CHAPTER - I

INTRODUCTION

1.1 Background of the Study

As Nepal is one of the most least developed countries in the world, it has been adopting mixed and the liberal economic policy to help the state and the private sector through the Banks. Bank is an establishment for depositing withdrawing and borrowing money (Oxford English Dictionary). Banks are institutions who pool to the gather the scattered saving of the people and arrange for its productive uses. In other words, they accept the surplus fund of the people as deposit and supply it to meet the financial needs of the people and modern business by various means and aspects.

After restoration of the democracy, the concept of the linearization policies has been incorporated as directive principle and state policies. This liberalization has helped in establishing many companies, banks, finance companies and manufacturing industries. Thus these establishments help the country for its proper development. Integrated and speedy development of the country is possible only when competitive banking service reaches every corner of the country and the people. The growth of the banking is not so long. In comparison with the other developing or developed countries, the institutional development in banking system of Nepal is far behind. Even through the specific date of the beginning of money and banking deal in Nepal is not obvious, it is speculated that during the reign of the king Manadeva the coin “Manank” and “Gunank” during the reign of the king Gunakamadeva were in use. After the unification of Nepal, Prithivi Nararyan Shah, the great king, had used coin “Mohar” in his name. An institution called “Takasr” was established in 1989 and it is started to issue the coin scientifically. Official name “Tejarat” established in Kathmandu (1993 Bs) during the reign of Ranoddip Singh, used to provide loans to the government officials and the people against deposit of gold and silver. It had also extended its branch outside Kathmandu valley for providing loans but this office had no rights to accept the deposits of public ad it has no characteristics of modern banks. After the establishment of Nepal Bank Limited on 30th Kartik, 1994(B.S) modern banking system was started in Nepal. To fulfill the growing credit requirements and also to collect more deposit for the development projects, Nepal Rastra Bank which established in 2013, Baisakh 14th in Nepal, adopted the liberal policies and provided many facilities to probable bankers of Nepal and abroad through new commercial bank act 1974 A.D. Rastra Banijya Bank was established in Government sector in 2022 and Agriculture Development Bank in 2024, 7th Magh. Nepal Arab Bank Limited is the first joint Venture Bank established in 2041 under the commercial Bank Act 2031and Companies Act 2021.

Consequent to this, the permission was given by Nepal Govt. to open new commercial Bank with foreign joint ventures in 2041 B.S. At present 23 commercial banks that includes 18 joint venture banks and 5 commercial banks, are helping not only in the sector of deposit mobilization and lending but also to the areas like different products and services development and employment generation etc. Then in chain, financial system covers 59 finance banking functions under supervision of Nepal Rastra Bank. Now, Nepal can take pride in remarkable growth and progress in the banking sector.

1.2 Meaning of Commercial Bank

Commercial Banks are those banks, which perform all kinds of banking function as accepting deposits, advancing credits creation and agency function etc. They provide short- term credit, medium-term credit and long term credit for trade and industry. They also operate of balance sheet function such guarantee, bonds, letter of credit, etc.

In every country, outset of economic development is quite different but there is no debate about the significant role of banking sector for the economic development of the countries, as they are considered as the main source of finance.

Without the development of sound commercial banking, underdeveloped countries cannot hope to join the ranks of advances countries. If industrial development require the use of capital equipment will not be possible without the existence of banks to provide the necessary capital. Industrial development will be impossible without the existence of markets of the goods produced. On the other hand, the services of the commercial banks will helps to extend the market. The commercial banks an important role as follows:

a. Help in business expansion
b. Encouragement for the right type of industries
c. Necessary for trade and industry
d. Transfer of surplus funds to needy regions

1.3 Brief History of the Evolution of Banking in Nepal

The invention of money was a milestone in the history of economy and developing the banking as a habit people. It has made economic and business activity more precise and efficient. This gave the emergence of non- industrial banking activities. Merchant, Moneylenders and Goldsmith were the leader of such unorganized economic and financial transactions. Thus, the Merchant, Moneylender and Goldsmith were the ancestors of modern bankers. During the early periods although the banking business was mostly done by private individuals, many countries established public banks either for the purpose of facilitating commerce or to serve the government. The Bank of Venice established in 1157 A.D., is supposed to be the most ancient bank. Originally, it was not a bank in modern sense, being simply an office for the transfer of public the public debt.

During 1401, a public bank was established in Barcelona. It used to exchange money, receive deposits and discount bill on exchange, both for the citizen and foreigners. During 1407, The Bank of Geneva was established, in 1609, The Bank of Amsterdam was established to meet the needs of merchants of the city. The bank also adopted a plan by which depositors receive a kind of certificate entitling them to withdraw his deposit within six months. The most of the European banks now in existence were found on the model of the Bank of Amsterdam.

The evolution of the original banking system in Nepal has a more recent history than in other countries of the world. Before the establishment of "Tejerath Addha" during the period of the premier of Ranoddip Singh, the unorganized sector i.e.: Moneylenders, Goldsmiths, Landlords have their universal domination on the financial matter. They used to charge very high interest rates. The Addha was initiated to provide credit at a cheap rate against gold and silver. The area of its functioning was limited to kathmandu valley and some urban areas of the Terai. "Tejarath Addha" may be regarded a good service to government servants as well as to general public by mobilizing scattered saving in the country and provide credit to the people at a cheaper rates.

The establishment of banking institutions depends upon the level of economic activities and monetary transactions. As a result of growing banking and business activities within the nation and the institutional progress in the neighboring countries, had forced Nepal Bank Limited was established in 1937 under the Nepal Bank Act 1936, having elementary function of a commercial bank. Later, in 1956, the first central bank, named as the "Nepal Rastra Bank" was set up under the Nepal Rastra Bank Act. 1955, with an objective of supervising, protecting and directing functions of commercial banking activities. Another commercial bank fully owned by the government, named as the "Rastriya Banijya Bank" was establishes in 1966 A.D. to spread banking services to both the rural and urban areas. The subsequent tendency towards linearization and need of revolutionary change in the financial sector allows the foreign banks to enter into the economy as “ Joint Venture”. This entry of foreign bank was expected to develop the banking with pace of change and to attract the foreign investment and technology. The establishment of Nabil Bank Limited in the name of Nepal Arab Limited in 1984 A.D. under the company act 1984 was stride in the history of modern banking in Nepal. This was the first joint venture commercial bank established in collaboration with Emirates Bank International (Dubai). Following this, in 2042 B.S. Nepal Indo-Suez Bank limited (name has been changed to Nepal Investment Bank Limited), in 2043 B.S. Nepal Grindlays Bank Limited (name has been changed to Standard Chartered Bank Ltd.), in 2049 B.S. Himalayan Bank Limited and in 2050 Nepal Bangladesh Bank Limited were established. Now there are more than a dozen commercial banks performing their operations.

This way, Nepalese banking has stepped a great stride in its development. However, Nepalese banking has not been successes in bringing change in the economy in society and in people. The large portion of national economy is still behind the touch of present banking system. The unorganized moneylender has been playing a monopoly role in granting the loan to public of remote economy and this monopoly results in excessively higher interest rate than that of institutional banker. Thus, the moneylenders are still exploiting the public of rural sector in the absence of easy access to banking activities. Increasing the number of financial institutions has not proportionately increased the total banking behavior of people. This is because most of the financial institutions are situated in the urban area and rural economy has not been touched by this change in financial sector. Hence, in conclusion it can be summarized that the technical and quantitative development of the financial sector is found satisfactory but its qualitative impact on overall economy cannot be considered utmost.

Nepal Rastra Bank (NRB) is an apex institution in money and capital market in Nepal. It works as a central bank of the country. Banks and other financial institutions are supervised, directed, regulated and controlled by NRB.

1.4. Credit Management

Credit is regarded as the most income generating assets especially in commercial banks.

Credit is regarded as the heart of the commercial banks in the sense that; it covers the main part of the investment; the most of the investment activities based on credit; it is the main factor of creating profitability. It is the main source of creating profitability: it determines the profitability. It’s effect the 3 overall economy of the country. In today context, it also affects on national economy to some extend. If the bank provides credit to retailer, it will make the customer status> similarly, It provides to trader and industry, the Govt. will get tax from then and help to increase the national economy. It is the security against depositors. It is proved from very beginning that credit is the shareholders wealth maximization derivative. However, other factors can also affect profitability and wealth maximization but the most effective factor is regarded as credit. It is the most challenging job because it is backbone In Commercial Banks. Thus, effective management of credit should seriously be considered.

Management is the system of, which helps to complete the every job effectively. Credit management is also the system, which helps the manage credit effectively. In other words, credit management refers management of credit exposures are the main source of investment in Commercial Banks and return on such investment is suppose to be main source of income.

