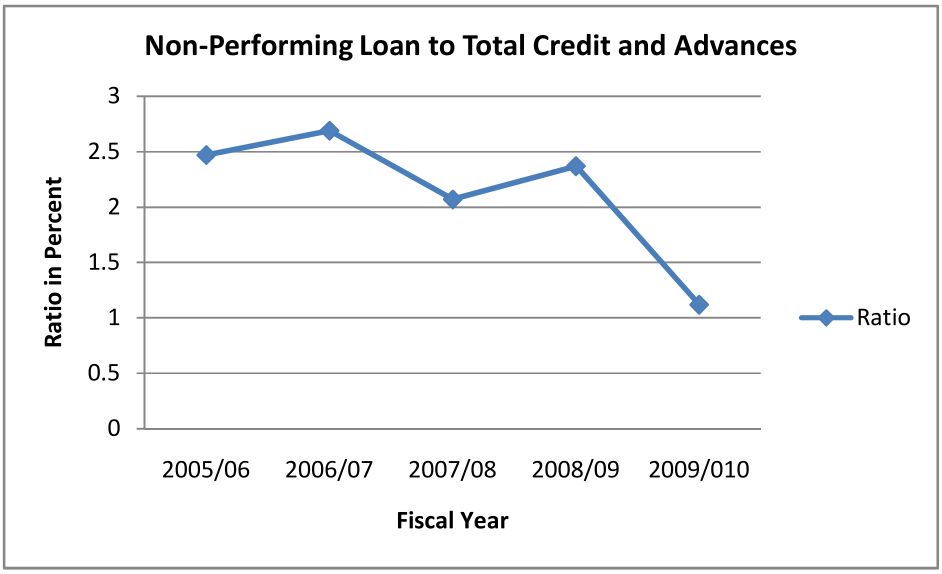
2005/06	181.26	7339	2.47
2006/07	281.19	10453	2.69
2007/08	272.79	131.78	2.07
2008/09	421.97	17769	2.37
2009/010	309.47	27529	1.12
Mean			2.37

(Sources: Annual Report of Nepal Investment Bank)

Above table shows that Non- performing loan to total loan and advance of NIB is in decreasing trend. The ratios are 2.47%, 2.69%, 2.07%, 2.37% and 1.12% consecutive year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/010 respectively. The highest ratio is 2.69% in the year 2006/07 and lowest ratio is 1.12% into he year 2009/010. The average non- performing loan to total loan and advances ratio of NIB is 2.37% during the study period. This ratio indicates the more efficient operating of credit management. Ratios are decreasing trends it indicate the bank is decreasing the non-performing loan from total loan. Therefore, Credit management is in a good position recently. Non- performing loan to loan and advances ratio present clearly in following figure.

Figure No.4.19

Non- performing Loan to Total Credit and Advances



iii) Interest Expenses to Total Deposit Ratio

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

Table No 4.20

Interest Expenses to Total Deposit Ratio (Amount in millions)

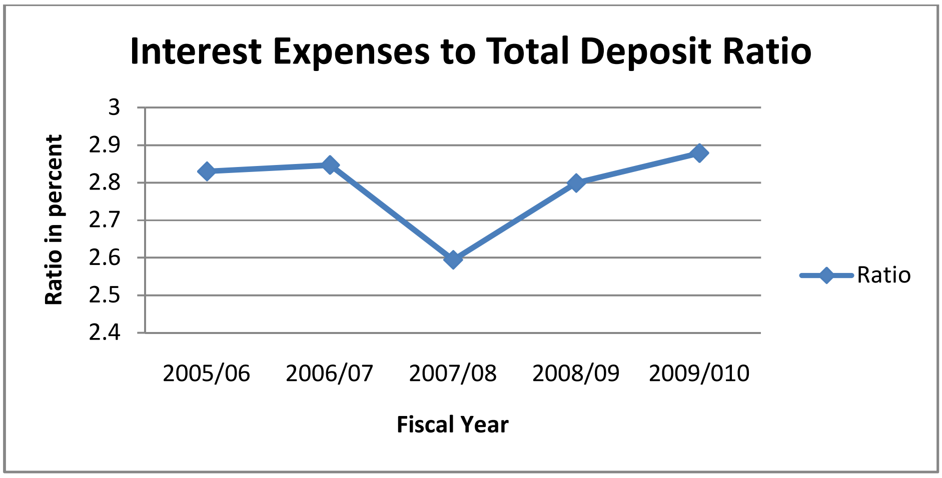
Year	Interest expenses	Total Deposit	Ratio (%)
2005/06	326.2	11525	2.830
2006/07	354.55	14255	2.487
2007/08	490.95	18927	2.594
2008/09	685.53	24489	2.799
2009/010	992.16	34452	2.879
Mean			2.718

(Sources: Annual Report of Nepal Investment Bank)

Above table shows that interest expenses to total deposit ratio of NIB is in fluctuating trend. The highest ratio is 2.87% in the year 2009/010 and lowest ratio is 2.487 % in the year 2006/07. The average mean point of interest expenses to total deposit ratio is 2.718 % during the study period. Ratios are 2.83%, 2.594% and 2.799% in respective year 2005/06,2007/08, and 2008/09. That this ratio does not indicate higher interest expenses on total deposit. Commercial banks are dependent upon its ability to generate cheaper fund. Interest expenses to total deposit ratio is represented in figure as follow.

