FACTORS AFFECTING CREDIT MANAGEMENT OF NEPALESE COMMERCIAL BANKS:

A Comparative Study of Siddhartha Bank limited and Sanima Bank Limited

A Thesis

Submitted by:

Sabbu Maharjan

People's Campus

Campus Roll No: 39/072

T.U. Regd. No.:7-2-199-45-2011

2nd year Roll No. 2710011

Submitted to:

Office of Dean

Faculty of Management

Tribhuvan University

In partial fulfillment of the requirement for the degree of

Master in Business Studies (MBS)

Kathmandu, Nepal

August, 2021

RECOMMENDATION

This is to certify that the thesis

Submitted By:

SABBU MAHARJAN

Entitled:

FACTORS AFFECTING CREDIT MANAGEMENT OF NEPALESE COMMERCIAL BANKS:

A Comparative Study of Siddhartha Bank limited and Sanima Bank Limited

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

…………………………	……………………….	………………………..
Rajan Bilas Bajracharya	Dr. Gopal Krishna Shrestha	Chhatra Mangal Bajracharya
(Thesis Supervisor)	(Head of Research Dept.)	(Campus Chief)

VIVA-VOCE SHEET

We have conducted the viva-voce of the thesis

Submitted By:

SABBU MAHARJAN

Entitled:

FACTORS AFFECTING CREDIT MANAGEMENT OF NEPALESE COMMERCIAL BANKS:

A Comparative Study of Siddhartha Bank limited and Sanima Bank Limited

and found the thesis to be original work of the student and written according to the prescribed format of Faculty of Management. We recommend this thesis to be accepted as partial fulfillment of requirement for the degree of Masters of Business Studies (MBS).

Viva-Voce Committee

Head of Research Department: ……………………………….

Member (Thesis Supervisor): ………………………………….

Member (External Expert):…………………………………….

CERTIFICATE OF AUTHORSHIP

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person nor material which to a substantial extent has been accepted for the award of any other degree of a university or other institution of higher learning, except where due acknowledgements.

I also certify that the thesis has been written by me. Any help that I have receive in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the thesis.

……………………………..

Sabbu Maharjan
People's Campus
Campus Roll No: 39/072
T.U. Registration No: 7-2-199-45-2011
2nd year Roll No. 2710011

ACKNOWLEDGEMENT

The research work entitled "Factors Affecting Credit Management of Commercial Banks**:** A Comparative Study of Siddhartha Bank Limited and Sanima Bank Limited has been prepared under the graduate research project as partial fulfillment of Master of Business Studies (MBS) under programs of faculty of Management, Tribhuvan University.

My sincere thanks goes to my supervisor Instructor Mr. Rajan Bilas Bajracharya, for his time, effort, continuous support, feedback throughout this research, which has helped me in the completion of this report. Without his constant encouragements and invaluable guidance and suggestions this report certainly would have been impossible to get materialized.

Finally, my earnest appreciation of each and everyone around us, including my respected parents, teachers, family members and friends whose constant support encouragement had a great role to play in our successful completion of this report.

Sincerely,
Sabbu Maharjan

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATION

BFIs	:	Banking and Financial Institutions
CB	:	Commercial Bank
FY	:	Fiscal Year
NPL	:	Non Performing Loan
NRB	:	Nepal Rastra Bank
PP&E	:	Plant, Property and Equipment
CRA	:	Credit Rating Agency
ICRA	:	Investment Information and Credit Rating Agency
SEBON	:	Securities Board of Nepal
ROI	:	Return on Investment
IRR	:	Internal Rate of Return
DSCR	:	Debt Service Coverage Ration
CAR	:	Credit Adequacy Ratio
LLP	:	Loan Loss Provision
TLTD	:	Total Loan to Total Deposit Ratio
LLRGL	:	Loan Loss Reserve to Gross Loans
LLPAGL	:	Loan Loss Provision to Average Gross Loan
TRS	:	Total Return Swap
CDS	:	Credit Default Swaps
CLN	:	Credit Linked Notes
CSO	:	Credit Spread Option
R	:	Regression
R^2	:	Coefficient of Determination
SPSS	:	Statistical Package for the Social Sciences

EXECUTIVE SUMMARY

This study “Factors affecting Credit Management of Commercial Banks: A Comparative Study of Siddhartha Bank Limited and Sanima Bank Limited is conducted to know the factors that affect CBs credit management. This study examine the relationship between loan and four different variables. The variables used in this study are loan, deposit, investment, total income and borrowing. To study whether the same variable affect the loan of Siddhartha bank Ltd and Sanima bank Ltd, ranking of variables has been done in order of their influence in CB loan management.

This study is based on both primary and secondary data. This study mainly concerned with historical research i.e. quantitative research. Descriptive and analytical approaches are used to show the outcome of the study. But generally, to show the factors affecting credit management of Commercial Banks, past historical data are used. The relevant and needed data has been collected from various publications of Nepal Rastra Bank and sample bank website.

The study tried to cover all Commercial Banks, which is denoted as population but comparative study has been done by taking sample of two bank on the basic of EPS for FY 2076/77 i.e. Siddhartha bank Ltd is Rs 21.38 and Sanima bank Ltd is Rs 19.35 in order to achieve objectives. Likewise, financial statements of five years (beginning from 2015/16 to 2019/20) are selected as samples for the purpose of it.

For this study both secondary and primary data analysis has been used for the analysis purpose. In order to back up secondary data, primary data has also has been incorporated under this study. For the analysis purpose the variables has been segregated into dependent and independent variables. Loan is the only dependent variable under this study whereas rests of the variables were termed as independent variables. The main purpose of this research was to identify the variables that affect the credit management of commercial bank.

For the primary analysis, questionnaire were prepared and distributed in two sample bank. The questionnaire has been filled by staffs of sample banks. The questionnaire included many other variables besides mentioned above to know the factors affecting credit.

The major outcomes of secondary data were:

The present condition of Nepalese banking sector is evidencing a lot of ups and down, and the main cause of these variation is because of the macroeconomic variables. From analysis of secondary data these variables has been ranked as per their impact on loan of banks. Deposit has been highlighted as the most important determinant that affects the bank loan management whereas the study shows that the variables namely investment and total income are moderately affecting variables. Finally, borrowing variable that least affects its loan management.

All independent variables has significant relationship with dependent variable except for investment variable in Sanima bank ltd has insignificant relationship with loan.

The major outcomes from the primary data were:

As per the output of 120 respondents, the factors that affect CB loan most are variable such as deposit, borrowing, total income and investment respectively. The main reason for loan vary significantly on each bank are due to liquidity risk. The most popular loan among clients are housing loan whereas banks prefer most loan to large organization according to the respondents. The respondents suggested that NRB should allow free flow of loan through open market operation and amendment in NRB directives.

It has been seen from both the analysis that selected variable are responsible towards determining the banks' loan. Some variables have high significance level were as some variable have low significance level because the study shows even though the deposit have decreased, increment in investment, there is significant increase in loan of commercial bank each year this results in increment of total income and borrowing between banks. External as well as internal both factors need to be monitored well for establishing good and sound financial institutions.

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Financial institutions play an important role in accelerating development of the country. These institutions mobilize savings to lend & make investment in different enterprises of the national economy that consequently provide opportunities and help developing the society and country as a whole. Thus, the development of the commercial banks or financial institutions has become one of the bases for measuring the level of economic development of a nation.

The development of the country is always measured by its economic development through economic indices. Therefore, every country gives emphasis on the upliftment and prosperity of its economy. The financial institutes act as intermediaries or catalyst to transferring the required financial resources and other services. A new organized financial institution including financial companies, commercial banks and others financial intermediaries play an important role for the development of the country. They collect scattered financial resources from the mass and invest them among those who are associated with the social, commercial, and economic activities of the country. They are indispensable part of the development process. Therefore, a competitive and reliable banking is essential to the nation for the development. In modern banking, bank provide the excess amount of funds to fulfill the demand of the investors and better allocation of financial resource and to encourage economic growth in the economy. For this loan should be efficiently managed and controlled. If loan is not efficiently managed, it can cause inflation or deflation recession and unemployment in the economy. Misleading of loan management can lead to misallocation of the investible resources and the economic poor concentrated the certain persons and against the social objective.

The banks take almost care in analyzing the creditworthiness of the borrowing customer to ensure that the interest and the principal amount on loans are timely recovered without much trouble and legal process for the recovery. A sound lending policy is essential for the good performances of the bank are further to attain economic objectives directed towards acceleration of the development. Lending policy should be carefully analyzed and the banks should be careful while performing its credit creation effectively and to minimize the risk factor.

1.1.1 Profile of Sample Bank

Siddhartha Bank Limited (SBL) is recognized as one of the most efficient and professional banks in Nepal. It was established in 2002.

Table No 1.1 Capital Structure of Siddhartha bank ltd

Authorized capital	Rs 10.5 Arab
Paid up capital	Rs 9.79 Arab
Issued capital	Rs 9.79 Arab
Reserves	Rs 6.19 Arab
Number of branches	189

(Source: www.siddharthabank.com)

Sanima Bank commenced its operation in 2004 as a National Level Development Bank. Since February 2012, Sanima has been functioning as an "A" Class Commercial Bank.

Table No 1.2 Capital Structure of Sanima bank ltd

Authorized capital	Rs 9.00 Arab
Paid up capital	Rs 8.80 Arab
Issued capital	Rs 8.80 Arab
Reserves	Rs 3.95 Arab
Number of branches	86

(Source: www.sanimabank.com)

1.1.2 Credit/Loan Management

Lending means to provide money temporarily on condition that the amount borrowed is returned, usually with an interest fee. Lending (loan) is money lent to others for certain time period with the agreement to charge interest on principal. Bank and Financial Institutions are organized institutions that collect deposits from their clients and lend the deposited money to the needy persons. Lending is the core business of bank. The difference interest of between deposit and lending is the main source of income of bank. The terms 'lending', 'loan' as well as 'credit' are interchangeably use in banking sector. Lending is central to a bank's business. In bankers jargon, loans are a bank's assets. Depending on their nature, and in the absence of repayment problems, they can produce a steady stream of income. Deposits are the bank's principal liability. Loans are the bank's principal asset. When one belonging of one is advanced to other to be used certain time is called loan. The basic objective of loan advancement is to earn interest as the reward for lending the sum for specific period of time. The interest is charged calculating certain percentages on the principal. Loan is an act of lending; a grant of something for temporary use; or a thing lend for the borrower's temporary use; especially, a sum of money lent at interest. Loan is money which has been lent or to lend something as a verb.

The term 'credit' refers to one's ability to borrow debts, a customer with good credit; or the availability of funds either from a financial institution or under a letter of credit (the bank extended a line of credit to the customer). "Credit" means a direct or indirect promise to invest money and the right to recover such amount of investment in return and the interest of such credit or payment of other charges, the refinance given against the security of credit or investment restructuring and renewal of credit, the guarantee made for repayment of credit or any other promise for such repayment, and the word also includes any type of debt. Likewise “credit” means a direct or indirect commitment to supply funds, and in return therefor, the right to recover the invested funds, and payment of interest or other charges on such credit, refinance issued against the security of a credit or investment, restructuring and renewal of a credit, security issued for the repayment of such credit and other commitment made for such repayment, and this term also includes any credit in whatever form.

For most people in commercial banking, lending represents the heart of the industry. Loans dominate asset holding at most banks and generate the largest share of operating income. Loans are the dominant asset in most banks’ portfolios, comprising from 50 to 70 percent of total assets. A loan is a liability for the individual or corporation receiving it, but an asset for a bank, because it provides income to the bank. Loans are typically less liquid than other assets, because they cannot be turned into cash until the loan matures. Because of the lack of liquidity and higher default risk, the bank earns its highest return on loans. A loan is a debt type; it is a form of contract between the debtor and creditor, where the debtor repays a sum of money at a future date in return including interest charges and/or fees. Most loans are bilateral contracts between the debtor and the creditor. Syndicated loans involve multiple creditors, often banks or financial institutions that co-operate to provide funding in the form of a large loan to a large borrower. Syndicated loans involve a more complex organization, but reduce concentration risk.

The main functions of Bank are to accept deposit and lending. Lending is a risky business. The bank lends the deposit to earn interest as the profits. However, sometimes, it is difficult to the bank to reimburse the principal. To avoid such situation, there should be strong lending regulation and management mechanism of the bank. Most of the serious financial problems of bank spring from the lending. Form the above discussion there is not remarkable difference between the terms ' lending' and 'loan'. However, there is slight difference between 'lending' and 'credit'. In this study the terms 'lending', 'loan' and 'credit' are taken in the same meaning as lending.

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

1.1.3 Process of Loan/Credit Management

The process of credit management begins with accurately assessing the credit-worthiness of the customer base and his/her business viability. This is particularly important if the company chooses to extend some type of credit line or revolving credit to certain customers. Hence, proper credit management is setting specific criteria that a customer must meet before receiving the proposed credit arrangement. As part of the evaluation process, credit management also calls for determining the total credit line that will be extended to a given customer.

Several factors are used as part of the credit management process to evaluate and qualify a customer for the receipt of some form of commercial credit. This includes gathering data on the potential customer's current financial condition, including the current credit track record that discloses the character of a customer in meeting obligations as well as collateral value. The current ratio between income and outstanding financial obligations will also be taken into consideration.

Competent credit management seeks to not only protect the bank or any financial institution involved from possible losses, but also protect the customer from creating more debt obligations that cannot be settled in a timely manner.

When the process of credit management functions efficiently, everyone involved benefits from the effort. The financial institution such as banks has a reasonable amount of assurance that loans granted to a client will be paid back within terms, or that regular minimum payments will be received on credit account balances.

1.2 Statement of the problem:

Basically banks in Nepal have been facing the problems in credit and investment sector and the present possibility for banks to diversify into wide range of services and products provides good opportunity for banking entrepreneurs and managers. But this diversification advantage is a once in a life time opportunity that should be utilized with some caution and sound management as this involves a great deal of risk. There is one saying that “the higher you go, the colder life becomes”. Banking industry is high-risk business but it is not necessary to be high profit industry. It is quite difficult to manage risk and return in banking industry.

After liberalization of economy, banking sector has various opportunities. Lending in industries and production sectors are very risky projects. Banks are investing in house loan, hire purchase loan, for safety purpose. Nowadays banks have increasing number of deposits in fixed and saving accounts but have decreasing trend in lending behaviors. So, this has caused major problems in commercial banks. Commercial banks are more interested in providing loans on short -term projects due to safety and security of their loans. Thus, they are following conservative loan policy based on strong security. Similarly, these banks do not have a well-organized credit management. They rely much on the instructions and guidelines of Nepal Rastrya Bank. Even if they have formulated some guidelines, they fail to implement it due to poor supervision and lack of professionalism.

Nowadays due to competition among banks, the interest rate change for loan is in decreasing trend. Non-performing assets have become a large problem in the commercial banks. Hence, the banks and financial institutions are competing among themselves to advance credit to limited opportunity sectors. Lack of good lending opportunities, banks is facing problems of over liquidity. It has been able to control and capture a remarkable leadership of Nepalese banking sector. Project appraisal method followed by commercial banks is not scientific and appropriate. Granting loan against insufficient deposits overvaluation of goods pledged, land and building mortgaged, risk–averting decision regarding loan recovery and negligence in recovery of overdue loans are some of the drawbacks of unsound investment policy. Similarly, loan supervision and follow-up mechanism is lacking in many commercial banks. Due to unhealthy competition among the banks, the recovery of the bank’s credit is going towards negative trends. Non-performing Credits of the banks are increasing year by year. To control such type of state, the regulatory body of the banks and financial institutions, Nepal Rastra Bank has make certain criterion of loss provision of commercial bank.