Credit Management strongly recommends analyzing and managing the credit risks. Credit risk is defined as the possibility that the borrower will fail to meet its obligations in accordance with the agreed terms and conditions credit risk is not restricted to lending activities only but includes off balance sheet and inter bank explores. The goal of the credit risk management is to be maximizing a banks risk adjusted rate of return by maintaining the credit risk exposure with in acceptable parameters. For most banks, loans are the largest and most obvious sources of credit risk, however, other source of credit risk exit through out the activities of the bank, including the banking book, and in the trading book, and both increasingly facing credit risk in various financial instruments other than land, including acceptances, inter bank transactions and guarantees and the settlements of transactions.

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

1.5. Introduction of Sample Organizations under Study

A. Standard Chartered Bank Nepal Limited (SCBNL)

In the history of Standard Chartered Bank, it was formed since 1969 merger between the overseas banks: the Standard Bank of British of British South Africa and the Chartered Bank of India, Australia, and China. In the initial phases most of the profit made from Hong Kong, Korea, and parts of Asia in its market.

Standard Chartered Bank Nepal Limited is a subsidiary of Standard Chartered group. It is the largest international Commercial Bank of Nepal. It was the joint venture of Standard Chartered Group who has 75% ownership in the company with 25% shares owned by the Nepalese public and operated since 1989 with initial paid up capital 100 million.

Standard Chartered Bank Limited is in a position to serve its customers through a large domestic network with 15 points of representation and 13 ATMs across the kingdom and around 350 local staffs. It was firstly launched and implemented “Anti money laundering policy” and applied the “Know your Customer (KYC)” procedure on all the customer accounts.

Standard Chartered Bank Nepal Limited offers a full range of banking products and services in wholesale and customer banking, catering to a wide range of customers encompassing individuals, mid-market local corporate, multinationals, large public sector companies, Govt. corporations, airlines, hotels as well as the DO segment comprising of embassy, aid agencies, NGOs and INGOs. There are 10 branches of SCBNL with head office and it has 13 ATMs located 9 in Kathmandu and Lalitpur, 3 in Pokhara and 1 in Dharan.

Promoters and Shareholders

Standard Chartered Gridley’s Bank, Australia	50%
Standard Chartered Gridley’s Bank, USA	25%
General Public	25%

Shares	Amount (Current Year)
Authorized Capital (10,000,000 ordinary shares @ Rs. 100)	Rs. 1,000,000,000
Issued Capital (62,07,840 ordinary shares @ RS. 100)	Rs. 620784000
Paid-up Capital (3,746,404 shares @ Rs. 100)	Rs. 374,640,400

B. Everest Bank Limited (EBL)

Everest Bank Ltd. Is a joint venture bank with Punjab National Bank of India established in 1993 A.D. It started its operation from 18th October 1994. Under the technical service agreement signed between two banks Punjab National Bank had been providing top management services and banking expertise to Everest Bank Limited. The bank operates with the objective of extending professionalized banking service to various section of the society in the kingdom of Nepal and thereby, contributes to the economic development of the country. Its head office is in Lazimpat, Kathmandu. It has 18 branches all over the country. The major branches connected through Anywhere Branch Banking System (ABBS) through which the clients can withdraw and deposit money from ABBS.

C. Nepal Arab Bank Limited (NABIL)

NABIL was the Nepal's first and major joint venture bank which commenced operations on 2nd July 1984 (29th Ashad 2041) with a Paid –up Capital of Rs. 30 million under the Company Act. Dubai Bank Ltd. (DBL) earlier it was called Nepal Arab Bank Ltd. It has all around 410 staffs all over the country. Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit cards by world renowned software from Infosys technologies system, Bangalore, India, and Internet Banking System and tele-banking system. The main slogan of the bank is "YOUR BANK AT YOUR SERVICE". The head office is located in Kamaladi, Kathmandu.

Today NABIL bank is in unique position in the banking industry in Nepal, as the nation's initial foreign joint venture partner with 50% equity investment. It has an unmatched 22 years of operational experiences giving it unparalleled insight into the market, risk, opportunities and customers needs. In conjunction to this, the bank today surges ahead in meeting its missions to be the "Bank of 1st Choice" for all its stakeholders, customers, shareholders, regulators.

The shares owned by DBL were transferred to Emirates Bank International Limited (EBIL), Dubai. Later on EBIL sold its entire holding to National Bank Ltd., Bangladesh (NBLB). Hence 50% equity shares of NABIL Bank Ltd. Are held by NBLB and out of another 50%, financial institutions has taken 20% and remaining 30% were used to general public of Nepal. There are 27 branches of NABIL (until April 2008) another going to be operated very soon in next future.

Capital Structure of Nabil Bank Ltd.

Share Distribution Pattern of NABIL

N.B (international) Limited, Ireland	50%
Nepalese Public	30%
Nepalese Industrial Development Corporation	10%
Rastriya Beema Sansthan	9.67%
Nepal Stock Exchange Limited	0.33%

Share Capital of NABIL Bank Ltd.

PARTICULARS	AMOUNT
Share Capital Authorized Capital 5,000,000 ordinary Share @ Rs. 100)	Rs. 5,00,000,000
Issued Capital (4,916,544 ordinary Shares @ Rs. 100)	Rs. 4,91,654,400
Paid-up Capital (4,916,544 ordinary Shares @ Rs. 100)	Rs. 4,91,654,400

D. Nepal Investment Bank Limited (NIBL)

Nepal Investment Bank Limited (NIBL) is one of the leading banks of Nepal. It was established in 1986 as a joint venture between Nepalese and French partners and was previously known as Nepal Indosuez Bank Ltd. NIBL was established with the vision to bet the most preferred provider of financial services in Nepal. NIBL focuses on serving the customers and communities with the belief that success can only achieved by living our core values and ethical principles. NIBL provides a complete range of commercial banking services with 18 points of representation in different parts of the country. It also has a widespread reach across the globe with the tie up with various corresponding banks.

Share Capital and Ownership of NIBL Bank

Shareholders of NIBL

Nepal Government	50%
Rastra Banijya Bank	15%
Rastriya Beema Sansthan	15%

The shareholders structures are as follows:

Particulars	Amount (Current Year)
Authorized Capital (10,000,000 ordinary shares @ Rs. 100)	Rs. 1,000,000,000
Issued Capital (5,905,860 ordinary shares @ RS. 100)	Rs. 590,586,000
Paid-up Capital (5,877,385 shares @ Rs. 100)	Rs. 587,738,500

1.6. Statement of the Problem

Most banking problems have been caused by weaknesses in credit Management. Banks should now have to be ware of the need to identify measure, monitor and control credit as well as to determine that they hold adequate capital against it. These risk that they are adequately compensated for risks incurred. So, to establish creditability position is a major issue in commercial banking sector during these days. Thus maybe no debate that high profitable or successful organization can easily fulfill the every need have the organization, customers and can serve the society. To improve the profitability situation of the bank, it is necessary to establish the higher creditability position of the bank. Thus the creditability is the major assets and building better creditability is the major strategy of every commercial bank.

Credit management concept has appeared as a major research gap in Nepalese commercial banking sector. There is a lack of such scientific and empirical research that could identify the issues of credit management in Nepalese commercial bank. In this regard, the performances of Nepalese commercial bank are to be analyzed in terms of their credit. Liquidity position, industrial environment, management quality, organization climate are considered as clear evident in present situation thus specific research questions regarding credit management in Nepalese commercial banking sector are identified as follows:-

1. Are the credit practices adopted by the commercial by the commercial bank in good position?
2. What credit Management of the Nepalese commercial banks?
3. Is the quality of credit management good in commercial banks?
4. Is there any relationship between credit position and profitability situation?
5. How does the commercial bank manage for better credibility position?

1.7. Objectives of the Study

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

1. To assess credit practices of selected Nepalese commercial banks,
2. To explore the credit efficiency of Nepalese commercial banks in credit management,
3. To analyze the environment of selected Nepalese commercial banks in terms of credit practices,

4. To evaluate the performance of the management team of selected Nepalese commercial banks in terms of credit practices,
5. To explore the relationship the loan and advances, non performing loan and net profit of selected Nepalese commercial banks,
6. To recommend for the improvement on the basis of finding of the study of the analyzing the credit management.

1.8. Significance of the Study

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

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

1. 9. Limitations of the Study

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

Present study could not address all the aspects of credit position. The study is based on employees; self reputed response about their perception on the primary analysis. It is therefore, the response collected from the employees might not be valid measure.

Secondary analysis is based on published financial data collected from stock exchange centre and share department of concerned banks. The secondary analysis covers time span of current five years. However the study tries to find out the credit position and its importance in selecte4d commercial banks.

1.10. Organization Structure of the Study

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

Chapter – I Introduction

Chapter I describes the basic concept and background of the study. It has served orientation for readers to know about the basic information of the research are, various problems of the study, objectives of the study and need or significance of the study. It is oriented for readers for reporting giving them the perspective they need to understand the detailed information about coming chapter.