Figure no 4.20

Interest Expenses to Total Deposit Ratio



4.3 Statistical Analysis

i) Correlation Coefficient:

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

$$Cofficient\ of\ Correlation\ (r) = \frac{N\Sigma xy - (\Sigma x)(\Sigma y)}{\sqrt{N\Sigma x2 - (\Sigma x)2}\ \sqrt{N\Sigma y2 - (\Sigma y)2}}$$

Here,

N= Number of pairs of X and Y observed

X= Values of Credit and advances

Y= Values of total assets

r= Karl Pearson's Coefficient of correlation

ii) Probable Error

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

$$S.E(r) = \frac{1 - r2}{\sqrt{n}}$$

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

$$Probale\ Error(\ P.E) = 0.6745x\,\frac{1 - r2}{\sqrt{n}}$$

Where r= coefficient of correlation

n= no of observations

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

If r<6xP.E(r), then the value of r is not significant

If r> 6xP.E(r), then the value f r is significant

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

- Total Credit and Total assets
- Loan and advance and Total deposit

A) Correlation Coefficient between Deposit & Loan & Advances

Deposit have played very important role in performance of a commercial banks and similarly loan & advances are very important to mobilize the collected deposits. Co- efficient of correlation between deposit and loan and advances measures the degree of relationship between these two variables. The main objectives of computing 'r' between these two variables is to justify whether deposit are significantly used as loan & advances in proper way or not. Coefficient of correlation determination between deposit and loan and advances of NIB

Table 4.21

Correlation between Deposit and Loan and Advances

Correlation Coefficient (r)	Coefficient of determination(r^2)	Probable error(P.E)	6 P Er.
0.997	0.994	0.00181	0.011

Source: Through SPSS

The above table shows that the correlation coefficient between deposit and loan and advances is 0.997. There is highly positive correlation between loan and advances and deposit collection. The coefficient of determinations is 0.994, which depicts that 99.4% of loan has been explained by the deposit collection. It shows that increase in deposit highly lead to increase loan and advances. In according to increase in deposit NIB's loan and advances is increasing in trend.

Probable error(P.E) is calculated to be 0.00181 and 6 P.E. is 0.011. Probable error of the correlation coefficient denoted by P.E. is the measure of testing the reliability of the calculated value of 'r' is greater than 6 P.E. then there is evidence of significant correlation between loan and deposit. That further reveals there is significant relationship between loan and advances and deposit.

B) Coefficient of Correlation between Total Deposits and Total Asset

The coefficient of correlation between deposit and asset measures the degree of relationship between these two variables. The following Table no 4.30 shows the coefficient correlation between deposits and total assets i.e. r, P. Er, 6 P. Er and coefficient of determination (R^2) of NIB during the study period.

The table 4.10 shows represent the correlation coefficient between Total Deposits and Total assets

Table 4.22

Correlation between Total Deposits and Total Assets

Correlation Coefficient (r)	Coefficient of determination(r^2)	Probable error(P.Er)	6 P.Er
0.999	0.998	0.00062137	0.0036

The above table shows that the coefficient of correlation between total deposit and total assets of NIB is 0.999. It shows the highly positive correlation. In addition, coefficient of determination of NIB is 0.998. It means there is 99.8 percent of total assets is explained by total deposit. The correlation coefficient is significant because the correlation coefficient is more than 6 P.Er. It refer that there is significant relationship between total deposit and total Asset. From the above analysis the conclusion can be drawn that NIB has high degree positive correlation between total deposit and total assets.

C) Co-efficient of Correlation between Loan and advance and Net Profit

Co-efficient of correlation between total assets and net profit is used to measure the degree of relationship between two variables. i.e. Loan and advance and net profit of NIB during the study period. Where loan and advance is independent variable(x) and net profit is dependent variable(Y). The main objective of calculating this ratio is to determine the degree of relationship whether there the net profit is significantly correlated or not and the variation of net profit to loan and advance through the coefficient of determination. The following table shows the 'r', 'R^2', P,Er and 6 P.Er between those variables of Nepal Investment Bank Limited for the study period.

Table no 4.23

Correlation between Loan and advance and Net Profit

Correlation Coefficient (r)	Coefficient of determination(r^2)	Probable error(P.Er)	6 P.Er
0.989	0.978	0.00663	0.04

Source : Through SPSS Data Editor

The above table shows the correlation coefficient between Total Profit and Loan and advances. The correlation coefficient between Total Profit and loan and advances is 0.989. There is highly positive correlation between loan and advances and deposit collection. The coefficient of determination is 0.978, which depicts that 97.8% of profit is explained by the loan and advance. Probable error (P.E) is the measure of testing the reliability of the calculated value of r. Here, 'r' is greater than 6P.E. then there is evidence of significant correlation between loan and deposit. That further reveals there is significant relationship between loan and advances and total profit.

D) Coefficient of Correlation between Total Debt and Total asset

Coefficient of correlation between total debt and total assets measures the degree of their relationship. In the, correlation analysis, investment is independent variable and net profit is dependent variable. The following Table shows the coefficient of correlation coefficient of determination, probable error and six times of P.Er. During the fiscal year 2005/06 to 2009/010

Table no 4.24

Correlation between Total Debt and Total Assets

Correlation Coefficient (r)	Coefficient of determination(r^2)	Probable error(P.Er)	6 P.Er
0.989	0.978	0.00663	0.04

Source: Through SPSS Data Editor

Above table shows correlation between total Debt net Profit of NIB is 0.999, which implies there is highly positive correlation between total Debt and Total assets. In addition, coefficient of determination is 0.996. It means 99.6 percent of Assets is contributed by Debt. Obviously this correlation is significant at all due to coefficient of determination is higher than P. Error. Thus it can be concluded that the degree of relationship between total debt and total assets of NIB has highly positive correlation.