In Nepal most of the commercial banks are focusing on consumer loan, vehicle loan, real estate loan etc. However on the other part, growth of industrial loan has not been encouraging in recent years. Lack of sound knowledge and various risks associated with loan leads to unsecured loan and investment that might bring banks towards liquidity and bankruptcy. Due to transition phase, unstable government and deteriorating economic scenario Nepalese banks are reluctant to give loan to industrial and commercial sectors. So most of the banks are giving loan to profitable and unproductive sectors. More flow of loan towards unproductive sectors has become serious concern for the country. Lending policies are not systematic and co clear cut vision of policy is available on lending aspect. In Nepal it has been found that approval and lending decisions are made in favor of those persons who have personal network. So a new customer finds that loan providing process being very complicated and sometimes the documents submitted the loan sanctioning being fraudulent and for formally purpose only

1.3 Objectives of the Study

This study attempts to evaluate factors affecting loan management of Siddhartha bank ltd and Sanima bank ltd. Loan one of the most voluminous item among all the assets of the bank, the management need to be cautious while granting loan. The objectives for conducting the study can be:

1. To explore relationship between deposits, investment, income, borrowing on loan.
2. To identify key variables and examine magnitude of their affect on bank's loan.
3. To analyze the factors in order of the influence that they have on bank's loan.

1.4 Hypothesis

One thesis is that research is usually begins in an uncertain and ambiguous manner. The researcher comes to know gradually what has to be done (Khaki, 2000).

1. Null Hypothesis: There is no significant relationship between loan and deposit
2. Null Hypothesis: There is no significant relationship between loan and investment
3. Null hypothesis: There is no significant relationship between loan and total income
4. Null Hypothesis: There is no significant relationship between loan and borrowing

1.5 Significance of the Study

Loan is a critical factor for the bank as it is a highest source of income for bank and affects profit and performance. Banks get highest return in the form of interest on loan. Growing competition and global financial crisis has had great impact in banking business. The loan risk has risen substantially. This has increased the importance of loan management and it is, therefore, a very current topic. Especially in the current economic situation, it is very important to have a clear and effective loan management function that can help in maximizing profits during these bad economic times. This study would be useful to all shareholders, investor and bankers. Further, this study would help other free researcher for conducting further research as it serves as a review of literature. Similarly finding of the study would be beneficial to other who is interested in knowing about this particular bank. This help to face challenges posed by other competitors and will help increase their reach by attracting new customers. Thus this study attempts to identify the determinants of bank in order to provide practical guides for improved loan management of the commercial banks.

1.6 Limitation of the study

Despite of the sincere efforts made for arriving at meaningful conclusions from the study, there always exist some limitations. The major limitations of the study are as follows:

- This study is based on comparison between two commercial bank only.
- The primary information is based on the responses from two bank with total 120 respondents.
- Reliability of this study is based upon the accuracy of published data by NRB and the genuineness of respondent.
- The analysis of this study is based on the results obtained from simple regression model.
- The study concern only a period of five year from the year ended 2015/16 to 2019/20 and conclusion drawn confines only the above period.
- There are many factors that affect loan management. However only four factors will be considered in the study.

1.7 Organization of the Study

This study has organized into the following five chapters:

Chapter I: Introduction

This chapter includes background of the study, focus of the study, statement of the problems, objectives of the study, significance of the study and limitations of the study.

Chapter II: Review of literature

This chapter reviews the existing literature on the problems and prospects of impact of motivation in Nepalese banking. It also contains reviews of journals and articles, related to the subject.

Chapter III: Research Methodology

This chapter expresses the way and technique of the study applied in the research process. It includes research design, population and sample, data collection procedure and processing, tools and method of analysis.

Chapter IV: Analysis and Interpretation of Data

In this chapter collected and processed data are presented, analyzed and interpreted with using financial tools as well as statistical tools.

Chapter V: Summary, Conclusion and Recommendations

In this chapter, summary of whole study, conclusions and recommendations are made.

At the end of the study, Bibliography and Appendices have also been incorporated.

CHAPTER II
REVIEW OF LITERATURE

In this chapter, the study review the previous literature developed in the related subject and topic. Previous thesis, articles, journals etc. are reviewed in this chapter. The main purpose of literature review is to find out what research studies have been conducted in one's chosen filled of study and what remains to be done. It is a way to discover what other research in the area of our problem has uncovered. Generally, researcher tries to study the factors affecting loan management in commercial bank in comparison between Siddhartha bank ltd and Sanima bank ltd. Review of literature are done from the available sources like library, internet, books, journal, research papers and dissertations. It has been categorized into two groups:

- Conceptual Review
- Review of related Studies

2.1 Theoretical /Conceptual Review

Generally, in my thesis I am trying to describe the loan management system and practices in the selected sample bank. Rapid changes in banking services, high level of competition and increasing loan of commercial banks make it important to understand loan management practices in bank. The principal function of bank is to collect deposit from public and lend money to various users against specific rate of interest.

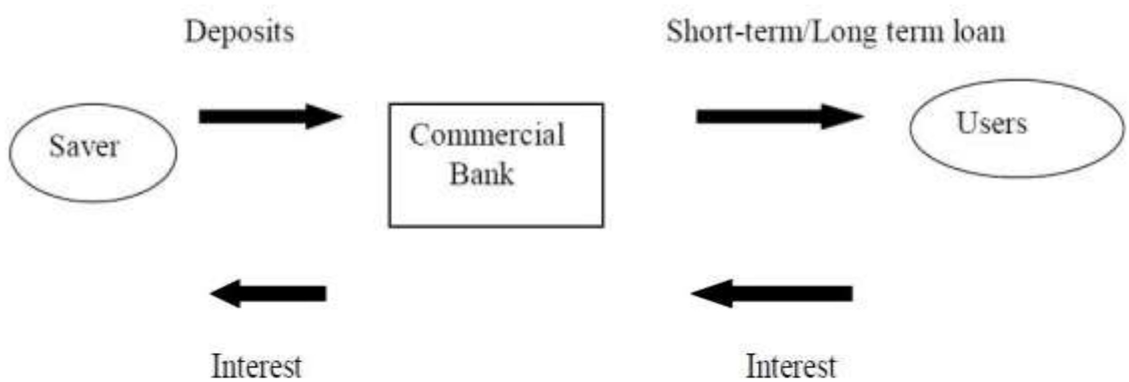

Figure No: 2.1.1 Principal Function of Bank

A loan is a kind of advance made with or without security at agreed rate of interest. It is the most profitable asset of the bank. So bank management always tries to increase loan portfolio in order to get more profit. The borrower initially receives an amount of money from the lender, which he pays back, in regular installments, to the lender. Borrower has to pay interest on the loan. So loan is typically the major primary source of income to banks. Though lending is the primary activity of the bank, they are very cautious in granting the loans to their clients because their funds are collected from the general public in the form of deposits that can be withdrawn at a short notice at any time. For this, the provided loan and investment should be secured for easy recovery not only backed by fixed collateral securities. This shows importance of managing lending activities for success and profit. Lending activities are guided by certain principals like principal of safety and security, principal of liquidity, principal of risk diversification, principal of profitability and principal of purpose of loan. Moreover, Bank balance sheet position shows how effectively management has been able to manage the granting of loans to borrowers. In order for the bank to secure the risks with lending, research suggests that lending decisions are based on figures in the balance sheet and income statements (Berry & Robertson, 2006; Deakin & Hussain, 1994). Such reliance on accounting data requires (i) a set of company documents compiled according to quality standards and (ii) that the information available should allow an assessment of present and future financial standing of the company (Berger and Udell, 2006). Every act of lending by a bank automatically creates the deposits that will balance it. Lending is one of the core functions of commercial bank.

Loan management is the process by which risk that is inherent in lending process are policies. Income and profit depends on lending and investment procedure. A sound procedure provides high return and profit. So higher the loan, higher will be profit but loan should be increased such that it is manageable. Moreover lending and investment are important not only for bank but also to the overall economic development of the country. Loan management affects companies profitability and liquidity. The banks take care in analyzing creditworthiness of borrowing customer to ensure that the interest and principal amount on loan are timely recovered without any problem and liquidity. In short, loan mobilization and recovery are too important aspect of loan management but it also includes all the activities related with loan such as loan processing, marketing, monitoring concentrating risk, hedging risk, and credit reporting. Sound loan policy can attract more customer and increase volume of deposits, investment. Every bank has its own lending policies. Lending policies provides guidelines for loan officers for granting loans.

Diana Mc Haughton in her research paper" Banking institution in developing market states that loan policy should incorporate several elements such as regulatory environment, the availability of fund, the selection of risk, loan portfolio balances and term structure of liabilities. Loan management is guided by loan policy adopted by bank and help to minimize risk inherent in loan. A considered view is that bank's lending policy could have crucial influence on nonperforming loans (Reddy, 2004) .The purpose of loan management is to manage the costs and risks associated with credit .Finding the optimal level of risk and reward where the company's profitability and earnings are highest is the main goal of loan management. Loan management has gained more importance because credit/loan risk increases rapidly in recent days as commercial banks are increasing their loan and investment. In order to protect themselves from risks and maximize returns, commercial banks develop different tools such as loan management policies and procedures (e.g. loan appraisal policies), customer assessment systems, monitoring systems, and so on. In short, before approving loans, commercial banks assess potential risks in connection to clients ("screen" clients), and later on monitor loans.

The following statement sums up the importance of loan management. Optimizing cash flow and avoiding bad debts are two key objectives of any successful business. Setting up a good credit control system is the starting point for both" (Directors Briefing 2006). Loan management's main objective is to try and balance the risk and reward relationship. Loan management can contribute to the financial performance of the company. Loan officer has to assess the credit worthiness of the customer and it is based on financial information of the buyer like profitability, liquidity and financial solvency. Loan management covers the various aspects like credit appraisal, NPA management, recovery management and all the areas right from the beginning like inquiry till the loan has been paid up.

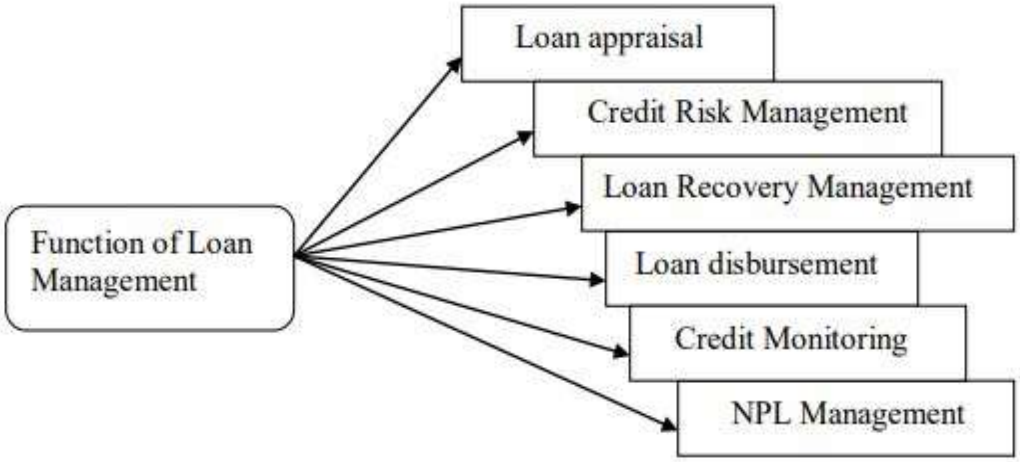

Figure No: 2.1.2 Principal Function of Loan Management

2.1.1 Types of credit/loan

Thapa and Rawal (2010) have mentioned in their book that Credit is a kind of product which can be developed on the basis of terms and conditions demanded by the credit agreement between bank and the borrower. It can be classified as:

1. Funded
2. Non-funded
3. Working capital
4. Consumer or corporate

1. Funded loan:

It refers to the loan which is disbursed in the form of cash or any other payment. Whenever bank gives loan and cash goes out of the bank immediately, then it is called as funded loan. Some of the examples of funded loans are overdraft, trust receipt loan, importer/exporter loan, demand loan, home/hire purchase/auto loan etc.

2. Non funded loan

In non funded loan bank do not have to pay cash but need to commit a conditional payment. Some examples of non funded loan are letter of credit, guarantee, and acceptance.

3. Working capital

The loan which are given for the purchase of long term assets for more than one year and repaid in fixed installment are called working capital loan. Some examples of working capital loan are project loan, home loan, hire purchase loan etc.

4. Consumer or corporate loan

These loans are the loans which are granted for the consumption purpose and these loans are based on security and future cash flow .some examples are vehicle loan, personal loan. However corporate loan are the loan which are granted for big business houses.

2.1.2 Concept of Credit/Loan

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

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

2.1.3 Credit limit

Credit limit is the maximum amount of credit a company allows its customers to owe it at any one time. (Credit Guru, 2010). Advantages of setting credit limit are:

- It frees up time for the credit managers to focus on other tasks.
- It speeds up the credit process.
- It reduces the risk and improves the credit collection activities.
- It serves as a account monitoring tool.

Credit risk is not only a way to manage credit but also to control it. If a bank decides to give credit above the limit, then loan officer should see credit worthiness of the customer. The procedure for setting a credit limit and changing a credit are defined in loan policy.

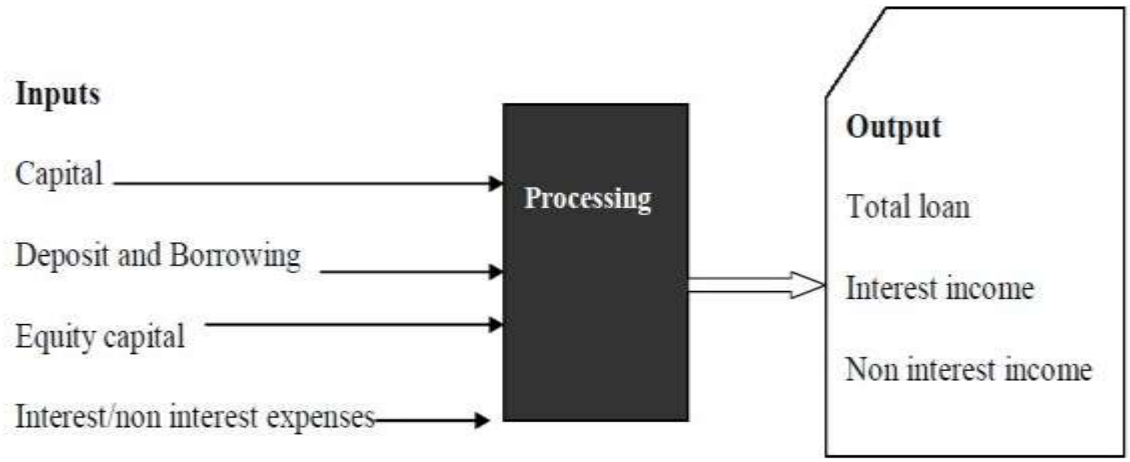

Figure No: 2.1.3.1 Loan management system of a commercial bank

A bank's balance sheet is different from that of a typical company. You will not find inventory, accounts receivable, or accounts payable. But on assets side, you'll see mostly loans and investments, and on the liabilities side, you'll see deposits and borrowings. Loans represent the majority of a bank's assets (Saunders and Cornett, 2005). A bank can typically earn a higher interest rate on loans than on securities. Loans, however, come with risk. If the bank makes bad loans to consumers or businesses, the bank will take a hit when those loans aren't repaid. Because loans are a bank's bread and butter, it's critical to understand a bank's book of loans. Other assets, including property and equipment, represent only a small fraction of assets. A bank can generate large revenues with very few hard assets. Compare this to some other companies, where plant, property, and equipment (PP&E) is a major asset. Surprisingly, cash represents only about 2% of assets. That's because the bank wants to put its money somewhere to earn something. If the bank simply keeps its cash in its locker and forgets about it, it will not be able to earn profit. Thus, a bank keeps most of its money tied up in loans and investments, which are called "earning assets" in banking language because they earn interest. Banks don't like putting their assets into fixed-income securities, because return in these securities is not as high as compare to income from loan.

In this study functional relationship between dependent variables and independent variable has been established. So study is based on the relationship between loan of commercial banks i.e. dependent variable and independent variables are deposits, investment, income, borrowing and income. However loan is also affected by various factors like country economic situation, preferences of customer, and directives of central bank and so on.