Chapter – II Literature Review

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

Chapter – III Research Methodology

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

Chapter – IV Data Presentation and Analysis

The presentation and data analysis the data related with study and presents the finding of the study and also comments briefly on them.

Chapter – V Summary, Conclusion and Recommendations

Summary, conclusion and recommendation on the basis of the results from the data analysis, the researcher concluded about the performance of the concerned organization in the terms of credit management. It also gives important suggestions to the concerned organizations fort better improvement.

CHAPTER - II

LITERATURE REVIEW

The review of literature is a crucial aspect of planning of the study. The main purpose of literature review is to find out what works have been done in the area of the research problem under study and what has not been done in the field of the research study being undertaken .With reference to the study, Credit management in Nepalese commercial banks. For review study the research uses different books, reports, journals, and research studies published by various institutions, unpublished dissatisfaction submitted by master level students have been reviewed.

It is divided into two headings:

- Conceptual Review
- Review of different studies

2.1 Conceptual Review

The review of textbooks and other reference materials such as: newspaper, magazines, research articles, journals and past thesis have been included in this topic.

"Banking is the business of collecting and safeguarding money as deposits and lending of same. The banker's business is them to taken the debt of other people to offer his own in exchange and thereby to create money. He may be a dealer in debts, but in distress is only the observe of wealth and it would be equally permissible to describe the banker as a liquefies of wealth" (Crowther, 2001:81).

Credit administration involves the creation and management of risk assets. The process of lending takes into consideration the people and system required for the evaluation and approval of loan requests, negotiation of terms, documentation, disbursement, administration of loans and workouts, knowledge of process and awareness or its strength and weakness are important in setting objectives and goals for lending activities and for allocating available funds to various lending functions such as commercial, installment and mortgage portfolios.[6] Bodhi B, Bajracharya, in his article "Monetary policy and Deposit mobilization of the domestic saving is one of the prime objectives of the monetary policy in Nepal. And commercial banks are the most actives financial intermediary for generating resources in the form of deposit of private sectors and providing credit to the investor in the different sectors of the economy.

A frequently neglected but an important role is the provision of credit. Credit policy is sometimes, omitted entirely from an analysis of marketing mix by academics. This is despite empirical findings that although the credit package is unlikely to be the primary factor in determining overall patronage success. It may serve to clinch a contract when suppliers' offering are otherwise equally attractive. The credit policy cannot be sound unless it is based on clear knowledge of the cost of credit. The cost is determined by the quantity of all the credit sales, average collection period and the opportunity cost of capital.

Book named "Banking Management" says that in banking sector or transaction, an unavoidable of loan Management and its methodology is regarded very important. Under this management, many subject matters are considered and thought, For example, there are subject matters like the management of loan flow, the document of loan flow, loan administration, audit of loan, renewal of loan, the condition of loan flow, the provision of security, the provision of the payment of capital and its.

Capital and its interest and other such procedures. This management plays a great role in healthy competitive activities.

It is very important to be reminded that most of the banks failures in the world are due to shrinkage in the value of loan and advantage. Hence, risk of non payment of loan is known as credit risk or default risk.

Portfolio management helps to minimize or manage the credit risk by the spreading over the risk to various portfolios. Theses method of managing credit risk is guided by the saying do not put all the eggs in a single basket.

2.2 Concept of Commercial Banking

Before defining the term commercial bank, let us define the meaning of bank and commercial. According H.L. definitions of banks:

"A banker or bank is a person or company carrying on the business of money, and collecting drafts, for costumers' subjects to the obligation of honouring cheques drawn upon them from time to time by the costumers to extent of the amounts available on their customers."

Sir Jon Paget states that no one can be a banker who does not take deposits accounts, take currents accounts, issue, pay cheques, crossed and uncrossed, for his customers. He further adds that if the banking business carried on by one is subsidiary to some other business; he cannot be regarded as a banker.

Commerce is a financial transactions related to selling and buying activities of goods and services. Therefore, commercial banks are those banks, which works from commercial view point. They performs all kinds of banking functions as accepting deposits, advancing credits, credit creations and agencies functions.

They provide long terms credits, medium terms credits to trades and industries. They also operate of balance sheets functions such as issuing guarantee, bonds, letter of credit, etc.

The banks pool together the savings of the communities and arrange for their productive use. They supply the financial need of the modern business by various means. Commercial banks act as immediately accepting deposits and providing credits to the needy area. The main source of the commercial bank is current deposit, so they give more importance to the liquidity of investment and as such they specialize in satisfying the short term credit needs of business other than the long term. Commercial banks are restricted to invest their fund in corporate securities. Their business is confined to financing the short term needs of trade and industries such as working capital financing. They cannot finance 1 fixed asset.

They lend credits in the financing term in the form of credits and overdrafts. A part from financing, they also render services like bills and cheques, safe keeping of valuables, financial advising, etc to their customers. The income and profit of the bank depend upon the lending procedure applied by the bank. And, lending policy and investment in different securities also affect the income and profit. In the investment procedures and policies is always taken in mind that "the greater the credit created by the bank, the higher will be the profitability." A sound lending and investment policy is not only prerequisite for bank's profitability but also crucially significant for the promotion of commercial savings of a developing country like Nepal.

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

Commercial banks are organized as a joint stock company system, primarily for the propose of earning a profit. They can be either of the branches banking type, as we see in most of the coutries with large networks branches in Nepal or of the unit banking type, as we see in the United States where banks operations are confined to a few branches within a strictly limited area. The sound policies help commercial banks maximize quality and quantity of investment and there by, achieve the own objective of profit maximization and social welfare. Formulation of sound investment policies and coordinated and planned efforts pushes forward the force of economic growth.

2.3 Function of Commercial Banks

"The business of commercial banks is primarily is to hold deposits and make credits and investments with the objects of securing profits for its shareholders. Its primary motiveis profit; other cosidrition are secondary."

The major functions of commercial banks are as follows:

Accepting Deposits, Advancing Credits, Agencies services, Credits creation, financing of foreign trade, safekeeping of valuables, make venture capital credits, Financial Advising, Officers Securities Brokerage services.

Assist in Foreign Trade

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

Offers Investment Banking and Merchant Banking Service

Banks today are following in the footsteps of lending financial institutions all over the globe in offering investment banking services to corporations. Theses services include identifying possible merger targets, financing acquisitions of other companies, dealing in security underwriting, providing strategic marketing advice and offering hedging services to protect their customers against risk from fluctuating world currency prices and changing interest rates.

Further, they support the overall economic development of the country by various modes of financing.

2.4 Concept of Credit

Credit is the amount of money lent by the creditors (bank) to the borrower (customers) either on the basis of security or without security.

"Sum of the money lent by a bank, etc". Credit and advances is an important item on the assets side of the balance sheet of a commercial bank. "Bank earns interest on credits and advances, which is one of the major sources of income for banks. Bank prepares credit portfolio otherwise it will not only add bad debts but also affect profitability adversely".

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

1. Overdraft
2. Cash credit
3. Direct credit
4. Discounting of bills

2.5 Types of Credit

Overdraft

It connotes the excess amount withdrawn over their deposits.

Cash Credit

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

Term Credit

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

Barley and Myers urge that bank credits with maturities exceeding 1 year are called term credits. The firm agrees to pay interest based on the bank's prime rate and to repay principal in the regular installments. Special patterns of principal payment over time can be negotiated to meet the firm's special needs.

Working Capital Credit

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

Priority or Deprived sector Credit

Commercial banks are required to extend advances to the priority and deprived sector. 12% of the total credit must be towards priority sector including deprived sector. Rs 2 million for agriculture cum services sector and Rs 2.5 million for single borrowers are limit sanctioned to priority sector. Institutional support to 'Agriculture Development Bank' and 'Rural Development Bank' are also considered under this category. Deprived sector lending includes:

- Advances to poor/downtrodden/weak/deprived people up to Rs 30000 in generating income or employment.
- Institutional Credit to Rural Development Bank.
- Credits to NGOs those are permitted to carryout banking transactions for lending up to Rs 30000.

Hire Purchase Financing (Installation Credit)

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

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

Housing Credit (Real estate Credit)

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

Project Credit

As the project credit is granted as per project viability the borrower our self invest certain proportion to the project from their equity and the rest will be financed by the bank. “Construction Credit is short-term credits made to developers for the purpose of completing proposed projects. Maturities on construction Credits range from 12 months to as long as 4 to 5 years depending on the size of the specific project." (Johnson et.al., 1940: 242). The basic guiding principle of the credit project is involved in disbursement policy is to advance funds corresponding to the completion of the project. The percent of the disbursed at stage of the completion must be spelled in disbursement policy. Term credit, working capital credit needed for project falls under this project credit.