E) Correlation Coefficient between Loan and Advances and Non- performing assets NIB

Table no 4.25

Correlation between Loan and advance and Net Profit

Correlation Coefficient (r)	Coefficient of determination(r^2)	Probable error(P.Er)	6 P.Er
0.555	0.308	0.2087	1.25

Source: Through SPSS Data Editor

The above table shows that the correlation coefficient between loan and advances and non- performing assets of NIB. The correlation coefficient between sector wise lending and loan and advances of NIB is 0.555. There is moderate positive correlation between loan and advances and non performing assets. The coefficient of determination is 0.308, which depicts that 30.8% of NPL has been explained by the loan and advances. Probable error(P.E) is calculated to be 0.2087 and 6 P.E. is 1.25. Probable error of the correlation coefficient denoted by P.E. is the 0.2087 and 6. P.E. is is 1.25. Probable error of the correlation coefficient denoted by P.E. is the measure of testing the reliability of the calculated value of r. Here'r' is smaller than 6 P.E. then there is evidence of insignificant correlation between

Loan and advance and PSL ratio. The further reveals there is insignificant relationship between loan and advances and deposit.

iii) Trend Analysis

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

Trend analysis is based on some assumptions;

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

a) Trend Analysis of Total Deposit

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

Y= a+bx

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

X= deviation from some convenient periods

Table no 4.26
Trend of total Deposit

(Amount in Millions)

year(x)	Total Deposit

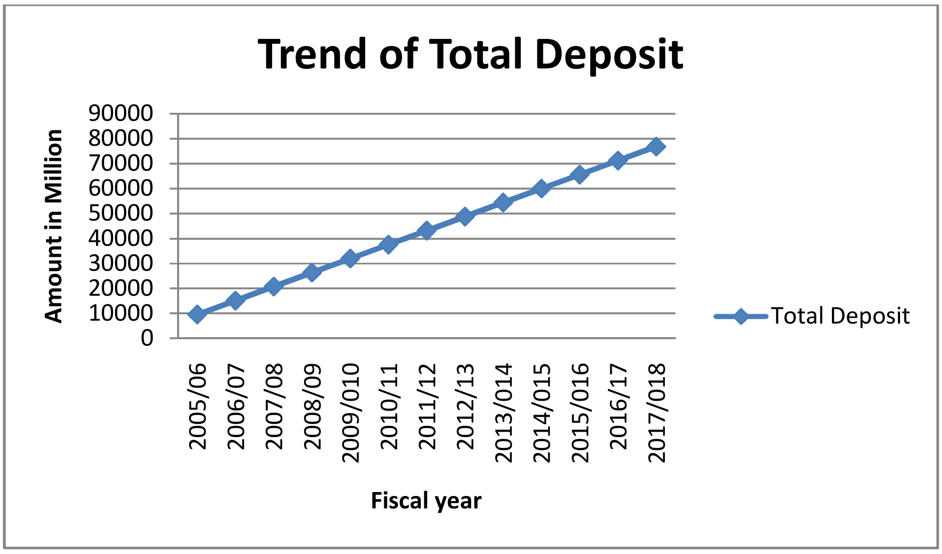
2005/06	9512
2006/07	15120.8
2007/08	20729.6
2008/09	26338.4
2009/010	31947.2
2010/011	35556
2011/012	43164.8
2012/013	48773.6
2013/014	54382.4
2014/015	59991.2
2015/2016	65600
2016/017	71208.8
2017/018	76817.6

Source: Annual Report of NIB Appendix-I

The following graph helps to show the trend lines of total deposit for the projected five years the equation Y= 20729.6+ 5608.8 X

Figure No 4.21

Trend of Total Deposit



Above table and figure shows that total deposits of NIB. The trend of total deposit of NIB is in increasing trend. The rate of increment of total deposit for

NIB seems to be smoothly increasing trend. The trend analysis shows the projected deposit amount in fiscal year FY 2010/011 to 2017/018.

b) Trend Analysis of total loan and advance

Table No 4.27

Trend Analysis of Total Loan and Advance

(Amount in Millions)

year(x)	Loan and Advance
2005/06	5724.4
2006/07	10494
2007/08	15263.6
2008/09	20033.2
2009/010	24802.8
2010/011	29572.4
2011/012	34342
2012/013	39111.6
2013/014	43881.2
2014/015	48650.8
2015/2016	53420.4
2016/017	58190
2017/018	62959.6