Conceptual model of the study is:

Loan = f (Total deposit, Total investment, Total income, Total Borrowing)

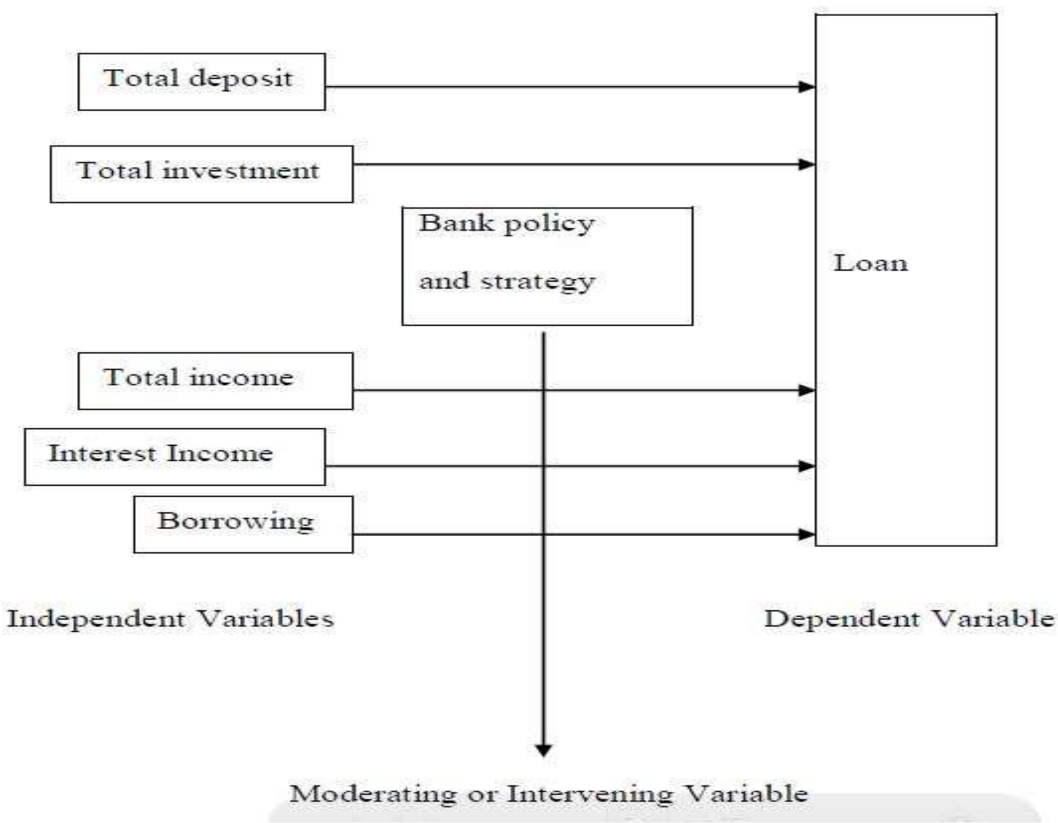

Figure No: 2.1.3.2 Conceptual framework of the study

Above figure shows that deposit, investment income, borrowing, interest incomes are independent variables whereas loan and advances is dependent variable. However bank policy and strategy has been taken as a moderating variable. Moreover, some more relationship has been established for the study such as relationship between deposit and loan, total investment, borrowing and total income. These functional relationships are analyzed through statistical tools like correlation coefficient and regression.

Various research variables are reviewed in these sections which are mentioned below:

1. Loan:

One of the important functions of a commercial bank is to grant loans. A loan is a kind of advance made with or without security at agreed rate of interest. Loans are debts and the most profitable assets of the banks. Bank use the accumulated public deposits to productive uses by way of loans and advances, overdraft and cash credits against approved collateral and securities. Bank’s least expensive means of funding loan growth is through deposit accounts. Loan of the Commercial banks increased by 19.29 percent to Rs. 2,482.16 billion in the FY 2018/19 compared to growth of 21.27 percent in the last fiscal year.

2. Total Deposit:

An important function of commercial banks is to attract deposit from the public. Commercial banks accept deposits from individual, company or business firm and take responsibility to repay the deposit in the same currency whenever they are demanded by depositors. In the words of Eugene, bank’s deposits are the amounts that it owes to its customer. Survival and development of banks are mainly influenced by their ability to attract deposit. Total deposits of the commercial banks as per unaudited figures increased by 16.48 percent to Rs. 2,878.802 billion in the review year compared to a growth of 18.06 percent in the previous fiscal year. Savings and fixed deposits are the major components in the deposits of the Commercial banks. In the review year, the fixed deposits soared by 22.06 percent to Rs. 1,307.032 billion. For the last two years, commercial banks total fixed deposit remained greater than the saving deposit In earlier years, the saving deposits used to be higher than the fixed deposits. During the review year, the saving deposits increased (by (11.04%) moderately to Rs.901.298 billion.

3. Total Investment:

Jack Clark defines investment as “a commitment of money that is expected to generate additional money. Commercial banks predominantly invested in government securities like treasury bills and government bonds. The other areas of investment include inter-bank placement and investment in shares and debentures. It includes investment in government securities, share, and debenture of other financial institutions. The composition of investment of commercial banks shows a high concentration in government securities, which is 66.42 percent of the total investment, while shares and debentures, interbank investment, fixed deposit investment and other investment accounted for 5.87 percent, 7.26 percent, 1.27 percent and 18.93 percent respectively. Banks are not allowed to invest in shares and debentures of BFIs licensed by the NRB, except that of D Class Financial institutions.

4. Total Borrowing:

Commercial bank borrow fund from commercial banks, NRB, foreign banks and financial institutions and other financial institutions. One of the major sources of fund for commercial banks is to borrowing from central bank to meet their short term requirement i.e. meet day to day cash needs and to fulfill credit requirement. Bank borrows from central bank are usually based on two theories: profit and need theories. Profit theory suggests borrowing at bank rate and investing on high rate in market. Need theory suggest borrowing to provide liquidity in banking system and fill gap of credit and deposit (Sethi, 1989). When this is not available, banks must rely on more expensive funding sources such as borrowing funds.

5. Total Income:

Among all the sources of income, it can be seen that net interest income (interest income less interest expenses) contributes largest followed by commission and fee based income and income from fluctuation in exchange rate. The total net profit of Commercial banks increased from Rs 51.86 billion to Rs 63.80 billion (increment of 23.02%) in FY 2018/19. The net profit of non-state owned banks increased by 24.41 percent, whereas, that of state owned banks grew only by 17.44 percent. The total interest income, which is the largest component of total gross income, showed robust growth of 26.59 percent. The total net interest income rose by 27.14 percent. The operating profit increased by 26.72 percent in the review period.

2.1.4 Objectives of the Sound Credit Policy

The purposes of a written credit policy are:

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

2.1.5 The Credit/Loan Policy:

The goal of every credit manager is to achieve the highest level of profitable loan, over the shortest period of time, with the minimum bad debts. In this highly competitive market for its market share it is not possible to lend loan only to solvent customer. Trading with customers that have high credit risk, needs to be profitable. For this bank should have sound policy. Loan policy is a standard and guidelines for lending decisions and activities. Loan Policies are made by Board of Directors and should communicate within the organization. So loan mobilization and recovery are two important part of loan policy. "A credit policy is the blueprint used by a loan officer in making its decision to provide loan to the customers. In order to implement credit policy to work it is essential that everybody is committed to it and everyone has to know what they are doing, why they are doing it and what are the consequences if it is not done. However loan policy should be flexible. Lending policies are based on profit maximizing of institutions and economic development of the country and it may differs from bank to bank. Some banks approach credit very conservatively, lending only to financially strong, well-established borrowers. Growth-oriented banks may approach lending more aggressively, lending to borrowers who pose a higher repayment risk. It provides a framework for achieving asset quality and earnings objectives; sets risk tolerance levels, and guides the bank's lending activities as per banks strategic direction. The policy should provide a realistic description of where the bank wants to position itself. Policies should be periodically reviewed and revised to response changes in the bank's strategic direction, risk tolerance level and market situation. NRB has sent various directives, guidelines and a circular regarding credit and this is necessary so as to use fund received as per direction set by policies. NRB time to time gives directives and guidelines on credit for safe, sound and profitable lending. So bank has to set the direction of use of fund received from stakeholders, depositors and others. The policies provide uniformity in lending activities.

2.1.6 Loan process:

The objective of loan management is to control loan approval process and achieve loan quality. However, every loan approval process should introduce adequate controls mechanism to achieve quality in credit at the time of origin. The process should be in line with bank’s credit guidelines, its risk profile, and the capabilities of its lenders. The loan approval decisions are made by credit committee of a bank. Johnson and Johnson (1985), Hempel and Simonson (1999) and Koch and Macdonald (2000) pointed out that the activities in the process of commercial and industrial (C&I) loans follow eight steps:

The first step is the application, which is conducted by a loan officer. Initially, the loan officer obtains as much information as possible about the situation of the borrower, for example, his or her previous credit history, current outstanding loans, and current financial statement and income source.

The second step is the credit analysis conducted by the credit department. Loan officer conduct a comparative and historic analysis of the company's financial data and internal analyst prepares a recommendation report for the loan officer about whether the loan should be granted or rejected.

In the third step, the loan officer obtains the credit analysis report and determines whether the report accurately describes the borrowing capacity and characteristics of the borrower. The fourth step is the loan operation. Here it is necessary to prepare primary notes, agreements, collateral or non-collateral agreements.

In the fifth step, the loan officer obtains the borrower's signatures and receives collateral; then the loan operation is closed and the loan proceeds.

The sixth step is the recording of the loan conducted by the loan operation and credit department staff and check whether it is within the loan policy or not.

The seventh step is loan servicing and administration conducted by a loan operation operator, a loan officer, a credit department staff member, and a financial analyst. The loan operation staff person prepares the loan payment notices to notify the borrower and is responsible for receiving periodic payments.

In the eight steps, the loan officer may receive periodic delinquency information and need to follow up on this with borrowers. The loan officer also needs to adjust loan terms and conditions as deemed necessary, and to take legal action if non-collectible procedures and foreclosure on the loan are followed. When the entire lending process has come to an end, the output comes with the profit earning status of the loan, which is also used to measure lending performance. Sound lending decisions are based on the 6C principles. These 6 C's are character, capacity, capital, collateral, conditions and control which are also important reference points for banks when making a credit analysis to decide whether or not a borrower is worthy of a loan. In short while approving loan bank follow following activities.

- Loan appraisal
- Loan approval
- Documentation
- Disbursement
- Loan monitoring

- Credit recovery

Loan officer should consider purpose of loan, source of repayment, length of maturity, financial strength and character of borrower, adequacy of capital, quality of financial statements and accounting procedures, ability to meet current obligations, quality of management, completeness of documentation, references and past credit history, quality of collateral, if any, relationship with bank in lending process.

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

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

iii) Capital

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

iv) Collateral

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

v) Conditions

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

2.1.8 Principle of Credit/Loan 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 fact that is there any unproductive or speculative venture or dishonest behavior of the borrower.

ii) Principle of Liquidity

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

iii) Principle of Security

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

iv) Principle of Purpose of Credit

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

v) Principle of Profitability

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

vi) Principle of Spread

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

vii) Principle of National Interest

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

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

2.1.9 Credit Rating Agency

A credit rating agency (hereafter CRA, also called a Ratings Service) is a company that assigns credit ratings- rating of the debtor's ability to pay back the debt by making timely interest payments and of the likelihood of default. An agency may rate the creditworthiness of issuers of debt obligations, the debt instruments, and/or in some cases, the servicers of the underlying debt, but not individual consumers. Debt instruments the agencies rate may include government bonds, corporate bonds, municipal bonds, preferred stock, and collateralized securities, such as mortgage-backed securities and collateralized debt obligations etc.

Credit ratings are generally used for five key purposes: (1) determining capital requirements; (2) identifying or classifying assets, usually in the context of eligible investments or permissible asset concentrations; (3) providing a credible evaluation of the credit risk associated with assets purchased as part of a securitization offering or a covered bond offering; (4) determining disclosure requirements; and (5) determining prospectus eligibility.

In Nepal ICRA Nepal Limited (hereafter ICRA Nepal) is the first Credit Rating Agency. It is a Subsidiary of ICRA Limited (ICRA) of India. It was incorporated on November 11, 2011 and granted license by the Securities Board of Nepal (SEBON) on October 3, 2012.

2.1.10 Lending appraisal and possessing

Basically, appraisal of loan proposal is processing for the analysis of the variability of the scheme proposed. It also helps to assets the actual financial assistance needed to operate the scheme. Commercial bank carries out loan appraisal on the basis of past performance, future forecast and information available from the documents submitted by aspirant borrowers.

The bank tries to ascertain the following during loan processing:

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

2.1.11 Project Appraisal

Before providing credit to the customer, bank makes analysis of project from various aspects and angles. The purpose of project appraisal is to achieve the guarantee of reasonable return from the project. Project appraisal answers the following questions:

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

Generally, the project appraisal involves the investigation from the following aspects.

- Financial aspect
- Economic aspect
- Management /organizational aspect
- Legal aspect

2.1.12 Legal Framework of Lending Business

Mainly, there are three tiers or hierarchy of legal framework of lending business of BFIs in Nepal. They are Acts and precedents, Directives of Nepal Rastra Bank (NRB) and Individual BFIs Credit Policy Guidelines. In addition to other prevailing laws of the country, the main legal framework of lending business of BFIs includes:

i. **Legislations/ Statutes**

   a. Nepal Rastra Bank Act, 2002
   b. Bank and Financial Institutions Act, 2006
   c. Banking Offence and Punishment Act, 2007
   d. Company Act, 2006
   e. Insolvency Act, 2006
   f. Debt Recovery of Bank and Financial Institutions Act, 2001
   g. Negotiable Instruments Act, 1977
   h. Secured Transaction Act, 2006

ii. **Case Laws**

iii. **Directives and Guidelines**

   a. Unified Directives of Nepal Rastra Bank
   b. Supervision By-laws, 2002
   c. New Capital Adequacy Framework, 2007

iv. **Individual Bank Credit Policy Guidelines**

v. **International Instruments**

   a. International Agreements

2.1.13 Problems in Lending Business of Banks in Nepal

The main problems regarding lending business of banks in Nepal may be mentioned as follows:

i. **Collateral related Problems**

   a. Inadequate Collateral Valuation System
   b. No Sufficient Collateral
   c. Collateral of Low Quality
   d. Lending without Collateral
   e. Weakness of Banks in Collateral Valuation
   f. Unable to reveal other Property of the Surety
   g. No Protection of Collateral
   h. No registry to record pledges on movable collateral

ii. Regulation Related Problems

a. Inadequate Legal Infrastructure
b. Inadequate provisions
c. Change in Prudential Regulation
d. Weak in Self-Regulation
e. Implementation of Basel Core Principles and Adoption of International Best Practices
f. Inadequate Loan Loss Provisioning

iii. Supervision and Inspection related Problems

a. Inappropriate and Ineffective Supervision
b. Moving toward Risk Based Supervision (RBS)
c. Frail Monitoring of Loan
d. Strengthening Supervisory Capacity

iv. Problems relating to Management

a. Bad Corporate Governance
b. Feeble Credit Risk Management
c. Feeble Management Information System (MIS)
d. Feeble Coordination and Cooperation

v. Unhealthy Competition amongst the Banks

vi. Inventory of Credit Bureau

vii. Political Intervention

viii. Insider Lending

ix. Lack of Competent Human Resources

x. Controlling Ever-greening of Loans

xi. **Institutional Set Up and Arrangements**

2.1.14 Directives issued by NRB for the commercial Bank (related to credit/loan aspect only)

i. Credit classification and provisioning

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

Those credits that have not crossed the time schedule of repayment and are within three months delay of maturity date fall under the classification topic ‘pass credit’. It is also known as performing credit. Sub standard credit are those credit which are already crossed the repayment time schedule and are within 3-6 months delay of maturity date. Likewise, within 6-12 months from the time to be recovered are classified as doubtful credit. Those credits, which are not recovered yet after 1 year from maturity date, are known as bad credit. All the above 3 types of credits are classified as non-performing credit. The credit loss provision for performing credit is termed as general credit loss provision whereas the credit loss provision for non- performing credit is termed as specific credit loss provision.
Auditor has to correctly rate the credit and ensure that accurate credit loss provision has been made.
The auditor should examine whether the bank has obtained complete documentation so that banks interest is secured. In addition audit is made to inspect compliance of terms and conditions laid down. Credit audit is required to check whether credit given is within authority, drawing power, etc. Credit audit helps the bank to know quality of its credit, its weakness and strengths. This, in turn, helps the bank to adopt corrective measures where weaknesses have been pointed out and to focus further on strengths. General guidelines whether to reject or renew the credit can be established with the help of credit audit.

ii. Lending activities of commercial banks

a) Deprived sector lending of commercial banks:

With a view to provide freedom to commercial banks in the selection of their loan Portfolio, NRB phased out the priority sector-lending program since 2007/08. However, the NRB has continued deprived sector lending program in order to outreach credit access to the marginalized, backward, minorities, dalit, scheduled caste and deprived people. Banks are required to disburse at least 5% of their total loan portfolio in the deprived sector as directed lending.

b) Margin lending:

The amount of margin lending against the security of shares must be within the limit of fifty percent of the average closing price of the last 120 days or the prevailing market price of the stock whichever is less will be considered for the valuation purpose. If value of the shares in collateral falls below 50 percent of the limit due to the changes in price of the shares, banks should make a margin call to the concerned borrowers limit. If the borrowers are unable to deposit the margin in the given period, banks and financial institutions should initiate to sell such shares to recover the loan within seven days after the given period. If shares are not sold through the secondary market, banks and financial institutions must maintain 100 percent loan loss provision for such lending.

c) Restriction on credit (loan):

Diversity of risk is a fundamental principal of sound CRM. In order to minimize credit risk NRB has imposed restriction on credit to companies, individuals, and firms black listed by credit information bureau (CIB), until they are lifted from the list. Rapid growing concern over the loan exposure of financial sectors on real estate and housing loan, Nepal Rastra bank issued a directive according to which, financial institutions now cannot lend more than 25 percent on real estate sector and their exposure to real estate and housing loan should not cross over 40 percent. The NRB also instructed the financial institutions to lend money for housing and real estate not exceeding 60 percent of the fair market value of the property.