Consortium Credit

Not even a single financial institution grants any kinds of loan and the credits due to the limitations or other reason and two or more such institutions ma consent to grant credit facility to the project baptized as consortium loan. The risk of project among the financial institutions are reduces. The charge on the project's assets by the financiers is equal.

Credit Cards and Revolving Lines of Credit

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

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

Off-Balance Sheet Transaction:

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

It is non-funded based remunerative facilities but more risky than the funded until adequate collateral are taken. Lets its two varieties be described separately.

Its two rarities are as follows:

Bank Guarantee

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

Letter of Credit (L/C)

It is issued on behalf of the customer (buyer/importer) in favor of the exporter (seller) for the import of goods and services stating to pay certain sum of money on the submission of certain documents complying the stipulated terms and conditions as per the agreement of L/C.

It is also known as importers letter of credit since the bank of importer do not open separate L/C for the trade of same commodities.

2.6 Factors Affecting Credit Policy

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

- **Industry Environment**

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

- **Financial Condition**

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

- **Management Quality**

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

- **Technical Strength**

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

- **Security Realization**

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

2.7 Objectives of the Sound Credit Policy:

The purposes of written credit policy are:

i. To assure complain by lending personnel with the bank's policies and objectives regarding the portfolio of credit and
ii. To provide personnel with a framework of standards within which they can operate.

For getting support, the leader personnel should write the loan policy from subordinates and associates. For establishing this policy, it is necessary to get approval about this board of directors after discussion. Better performance of loan extends multiple benefits to the society and country where as non-performing erodes even existing share capital.

2.8 Lending Criteria

For every disbursement of credit, well defined and approved procedure must follow, such well establish criteria for disbursing advances and loan is the most essential for the survive, thrive and succession of the commercial bank. For such launching process: systematic, scientific, throughout study and analysis must be follow. These criteria are known as 5C, which are as follows:

1. Character

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

- Memorandum and Articles of Association
- Registration Certification
- Tax registration certificate (Renewed)
- Resolution to borrow
- Authorization-person authorizing to deal with the bank
- Reference of other lenders with whom the applicant has dealt in the past or bank A/C statement of the customer.

2. Capacity

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

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

3. Capital

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

4. Collateral

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

5. Conditions

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

2.9 Principle of Credit Policy

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

1. Principle of Safety Fund: Banks should look the fact that is there any unproductive or speculative venture or dishonest behavior of the borrower.
2. Principle of Liquidity: Liquidity refers to pay on hands on cash when it in ceded 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.
3. Principle of Security: Its acts as cushion to grant advances and credits. Adequate values of collaterals ensure the recovery of credit correctly at the right time. Accepted security should be readily marketable, handy and free from encumbrance.
4. Principle of purpose of Credit: Generally, credit request for productive sector only be accepted rejecting credit request for speculation, social functions, pleasures trips, ceremonies and repayment of prior credit as they are unproductive.
5. 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 than can provide optimum amount of return. For such purpose, bank should take a little bit risk by providing credit to venturous project.
6. Principle of Spread: Portfolio of advances is to be spread not only among many borrowers of same industry by across the industries in order to minimize the risk of lending keeping ‘Do not put your all eggs in the same basket’ in mind.
7. Principle of National Interest: In lending and granting advances, interest of nation should not be distorted (if undermined). Priority and deprived sector of economy and other alarming sector should be given proper emphasis while extending advances.

2.10 Project Appraisal

Before providing credit to the customer, bank makes analysis of project from various aspects and angles. It will help the bank to see whether project is really suitable to invest. The purpose of project appraisal is to achieve the guarantee of reasonable return from the project 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
- Technical aspect
- Management/Organizational aspect
- Commercial aspect

1. Financial Aspect

Bank agrees to finance only in the viable and profitable project which have high degree of recovery. The following documents revels the cleared picture here in:-

- **Cash flow Statement**

Cash Flow Statement is prepared by the cash from financing, investing and operating activities. In such figure, opening and closing cash balance shows either surplus or deficit of the project. This helps in taking decision to credit sanction.

- **Performa Balance Sheet**

Balance Sheet shows the clear picture about the financial status of the project. Cash flow statement is also prepared with reference to balance sheet and profit and loss account.

- **Cost of Project**

About the cost picture of the project, working capital cost is necessary. Management needs the fixed assets and daily expenses. So bank needs to study both precisely and prepares document about the disbursement.

2. Technical Aspect

For technical viability of the business, proper location plant and equipment, legal aspect (Govt. policy) and technical competence must. Appropriate location must be fulfillment of transport facility, infrastructure, peace and silence as well as accessibility of the market. Further more newly invented technology with high productive efficiency must require. In other hand government should provide the adequate support and useful policy must adopted.

3. Management / Organizational Aspect

Management is one of the must prime aspect of the project operation, which function as the body structure. There must be honest, hardworking, competent, qualified and result oriented staff for the guarantee successes. Only dedicated team with management by objective can lead the organization.

4. Commercial Aspect

For the viability of the project commercial feasibility is the most essence, present and future prospect of the projects are to be analyzed and lending decision must undertaken. Only profitable and future glorious projects are viable for which following aspects must be present:

- Nature of product / service
- Quality and quantity of product
- Competitive advantages and market reliability
- Selling and distribution system

- Promotion and buyer's analysis
- Advertising and sales order meet

Also, bank consider the further more:

- Quality and types of customers
- Credit terms and policy
- Aging Schedule.

Directives Issued by NRB for the Commercial Bank: (Related to Credit Aspect Only):

1. Credit Classification and Provisioning:

Classification	Provision
1. Pass credit	1%
2. Sub standard credit	25%
3. Doubtful credit	50%
4. Bad credit	100%

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

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

The credit loss provision for performing credit is termed as general credit loss provision whereas the credit loss provision for now-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 condition 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 establish with the help of credit audit.

2. Limit of Credit and Advances in a particular Sector:

i. Fund based credit and advances can be issued up to 25%(upper limit) of core capital to a single customer, firm, company and a group of related customer.

ii. Non-fund based (off-balance items) can be issued up to 50% of core capital to a single customer, firm, company and a group related customer.

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

Group of Related Customer

- If a company takes 25% or more share of another company.
- Member of board of directors of company shareholders of private limited company and such members and shareholders with others in a single house, even if husband, wife, son, daughter in law, unmarried daughter, adopted son, adopted unmarried daughter, father, mother stepmother and brothers and sisters whom be should look after. And the above members personally or combined take 25% or more share of another company.
- Firm, company and members as a related group.

- Members of board of directors, shareholders and other relatives as stated in serial number ‘b’ takes less than 25% of board of directors of company solely or combined but have control on the other company by the following ways:
    - Being president of board of directors of the company.
    - Being executive directors of company.
    - Nominating more than 25% of members of board of directors of the company.
    - If cross guarantee is given by one company to another company.

2.11. Review of Past Thesis (Dissertation)

Narendra Sejuwal (2007) has submitted a thesis named ‘A Comparative Study on Credit Management of Commercial Banks" a case study of commercial banks (Standard Chartered Bank, NABIL). His research statement of problem:

Because of high interest rate of non-institutional series, people are unable to pay their credit at fixed unable to pay their credit at fixed time. These institutions compel them to transfer their property to the moneylender resulting himself or herself as a landless person.

Commercial banks are the major financial institutions supporting for the people for the different purpose like agro, industries, tea, coffee, livestock farming etc. They provide the credit for individual and cooperative sector to all region of the country. Credit outstanding amount is increasing day by day but the collection amount is not good. However commercial banks have increased its effort to collect its credit. It is said that those people who really need do not receive sufficient amount of credit from the commercial banks.

Major Findings

- Actual credit disbursement, collection and outstanding are increasing in decreasing rate.
- Yearly increase in credit disbursement is higher than that of collection.
- Positive relation between credit disbursement and collection that is 0.996.
- Targeted credit collection and disbursement fixed by planning and project department is not significantly different than the actual.
- Most of the customers are unaware of the policy of the bank.

Recommendations

- The borrowers should be informed about the credit, its use and its payment procedures and schedule.
- Greater attention should be given to increase the credit collection and to collect old outstanding amount of credit and renewal of it.
- To accelerate the collection, credit should be followed continuously in a regular interval of time.
- The behavioral of the personal should be strictly supervised in granting credit in proper investment proposal because of most of the bad credit disbursement is due to weak decision of the personnel.

Rurukusum Gautam (2000) has submitted thesis named 'Investment Analysis of Finance Company of Nepal' on July 2000 to T.U. Her research major objectives relevant to my research are:

- An analysis of the interest rate structure of credit.
- An analysis of the repayment of the credit.

Major findings:

- The use of funds towards the hire purchase credit is decreasing rapidly.