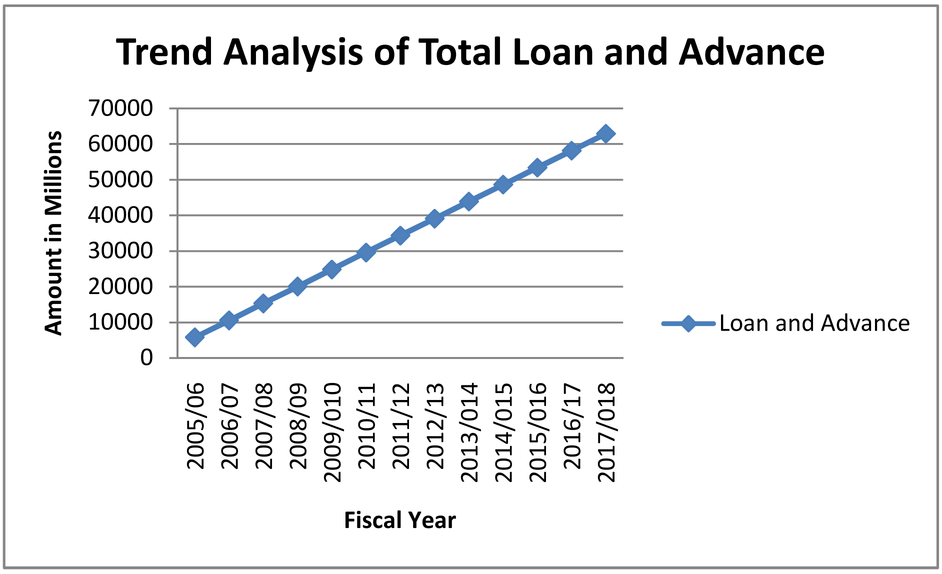
Source: Annual Report of NIB

Appendix-II

The following graph helps to show the trend lines of Loan and advances for the projected five years. The equation is Y= 15263.6+4769.6 xX

Figure No 4.22

Trend Analysis Total Loan and Advance



Above table and figure shows trend values of loan and advances of NIB. The trend of trend values of loan and advances of NLB is increasing trend. It is suggest to increase in loan and advance in same way to make better profit. The trend analysis shows amount for the fiscal year FY 2005/06 to FY 2017/018.

C) Trend Analysis of Total Assets

Table no 4.28

Trend Analysis of Total Assets

(Amount in Millions)

year(x)	Total Deposit
2005/06	11126.2
2006/07	17328
2007/08	23529.8
2008/09	29731.6
2009/010	35933.4
2010/011	42135.2
2011/012	48337
2012/013	54538.8
2013/014	60740.6
2014/015	66942.4
2015/2016	73144.2
2016/017	79346
2017/018	85547.8

Source : Annual Report of NIB

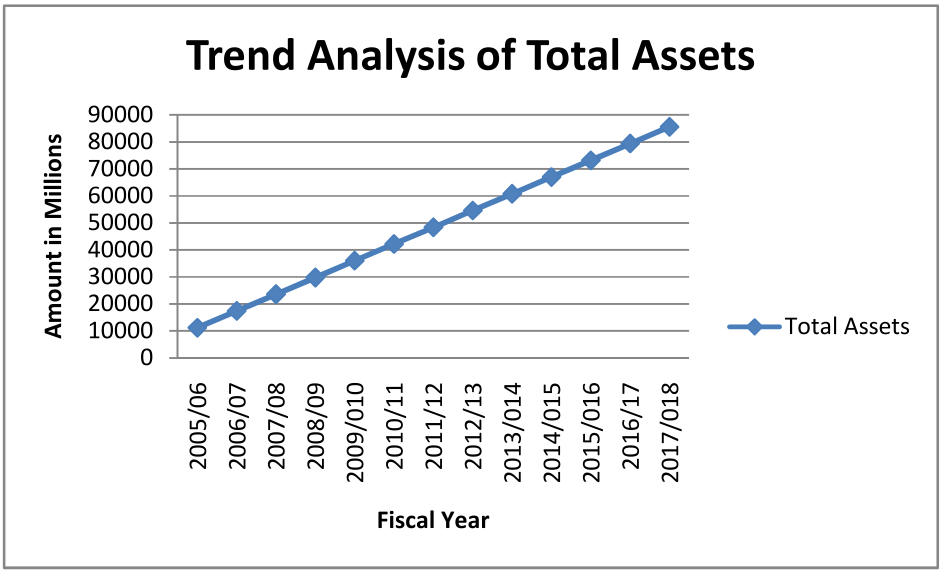
Appendix-III

The following graph helps to show the trend lines of Total Asset for the projected five years.

The equation is y = 23529.8+6201.8X

Figure No 4.23

Trend Analysis of Total Asset



Above table and figure shows that Trends of Total Assets of NIB. The trend of total Assets of NIB is in increasing trend. The rate of increment of Total Assets for NIB seems to be moderately increasing trend. It is better for company. This type of increment should maintain regularly. The trend analysis shows the projected deposit amount in fiscal year FY 2010/011 to FY 2017/018.

e) Trend Line of Net Profit

Table No 29

Trend Analysis of Net Profit

(Amount in Millions)

year(x)	Net Profit
2005/06	115.222
2006/07	250.959
2007/08	386.696
2008/09	522.433
2009/010	658.17
2010/011	793.907
2011/012	929.644
2012/013	1065.38
2013/014	1201.12
2014/015	1336.86
2015/2016	1472.59
2016/017	1608.33
2017/018	1744.07