(Source: Monetary policy 2020/21)

2.2 Review of Literature

Dahal and Bhaskar (2020) carried out “A Research Report on Cost Efficiency and Credit Management Variables of Banking Industry: A Study on Sunrise Bank and Siddhartha Bank. This report is basically analysis on relationship between credit management and cost efficiency. Credit management performance is shown by financial terms such as, loan loss provision, non-performing loans, risk weighted assets, capital adequacy ratio and return on assets whereas cost efficiency is shown by financial terms for instance, total operating costs to total assets and staff expenses to total operating costs in this report. Sunrise and Siddhartha Bank’s data from 2015 to 2019 are taken for analysis in this report. This study shows credit management performance of both sunrise and Siddhartha bank is fine with loan loss provision (in NPR) as it is decreasing from 2015 to 2019. In terms of non-performing loan to total loan (%) also, both banks are performing well as their non-performing loan to total loan ratio is decreasing from 2015 to 2019. Similarly, capital adequacy ratio (%) and return on assets (%) of both banks are increasing simultaneously from 2015 to 2019 which indicate the credit management performance of both banks are showing positive results.

However, increasing risk weighted assets (in NPR Billions) from 2015 to 2019 is considered worse and credit management performance in terms of risk weighted assets is not that good as other financial indicators of credit management. Decrease in loan loss provision from 2015 to 2019 is considered as well management credit department in those banks. Decrease in non-performing loan is good as the portion of performing loan is increasing in those banks from 2015 to 2019.

Adhikari and Jha (2020) in their dissertation “Lending practices of commercial banks in Nepal: A study of Siddhartha bank limited and sunrise bank limited” states that banks have been lending as per the directives of the NRB. Likewise, since, all the respondents were agreed upon the fact that deposits affect the lending practices, deposits can be considered as the main source for lending to the various individuals and business units. The various determinants that affect the lending practices of SBL and SRBL as per our research are deposits, borrowings, investments and net profits. The data have been taken for the period of five years F/Y 2014/15 to 2018/19 from various annual reports especially financial statement of SBL and SRBL. In case of SBL, the regression analysis says that deposits and borrowings have the positive effect on the loans and advances whereas net profit/income has been affecting negatively on loans and advances. When there are more deposits and borrowings, there will be more loans and advances and vice-versa. In case of SRBL, as per the regression analysis, there is positive effect of deposits, borrowings and investments on loans and advances and negative effect of net profit/income on loans and advances. If there is increase in the volume of deposits, borrowings and investments then SRBL can issue more loans and advances to the individual units and business units and vice-versa. From the trend analysis, loans and advances of both SRBL and SBL is increasing from last five fiscal years, deposits are also increasing, borrowings of SBL is fluctuating in nature whereas SRBL has no any borrowing in last fiscal year except in the last fiscal year. The investments of SBL is also in fluctuating trend, whereas of SRBL is increasing and hence we can say that SRBL has a very good investment in different sectors. Likewise, the net profit of SBL is increasing in last three fiscal year but decreased in huge amount in F/Y 2017/18 and again increased in last F/Y. In case of net profit of SRBL, there is increase in the net profit in all fiscal years.

The article published in Annual Bank supervision Report NRB (2019), Bank supervision Department; conclude that the loan and advances of the Commercial banks increased by 19.29 percent to Rs. 2,482.16 billion in the FY 2018/19 compared to growth of 21.27 percent in the last fiscal year. Loans and advances of state-owned banks increased by 18.16 percent to Rs. 354.83 billion, and that of non-state-owned banks rose by 19.48 percent to Rs. 2127.33 billion during the review year extended.

Commercial banks have disbursed the loans and advances to the different sectors of the economy. Wholesalers & Retailers sector is the dominant sector of lending with 22.06 percent share on total loans and advances, followed by Non-Food Production sector (13.70%) and Construction (10.06%) sector.

Almost all the loans and advances disbursed by the Commercial banks are secured by some form of collateral. As of mid-July 2019, about 89.53 percent of the total loans and advances are secured by the property. This category includes all those loans and advances that are provided against security of fixed assets like real estate and current assets like stocks and receivables as well.

Major part of the loan and advances, i.e. 23.96 percent of the total loan, as of mid-July 2019, is related to demand and other working capital nature. The portion of such loan in the previous year was 22.74 percent. Similarly, 19.08 percent and 15 percent of loans were extended as term loans and overdraft respectively. There has been decrease in both import loan and real estate loan by 0.32 and 0.67 percentage points. There is no significant change in the product-wise mix when compared to the previous year.

The total volume of non-performing loans of the Commercial banks increased by 24.15 percent in the fiscal year 2018/19 and reached Rs. 37.06 billion. The non-performing loans of private sector banks increased by 32.62 percent to Rs. 24.20 billion and that of public sector banks increased by 10.83 percent to Rs. 12.86 billion during the review period. The industry NPL ratio increased from 1.49 percent to 1.57 percent during the review period.

Edward and Selvi (2019) made a study by highlighting the perception of customers towards the lending practices of commercial banks. The survey result shows that factor analysis such as credit volume, customer satisfaction, affordability and biasness helped to increase lending in commercial Banks. The four segments were further sub divided into two known as Short Term Agriculture loans and satisfactory schemes. The path analysis designed to find the model fit suggest that in all the three models the four factors such as credit volume, customer services, affordability and satisfaction give a fitting model by having all the variants within the limits. Hence it is concluded that all the four factor contributing the positive perception of sample respondents towards the lending practices of commercial banks. It is suggested that just by increasing the short term agriculture with attractive schemes will help the rural mass to get more benefits from the lending practices of Commercial Banks.

Ndab (2018) in his thesis “The impact of credit management on the financial performance of microfinance institutions” examine the effect of credit management on the financial performance of uniCredit Ghana Ltd. In order to achieve the broad aim of the study, the author sought to identify the credit management practice of the company; examine credit policies in Finland; and examine the impact of credit management on the financial performance of the company. The qualitative case study research method was identified as the most appropriate method to achieve the objectives of the study with limited time and financial resources. Mainly, secondary sources of information were applied in the development and analysis of the research. The study was based on 2013 to 2017 financial statements of the institution. The problem identified for this study is the rising incidence of business collapses in the financial sector due to high non-performing loans, poor asset quality, and poor credit management policies and practices.

The study revealed that uni Credit applies client appraisal in its credit management process through background check for full disclosure of information, granting of concessionary rate to good customers, extension of loan duration from 12 to 24 months, pre and post disbursement monitoring, insurance of loan products, and quarterly recovery and monitoring. Others include, reduction in processing fees and days of contribution as a procedure for accessing susu loan products, taking cash collateral for all loan facilities, inspection of businesses/homes of borrowers, policies on loan graduation based on client's loan repayment performance, using the risk department to recover bad loans and expired loans, inter branch monitoring and recovery teams formed to make loan recovery effective. Furthermore, the study revealed that although the financial sector of Ghana is generally unstable, and many MFIs have collapsed in the past two years, uniCredit has a strong financial position as represented by its total assets, loans and advances, PAT and PBT, high return-on-capital employed (ROCE), and fairly good return on equity (ROE). It was concluded therefore that the credit management practices of uniCredit seem to be effective in controlling its total impaired loans, which has positively impacted on total assets and profits. However, uniCredit must take measures to control its total loans going bad in order to prevent huge bad debt write-offs as the one involving some GH¢8,566,616 in 2017.

Gnawali (2018) mentioned in his research "Non-performing Asset and its effect on profitability of Nepalese commercial Banks" that the credit function of banks enhances the ability of investors to exploit desired profitable ventures. Credit risk plays an important role on banks' profitability since a large chunk of banks' revenue accrues from loans from which interest is derived. The issue of non-performing loans (NPL) has gained increasing attentions in the last few decades. The immediate consequence of large amount of NPLs in the banking system is bank failure. This study is based on secondary data of 3 Nepalese government banks and 10 Nepalese private banks with 104 observations for the period of 2010 to 2017.

The major conclusion of this study is that there is a negative impact of non-performing loan on return on assets in context of Nepalese government banks. Non-performing loan variables like non-performing loan to total loan (NPLTL), and size has negative relationship with ROA of selected government bank. The result shows that higher the portion non-performing loan (NPL), Non-performing to total loan (NPLTL) and bank size lower would be the profitability of the Nepalese government banks.

This study also concludes that capital adequacy ratio (CAR), firm loan loss provision (LLP) total loan to total deposit ratio (TLTD) of government bank have positive relationship with firms profitability i.e. ROA. Similarly, non-performing loan (NPL), non-performing loan to total loan (NPLTL), loan loss provision (LLP) have negative impact on firm profitability i.e. ROE. This study also concludes that in context of Nepalese commercial banks capital adequacy ratio (CAR), total loan to total deposit (TLTD), loan loss provision (LLP), and have positive relationship with firm's profitability.

Lack of proper financial analysis of the borrower by the banks, is one of the major cause behind increasing NPA of Nepalese commercial banks. Therefore, proper financial analysis should be performed before giving loan to the borrower. Those banks, which have high level of NPA, should take necessary action towards recovering their bad loan as possible. In case of doubtful to repay the loan by the borrower, the bank should dispose off the collateral taken from them and recover the principal and the interest amount.

Afifa (2017) examine whether Islamic banks face higher credit risk than their conventional counterparts. This research used two measures for credit risk: the ratio of loan-loss reserves to gross loans (LLRGL) and the ratio of loan-loss provisions to average gross loans (LLPAGL). At the same time, it examined the relationship between credit risk and capital using the Generalized Method of Moments (GMM) in MENA countries over the period 2005-2015.

The findings suggest that conventional banks have a higher credit risk than their Islamic counterparts. This credit risk has a high effect on the exposure of financial crises because it is capable of putting the bank in distress if it is not properly managed. However, the larger the size of Islamic banks is, the higher credit risk to the extent to become very close to that of conventional banks. The increase of credit risk in the largest Islamic banks can be explained by the fact that the latter, in the course of their activities and operations, do not differ from their conventional counterparts. They transfer the conventional funding framework to a context that respects Islamic law. Their role thus remains a financial intermediation which, by sharing profits and losses with their customers, gradually deteriorates in favor of a simple intermediation. This conclusion is also proven by the difference in the risk of the debt linked mainly with the financing and insolvency operations which emerged from participation activities.

This investigation therefore advocates that Islamic banks face crises because of the dominance of the type of financing by debt in relation to participatory techniques.
The analysis of the links between the two variables "credit risk" and "capitalization" leads an increase of credit risk leads to a decline of the capital of the two banking sectors (Islamic and conventional banks). This negative effect of credit risk on capital remains higher in conventional banks than in their Islamic counterparts.

Malla (2017) assesses “Credit Portfolio Management in Nepalese Commercial banks” among selected commercial banks. Prabhu bank, Laxmi bank, Mega bank, Rastriya Banijya Bank, Nepal SBI bank and Standard Chartered Bank have managed their loan portfolio as per the standard parameter of NRB directives 2073. All banks have maintained limit of Real estate loan ≤ 25% of total loan, Deprived sector loan ≥ 4.5% of total loan, Non-performing loan ≤ 5% of total loan, Sector wise loan portfolio ≤ 40% of total loan & managed credit risk. Banks Non-performing loan shows that, banks are maintaining good credit risk management practice. However, 96.41% of bank's lending is on collateral basis which indicates that, banks are conservative in lending. Nepalese banks should increase their lending on priority sector and other various type of project based lending to contribute in development of country.

In the words of Afroz, (2013), Bangladesh Krishi Bank,is a development financial institution(DFIS) established with a view to ensure welfare of the rural people of the country through financing different agro and agro related and other activities. At the initial stage its main activities were concentrated to primary agriculture. Later on it has diversified its activities to secondary agriculture. During 1980’s BKB has started diversifying its credit portfolio in multifold aspect, through initiating foreign credit lines. During 1990, with the introduction of financial sector reform measures, especially classification measures, the real financial position of the bank became transparent to all concerned. Continuously, running on loss for the last six years, since introduction of classification measures, BKB has to rethink in respect of restructuring its credit portfolio. As a result it is felt need from all concern to further diversify the credit portfolio of BKB. Under the existing socio economic condition of the country, BKB for its survivability and sustainability must diversify its credit portfolio and also restructure its operational procedure, including improvement of appraisal techniques. In the credit portfolio of BKB, in addition to agro and agro related activities of all types of commercial activities (both agricultural and nonagricultural) need to be incorporated.

Rabab (2015) in his study examines the factors affecting the bank credit provided by the Jordanian commercial banks during the period 2005-2013. The study showed that the bank credit provided by the banks operating in Jordan is considered one of the most important sources of funding for the Jordanian economy, where the proportion of the credit facilities accounted for 80.5% of the GDP during the period 2000-2013. The study also showed that the credit facilities granted by the banks in Jordan increased from 4.5 billion dinars in 2000 to 18.8 billion dinars in 2013 by an increase of more than a fourfold and an annual growth rate of 11.1 percent. The average proportion of the credit facilities to the total assets of the commercial banks of Jordan during the study period was 47.2%, while the proportion of the deposits accounted for 64.8% of the assets. The average ratio of the non-performing loans to the total loans was 9.88%, while the average interest rate on loans was 8.86% and 4.58% on deposits. With regard to the interest rate of the deposit window, it has reached 3.64% and the average legal reserve ratio was 7.55%. As for the macroeconomic variables, the study has shown that the average annual inflation rate was 5.27%, while the total annual economic growth rate in Jordan was 5.28%. The results of the analysis of the study model revealed the absence of any statistically significant effect for each of the percentages of deposits, the percentage of capital, the interest rate on loans and deposits, the legal reserve ratio, and the rate of inflation on the proportion of the credit facilities granted by the commercial banks in Jordan. While the ratio of the non-performing loans, the ratio of liquidity and the interest rate of the deposit window have a negative and a statistical significance on the proportion of the credit facilities granted by the commercial banks in Jordan. The regression results showed that the size of the bank and the rate of the economic growth have a positive and a statistically significant impact on the proportion of the credit facilities granted by the commercial banks in Jordan.

Junyi and Han (2012) carried out research on the “Credit Management of Commercial banks of Lianyungang City for the SMEs”. This research point out some existing Credit Management Problem of Commercial banks of Lianyungang for the SMEs.

- As information is asymmetry, the commercial banks are not willing to loan to the SMEs
- Commercial banks lack of sound credit policy and system aiming at the SMEs

- Commercial banks lack of perfect system of risk warning and feedback information aiming at the SMEs credit Commercial banks didn't deal with perfectly the problems of escaping debts of the SMEs

Some Countermeasures of Credit Management of Commercial banks in Lianyungang for the SMEs pointed out by this research

- Establishing the credit culture with the control risk as the core.
- Building new relationship between banks and enterprises and improving information asymmetry phenomenon.
- Perfecting the faithless punishment mechanism.
- Strengthen the ability to monitor the loan risk.