- As the direct data of good and bad credit was not available, the credit loss provision used to analyze the credit quality. Credit loss is increasing every year significantly and should be controlled.
- The loss provision of some company is more alarming on individual analysis. The company having above average credit loss provision should rethink on their investment and repayment policy.

Badri Narayan Shrestha (1990) has submitted a thesis named ‘Study of Industrial Credit Provided by NIDC in Sunsari Districts’ on 1990 T.U. His research objectives:

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

Major findings:

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

Ganesh Bahadur Chand (1988) has submitted his thesis on ‘Credit Disbursement and Repayment of Agriculture Development Bank Nepal’. His research statement of problems:

- The bank does not benefit small farmers. (i. e. problem of balance development.)

- The collection of credit is slow so it hinders the flow of capital required to develop economic growth.

Objectives:

- To see the repayment situation.
- To find out the rate of growth of investment.
- To explain possible causes of non-and delayed repayment.

Major findings:

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

2.12 Research Gap

The purpose of this research is to develop some expertise in one's area, to see what new contribution can be made and to receive some ideas, knowledge and suggestion in relation to credit management of selected commercial banks (i.e: NABIL, SCBNL, EBL & NIBL) . Thus, the previous studies cannot be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research is ensured by linking the present study with the past research studies. Here, it is clear that the new research cannot be found on that exact topic, i.e. A comparative study on credit management of commercial banks in Nepal. Therefore, to fulfill this gap, this research is selected. To complete this research work, many books, journals, articles and various published and unpublished dissertation are followed as guideline to make the research easier and smooth. In this regard, here we are going to analyze the different procedure of the credit management, which is considered only on NABIL, SCBNL, EBL & NIBL. Our main research problem is to analyze whether these four commercial banks have right level of credit efficiency as well as are able to manage its credit effectively or not. To achieve these main objectives, various financial and statistical tools are used. Similarly trend analysis of investment and profit are reviewed to make this research complete. Therefore, this study is useful to the concern banks as well as different person, Such as Shareholders, investors, policy makers, state of government etc.

CHEPTER - III

RESEARCH METHODOLOGY

Research in common sense refers to a search for knowledge one can also define research as a scientific and systematic search for pertinent information on a specific topic. In fact, research is a Learner's dictionary of current English lays down the meaning of research as "a careful investigation or inquiry especially through search for new facts in any branch of knowledge". Reman and money define research as "systematized effort to gain new knowledge ".Some people consider research as a movement, a movement from the known to the unknown. It is actually a voyage of discovery; we all posses the vital instinct of inquisitiveness makes us prose and attain full and fuller understanding of the unknown, which man employees for obtaining the knowledge of whatever the unknown, can be termed as research.

In this chapter, research methodology adopted for achieving the predetermined objectives is specified. The various Statistical and financial instruments will be used for the purpose. It counts on the resources and techniques available and to the extent of their reliability and validity in this chapter. The research methodology primarily seeks to evaluate the credit practices of the commercial banks i.e.; SCBL, EBL, NABIL & Investment Bank Ltd. The research methodology adopted in this chapter follows some limited but crucial steps aimed to achieve the objective of the research.

3. 1 Research Design

Research design serves as a framework for the study, guiding the research instruments to be utilized, and the sampling plan to be followed. In other words research design describes the general plan for collecting, analyzing and evaluating data. For research there exist different types of research design like Historical research, Analytical research, Descriptive research, Case study research, Field study research and so on. This study mainly concerned with commercial banks historical data is used. The relevant and needed data can collected from various publications of different commercial banks.

The crux of this chapter is to analyze the credit practice and credit efficiency of SCBL, EBL, NABIL, NIBL. Decision regarding what, when, how, by what means concerning an enquiry of a research design. "A research design is the arrangement of conditions for the collection and analysis of data in manner that aims to combine relevance to the research purpose with economy in procedure." In fact, the research constitutes the blueprint of the collection, measurement and analysis of data. As such the design includes an outline of what the researcher will do form writing the hypothesis and its operational implications to the final analysis of data. A research designs bearing the techniques and systemic steps of research, writing or any investigation. In the lack of helps to collects various information required to researcher for thesis the research design, the functional process on research is never achieved. "After the research study has been formulated, the next logical steps are to construct the research design which refers to the entire process of planning and carrying out a research study. The research design asks what approach to the problem should be taken. What method will be used? What strategy will be must effective? Identification, selection and formulation of research problem may be considered as the planning stage of a research. The remaining activities refer to the designs, operations and complication of research study" (Wolf and Panta;1999:53).

3.2 Source of Data

The research is based on primary as well as secondary source of data. For research purpose, published financial statement (i.e. annual report) of concerned banks was collected. Similarly, financial statement of selected commercial bank and various markets related information were collected and tabulated in spread sheet. Such secondary information was gathered from the share department of commercial banks.

Carefully designed research instrument (questionnaire) used for primary data analysis. The researchers has carefully designed questionnaire by considering various influencing factor of industry environment, management qualities. The factor derived from various and from previous research findings on related area are to support credit management. Basic sources of primary information were employees of concerned banks. In addition, an answer on certain queries and discussions were also being conducted for clarification and verification of collected data and for recommendation.

3. 3. Population and Sample

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

Here only 4 samples of commercial banks are taken out of 23 commercial banks and listed out 18 commercial banks. For selecting the samples, non- random sampling method is used here among different methods. The samples are taken only from commercial banks. Organization under study is as follows:

1. Standard Chartered Bank Limited (SCBL)
2. Everest Bank Limited (EBL)

3. Nepal Arab Bank Limited (NABIL)
4. Nepal Investment Bank Limited (NIBL)

Likewise, financial statement of five years (beginning from 2003/04 to 2007/08) is selected as samples for the purpose of it.

3.4 Financial Method

"Financial Analysis is the starting point for making plans before using any sophisticated forecasting and budgeting procedures." Hence ratio analysis is used under financial analysis to attain the result after tabulating the data (Pandey, 1999:108).

A ratio is a quotient of the mathematical expression, establishment of quantitative relation of data furnished by the financial statement is called ratio analysis. In other words, a financial ratio is the mathematical expression of relationship of two accounting figures. It helps in taking decision since it helps to establish relationship among various ratios and interpretation there on inter firm comparison and comparison between past and present ratios for the same firm gives enormous and faithful result to test the financial performance .one author has said that to evaluate the financial condition and performance of firm, the financial analyst needs certain yardsticks frequently used ratio or index relating two pieces of financial data of each other. Analysis and interpretation of various ratios should give experienced, skilled analysis better understand of financial condition and performance of firm then they would obtain from analysis of financial data along (Van Horne, 1997:759).

3.5 Methods of data Analysis Techniques

For the purpose of the study, all collected primary as well as secondary data are arranged, scanned, tabulated under various heads and then after disunities and statistical analysis have been carried out to enlighten the study.

Credit Practices Ratios

3.5.1. Total Loan to Total Deposit Ratio

This ratio is calculated to find out how successfully the banks are utilizing their deposit on loan and advances for profit generating activities greater the ratio indicates the better utilization of total deposits. It is calculated as:

$$\text{Total Loan to Deposit Ratio} = \frac{\text{Total loan}}{\text{Deposits}}$$

- **Interest Income to Loan and Advances Ratio**

Interest income to loan and advances is one of the major sources of income for a commercial bank. The high volume of interest income is indicator of good performance of lending activities. This ratio as calculated as:

$$\text{Interest Income to Loan and Advances} = \frac{\text{Interest Income}}{\text{Loan and Advances}}$$

- **Non Performing Loans to Total Loan and Advances Ratio**

Directed all the commercial banks create loan loss provision against the doubtful and bad debts. But both of our concerned bans have not provided data on non performing loan and advances ratios shows the percentages of non recovery loans in total loans and advances. This ratio is calculated as:

$$\text{Non Performing Loan to Total Loan and Advances Ratio} = \frac{\text{Non Performing Loan}}{\text{Total Loan and Advances}}$$

- **Loans and Advances to Total Assets Ratio**

Loans and Advances is the major part of total assets for the banks. This ratio indicates the volume of loans and advances out of the total assets. A high degree of the ratio indicates that the bank has been able to mobilize through lending functions. It is calculated as:

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

- **Loan and Advance to Current Assets Ratio**

Loan and advances is the major component in total assets, which indicates the ability of banks to canalize its deposit in the form of loan and advance to earn high return. If sufficient loan and advances cannot be granted, it should pay interest on those utilized deposit funds and may lose earnings. So commercial banks provide loan and advance in appropriate level to find out portion of current assets, which is granted as loan and advance. Loan and advances includes short-team loan and advance, overdraft, cash, credit, loan and foreign bills purchased and discount. It is calculated as:

$$\text{Loan and Advance to Current Assets Ratio} = \frac{\text{Loan and Advances}}{\text{Currrent Assets}}$$