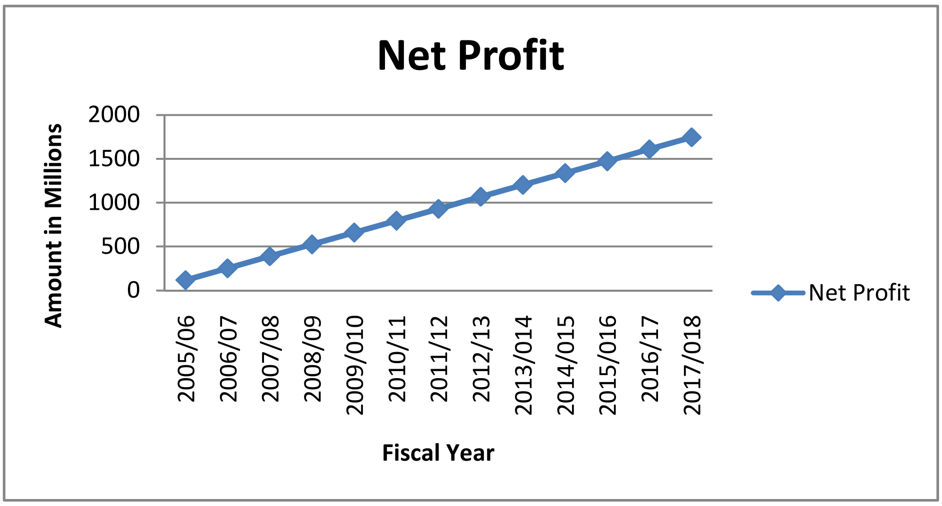
Source: Annual report of NIB

Appendix- IV

The following graph helps to show the trend lines of Net Profit for the Projected five years. The equation is Y= 386.696 + 135.737 X

Figure No 4.24

Trend Analysis of Net Profit of NIB



Above table and figure shows that Total Profit of NIB. The trend of total profit of NIB is in increasing trend. It is better for company but this type of increment should maintain regularly. The trend analysis shows the projected deposit amount is fiscal year FY 2010/011 to FY 2017/018.

4.4 Major Findings

A. Liquidity Ratio

The cash and Bank balance to total deposit of the NIB bank shows the fluctuating trend during the study period. The mean ratio is 0.093 times in the study period. Cash and bank balance to current deposit of the bank shows the fluctuating trend during the study period. The men average calculation is 1.070 times in the study period. This means that the bank is able to be maintained in the good liquidity position of the bank. The cash and bank blnce to interest sensitive ratio of NIB is in fluctuating trend. The mean rati is 0.248 times. This means that the bank is able to maintain this ratio in the good financial condition. Therefore that liquidity management is in good position of the NIB. This means that the bank is able to maintain in the good financial condition.

B. Assets Management Ratio

Loan and advances to fixed deposits ratio are increasing trend in overall. The mean ratio is 2.9432 times at research period. The total loan advances to total deposit ratio of NIB is in increasing trend. The average mean ratio of NIB is 0.718 times in the study period. Similarly credit and advance to total asset is not so fluctuating trends. The average mean ratio is 63.06%. It shows that bank has capability in utilizing total assets in the form of credit and advances.

The total non- performing assets to total assets ratio of NIB is in decreasing trend. The mean ratio is 1.333%. The bank is able to obtain higher lending opportunity. The ratio indicates the high contribution made by lending and investing activities. Thus, credit management is in a good position.

C. Leverage Ratio

The Debt to equity ratio of NIB is in increasing trend during the study period. The average mean ratio is 14.24 times. Excess amount of debt capital structure results heavy burden in payment of interest. Risk of liquidation increase if the debt cannot be repay in the time. The analysis indicates that the bank is highly leveraged because the claim of the outside exceeds than those of the owners over the bank assets.

The Debt to assets ratio of NIB is high or in other words, they have excessively geared capital structure. The average mean ratio in 5 years research period is 0.93 times. It means almost 93% of total assets is financed by the outsider's funds. It is seen that there is not much deviation in the ratio for the five years study period.

Total assets to net worth ratio of the bank are decreasing and fluctuating trend thereafter. In overall the study period the average ratio at that time is 15.318 times. It represents good condition of Total assets to net worth ratio.

D. Profitability Ratios

Profitability ratios are very helpful to measure the overall efficiency in operation of financial institution. The total net profit to gross income of

NIB is in increasing and decreasing trend. The mean ratio is 39.6. These are able to obtain higher efficiency of the bank. Therefore, credit management is in good position of the bank. The bank is able to obtain higher efficiency. This means that credit management is in good position.

The total interest income ratio of NIB is in fluctuating trend. The highest ratio is 1.9698 times in year 2007/08 and lowest ratio 1.1765 times in year 2006/07. The mean ratios 1.399 times in the study period. The ratio indicates the high contribution made by lending and investing activities.

The operating profit to loan and advances ratio of NIB is in fluctuating trend. The highest ratio is 4.401% in the year 2005/06 and lowest ratio 3.191% in the year 2006/07. The average mean ratio over the period is 3.9%. This shows the high profitability in 2005/06 and low profitability in 2006/07 through loan and advance of the bank. This shows the better position of the bank.

The return on loan and advances ratio of NIB is in increasing trend. These show the highest earning in 2008/09 and lowest earning capacity in 2005/06 from loan and advances. These show the little high earning capacity of NIB Bank through loan and advances. Thus, credit management is in good position.

The Net Profit to total assets ratio of NIB is in increasing trend. The highest ratio is 1.817 in 2008/09 and lowest ratio is 1.1339% in the year 2005/06. The mean ratio is 1.56%. This shows the normal earning capacity through assets utilization.

The Earning Per share of NIB is in fluctuating trend. The highest EPS is Rs 62.569 in year 2008/09 lowest EPS Rs. 39.499 in year 2006/07 The average means EPS of NIB Bank is RS .54.199 in the study period. This shows the better profitability in the study years.

The price- earnings ratio earning of NIB in increasing trend. The highest price-earnings ratio is 42.336 in year 2009/010 and lowest ratio 18.1818 times in year 2005/06. The average mean ratio of the NIB is 25.927 times in the study period. This shows the better profitability in the last years. These means that the better profitability in the coming last years. It represents high expectation of company in market and high demand of share. However, it is recommended to risk in invest in market price.