Olokoyo, (2011) claimed that there is significant relationship found from the regression analysis where the lending behavior have affected the commercial banks. The same study also suggested that the deposits of the commercial banks must be fully utilized for enhancing the lending performance which can be done through formulation of time bound strategies and financial plans.

Commercial banks remain dominant in the banking system in terms of their shares of total assets and deposit liabilities. Their total loans and advances, a major component of total credits to the private sector are still on the increase in spite of the major constraints posted by the government regulations, institutional constraints and other macro-economic factors. However, both government and commercial banks should be mindful of the facts that the environments in which they operate are important factors in the bank performance and behavior. Where the environment is conducive and supportive, performance is enhanced and good lending behavior guaranteed. But where the environment is unstable and harsh, the bank's performances suffer. Commercial banks should note that they need to do a lot in order to ensure good lending behavior even where a good measure of macroeconomic stability is achieved. It therefore follows that effort should be made by commercial banks to enforce the most easily realizable policies and good credit management in every situation.

Thapa (2011) in his Thesis "Loan Management of Commercial Banks – A Comparative study of Everest And Nepal SBI Bank Limited" shows that there is a significant relationship between bank performance and loan management. Better loan management results in better bank performance. The availability of cash and loanable funds are important to the successful operations of a commercial bank. However, if there is excess cash, it could lead to a waste of resources unless properly channeled in to loans. If cash is insufficient to meet the demands of customers, especially depositors withdrawals and credible borrowers, it could lead to loss of public confidence and consequent run on the commercial bank leading to bank failure. As a result, a commercial bank has to hold a certain amount of cash that will meet with depositors withdrawal requirements and other liquidity needs of the commercial bank.

From the primary data collection it is concluded that both NSBIL and EBL staffs has been following lending policies effectively. From the analysis of growth rate of loan and advances and deposit of two banks it is concluded that growth of loan and deposit are in increasing during study period. However EBL has been able to collect more deposit and use it to provide loan as compare to NSBIL. Thus trend of loan and deposit is in satisfactory position. Liquidity is measured by cash and bank balances to total deposit ratio, liquid fund to total deposit ratio. From the ratio analysis it is concluded that NSBIL has better liquidity position than that of EBL.

Lending efficiency is measured by loan loss ratio and NPL ratio. From the analysis it is concluded that on an average EBL has lower loan loss provision ratio than NSBIL. NPL to total loan ratio of both banks are in decreasing trend but comparatively EBL has lowest ratio as compare to NSBI. It is also concluded that both banks are not investing fund to priority sector as per NRB directives. This research paper shows that better loan management can contribute to solving the problem of increasing non-performing loan and help to manage loan, deposit and investment so as to improve overall performance of organization.

Bista (2010) has conducted research in the topic “Loan management of SCBL and NABIL banks”.

His research objectives are:

- To examine trend of the deposit and loan of SCBL and NABIL
- To study liquidity position and its impact on loan.

Major finding are

- The liquidity position of Nabil and Standard chartered bank are normal.
- There is high degree of correlation between deposit and loan and advances of SCBL and low correlation in respect of NABIL. So SCBL has mobilize its deposit as loan successfully.
- SCBIL bank deposit was not successfully mobilized in income generating sector.

Henri Heinola (2010) has expressed his view in the research report “ credit management of bank” in this way:- “Usually, it is thought that credit management’s main objective is to avoid any bad debts but this is not true, especially when a company’s goal is to maximize profitability and sales. The company might incur some bad debts but the additional sales would make it worthwhile to the point where the profits from the additional sales cover the bad debts incurred.”

Hagos (2010) mentioned in his research work, “Credit Management - A Case Study of Wegagen Bank Share Company in Tigray Region**”** the Bank has yet considerable area coverage in the region relative to other banks so far easing access of the society to finances and other bank services such as deposit, transfer, and currency exchange service. However, the loan growth and client reputation is not as required due to the weakness which most of the clients and employees have disclosed in valuing the collateral offered, in loan processing and approving, and in repayment schedule.

Most potential and experienced loan clients are leaving the bank after accumulating experience and ascertained bankable which is considered as a factor for appraisal by others and this is highly affecting the client reputation. This problem is observed when the loans above the branch discretion are sent to head office for approval. The complaints are due to underestimation of properties 83 offered for collateral, length of loan processing time, excessive reduction of loans requested and recommended by the branch.

Most of the loans provided are on short term repayment schedule (Mostly for the purpose of working capital). This is may be due to the limitation of capital base of the bank. However, it is currently causing burden of installment repayment and most of loan clients preferred to be improved as most of the time faces difficulty to manage it accordingly. It is one of the causes for loan client termination. The collection techniques so far adopted by the bank is appropriate and convenient to most loan clients to manage it. Consistent to the convenience of the collection techniques, the repayment behavior of most loan client is improved to the required level revealing one step forward in the culture of meeting obligation and trustworthiness. Most of loan clients now a day are considering loan repayment per the contract agreement as ethical and obligation. Moreover, most business people understand the advantage of creating friendship ground with the financial sector as a best strategy to their business growth and success. The Bank is compliant to all directions of the regulating body in all of its activities of credit management. Hence the way of categorizing and holding provisions for the non performing loans is as per the direction and requirement of the National bank of Ethiopia.

The default problem in the bank is due to market problem, environmental problem, loan diversion, and policy problem like the credit policy of the bank related to loan duration and amount. These all leads to credit risk that has bad consequences on the Bank's financial stability, clients' business performance, and economy of the region.The credit analysis and procedures which is being followed by the bank is lengthy and reluctant to approve adequate amount per the requisition and purpose of the business, requiring improvement so as to speed up and satisfy the delivery of loan to its clients and become acceptable in the eyes of potential customers.

Tabak (2009) in his paper mentioned that banks need to manage their credit by diversifying the credit. For this, banks need to maintain the credit portfolio and evaluate their performance and risk of diversification. However, many banks also prefer to lend in those sectors in which they earn more credit advantages. Brazilian banks' loan portfolios are found to be, on average, moderately concentrated. Loan portfolio concentration seems to improve the performance of Brazilian banks in both return and risk of default. The concentration indices were found to be positively related to returns and negatively related to risks. The reason may be that loan portfolio concentration increases monitoring efficiency, since banks may have expertise in the sectors they lend, as affirmed by Winton [1999]. Diversification on the other hand, reduces this efficiency, since it is more difficult for banks to monitor their credit clients and they may also face adverse selection, derived from competition with other banks. When the different types of bank ownership are taken into account, we conclude that, for private banks, the higher the credit portfolio specialization the higher the returns. Foreign banks may face lower risks due to loan portfolio concentration, meaning that they should be cautions in high exposure to some sectors. On the other hand, the allocation of loans to only few economic sectors seems to reduce public banks' risk. The profitability of these banks appear to be, on average, less affected by loan concentration.

Pandey (2009) entitled her Thesis "Credit Risk management of Commercial Banks of Nepal" illustrate that proper risk management is required to remain competitive in the market & achieve the goals. The major banking risks include credit risk, market risk (i.e. liquidity risk, interest risk, operation risk etc). Among these risks, credit risk has the major impact on banking (i.e. more than 60 %). Because of the credit risk, the Non-Performing Loan (NPL) of bank will increase. With the increase in NPL, the loan loss provisioning will also increase simultaneously leading to decrease in profit. The decrease in profit results in low dividend to shareholder and bonus to employees.

For proper management of the credit risk, both banks have their own set of policies and practices, which is in consistence with NRB guidelines. For credit risk management, both banks have Credit Policies Guidelines (CPG). Similarly, NPL is regularly monitored by both the banks on regular basis and provisioning is done on quarterly basis by categorizing the loan as per NRB guidelines. Similarly, sector wise and security wise lending is being analyzed by these banks on monthly basis. Organizational structure of these banks is frequently restructured for proper credit risk management as per requirement.

For minimizing the loss arising due to occurrence of the credit risks, capital adequacy have been maintained by these banks within the standard prescribed by NRB. However, the trend of Capital Adequacy ratio of these banks suggests that both the banks need to increase their capital fund, which is possible mainly by issuing shares, debentures or preference share. Though both the banks have their own set of procedures for assessing various risks and their management, problems are still prevalent in these banks. In credit risk, single sector loan concentration is the main problem in both the banks. In MBL, the major problem is a high amount of lending in manufacturing sector, lending without collateral, non-performing loan & organizational structure for handing credit risk. In KBL, with the increase in total loan, NPL is also increasing. So, proper adjustment is needed for managing the NPL.

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

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

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

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

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

In the aspect of profitability position, interest income to interest expenses ratio shows the more profitable salivation. In addition, total income to total expenses ratio shows the overall predominance of the bank is satisfactory operating income. Return on loan advances are showing position that is more profitable on of the EBL. Analysis of the assets management ratio, loan advances to total assets ratio shows the better performance but loan and advances to total deposit position in minimum than the averages. Whereas

investment in loan and advances is safely and not taking more risk. That's why assets management position of the bank shows better performance in the latest year.
After analyzing the lending efficiency of the bank, the loan loss provision to loan advances indicator shows the better performance in the latest year. The interest expenses to total deposit ratios shows the improving efficiency of the bank. EBL bank has sufficient liquidity. It shows that bank has not got investment sectors to utilize their liquid money.

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

Paudel (2006) in his dissertation entitled "A Comparative Study on Siddhartha Bank Limited and Himalayan Bank Limited" states that interest income from loan and advances are the main sources of income, which will increase profit of commercial bank. The main ratio of interest income to total income of SBL is higher than that HBI. NRB has restricted the gap between the interest taken in loan and advances and interest offered in deposit. HBL have higher mean ratio of interest income to interest expenses and total income to expenses ratio than that of SBL. HBL has maintained high return in every aspect than that of SBL. Among the various measurement of profitability ratios return to equity and earning per share, reflects the relative measure of profitability. The performance of NBL is higher than that of SBL. Coefficient of correlation between deposit and loan and advances total income and loan and advances of both bank have positive value there is significant relationship between deposit and loan and advances total income and loan and advances. Coefficient of correlation between net profit and loan and advances of both bank have positive relationship. But the number of HBI is greater than number of SBL.

There is no significant relationship between net profit and loan and advances of both banks. They are greater than number of both banks.

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

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

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

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

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

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

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

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

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

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

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

The main statements of the problem of his research is financial management aspect is considered to be the vital and integral part of overall management of any enterprises, ensuring financial strength through adequate cash flows, liquidity and better utilization of assets. Commercial joint venture banks set up in Nepal seem to need grater funds in terms of financing to the expansion of their assets because of growing number of new establishment of joint venture banks in the country. These banks deal with other people’s deposits, most of which are payable on demand. There is no doubt that the survival of the existing commercial banks and other financial institution depend upon how they manage their assets and liabilities to maximize their profits with the minimum exposure of assets to risks, and are guided by there important conflicting criteria of solvency, liquidity and profitability. Therefore, the financial management is the main indicator of the success or failure of any business firm. Financial condition of the business firm should be sound be sound from the point of view of shareholders, debenture holders’ financial institutions and nation as a whole. The main objectives is analyze liquidity, leverage, activity profitability and ownership ratios of the bank.

2.3 Research Gap

Although there are various studies conducted around the world, the literature above showed that there are not much of studies conducted considering factors like deposit, investment, total income and borrowing which are affecting commercial banks loan management. This study aims at adding to the empirical studies conducted on the factors of the bank’s loan management. The study will provide a new direction to the research as the factors considered for the purpose of the research are different than that of the previous research conducted in this field of study. Some research has been done in this topic however most of them are concentrate only on secondary data. There are various researchers conduct on lending practice, credit policy, financial performance and credit management of various commercial banks. In order to perform those analysis researchers have used various ratio analysis. Most of the previous researches, Thapa (2011) shows that there is a significant relationship between bank performance and loan management through ratio analysis of credit deposit ratio, ROA, ROE, cash and bank balance to total deposit ratio, investment to deposit ratio. Adhikari and Jha (2020) have considered trend analysis of loan, deposit, investment, and interest income to show lending practice of two commercial bank for the purpose of the study whereas this research here has considered various factors with use of correlation, regression, probable error and trend analysis for the purpose of the study which are hardly considered by any of the previous researches made on this topic. Also previous researcher has consider only secondary data for the purpose of the study where as in this research both primary data and secondary data has been considered to analyse factors that affect the credit management of commercial bank.

In this study of Credit Management of Commercial Banks: A Comparative Study of Siddhartha and Sanima Bank Limited various trend analysis and various statistical tools are used for analyzing primary and secondary data. Since the researcher have used secondary data only five fiscal year but all the data are current and fact. This study tries to define credit management by applying and analyzing various statistical tools like coefficient of correlation, regression and trend analysis. The researcher here have considered the use of linear regression model which is different to that of the previous researches conducted which considered multivariate regression model, these model being free of multicollinearity problems. Probably this will be the appropriate research in the area of credit management of bank and financial institutions.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is a way to systematically solve the researcher's problem. It facilitates the researchers work and provides reliability and validity. C. K. Kothari (1998) defined research as a scientific systematic research for pertinent information on a specific topic. Research methodology is a sequential step adopted by a researcher in studying the entire aspect of the study. In this chapter, the research design, data collection procedure and procedures concerning analysis of data are described thoroughly. Analysis is conducted by using appropriate financial and statistical tools and findings are presented in a systematic way.

3.2 Research Design

Research design is a plan, structure and strategy of investigation. It is a blue print for the collection, measurement and analysis of data. A research design is the arrangement of conditions and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. It is the overall operational pattern of framework for the project that stipulates what information is to be collected from which source and by what procedures. This study is based on both primary and secondary data. This study focuses on understanding the factors that affects loan management of commercial bank. The crux of the research is to analyze Siddhartha bank limited and Sanima bank ltd in relation to credit disbursement and recovery as well overall management. This study mainly concerned with historical research. Descriptive and analytical approaches are used to show the outcome of the study. But generally, to show the factors affecting loan management in commercial bank, past historical data are used. The relevant and needed data has been collected from various publications of Nepal Rastra Bank and respective web site of bank.

3.3 Sources of Data

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

a) Primary Source:

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

b) Secondary Source:

Secondary data is the data that already exists which has been collected by some other person or organization for their use, and is generally made available to other researcher free. Secondary data has been downloaded from an official web site of NRB and commercial bank. This study is based on the historical data disclosed by annual reports of commercial banks and Nepal Rastra Bank. In addition, some other data has been collected from journal papers including both online and journal papers sourced in the library, books, the Internet, magazines and newspaper articles and official statistics.

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.

Here, the total 27 commercial banks shall constitute the population of the data and sample of two banks are taken on the basis of EPS for FY 2076/77 i.e. Siddhartha bank ltd is Rs 21.38 and Sanima bank ltd is Rs 19.35 in order to achieve objectives. Sampling was done on the basis of convenience sampling and judgmental sampling. Convenience sampling was used, as it would be difficult and inconvenience to visit BFIs located outside valley in a given limited time frame and judgmental sampling involved collecting information from those members of the population who were in the best position to provide the information. Selecting a sample means selecting elements from target population for the ultimate purpose of drawing general conclusion about the entire number of elements. Likewise, financial statements of five years (beginning from 2015/16 to 2019/20) are selected as samples for the purpose of it.

3.5 Instrumentation of data

The study focuses on both qualitative and quantitative aspect. In order to collect primary data, structured questionnaire is used whereas for secondary data, the financial statement of the sampled banks are used. The software that has been used to input the primary and secondary data is SPSS version 16.0.

For the analysis of the qualitative aspect, primary data were collected from respondent of different bank and financial institutions. This has been broken down into two phase.
The questionnaire is composed of instruction on how to answer the question and the statements in the questionnaire paper. Coding system has been used for Likert scale questions. To gather data, the questionnaire was designed in a structured format that included:

- Single-choice response
- Multiple choice response
- Likert Scale
- Ranking Scale

For the analysis of the quantitative data, financial data of the bank like loan, deposit, investment, total income and borrowing were collected from Nepal Rastra Banks website and concern bank website. The tools that are used for interpretation of data are Pearson’s coefficient of correlation and Regression analysis of the econometric model.