- **Loan Loss Provisions to Total Loans and Advances Ratio**

This ratio decreases the quality assets that a banking holding the provision fir loan loss reflects the increasing probability of non-performing loan. The provision for loan mean the net profit of the banks will come down by such amounts. Increase in loan loss provision decreases in profit result to decreases in dividends. But its positive impacts are that strengths the financial conditions of banks by controlling the credits risk and reduced the risk related to deposits. So it can be said that only for short term while good financial condition and safety of loan will make banks prosperity result increasing profit for long term. The low ratio indicates the good quality of assets of total volume of loan and advances. High ratio indicates more risky assets in total volume of loan and advances it is as:

$$\text{Loan loss provision to total loans and advances ratio } X\frac{\text{Loan loss provision}}{\text{Total loans and advances}}$$

3.5.2. Credit Efficiency Ratio

The total assets of the banks should play active role in profit generating through lending activities. Banks create credit through loans and advances and multiply their assets much more times than their liability permits. This ratio measures the ability of banks to multiply its liability into assets. The higher ratio is favorable as it increases overall capacity of the organization. This is calculated as:

$$\text{Total Assets to Liabilities Ratio} = \frac{\text{Total Assets}}{\text{Liabilities}}$$

- **Interest Expense to Total Deposit Ratio**

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

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

- **Interest Expenses to Total Expenses Ratio**

The ratio measure the percentage of interest paid against total expenses. The high ratio indicates the low operational expenses and vice-versa. It is calculated as:

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

- **Non-interest Bearing Deposits to Total Deposit Ratio**

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

$$\text{Non-Interest Bearing Deposits to Total Deposit Ratio} = \frac{\text{Non-- Interest Bearing Deposit}}{\text{Total Deposits}}$$

- **Interest Income to Total Income Ratio**

This ratio measures the volume of interest income to total income. The high ratio indicates the high contribution made by lending and investment and high contribution by other fee based activities in total income. This is calculated as:

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

- **Interest from Loan, Advances and Overdraft to Total Interest Income Ratio**

This ratio measures the contribution made by interest from loan, advances and overdraft loan and advances generate the major portion of interest income. Hence this ratio measures how efficiency the banks have employed their funds and loan and advances and overdraft. It is calculated as:

Interest from Loan, Advances and Overdraft to Total Interest Income Ratio =

$$\frac{\text{Interest from Loan, Advances and Overdraft}}{\text{Total Interest Income}}$$

- **Interest Suspense to Interest Income from Loans and Advances Ratio**

Interest suspense means that portion of interest, which is due but not collected. This ratio measures the composition of due but uncollected interest in the total interest income from loan and advances. The high degree of this ratio indicates the low interest turnover and low degree of this ratio indicates high interest turnover. This ratio also helps to analyze the capacity of the bank in collecting the repayments of the loan and advances. It is calculated as:

Interest Suspense to Interest Income from Loan and Advances Ratio =

$$\frac{\text{Interest Suspense}}{\text{Interest Income from Loan And Advances}}$$

3.6. Statistical Method

For supporting the study, statistical tools such as mean, standard deviation, correlation, analysis and tools have been used under this.

3.6.1. Arithmetic Mean (Average)

Arithmetic mean also called, "the mean" or as the most popular and widely used measure of central tendency. Arithmetic mean represents the entire data by a single valve. It provides the gist and gives the bird's eye view of the huge mass of un widely numerical data. It is calculated as:-

$$X = \frac{\sum X}{N}$$

Where,

X = Mean value of arithmetic mean

∑X= Sum of the observation

N = Number of the observation

3.6.2. Correlation

Correlation may be defined as the degree of liner relationship existing between two or more variables. There variable are said to be correlated when the change in the valve of one results change in another variable. Correlation may be:-

- Simple of partial or multiple correlation
- Position or negative or zero correlation
- Linear or non-linear correlation

It is calculated as:- $r_{xy} = \dfrac{N \sum xy - \sum x . \sum y}{\sqrt{N \sum x^2 - (\sum x)^2}\sqrt{N \sum y^2 - (\sum y)^2}}$

Where,

r_{xy} = correlation between x and y.

$N \sum xy$ = product of number of observation and sum of product of x and y

$\sum x . \sum y$ = product of sum of x and sum of y

3.6.3. Co-efficient of Determination

It explains the variation percent derived in dependent variable due to the any one specified variable is good predictor of the behavior of the dependent variable. It is square of correlation co-efficient.

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

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

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

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

4.1 Comparative Financial Conditions of Selected Nepalese Commercial Banks

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

For research purpose, financial conditions of both the banks in term of credit practices, credit efficiency has analyzed the comparative credit in selected commercial banks.

4.1.1 Comparative Credit Practices in Standard Chartered Bank, Everest Bank Ltd, Nabil Bank and Nepal Investment Bank Ltd.

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

i) Total Loans to Deposit Ratio

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

Table 4.1

Interest Loans to Deposit Ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
SCBNL	0.3163	0.4349	0.3992	0.4378	0.4695	0.4115
EBL	0.7560	0.7820	0.7618	0.7744	0.7856	0.0823
NABIL	0.6055	0.7505	0.6863	0.6813	0.6818	0.0988
NIBL	0.3578	0.7196	0.6963	0.7256	0.7991	0.1185

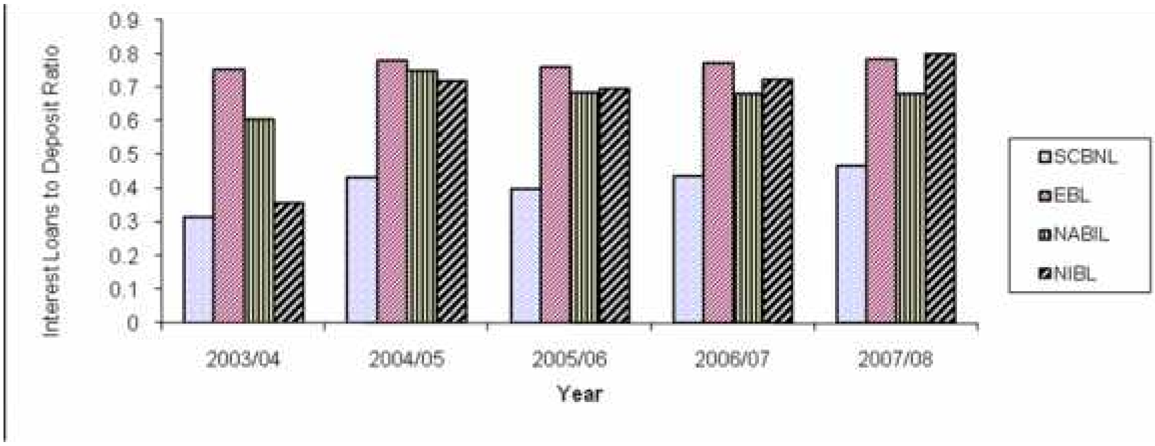
Source: Annual Report 2003-2008

Table 4.1 shows that the ratio of credit deposit ratio in SCBNL was 0.3163, 0.4349, 0.3992, 0.4378, 0.4695 respectively from 2003/04 to 2007/08. The ratio of EBL from the year 2003/04 to 2007/08 was obtained 0.7560, 0.7820, 0.7618, 0.7744, 0.7856 respectively. Like wise, the ratio of NABIL was 0.6055, 0.7505, 0.6863, 0.6813, 0.6818 whereas the deposit ratio of NIBL was 0.3578, 0.7196, 0.6963, 0.7256 and 0.7991 respectively from the Fiscal Year 2003/04 to the Fiscal Year 2007/08. In overall comparison, interest loans to the deposit ratio was found highest as 0.7991 in the Fiscal Year 2007/08 and the lowest was observed in the Fiscal Year 2003/04, 0.3163 of NIBL and SCBNL respectively.

From the point of mean, SCBNL has maintained higher loan and advances to total deposit ratio than other Banks. Thus the table shows that SCBNL seems to be strong to mobilize its total deposit as loan and advances. It can be considered that others have lower position to mobilize its total deposit as compare to SCBNL. However higher ratio does not mean it is always better from the point of liquidity. From the analysis SCBNL seems to be the best performer in utilizing its all collected resources in the form of deposits much efficiently, which may definitely increase in income and profit as well as in the development for SCBNL.