E. Lending Efficiency Ratio

The loan loss provision to total loan and advances ratio of NIB is in decreasing trend. The highest ratio is 3.11% in year 2006/07 and lowest ratio 1.93% in year 2009/010. The mean ratio of the study period is 2.73%. These indicate the good quality of assets in total volume of loan and advances. The ratio is continuously decreasing this indicates that bank increasing performance. Thus, credit management is in a good position.

The none- performing loan to total loan and advance of NIB is in decresing trend. The highest ratio is 2.69% in the year 2006/07 and lowest ratio is 1.12% in the year 2009/010. The average non- performing loan to total loan and advances ratio of NIB is 2.37% during the study period. This ratio indicates the more efficient operating of credit management.

This interest expenses to total deposit ratio of NIB is in fluctuating trend. The highest ratio is 2.87% in the year 2009/010 and lowest ratio 2.487% in the year 2006/07. The average mean point of interest expenses to total deposit ratio is 2.718% during the study period. That this ratio does not indicate higher interest expenses on total deposit. Commercial banks are dependent upon its ability to generate cheaper fund.

F. Statistical toots

I. Correlation Coefficient

The correlation coefficient between deposit and loan and advance is 0.997. There is highly positive correlation between loan and advances and deposit collection. The coefficient of determination is 0.994. Which depicts that 99.4% of loan has been explained by the deposit collection. It shows that increase in deposit highly lead to increase loan and advances. 'r' is greater than 6 P.E. then there is evidence of significant correlation between loan and deposit. That further reveals there is significant relationship between loan and advances and deposit. That further reveals there is significant relationship between total deposit and total assets of NIB is 0.999. It shows the highly positive correlation. In addition, coefficient of determination of NIB is 0.998. It means there is 99.8 percent of total assets is explained by total deposit. The correlation coefficient is significant because the correlation coefficient is more than 6.P.Er.

The correlation Cofficient between Total Profit and loan and advances. The correlation coefficient between loaan and advacnes and deposit collection. The coefficient of determination is 0.978, which depicts that 97.8% profit is explained by the loan and advance. 'r' is greater than 6.P.E. then there is evidence of significant correlation between loan and deposit.

The correlation coefficient between total Debt net profits of NIB is 0.999, which implies there is highly positive correlation between total Debt and Total assets. In addition, coefficient of determination is 0.996 . It means 99.6 percent of Assets is contributed by Debt. Obviously, this correlation is significant at all due to coefficient of determination is higher than P. Error. Thus, it can be concluded that the degree of relationship between total debt and total assets of NIB has highly positive correlation.

The correlation coefficient between loan and advances and non- performing assets of NIB. The correlation coefficient between sector wise lending and loan and advances of NIB is 0.555. There is moderate positive correlation between loan and advances and nonperforming assets . The coefficient of determination is 0.308, which depicts that 30.8% of NPL has been explained by the loan and advances. 'r' is smaller than 6.P.E then, there is evidence of insignificant correlation between Loan and advance and PSL ratio.

II. Trend Analysis

The trend of total deposit of NIB is in increasing trend. The rate of increment of total deposit for NIB seems to be smoothly increasing trend.

The trend of trend values of loan & advances of NIB is increasing trend. It is suggest t increase in loan and advance in same way to make better profit.

The trend of Total Assets of NIB is in increasing trend. The rate of increment of Total Assets for NIB seems to be moderately increasing trend. It is better for company but this type of increment should maintain regularly.

The trend of Total Profit of NIB is in increasing trend. The rate of increment of Total Profit for NIB seems to be aggressively increasing trend. It is better for company but this type of increment should maintain regularly.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

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

In the aspect of liquidity position, cash and bank balance reserve ratio shows more liquidity position. Cash and bank balance to total deposit has fluctuating trend in 5 years study period. The average mean ratio is 0.0935 times in the study period. These all ratio shows that the bank has maintained the good liquidity position. Cash and bank balance to current deposit is also fluctuating. The mean average calculated is 1.070 times. Cash and bank balance would sufficient to meet the demand of current depositors. The average mean of cash and bank balance to interest sensitive ratio is 0.248 times. it shows the bank is able to maintain good financial condition.

In the assets management ratio, credit advances to fixed deposit ratio is increasing trends. The mean average of NIB is 2.9432 times at research period. In aggregate is shows the better performance but credit and advances to total deposit position in minimum than the averages, NIB bank has generally mixed or fluctuating increasing trends of Credit and Advances to Total Assets Ratio. The average mean ratio is 63.06%. It shows that the bank capability in utilizing total assets in the form of credit and advances. Whereas investment in credit and advances is done safely and not taking more risk. That's why assets management position of the bank shows better performance in the recent years. A Non- performing assets to total assets ratio is decreasing trend the average mean ratio is 1.333%. The bank is able to obtain higher lending opportunity during the study period. Therefore, credit management is in good position of the bank.

In leverage ratio Debt to equity ratio is in constants trends and the average mean ratio for total debt to equity ratio is 14.24 times. Total debt to total ratio is 92 times, which means 93% of the bank's assets are financed with debt, and only the remaining 7% of the financing comes from shareholder's equity. High total debt to total assets ratio posses' higher financial risk and vice versa. Total assets to net worth ratio of the bank are decreasing and fluctuating trend thereafter. In overall the study period the average ratio at that time is 15.318 times, it represents good condition of Total assets to net worth ratio.