3.6 Validity and reliability

Validity and reliability are two crucial factors that play a vital role throughout the study i.e. since designing of the study till examining the study. Validity is checked for both the data primary and secondary.

For valid and reliable primary data, the questionnaire was designed by taking expert opinions. Further, to minimize the errors generated from the non response of the questionnaire, cross check was done and the respondents were given clear instruction to fill the questionnaire in correct manner. The reliability test has been performed for the validity of primary data.

For secondary data, reliability is high because the data's are collected from NRBs and banks website and its validity is measured by applying various tests such as F-test statistics, P-values, Regression, Correlation coefficient. Moreover the normality test and auto correlation test has been done before analysis of data.

The reliability of a measure indicates the stability and consistency with which the instrument is measuring the concept and helps to access the goodness of a measure.

3.7 Data analysis tools and methods

This study main purpose is to know the factors that affect loan management of bank. Various statistical and econometric models are used in order to analyze primary and secondary data. Under this study, data analysis is performed as per the nature of data and its availability.

3.7.1 Primary data analysis

The primary data questionnaire comprises of ranking questions, single choice questions, multiple choice questions, likert scale questions. The questionnaire also included some variables that may have direct impact the loan management of commercial bank, which are not included in secondary data analysis. Once the data's were gathered, they were entered in SPSS. The analysis such as descriptive, pearson's correlation, percentage and frequencies were obtained from these data's. The output drawn from the SPSS were firstly copied to Ms- Excel for the effective presentation and later they were inserted into the report.

3.7.2 Secondary data analysis

This study has used econometric models along with statistical tools to analyze the relationship among dependent and independent variable. The results were carried out in the SPSS software. All the dependent and independent variables are tested under the simple regression model.

3.8 Specification of model

Econometric Model is a statistical model used in econometrics. It specifies the statistical relationship that is believed to hold between the various economic quantities pertaining to a particular economic phenomenon under study. An econometric model can be derived from a deterministic economic model by allowing for uncertainty or from an economic model which itself is stochastic. However, it is also possible to use econometric models that are not tied to any specific economic theory.

Under this study, the econometric that researcher has followed is Linear Regression Model (Simple Regression) which is shown below

Y=$\alpha + \beta X + \varepsilon$

Where,

Y= Loan management (dependent variable)

α= Intercept

ε= Residual Error

β= Coefficient of parameters

X= Independent variable

The definition of independent variable for this study is shown below

1. Deposit
2. Investment
3. Total Income
4. Borrowing

For the analysis purpose, the log value of all variables has been used as input in SPSS.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

This chapter includes the presentation and analysis of the data for the achievement of the objectives of the research. Chapter has been divided into two sections. The first section covers descriptive and inferential analysis of the secondary data and the second section covers the descriptive and inferential analysis of the primary data.

4.1 Analysis of secondary data

Table No 4.1 Normality test of dependent variable

Loan	
BFIs	Significance
Siddhartha bank limited	0.822
Sanima bank Limited	0.718

Table No. 4.1 shows the normality test of dependent variable (Loan) for BFIs. On the basis of above table, it can be seen that p-value for both bank greater than 0.05. We can conclude that data comes from a normal distribution.

Table No 4.2 Multicollinearity test of independent variables of Siddhartha bank limited

Independent variables	VIF
Deposit	2.41
Investment	3.92
Income	9.28
Borrowing	1.10

Table No. 4.2 shows the collinearity test of independent variables of Siddhartha bank ltd. On the basis of above table, it can be seen that vif of all independent variables are less than 10. Therefore we can conclude that there is no multicollinearity between four independent variables.

Table No 4.3 Multicollinearity test of independent variables of Sanima bank limited

Independent variables	VIF
Deposit	2.46
Investment	1.37
Income	5.40
Borrowing	1.52

Table No. 4.3 shows the collinearity test of independent variables of Sanima bank ltd. On the basis of above table, it can be seen that vif of all independent variables are less than 10. Therefore we can conclude that there is no multicollinearity between four independent variables.

Table No 4.4 Comparison of total loan of Siddhartha bank ltd & Sanima bank ltd

Year	Siddhartha Bank Ltd (Amt. in Millions)	Sanima bank Ltd (Amt. in Millions)
2015/16	55,351.00	40,455.00
2016/17	65,986.00	51,265.00
2017/18	86,077.26	69,243.35
2018/19	108,164.42	83,439.28
2019/20	127,577.07	93,694.56

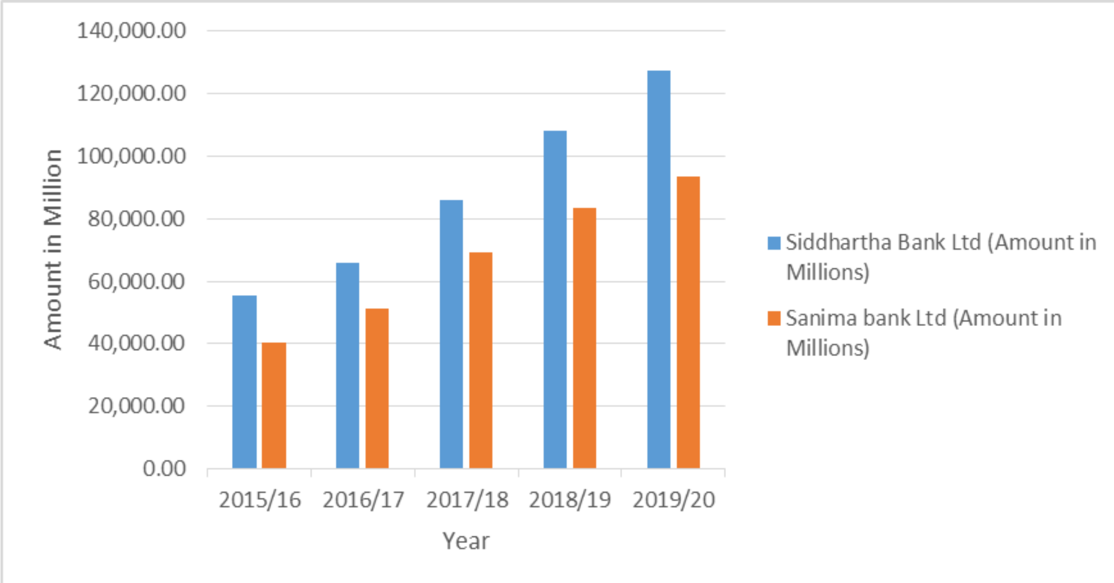

Figure No: 4.1 Bar diagram of total loan of Siddhartha & Sanima bank ltd

Figure No: 4.1 shows the movement of loan of Siddhartha bank ltd and Sanima bank ltd 2015/16 to 2019/20. The loan of both bank has increasing trend each year.

4.1.1 Regression analysis of variables

Various independent variables have been considered for the purpose of the study and the relationship between these independent variables and the dependent variable (Loan) can be explained as under with the help of following outputs generated from SPSS.

1. Loan Vs. Deposit

On the basis of the output generated, the relationship between loan and deposit has been broken down for Siddhartha bank ltd and Sanima bank ltd.

(A) Siddhartha bank ltd

Table No 4.5 Analyzing the relationship between Siddhartha bank deposit and loan

Deposit					
Siddhartha bank ltd	R	R^2	Adjusted R^2	Coefficient	Significance
	0.995	0.990	0.986	0.995	0.000

Table No. 4.5 shows the regression result which explains the relationship between independent variable (deposit) and dependent variable (loan) for Siddhartha bank ltd. On the basis of the above table, it can be seen that deposit considered as an independent variable has significant relationship with loan of Siddhartha bank ltd.

The R-square adjusted value for Siddhartha bank ltd is 0.986. This 0.986 endorses that 98.60% of the variation in the dependent variable (loan) is explained by the independent variable (deposit) of the model.

(B) Sanima bank ltd

Table No 4.6 Analyzing the relationship between Sanima bank deposit and loan

Deposit					
Sanima bank ltd	R	R^2	Adjusted R^2	Coefficient	Significance
	0.997	0.994	0.992	0.997	0.000

Table No. 4.6 shows the regression result which explains the relationship between independent variable (deposit) and dependent variable (loan) for Sanima bank ltd. On the basis of the above table, it can be seen that deposit considered as an independent variable has significant relationship with loan of Sanima bank ltd.

The R-square adjusted value for Sanima bank ltd is 0.992. This 0.992 endorses that 99.20% of the variation in the dependent variable (loan) is explained by the independent variable (deposit) of the model.

2. Loan Vs. Investment

As the output generated, the analysis between loan and investment has been shown below.

(A) Siddhartha bank ltd

Table No 4.7 Analyzing the relationship between Siddhartha bank investment and loan

Investment					
Siddhartha bank ltd	R	R^2	Adjusted R^2	Coefficient	Significance
	0.963	0.928	0.904	0.963	0.008

Table No. 4.7 shows the regression result which explains the relationship between independent variable (investment) and dependent variable (loan) for Siddhartha bank ltd.

On the basis of the above table, it can be seen that investment considered as an independent variable has significant relationship with loan of Siddhartha bank ltd.

The R-square adjusted value for Siddhartha bank ltd is 0.904. This 0.904 endorses that 90.40% of the variation in the dependent variable (loan) is explained by the independent variable (investment) of the model.

(B) Sanima bank ltd

Table No 4.8 Analyzing the relationship between Sanima bank investment and loan

Investment					
Sanima bank ltd	R	R^2	Adjusted R^2	Coefficient	Significance
	0.718	0.515	0.353	0.718	0.172

Table No. 4.8 shows the regression result which explains the relationship between independent variable (investment) and dependent variable (loan) for Sanima bank ltd. On the basis of the above table, it can be seen that investment considered as an independent variable has insignificant relationship with loan of Sanima bank ltd.

The R-square adjusted value for Sanima bank ltd is 0.353. This 0.353 endorses that 35.30% of the variation in the dependent variable (loan) is explained by the independent variable (investment) of the model.

3. Loan Vs. Total income

As the output generated, the analysis between loan and income has been shown below.

(A) Siddhartha bank ltd

Table No 4.9 Analyzing the relationship between Siddhartha bank income and loan

Total income					
Siddhartha bank ltd	R	R^2	Adjusted R^2	Coefficient	Significance
	0.955	0.912	0.883	0.955	0.011

Table No. 4.9 shows the regression result which explains the relationship between independent variable (income) and dependent variable (loan) for Siddhartha bank ltd. On the basis of the above table, it can be seen that income considered as an independent variable has significant relationship with loan of Siddhartha bank ltd.

The R-square adjusted value for Siddhartha bank ltd is 0.883. This 0.883 endorses that 88.30% of the variation in the dependent variable (loan) is explained by the independent variable (income) of the model.

(B) Sanima bank ltd

Table No 4.10 Analyzing the relationship between Sanima bank income and loan

Income					
Sanima bank ltd	R	R^2	Adjusted R^2	Coefficient	Significance
	0.922	0.851	0.801	0.922	0.026

Table No. 4.10 shows the regression result which explains the relationship between independent variable (income) and dependent variable (loan) for Sanima bank ltd. On the basis of the above table, it can be seen that income considered as an independent variable has significant relationship with loan of Sanima bank ltd.

The R-square adjusted value for Sanima bank ltd is 0.801. This 0.801 endorses that 80.10% of the variation in the dependent variable (loan) is explained by the independent variable (income) of the model.

4. Loan Vs. Borrowing

As the output generated, the analysis between loan and borrowing has been shown below.

(A) Siddhartha bank ltd

Table No 4.11 Analyzing the relationship between Siddhartha bank borrowing and loan

Borrowing					
Siddhartha bank ltd	R	R^2	Adjusted R^2	Coefficient	Significance
	0.901	0.811	0.748	-0.901	0.037

Table No. 4.11 shows the regression result which explains the relationship between independent variable (borrowing) and dependent variable (loan) for Siddhartha bank ltd. On the basis of the above table, it can be seen that borrowing considered as an independent variable has significant relationship with loan of Siddhartha bank ltd.

The R-square adjusted value for Siddhartha bank ltd is 0.748. This 0.748 endorses that 74.80% of the variation in the dependent variable (loan) is explained by the independent variable (borrowing) of the model.

(B) Sanima bank ltd

Table No 4.12 Analyzing the relationship between Sanima bank borrowing and loan

Borrowing					
Sanima bank ltd	R	R^2	Adjusted R^2	Coefficient	Significance
	0.931	0.866	0.821	-0.931	0.022

Table No. 4.12 shows the regression result which explains the relationship between independent variable (borrowing) and dependent variable (loan) for Sanima bank ltd. On the basis of the above table, it can be seen that borrowing considered as an independent variable has significant relationship with loan of Sanima bank ltd.

The R-square adjusted value for Sanima bank ltd is 0.821. This 0.821 endorses that 82.10% of the variation in the dependent variable (loan) is explained by the independent variable (borrowing) of the model.

4.1.2 Analysis of independent variables along with correlation

Under this section, the individual analysis of banks i.e. Siddhartha bank ltd and Sanima bank ltd has been conducted to see the impact of the independent factors on the FIs loan. The main objective of this section is to drive the ranking of independent variables affecting FIs. On the basis of calculation derived from SPSS, following output was derived which has been explained below.

A. Siddhartha bank ltd

Table No 4.13 Ranking of independent variables for Siddhartha bank ltd

Independent variables	**Correlation**	**Ranking**
Deposit	0.995	1
Investment	0.963	2
Income	0.955	3
Borrowing	-0.901	4

Table No 4.13 shows the individual ranking of the independent variables of Siddhartha bank ltd. As per the output, first independent variable is deposit which highly affect the Siddhartha bank ltd.'s loan management. Besides this the moderately affecting variables are investment and income. Finally, borrowing variable that least affects its loan management.

B. Sanima bank ltd

Table No 4.14 Ranking of independent variables for Sanima bank ltd

Independent variables	**Correlation**	**Ranking**
Deposit	0.997	1
Investment	0.718	3
Income	0.922	2
Borrowing	-0.931	4

Table No 4.14 shows the individual ranking of the independent variables of Sanima bank ltd. As per the output, first independent variable is deposit which highly affect the Sanima bank ltd loan management. Besides this the moderately affecting variables are income and investment. Finally, borrowing variable that least affects its loan management.

4.2 Analysis of primary data

Data observed and collected directly from the first-hand experience of the researcher is known as Primary data. The output derived from the study of primary data provides the insight on the real world experience of financial managers in determining the factors affecting loan management in commercial banks.

Table No 4.15 Analysis of two commercial banks

Bank Name	Distributed	Received	Percentage
Siddhartha Bank Ltd	75	60	50%
Sanima Bank Ltd	75	60	50%

Table No: 4.15 shows that, out of 150 questionnaires distributed 120 were collected in time. The respondents were taken from Siddhartha bank ltd and Sanima bank ltd in equal basis. From each bank 60 respondents were taken which is 50% each from over all receipt.

Table No 4.16 Analysis of loan policies are communicated to all the concerned staff

Loan policies are communicated to all the concern staff				
Type of BFIs	Yes	No	Not Sure	Total
Siddhartha Bank Ltd	43	10	7	60
Sanima Bank Ltd	39	12	9	60
Overall frequency	82	22	16	120

Table No: 4.16 highlight the output of the question, whether loan policies are communicated to all the concerned staff of Siddhartha bank and Sanima bank ltd. As per the output, out of 60 respondents from Siddhartha bank ltd 43 respondents agrees with the statement, 10 respondents disagrees with the statement and 7 respondents are neutral to the statement. For Sanima bank ltd out of 60 respondents, 29 respondents agrees with the statement, 12 respondents disagrees with the statement and 9 respondents are neutral to the statement.

Overall evaluation of bank, out of 120 respondents 82 agrees with the statement, 22 respondents disagrees with the statement and 16 respondents are neutral to the statement i.e. the majority of the respondents agrees that loan policies are communicated to all the concern staff.

Table No 4.17 Analysis of banks deposit are properly invested/lend in profitable sector

Banks deposits are properly invested/lend in profitable sector				
Type of BFIs	Yes	No	Not Sure	Total
Siddhartha Bank Ltd	31	11	18	60
Sanima Bank Ltd	27	14	19	60
Overall frequency	58	25	37	120

Table No: 4.17 highlight the output of the question, whether banks deposit are properly invested/lend in profitable sector in Siddhartha bank and Sanima bank ltd. As per the output, out of 60 respondents from Siddhartha bank ltd 31 respondents agrees with the statement, 11 respondents disagrees with the statement and 18 respondents are neutral to the statement. For Sanima bank ltd out of 60 respondents, 27 respondents agrees with the statement, 14 respondents disagrees with the statement and 19 respondents are neutral to the statement.