Figure 4.1

Loans to Deposit Ratio



ii) Interest Income to Loans & Advances

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

Table 4.2

Interest Income to Loan & advances

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
SCBNL	0.0883	0.0743	0.0623	0.1344	0.1160	0.0951
EBL	0.0920	0.0800	0.0819	0.0838	0.0844	0.019
NABIL	0.0945	0.0870	0.0829	0.0845	0.0863	0.0228
NIBL	0.1057	0.0893	0.0918	0.0917	0.0813	0.0274

Source: Annual Report 2003-2008

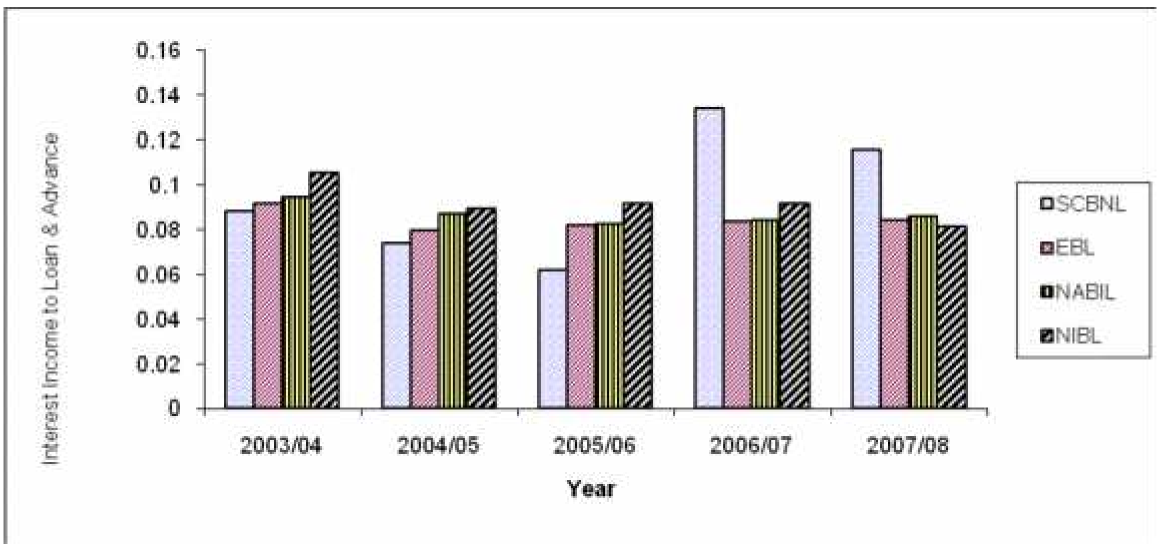
Table 4.2 shows that the interest income to loan and advances of SCBNL was 0.0883, 0.0743, 0.0623, 0.1344, 0.1160 respectively from 2003/04 to 2007/08. The interest income of EBL from the year 2003/04 to 2007/08 was obtained 0.0920, 0.0800, 0.0819, 0.0838, 0.0844 respectively. Like wise, the interest income of NABIL was 0.0945, 0.0870, 0.0829, 0.0845, 0.0863 whereas the interest income of NIBL was 0.1057, 0.0893, 0.0918, 0.0918, 0.0917 and 0.8129 respectively from the Fiscal Year 2003/04 to the Fiscal Year 2007/08. In overall comparison, interest income to the loans and the advances was found highest as 0.8129 of NIBL in the

Fiscal Year 2007/08 and the lowest was observed in the Fiscal Year 2005/06 as 0.0623 of SCBNL.

From the point of mean, SCBNL has maintained higher interest income than other Banks as 0.0951. Thus the table shows that SCBNL seems to have strong strategy of performance in earning interest income.

Figure 4.2

Interest Income to Loan & Advance



iii) Non- Performing Loans to Total Loan and Advances Ratio

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

Table 4.3

Non- Performing Loan to Total Loan and Advances

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
SCBNL	0.0377	0.0267	0.0213	0.0015	0.0018	0.0178
EBL	0.0170	0.0160	0.0138	0.0080	0.0068	0.0036
NABIL	0.0335	0.0132	0.0138	0.0112	0.0074	0.0043
NIBL	0.0255	0.0274	0.0207	0.0237	0.01124	0.0051

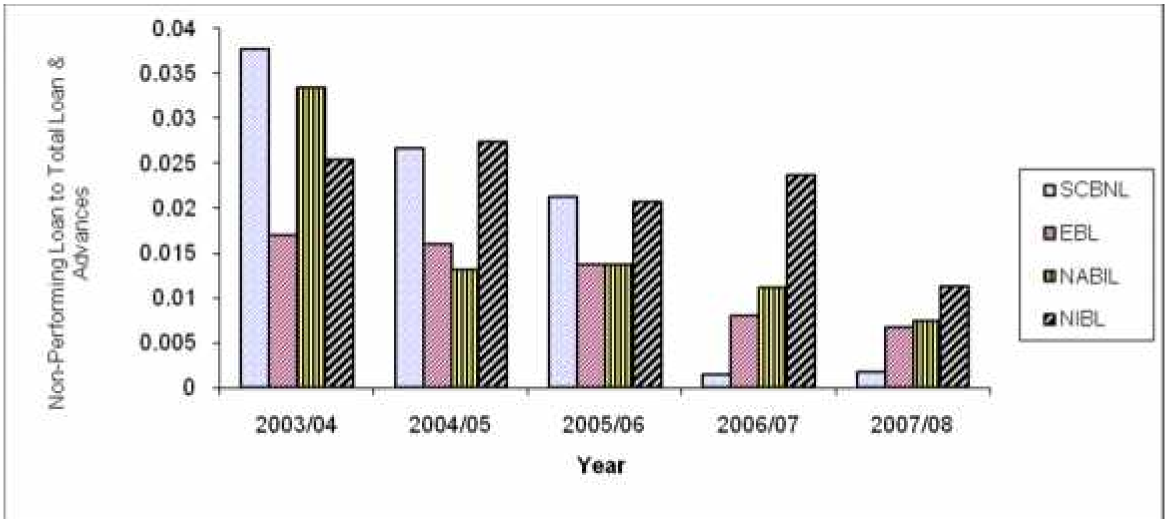
Source: Annual Report 2003-2008

Table 4.3 shows that the ratio in 5 years of SCBNL was 0.0377, 0.0267, 0.0213, 0.0015, 0.0018 respectively (in %). The ratio of EBL from the year 2003/04 to 2007/08 was 0.0170, 0.0160, 0.0138, 0.0080, 0.0068 respectively. Like wise, the ratio of non-performing loan to total loan and advances of NABIL was 0.0335, 0.0132, 0.0138, 0.0112, 0.0074 respectively whereas the ratio of NIBL was 0.0255, 0.0274, 0.0207, 0.0237and 0.01124 respectively from the Fiscal Year 2003/04 to the Fiscal Year 2007/08 (in %). In overall comparison, the ratio of non-performing loan to the loans and the advances was found highest as 0.0377 in the Fiscal Year 2003/04 of SCBNL and the lowest was also observed in the Fiscal Year 2006/07 as 0.0015 of SCBNL.

From the mean point of view, it can be said that EBL has the lowest ratio than other Banks. Banking sector is seriously affected by the non-performing loan. All the Banks were not so far from the above facts. If non-performing loan increases, the overall banking business will be affected. So provision amount will increase and profit will decrease. So, it is suggested that SCBNL Banks to be very careful while granting loans and to do effective follow up for recovery of non-performing loans.

Figure 4.3

Non-Performing Loan to Total Loan & Advances



iv) Loans and Advances to Total Assets Ratio

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

Table 4.4

Loans & Advances to Total Assets Ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
SCBNL	0.2711	0.3719	0.3467	0.3673	0.4115	0.3537
EBL	0.6124	0.6494	0.6141	0.6375	0.6755	0.6378
NABIL	0.4891	0.6160	0.5787	0.5704	0.5754	0.1250
NIBL	0.5219	0.6104	0.5991	0.6265	0.6947	0.1500