In the aspect of profitability position, total net profit to gross income, the total interest income to total income ratio of NIB is in increasing and decreasing trend. The mean ratio is 39.6 in the study period. The ratio indicates the hgh contribution made by lending and investing activities. The total interest income to total income ratio of NIB is in fluctuating trend. The mean ratio is 1.399 times in the study period. The operating profit to loan and advnces ratio of NIB is in fluctuating trend the return on loan and advances ratio of NIB is in increasing trend. The average mean ratio is 2.46 % . These show the little high earning capacity of NIB Bank through loan and advances. The net profit to total assets ratio of NIB is in increasing trend the mean ratio is 1.56%. This shows the normal earning capacity through asset utilization. Earnings per share of NIB are in fluctuating trend. The price earnings ratio of NIB bank is in increasing trend. The average mean ratio is 25.927 times in the study period. These mean that the better profitability in the coming last years. It represents high expectation of company in market and high demand of share.

After analyzing the lending efficiency of the bank, that loan loss provision to total loan and advances ratio of NIB is in decreasing trend. The mean ratio of the study period is 2.73%. The ratio is continuously decreasing this indicates that bank increasing performance. Thus, credit management is in a good position. The None- Performing loan to total loan and advance ratio is also decreasing trend. This ratio indicates the more efficient operating of credit management . The interest expenses to total deposit ratio is 2.718% during the study period. That this ratio does not indicate higher interest expenses on total deposit.

In statistical analysis, correlation analysis and trend analysis have been calculated. Correlation coefficient between total credit and total assets is 0.999, which shows high degree of positive correlation. It can be concluded that the total assets and total credit are increasing and can be said that increasing assets will have positive impact towards total credit. Correlation coefficient between total deposit and loan and advances has high degree of positive correlation i.e. 0.997. It is concluded that increasing assets will have positive impact towards total credit. Correlation coefficient between total deposit and loan & advances has high degre of positive correlation i.e. 0.997. It is concluded that increasing total deposit will have positive impact towards loan and advances. The Correlation coefficient between total profit and loan and advances is 0.989. There is highly positive correlation between total Debt net profit of NIB is 0.999 which implies there is highly positive correlation between total Debt and Total assets. The correlation coefficient between

sector wise lending and loan and advances of NIB is 0.555. There is moderate positive correlation between loan and advances and nonperforming assets.
Total analysis tools are done for future forecasting. Trend analysis for total deposit is calculated to see future deposit trend of the bank. The trend of total deposit of NIB is in increasing trend. The trend values of loan & advances of NIB is increasing trend . The trend of trend values of loan & advances of NIB is increasing trend. The trend of Total Profit of NIB is in increasing trend. The rate of increment of Total profit for NIB seems to be aggressively increasing trend.

5.2 Conclusion

The study is conducted on credit management of Nepal Investment Bank, which is one of the leading banks in Nepal. NIB has been maintaining a steady growth rate over this period. NIB has earned a net profit of Rs 796 million for the fiscal year 2009/10 and this comes to be 39.12% more as compared to the same period in the previous fiscal year. NIB earned operation profit of Rs 1149 million for the fiscal year 2009/010 and this comes to be 34.07% more as compared to the same period in the previous fiscal year. Similarly, total deposit is Rs 34452 million for the fiscal year 2009/010 and this comes to be 40.89% more as compared to the same period in the previous fiscal year. Similarly, total loan is Rs 27529 million which in increase by 54.93% compare as previous fiscal year.

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

Loan and advances to fixed deposits ratio and the total loan advances to total deposit ratio of NIB are increasing trend in overall . The mean ratio is 2.9432 times and 0.718 times in the study period. Similarly, credit and advance to total asset is not so fluctuating tends. The average mean ratio is 63.06% . The total non- performing assets ratio of NIB is in decreasing trend. The mean ratio is 1.333% The bank is able to obtain higher lending opportunity. The ratio indicates the high contribution made by lending and investing activities. Thus, credit management is in a good position.

The Debt to equity ratio of NIB is in increasing trend during the study period. The analysis indicates that the bank is highly leveraged because the claim of the outsiders exceeds than those of the owners over the bank assets. The Debt to assets ratio of NIB is high or in other words, they have excessively geared capital structure. 93% of total assets of NIB is financed by the outsider's funds. Total to net worth ratio of the bank are decreasing and fluctuating trend thereafter.

Profitability ratios are very helpful to measure the overall efficiency in operation of a financial institution. The total net profit to gross income ratio of NIB is in increasing and decreasing trend. The mean ratio is 39.6. These are able to obtain higher efficiency of the bank. Therefore, credit management is in good position of the bank. The bank is able to obtain higher efficiency. This means that credit management is in good position.

Loan Loss provision to total loan and advances ratio of NIB is in decreasing trend. This shows that good quality of assets in total volume of loan and advances. Total non- performing assets to total assets ratio is also in decreasing trend. It indicates proper manage of total asset. This ratio indicates the more efficient operating of credit management. Ratios are decreasing trends it indicates the bank is decreasing the non- performing loan from total loan. Interest expenses to total deposit ratio of NIB is increased in fiscal year 2009/010. That this ratio does not indicate higher interest expenses on total deposit. The trend of Total deposit, Total Assets, Loan and Advance and Total Profit of NIB is in increasing trend.

Equity portion of the bank is slightly increasing in the recent years due to issue of directives by Nepal Rastra Bank(NRB) the entire bank to increase its paid up capital. Every commercial has to meet 2000 million paid up capitals till 2070 B.S. NIB has currently ordinary shares of 12039154 Rs 100 each 1203915400 paid up capital. NR has issued that direction to provide more safety to the customers. Therefore, bank has continuously increasing their capital every year.