Overall evaluation of bank, out of 120 respondents 58 agrees with the statement, 25 respondents disagrees with the statement and 37 respondents are neutral to the statement i.e the majority of the respondents agrees that banks deposit are properly invested/lend in profitable sector.

Table No 4.18 Analysis of whether your bank has credit risk mechanism

Whether your bank has credit risk mechanism				
Type of BFIs	Yes	No	Not Sure	Total
Siddhartha Bank Ltd	35	9	16	60
Sanima Bank Ltd	27	11	22	60
Overall frequency	62	20	38	120

Table No: 4.18 highlight the output of the question, whether your bank has credit risk mechanism in Siddhartha bank and Sanima bank ltd. As per the output, out of 60 respondents from Siddhartha bank ltd 35 respondents agrees with the statement, 9 respondents disagrees with the statement and 16 respondents are neutral to the statement. For Sanima bank ltd out of 60 respondents, 27 respondents agrees with the statement, 11 respondents disagrees with the statement and 22 respondents are neutral to the statement.

Overall evaluation of bank, out of 120 respondents 62 agrees with the statement, 20 respondents disagrees with the statement and 38 respondents are neutral to the statement i.e the majority of the respondents agrees that banks has credit risk mechanism.

Table No 4.19 Analysis of minimum information required for creditworthiness

Minimum information required assessing the creditworthiness of the customer					
Type of BFIs	Credit Agency Reports	Audited Financial Report	Income Source	Guarantor	Collateral
Siddhartha Bank Ltd	13	15	38	17	34
Sanima Bank Ltd	11	24	27	24	20
Overall percentage	10.76%	17.49%	29.15%	18.38%	24.22%

Table No: 4.19 shows the minimum information that bank require for assessing the creditworthiness of the customer for loan purpose. For Siddhartha bank ltd out of 60 respondents, 13 respondents feel that credit agency report is most for creditworthiness of the customer. Likewise 15 respondents feel that audited financial report is required. Majority of the respondents i.e. 38 of them feel the income source determine the creditworthiness of the customer whereas 17 respondents think for guarantor and 34 respondent think of collateral assesses the creditworthiness of the customer. For Sanima bank ltd out of 60 respondents, 11 respondents feel that credit agency report is most for creditworthiness of the customer. Likewise 24 respondents feel that audit financial report and guarantor determines creditworthiness. Majority of the respondents i.e. 27 of them feel the income source determine the creditworthiness of the customer whereas only 20 respondents think for collateral.

Overall evaluation, out of 120 respondents (multiple choice question) 10.76% of respondents feel that credit agency report determines the creditworthiness of customer. Likewise 17.49% of respondents feel that audited financial report determines it. Majority of the respondents i.e. 29.15% of them feel the income source assess the creditworthiness of the customer whereas 18.38% of respondents think for guarantor and 24.22% of respondent think of collateral determines the creditworthiness of the customer.

Table No 4.20 Analysis of most prefer loan by client in bank

Most prefer loan by client in bank							
Type of BFIs	Trading	Personal	Housing	Hire Purchase	Commercial	Share Loan	Total
Siddhartha Bank Ltd	12	9	18	8	12	1	60
Sanima Bank Ltd	3	14	18	11	12	2	60
Overall frequency	15	23	36	19	24	3	120

Table No: 4.20 shows the most prefer loan by client in commercial bank. For Siddhartha bank ltd out of 60 respondents, majority of 18 respondents feel that most preferred loan in bank is housing. Likewise 12 respondents feel that trading and commercial loan as most popular. Only 1 respondents think for share loan, whereas 9 respondents feel for personal and 8 respondents feel for hire purchase as most prefer loan in bank. For Sanima bank out of 60 respondents, only 2 respondents feel that share loan is most prefer loan in bank. Likewise 14, 12 & 11 respondents feel for personal, commercial and hire purchase. Majority of respondent i.e. 18 think of most prefer loan in bank as housing.

Overall evaluation for BFIs, out of 120 respondents majority of 36 respondents feel that housing is most prefer loan by client in bank where as 24, 23, 19 & 15 respondents feel that commercial, personal, hire purchase & trading as prefer loan in bank. Likewise only 3 respondents think share loan is most prefer loan by client in bank.

Table No 4.21 Analysis of major factors related with credit analysis for lending process

Major factors related with credit analysis for lending process					
S. No.	Factors	Minimum	Maximum	Mean	Rank
1	Income Source	1	5	2.63	1
2	Personal Background	1	5	2.89	2
3	Personal Guarantee	1	5	3.08	3
4	Collateral	1	5	3.27	5
5	Audited Financial Report	1	5	3.13	4

Table No: 4.21 shows the major factors related with credit analysis for lending process. The respondents were given option to rank the variables on the basis of their views, as to what variable mostly affects commercial bank lending process. Rank 1 implies most important whereas rank 5 as least important variable. As per the output, income source and personal background are the first two important variables that needed for credit analysis for lending process. Personal guarantee is ranked third in the survey followed by audited financial report as rank four. The least important variables as per the respondent's response is collateral.

Table No 4.22 Analysis of sector providing highest loan by commercial bank

Analysis of sector providing highest loan by commercial bank					
Type of BFIs	Corporate Sector	Large Organization	Medium Size Organization	Micro Enterprise	Small Size Enterprise
Siddhartha Bank Ltd	5	25	24	10	10
Sanima Bank Ltd	28	20	18	10	4
Overall percentage	21.43%	29.22%	27.27%	12.99%	9.09%

Table No: 4.22 highlights the sector providing highest loan by commercial bank. For Siddhartha bank ltd out of 60 respondents, only 5 respondents feel that bank provide highest loan to corporate sector where as 10 respondent think of micro & small size enterprises. Majority of the respondents i.e. 25 of them feel for large sector whereas 24 respondents think that medium size organization as a highest loan providing sector. For Sanima bank ltd out of 60 respondents, only 4 respondents feel that bank provide highest loan to small size enterprise whereas 10 respondent think of micro enterprises. Majority of the respondents i.e. 28 of them feel for corporate sector whereas 20 & 18 respondents think of large & medium size organization as a highest loan providing sector.

Overall evaluation, 29.22% respondents, that is majority of the respondents believe highest loan provided sector is large organization. 21.43% believe that it is corporate sector whereas 27.27% & 12.99% respondents believe it is medium size organization & micro enterprise. Just 9.09% believe that small size organization is the sector that banks provide most of its loan.

Table No 4.23 Analysis of factor responsible for growth of NPL

Analysis of factor responsible for growth of NPL						
Type of BFIs	Inefficient Management	Competition	High Volume of Loan	Poor Appraisal	Weak Monitoring and Recovery	Total
Siddhartha Bank Ltd	5	12	23	9	11	60
Sanima Bank Ltd	5	15	23	9	8	60
Overall frequency	10	27	46	18	19	120

Table No: 4.23 shows the factors responsible for growth of NPL. For Siddhartha bank ltd out of 60 respondents, 23 respondents feel that high volume of loan is reason for increase in NPL. Likewise 12 & 11 respondents feel competition & weak monitoring as a reason. Only 5 respondents think for inefficient management, whereas 9 respondents feel the poor appraisal as a reason for growth in NPL. For Sanima bank ltd out of 60 respondents, 23 respondents feel that high volume of loan is reason for increase in NPL. Likewise 15 & 9 respondents feel competition & poor appraisal as a reason. Only 5 respondents think for inefficient management, whereas 8 respondents feel the weak monitoring and recovery as a reason for growth in NPL.

Overall evaluation for BFIs, out of 120 respondents 46 respondents feel that high volume of loan is reason for growth in NPL which is the majority whereas 27 & 19 respondents feel that competition & weak monitoring as a reason. Likewise 18 respondents think for poor appraisal and only 10 respondent think of inefficient management as a reason for growth in NPL.

Table No 4.24 Analysis of factors as a determinants of credit management

Factors as a determinants of credit management					
S. No.	Factors	Minimum	Maximum	Mean	Rank
1	Deposit	1	4	2.00	1
2	Investment	1	4	2.75	4
3	Borrowing	1	4	2.54	2
4	Total Income	1	4	2.71	3

Table No: 4.24 shows the factors that affects credit management in commercial bank. The respondents were given option to rank the variables on the basis of their views, as what variable mostly affects the bank credit. Rank 1 implies most important whereas rank 4 as least important variable. As per the output, most respondents think that deposit is number 1 most important variable that affect the bank’s credit management. Borrowing is ranked second in the survey followed by total income as rank three. The least important variables as per the respondent’s response is investment which is ranked 4.

Table No 4.25 Analysis of key risk factor for the bank

Type of BFIs	Credit Risk	Interest Risk	Liquidity Risk	Price Risk	Total
Siddhartha Bank Ltd	14	15	26	5	60
Sanima Bank Ltd	13	20	21	6	60
Overall frequency	27	35	47	11	120

Table No: 4.25 shows the various risk factor critical for the bank. For Siddhartha bank ltd out of 60 respondents, 14 respondents feel that credit risk is critical factor for bank. Likewise 26 respondents feel that liquidity risk is critical which is majority for Siddhartha bank. Only 5 respondents think for price risk, whereas 15 respondents feel that interest risk is critical factor for bank. For Sanima bank ltd out of 60 respondents, majority of respondent's i.e. 21 feel that liquidity risk is critical factor for bank. Likewise 20 respondents feel for interest risk. Only 6 respondents think for price risk whereas 13 respondents think of credit risk as critical factor for bank.

Overall evaluation for BFIs, out of 120 respondents 47 respondents feel that liquidity risk is critical factor for bank which is majority whereas 35 respondents feel that interest risk is critical factor for bank. Only 11 respondents fell that price risk is critical factor for bank. Likewise 27 respondents think for credit risk as critical factor for bank.

Table No 4.26 Analysis of Likert scale

Comparison of qualitative factor by type of bank							
Statement	Type of bank	N	Mean	Std. Dev	t-value	p-value	Remark
Deposit is considered as one of the crucial factor affecting bank's loan.	Siddhartha Bank Ltd	60	3.62	1.17	1.668	0.170	Insignificant
	Sanima Bank Ltd	60	3.23	1.35			
Borrowing is only a temporary solution	Siddhartha Bank Ltd	60	3.40	0.96	0.654	0.761	Insignificant

to increase lending capacity.	Sanima Bank Ltd	60	3.28	0.99			
The contribution of interest income determined from loan is always greater than non-interest income in total income of BFIs.	Siddhartha Bank Ltd	60	3.42	0.944	0.909	0.182	Insignificant
	Sanima Bank Ltd	60	3.27	0.861			
Increase in banking habit is the main reason for BFIs loan increment each year.	Siddhartha Bank Ltd	60	3.65	0.954	1.142	0.405	Insignificant
	Sanima Bank Ltd	60	3.45	0.964			
High level of self-investment by BFIs will slow down the pace of loan in market.	Siddhartha Bank Ltd	60	3.52	1.127	1.173	0.362	Insignificant
	Sanima Bank Ltd	60	3.27	1.205			
NRB directives prevent free flow of loan in market.	Siddhartha Bank Ltd	60	3.13	1.016	-0.177	0.596	Insignificant
	Sanima Bank Ltd	60	3.17	1.044			
Loan recovery delayed due to weak legal system and shortage of	Siddhartha Bank Ltd	60	3.65	0.917	1.313	0.596	Insignificant
	Sanima Bank Ltd	60	3.43	0.890			

adequate skilled manpower.							
Lending policies help to make good loan decisions.	Siddhartha Bank Ltd	60	3.62	0.993	1.449	0.709	Insignificant
	Sanima Bank Ltd	60	3.35	1.022			

Table No: 4.26 Show the analysis of likert scale data to test the significance of various factors. 8 statements are provided in order to analyze the significance test. To signify the importance the t-test has been used. The interpretations of each statement are as under:

- Deposit is considered as one of the crucial factor affecting banks loan. This statement has been agreed by most of the respondents. The agreement level of this statement is strong enough that the mean value of satisfaction is 3.62 for Siddhartha bank ltd. They are more agreed with this statement than respondents of Sanima bank ltd whose mean is 3.28. The independent sample t-test has been used to test the significance of this statement. The p-value is 0.170 which is greater than 0.05, indicating there is no significant difference between type of bank and deposit is considered as one of the crucial factor affecting banks loan.
- Borrowing is only a temporary solution to increase lending capacity. This statement has been agreed by most of the respondents. The agreement level of this statement is strong enough that the mean value of satisfaction is 3.40 for Siddhartha bank ltd. Sanima bank ltd respondents are less agreed with this statement as they have mean of 3.35 only. The independent sample t-test has been used to test the significance of this statement. The p-value is 0.761 which is greater than 0.05, indicating there is no significant difference between type of bank and borrowing is only a temporary solution to increase lending capacity.
- The contribution of interest income determined from loan is always greater than non-interest income in total income of BFIs. This statement has been agreed by most of the respondents. The agreement level of this statement is strong enough that the mean value of satisfaction is 3.42 for Siddhartha bank ltd. They are more agreed with this statement than respondents of Sanima bank ltd as they have mean of 3.27

only. The independent sample t-test has been used to test the significance of this statement. The p-value is 0.182 which is greater than 0.05, therefore we can conclude that there is no significant difference between type of bank and the contribution of interest income determined from loan is always greater than non-interest income in total income of BFIs.

- Increase in banking habit is the main reason for BFIs loan increment each year. The agreement level of this statement is strong enough that the mean value of satisfaction is 3.65 for Siddhartha bank ltd. Sanima bank ltd respondents are less agreed with this statement as they have mean of 3.45 only. The independent sample t-test has been used to test the significance of this statement. The p-value is 0.405 which is greater than 0.05, indicating there is no significant difference between type of bank and increase in banking habit is the main reason for BFIs loan increment each year.
- High level of self-investment by BFIs will slow down the pace of loan in market. Respondents of Siddhartha bank ltd is most agreed this statement with mean of 3.52, followed by 3.27 for Sanima bank ltd. The independent sample t-test has been used to test the significance of this statement. The p-value is 0.362 which is greater than 0.05, indicating there is no significant difference between type of bank and high level of self-investment by BFIs will slow down the pace of loan in market.
- For the statement NRB directives prevent free flow of loan in market. Sanima bank ltd mean is 3.17 which is greater than Siddhartha bank ltd whose mean is only 3.13. The p-value is 0.596 which is greater than 0.05, indicating there is no significant difference between type of bank and NRB directives prevent free flow of loan in market.
- For the statement loan recovery delayed due to weak legal system and shortage of adequate skilled manpower. Siddhartha bank ltd mean is 3.65 which is greater than Sanima bank ltd mean which is 3.43. This means respondent of Siddhartha bank ltd are more agreed that loan recovery delayed due to weak legal system and shortage of adequate skilled manpower. The p-value is 0.596 which is greater than 0.05, indicating there is no significant difference between type of bank and loan recovery delayed due to weak legal system and shortage of adequate skilled manpower.

- According to the data above for statement lending policies help to make good loan decisions, mean value of satisfaction for Siddhartha bank ltd is 3.62 which is greater than Sanima bank ltd mean 3.35. This shows that Siddhartha bank ltd respondents are more agreed with the statement that lending policies help to make good loan decisions. The p-value is 0.709 which is greater than 0.05, indicating there is no significant difference between type of bank and that lending policies help to make good loan decisions.

Table No 4.27 Summarization of Hypothesis Testing

Hypothesis	Statements	Banks	Remark
H01	There is no significant relationship between loan and deposit.	Siddhartha Bank Ltd	Rejected
		Sanima Bank Ltd	Rejected
H02	There is no significant relationship between loan and investment.	Siddhartha Bank Ltd	Rejected
		Sanima Bank Ltd	Accepted
H03	There is no significant relationship between loan and total income.	Siddhartha Bank Ltd	Rejected
		Sanima Bank Ltd	Rejected
H04	There is no significant relationship between loan and borrowing.	Siddhartha Bank Ltd	Rejected
		Sanima Bank Ltd	Rejected

CHAPTER V

SUMMARY CONCLUSION AND RECOMMENDATIONS

5.1 Summary and Findings

In the recent period, BFIs are going through a difficult period. Rather than expanding the business, they are finding it difficult to maintain the existence business volume. But surprisingly the effect has not been seen uniformly over all BFIs in Nepal. Inspite of long transition period, BFIs are still able to increase loan according to the trend analysis of previous 5 years. So this research has been conducted to analyze the factors for banks loan management.