5.3 Recommendation

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

- Generally banks have to maintained liquid assets, The current ratio of the NIB is considerable. This can be regarded as good liquidity position. The liquidity position affects external and internal factors such as prvalent investment situation, central bank requirements and so on. Considering the growth position of financial market, the lending policy management capabilities, strategic planning and fund flow situation, bank should maintain enough liquid assets to pay short term obligations, So, it is recommended to maintain sound liquidity position to NIB.

- Cash and bank balance of NIB is moderate, Banks efficiency should be increased to satisfy the demand of depositor at low level of cash and bank balance does not provide return to the bank. Therefore, some percentage of the cash and bank balance should be invested to the bank. Therefore, some percentage of the cash and bank balance should be invested i profitable sectors.
- Bank is suggested to make policy to ensure repaid identification of delinquent loans, Bank should make immediate follow- up of loan until it is recovered. The recovery of loan is very challenging as well as important part of the bank. Therefore, bank must be careful to strengthen credit collection policy.
- Government securities such as Treasury bills. Development bonds. saving certificates etc are risk less investment alternatives because they are free of default risk as well as liquidity risk and can be easily sold in the market. In this research study, it has found that the NIBL has made some amount of fund in Government securities, But it is recommended to invest more funds in Government securities instead of keeping them idle.
- NIB should avoid extending credits merely based on oral information presented at the credit interview, Historical financial and trade records should be obtained for proper assessment of the proposal.
- NRBB recommended following the NRB directives which will helps to reduce credit risk arising from defaulter. lack of proper credit appraisal, defaulter by blacklisted borrowers and professional defaulter. Government has established credit information bureau, which will provide suggestion to commercial bank. So NIB is suggested to collect as much information about borrowers and only lend to non-risky area and to non-defaulter.

- NIB bank should be fulfilling some social obligations by extending their resources to rural areas and promoting the development of poor and disadvantages group. In order to do so. They should open their branches in the remote area with the objective to provide the banking services. The minimum deposit amounts should be reduced.
- The economic liberalization policy adapted by Nepal Government has, created an environment of cutthroat competition in the banking sectors, In this context NIB bank is suggested to formulate and implement sounds and effective financial and non-financial strategies to minimize their operational expenses to meet required level of profitability.
- International relations of the NIB is satisfactory in comparison to other banks. Due to tough competition the banks should make negotiation with the international banks to increase its transactions in the international areas.
- According to NRB directives, all commercial bank should increase the capital up to RS 2000 million by 2070 B.S. NIB is increasing the paid up capital to meet NRB directive. Either capitalization of profit declaration of Bonus share or right share issue can make the increment in capital.

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Apendix- I

A. Trend Analysis of Total Deposit :

Year(X)	Total Deposit(Y)	X= x-2007/08	X^2	XY
2005/06	11525	-2	4	-23050
2006/07	14255	-1	1	-14255
2007/08	18927	o	0	0
2008/09	24489	1	1	24489
2009/010	34452	2	4	68904
Total n=5	ΣY= 103648	ΣX=0	$\Sigma X^2 =10$	ΣXY= 56088

Source : Annual Report of Nepal Investment Bank Ltd.

Let trend line be

Y= a+bx......................(i)

Where x= X-Middle year

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX}$$

NIB

a= 20729.6

b= 5608.8

Where as

Yc= 20729.6 +5608 of NIB

Appendix -II

A) Trend Analysis of Loan and Advance

Year(X)	Total Deposit(Y)	X= x-2007/08	X^2	XY
2005/06	7339	-2	4	-14678
2006/07	10453	-1	1	-10453
2007/08	13178	0	0	0
2008/09	17769	1	1	17769
2009/010	27529	2	4	55058
Total n=5	ΣY= 76268	ΣX=0	$\Sigma X^2 = 10$	ΣXY= 47696

Source trend line be

Y+ a+bx----------- (i)

Where x= X-Middle year

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX}$$

NIB

a= 15253.6

b= 4769.6

Where as

Yc= 15253.6+4769.6 X of NIB

Appendix -III

A) Trend Analysis of Total Assets

Year(X)	Total Deposit(Y)	X= x-2007/08	X^2	XY
2005/06	13464	-2	4	-26928
2006/07	16391	-1	1	-16391
2007/08	21330	0	0	0
2008/09	27591	1	1	27591
2009/010	38873	2	4	77746
Total n=5	ΣY= 117649	ΣX=0	$\Sigma X^2 = 10$	ΣXY= 62018

Source: Annual Report of Nepal Investment Bank Ltd.

Let trend line be

Y+ a+bx----------- (i)

Where x= X-Middle year

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX}$$

NIB

a= 23529.8

b= 6201.8

Where as

Yc= 23529.8+6201.8 X of NIB

Appendix - IV

A) Trend Analysis of Net Profit

Year(X)	Total Deposit(Y)	X= x-2007/08	X^2	XY
2005/06	152.67	-2	4	-305.34
2006/07	232.15	-1	1	-232.15
2007/08	350.53	0	0	0
2008/09	501.4	1	1	501.4
2009/010	696.73	2	4	1393.46
Total n=5	ΣY= 1933.48	ΣX=0	$\Sigma X^2 = 10$	ΣXY= 1357.37

Source: Annual Report of Nepal Investment Bank Ltd.

Let trend line be

Y+ a+bx----------- (i)

Where x= X-Middle year

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX}$$

NIB

a= 386.696

b= 125.737

Where as

Yc= 386.696+125.737 X of NIB