The purpose of this research is to indicate the factor that mostly has impact the bank's loan. The key concern of this research is to find out the key variables of bank and to see whether these variables have a considerable impact on the loan management of commercial bank. The researcher on the basis of the research has also ranked the variables that showed significant impact on bank loan. The research is also focused on finding out whether the same variables that affect the one bank also affect the bank or not.

This study a comparative study of Siddhartha bank ltd and Sanima bank ltd considering data of past 5 years. For the secondary data analysis, the facts and figures have been collected from the published sources i.e NRB's published reports, bank official web sites. For primary data analysis, a structured questionnaire have been prepared which included question like, single choice, multiple choice, ranking question and likert scale. The questionnaire has been presented to the higher level staff of Siddhartha bank and Sanima bank ltd. Out of 150 distributed questionnaires 120 has been collected.

The secondary data analysis has used the econometric model along with statistical tools to identify the major influential factor that affect the loan of bank. The variables that were included under study are deposit, investment, total income and borrowing. These variables represent the combination of all internal, external variables which were tested against the loan of banks.

The primary analysis has been carried out on the basis of the response derived from the questionnaire survey. This study has used descriptive analysis and comparative mean analysis to analyze the relationship between loan and its determinants.

Based upon the secondary analysis of data, the major findings of the study are summarized as follows:

i. The researcher has study the lending of two commercial bank i.e. Siddhartha bank ltd and Sanima bank ltd. The figure clearly shows lending of both commercial bank is increasing from 2015/16 to 2019/20.

ii. The researcher has analyzed the data and made comparison between two commercial banks to check whether they are affected by same variable or not. The variables like deposit, investment and total income has significant affect on loan management for both banks. Borrowing has mix result as it is significant for Siddhartha bank ltd but insignificant for Sanima bank ltd.

iii. The overall analysis of variables has been done which shows that deposit, investment, total income has been found as the most influencing factor in both bank i.e. Siddhartha and Sanima bank ltd.

iv. Basically banks in Nepal have been facing following problems in credit and investment sector. They provide loan against only fixed collateral but fails to focus on easy recovery part. Banking sector doesn’t have qualified credit staffs and credit appraisal /analysis regarding borrower and any business entity have not been done according to financial norms and internationally accepted standard.

From above points it is clear that deposit, investment, total income are the common variables that affect the loan whereas the study shows that the variable namely borrowing has mixed result as it are significant for Siddhartha bank ltd whereas insignificant for Sanima bank ltd.

The findings from the primary survey indicate the following:

In this research, to back up secondary data, the primary data (research) has been conducted. In order to collect primary data structured questionnaire method was used. The result obtained from primary data justifies the outcomes of secondary data.

As per the output of 120 respondents, the factors that affect commercial bank loan most are variable such as deposit, investment, total income respectively. The minimum information required assessing the creditworthiness of the customer is income source. The most prefer loan by client in bank is housing loan but banks provide its most of loan to large sector organization. Respondents think that increase in NPL is due to high volume of loan provided by commercial banks. The key risk factor that may affect loan is liquidity risk.

It has been seen from both the analysis that selected variable are responsible towards determining the bank loan. Some variables have high significance level were as some variable have low significance level. Nepalese banking sector needs to build up its self-competency and credit risk mechanism in order to manage loan. External as well as internal both factors need to be monitored well for establishing good and sound financial institutions.

5.2 Conclusion

The study was conducted to study the factors that affect loan management. Secondary data was adopted for this study covering the period 2015/16 to 2019/2020. The analysis of the secondary data showed that various factors affect the loan of bank showing volatile deposit mobilization over some period of time in the past. The coefficient of determination (R^2) was significantly high, hence the explanatory variables were able to account for the total variation of the dependent variable loan.

On the basis of the study conducted on various variables, deposit, investment, total income and borrowing are found to be the most influential factors for banks loan management. Thus the null hypothesis set for the purpose of this research to test the bank's loan over specific determinants. The result shows that the null hypothesis ($H0_1$, $H0_3$, $H0_4$) have been rejected which concludes that there is significant relationship between specific variables and loan management in bank whereas the hypothesis $H0_2$ has not been rejected completely as the research showed no significant relationship between loan and investment for Sanima bank ltd.

It can be concluded that loan and advances are the profitable assets for the banks and also it is very risky too. Due to this reason, the loan and advances should be effectively managed and controlled. Loan management deals with managing loan and advances with maintaining adequate liquidity position. This study shows that there is a significant relationship between bank performance and loan management. Better loan management results in better bank performance. Thus, it is of crucial importance that banks practice better loan management and safeguarding the assets of the banks and protect the investors" interests. The study summarizes that banks used different kind of loan management tools and techniques to manage their credit risk, and that they all have one main objective, i.e. to reduce the amount of loan default which is a principal cause of bank failure. The study also reveals that banks with good or sound credit risk management and loan policies have lower loan default ratios (bad loans) and higher interest income (profitability).The main conclusion of this research paper is that loan management can contribute to solving the problem of increasing non performing loan and help to manage loan, deposit and investment so as to improve overall performance of organization.

5.3 Recommendation

The finding provides an insight into the characteristics and practices of successful BFIs in terms of deposit mobilization. In the view of these the following recommendations can be made which may be useful for bank management, policy makers and shareholders.

- The various factors used under this study are not the sole factors for determining the bank's loan management. There could be numerous other factors besides these ones that are used in this study.

- This study is confined to only two commercial bank of Nepal. However, further research can be done by comparing the loan of other Nepalese BFIs with other BFIs in Asia.
- Bank should follow 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 bank is suggested to collect as much information about borrowers and only lend to non-risky area and to non-defaulter.

- NRB directives should be flexible according to the market situation that will help bank to increase loan even in liquidity crunch.
- There is need for government to pursue financial sector development because financial deepening will encourage increase in deposits. When the size of saving is increased, enough bank loans will be available for both the private and public sector which will enhance economic growth.
- Bank is suggested to make policy to ensure rapid identification of delinquent loans. Bank should make immediate follow-up of loan until it is recovered. The recovery of loan is very challenging as well as important part of the bank. Therefore bank must be careful to strengthen credit collection policy.
- Sanima needs to increase its total income by increasing deposits, decreasing cost and expanding more branches. As the total income of Sanima is fluctuating, the bank should try to keep it at a stable point.

BIBLIOGRAPHY

Adhikari, K. U., & Jha, U. K., (2020) “Lending practices of commercial banks in Nepal - A study of Siddhartha bank limited and sunrise bank limited”.

Afroz, N. N., (2013) “Credit Portfolio Management of Bangladesh Krishi Bank “, Global Journal of Management and Business Research Administration and Management.

Dahal, S., & Bhaskar. P. K., (2020). A Research Report on Cost Efficiency and Credit Management variable of Banking Industry: A Study on Sunrise Bank And Siddhartha Bank.

Ferhi Afifa (2017). Credit Risk and Banking Stability: A Comparative Study between Islamic and Conventional Banks.

Ghroub, M., Teber, I. B., & Ayachi, K. (2016). Cost Efficiency and Credit Risk: A Comparative Study between Islamic.

Gnawali, D. A. (2018). Non-Performing Asset and its Effects on Profitability of Nepalese Commercial Banks. International Journal of Research in Business Studies and Management.

Hasanul, B., Rubi, A., & Eric H.Y. Koh. (2017). Determinants of Commercial Banks’ Efficiency in Bangladesh:Does Crisis Matter.

Henri, H (2010). Credit management. Hamk University of applied science. Finland.

Junyi nd Han (2012) “Credit Management of Commercial banks of Lianyungang City for the SMEs”.

Misra, S. (2007) "Credit management of Everest bank ltd” An Unpublished Master Degree Thesis, Central Department of Management, T.U.

Mirach. H (2010) “CREDIT MANAGEMENT (A Case Study of Wegagen Bank Share Company in Tigray Region)”.

Mundul, S. (2008). “Understanding of credit derivative” New Business Age September, Kathmandu.

N. Crosby, N. French and M. Oughton (2007). Banking lending valuations on commercial property U.S.A.; Journal of Property Investment & Finance.

Ndab, C (2018) "The impact of credit management on the financial performance of microfinance institutions" centria university of applied science Business Management.

Ojha, L. P. (2002) "Lending Practices" An Unpublished Master Degree Thesis, Central Department of Management, T.U.

Olokoyo, A., (2011). Determinants of commercial banks lending behavior in Nigeria. International Journal of financial Research , 2, pp.61-62.

Pandey, U., (2009) "Credit Risk Management of Commercial Banks of Nepal".

Paudel, H. (2006). A Comparative Study on Nepal Siddhartha Bank Limited and Himalayan Bank Limited: An Unpublished Master Degree Thesis Central Department of Management, T.U.

Parajuli, S. (2003). Credit Management of Joint Venture Banks: An Unpublished Master Degree Thesis, Central Department of Management, T.U.

R. Edward Vettivel, Darling Selvi V (2019), "Perception of Customers towards Lending Practices of Commercial Banks " International Journal of Innovative Technology and Exploring Engineering (IJITEE) ISSN: 2278-3075, Volume-8 Issue-7C May 2019.

Rabab, M. (2015). Factors Affecting the Bank Credit: An Empirical Study on the Jordanian Commercial Banks.

Rahman, A., Rozsa, Z., Kozubikova, L., & Cepel, M. (2017). Determinants of loan maturity in small business lending. Journal of International Studies.

Malla, B. K. (2017, December). Credit Portfolio Management in Nepalese Commercial Banks. The Journal of Nepalese Bussiness Studies.

Ramesh Rijal (2014) NJA Law Journal "Lending Business of Banks in Nepal:A Legal Perspective".

Regmi, P. (2004). Credit Management of Commercial Banks with Reference to Nepal Bangladesh Bank and Bank of Kathmandu: An Unpublished Master Degree Thesis, Central Department of Management, T.U.

Sedai, P. (2007) ‘an analysis of lending policy and strength of Nepal investment bank ltd” An Unpublished Master Degree Thesis, Central Department of Management, T.U.

Thapa, P. (2011). Loan management of commercial banks: A Comparative Study of Everest and Nepal SBI Bank Limited.

Websites

https://www.investopaper.com/news/list-of-a-class-commercial-banks-in-nepal
https://www.nrb.org.np
https://www.siddharthabank.com
www.creditmanagement-tools.com

Annex

A1: FACTORS AFFECTING CREDIT MANAGEMENT OF NEPALESE COMMERCIAL BANKS:

A Comparative Study of Siddhartha Bank limited and Sanima Bank Limited

Dear Respondents,

I am Sabbu Maharjan, MBS student of People's Campus. The following questionnaire is a part of the thesis work to be submitted to the college authorities. Please fill out the questionnaire by ticking the appropriate answer. Your views and opinion will not be disclosed and will be kept confidential.

B. <u>General information</u>

1. Choose your Bank

   ❑ Siddhartha Bank Ltd ❑ Sanima Bank Ltd

<u>B. Research Questions</u>

2. Do you think loan policies are communicated to all the concerned staff?

   ❑ Yes ❑ No ❑ Not Sure

3. Do you think your banks deposit are properly invested/lend in profitable sector?

   ❑ Yes ❑ No ❑ Not Sure

4. Do your bank has credit risk mechanism?

   ❑ Yes ❑ No ❑ Not Sure

5. For new customers, what is the minimum information required assessing the creditworthiness of the customer? (Multiple Choice)

- ☐ Credit Agency Reports ☐ Audited Financial Report ☐ Income Source
- ☐ Guarantor ☐ Collateral

6. What kind of loan do client prefer most in your bank i.e most popular loan issued by your bank? (Please tick one)

- ☐ Trading ☐ Personal ☐ Housing
- ☐ Hire Purchase Loan ☐ Commercial ☐ Share Loan

7. How do you prioritize the following factors related with credit analysis for lending process (Rank them 1-5 with 1 being least important and 5 being most important)

- ☐ Income Source ☐ Personal Background ☐ Personal Guarantee
- ☐ Collateral ☐ Audited Financial Report

8. What kind of loan do client prefer most in your bank i.e most popular loan issued by your bank? (Please tick one)

- ☐ Trading ☐ Personal ☐ Housing
- ☐ Hire Purchase Loan ☐ Commercial ☐ Share Loan

9. In which sector your organization is providing highest loan? (Please tick one)

- ☐ Corporate Sector ☐ Large Organization ☐ Medium Size Organization
- ☐ Micro Enterprises ☐ Small Size Enterprise

10. What is the most important factor responsible for growth of NPL? (Please tick one)

- ☐ Inefficient Management ☐ Competition ☐ High Volume of Loan
- ☐ Poor Appraisal ☐ Weak Monitoring and Recovery

11. How do you prioritize the following factors as a determinants of credit management (Rank them 1-4 with 1 being least important and 4 being most important)

- ☐ Deposit ☐ Investment

☐ Borrowing ☐ Total Income

12. What is the key risk factor do you think critical for the bank? (Please tick one)

☐ Credit Risk ☐ Interest Risk

☐ Liquidity Risk ☐ Price Risk

13. Please tick on that is most likely to you as per the factors given below:

Factors	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	1	**2**	**3**	**4**	**5**
1. Deposit is considered as one of the crucial factor affecting banks loan.					
2. Borrowing is only a temporary solution to increase lending capacity.					
3. The contribution of interest income determined from loan is always greater than non-interest income in total income of BFIs.					
4. Increase in banking habit is the main reason for BFIs loan increment each year.					
5. High level of self-investment by BFIs will slow down the pace of loan in market.					
6. NRB directives prevent free flow of loan in market.					
7. Loan recovery delayed due to weak legal system and shortage of adequate skilled manpower.					

8. Lending policies help to make good loan decisions.					

Thank you for your valuable insights!

A2: Secondary data

Siddhartha Bank Ltd

FY	Loan	Deposit	Investment	Total Income	Borrowing
2015/16	55,351,000,000	64,934,000,000	9,823,000,000	1,255,000,000	910,000,000
2016/17	65,986,000,000	77,318,000,000	11,272,000,000	1,386,000,000	506,000,000
2017/18	86,077,260,000	101,748,240,000	18,798,580,000	1,904,060,000	-
2018/19	108,164,420,000	114,904,860,000	19,049,890,000	2,308,850,000	-
2019/20	127,577,077,418	139,609,497,543	22,690,437,063	2,143,613,715	-

Sanima Bank Ltd

FY	Loan	Deposit	Investment	Total Income	Borrowing
2015/16	40,455,000,000	46,423,000,000	10,735,000,000	996,000,000	3,282,000,000
2016/17	51,265,000,000	58,229,000,000	9,164,000,000	1,304,000,000	611,000,000
2017/18	69,243,350,000	77,849,380,000	9,663,440,000	1,697,500,000	-
2018/19	83,439,280,000	89,373,730,000	13,861,190,000	2,258,070,000	-
2019/20	93,694,563,068	107,250,202,687	15,268,419,486	1,776,264,524	-

Logarithmic Transformation

Siddhartha Bank Ltd

FY	Ln(Loan)	Ln(Deposit)	Ln(Investment)	Ln(Total Income)	Ln(Borrowing)
2015/16	24.74	24.90	23.01	20.95	20.63
2016/17	24.91	25.07	23.15	21.05	20.04
2017/18	25.18	25.35	23.66	21.37	-
2018/19	25.41	25.47	23.67	21.56	-
2019/20	25.57	25.66	23.85	21.49	-

Sanima Bank Ltd

FY	Ln(Loan)	Ln(Deposit)	Ln(Investment)	Ln(Total Income)	Ln(Borrowing)
2015/16	24.42	24.56	23.10	20.72	21.91
2016/17	24.66	24.79	22.94	20.99	20.23
2017/18	24.96	25.08	22.99	21.25	-
2018/19	25.15	25.22	23.35	21.54	-
2019/20	25.26	25.40	23.45	21.30	-