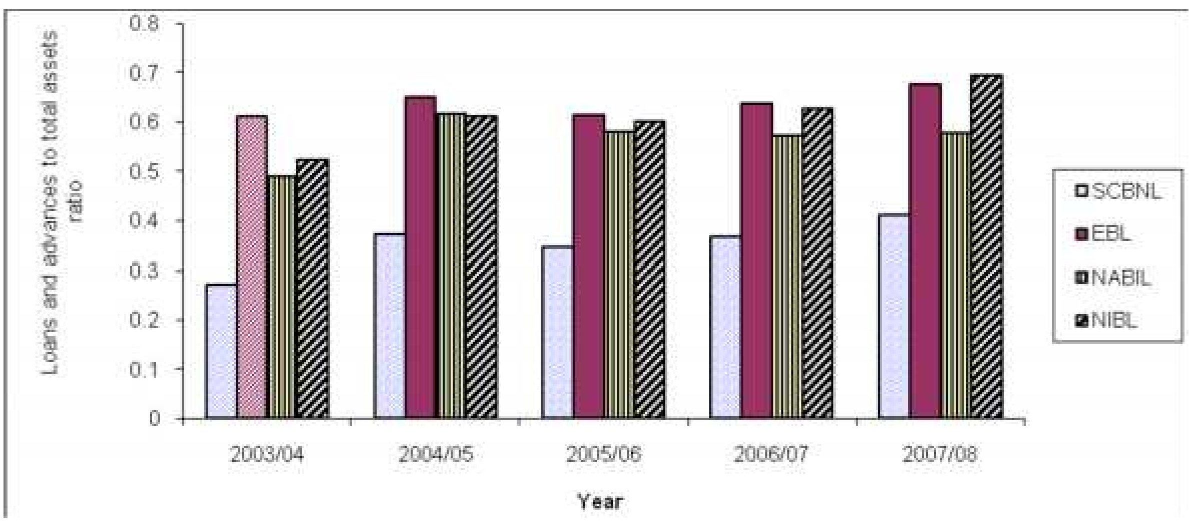
Source: Annual Report 2003-2008

Table 4.4 shows that the ratio of loans and advances to total assets in 5 years of SCBNL was 0.2711, 0.3719, 0.3467, 0.3673, 0.4115 respectively (in %). The ratio of EBL from the year 2003/04 to 2007/08 was 0.6124, 0.6494, 0.6375 and 0.6755. Like wise, the ratio of loan and advances of NABIL was 0.4891, 0.6160, 0.5787, 0.5704, 0.5754 whereas the ratio of NIBL was 0.5219, 0.6104, 0.5991, 0.6265 and 0.6947 respectively from the Fiscal Year 2003/04 to the Fiscal Year 2007/08 (in %).

From the mean point of view, it can be said that EBL has the highest ratio than other Banks. It can be concluded that the higher mean ratio indicates the good lending performance. So EBL Bank has good lending performance than of others.

Figure 4.4

Loans and Advances to Total Assets Ratio



v) Loan and Advances to Current Assets Ratio

Loan and advance is the major component in total assets, which indicates the ability of banks to canalize its deposits in the form of loan &advances.

To earn high return. If sufficient loan and advances can not be granted, it should pay interest on those utilized deposit funds and may lose earnings.

So commercial banks provide loan & advances in appropriate level to find out portion of current assets, which is granted as loan & advances.

Table 4.5
Loans & Advances to Current Assets Ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
SCBNL	1.511	2.416	3.465	2.777	3.230	2.68
EBL	7.182	4.702	6.050	6.102	6.085	6.024
NABIL	4.335	7.414	5.464	7.918	4.621	5.95
NIBL	4.501	6.709	5.309	6.164	1.340	4.805

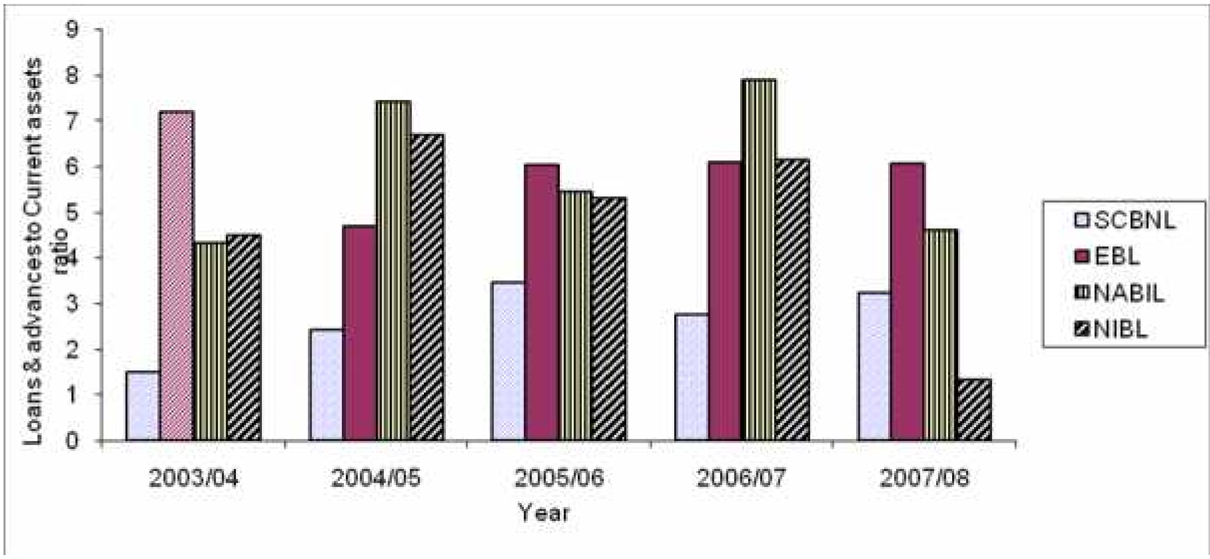
Source: Annual Report 2003-2008

Table 4.5 shows that the ratio in 5 years of SCBNL was 1.511, 2.416, 3.465, 2.777, 3,230 respectively. The ratio of EBL was 7.182, 4.702, 6.050, 6.102, and 6.085. Like wise, the ratio of current assets for loan and advances of NABIL was 4.335, 7.414, 5.464, 7.918, 4.621 whereas the ratio of NIBL was 4.501, 6.709, 5.309, 6.164 and 1.340 respectively from the Fiscal Year 2003/04 to the Fiscal Year 2007/08 (in %). In overall comparison, the ratio of the loan and advances to current assets was found highest as 7.918 of NABIL in the Fiscal Year 2006/07 and the lowest was observed in the Fiscal Year 2007/08 as 1.340 of NIBL.

Comprising to the entire banks of the table given above, it can be observed that EBL has the highest ratio than other Banks which indicates that the EBL Banks has relatively better short term lending practice than other Banking Institutions.

Figure 4.5

Loans & Advances to Current Assets Ratio



VI) Loans Loss Provision to Total Loan and Advances Ratio

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

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

Table 4.6

Loan Loss Provision to Total Loan & Advances Ratio

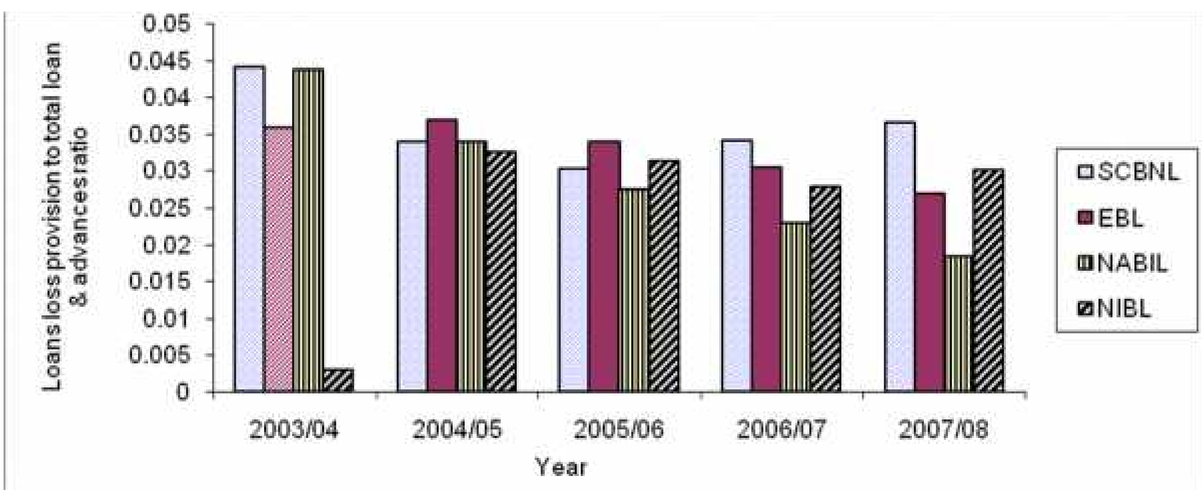
Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
SCBNL	0.0442	0.0340	0.0303	0.0342	0.0366	0.1017
EBL	0.0360	0.0370	0.0341	0.0306	0.0271	0.033
NABIL	0.0438	0.0340	0.0276	0.0230	0.0185	0.0244
NIBL	0.0030	0.0327	0.0315	0.0279	0.0302	0.0293

Source: Annual Report 2003-2008

Table 4.6 shows that the ratio loans loss provision to total loan and advances of SCBNL was 0.0442, 0.0340, 0.0303, 0.0342, 0.3660 respectively. The ratio of EBL was 0.0360, 0.0370, 0.0341, 0.0306, 0.0271. Like wise, the ratio of loan and advances of loans loss provision of NABIL was 0.0438, 0.0340, 0.0276, 0.0230, 0.0185 whereas the ratio of NIBL was 0.0030, 0.0327, 0.0315, 0.0279, 0.0302 respectively from the Fiscal Year 2003/04 to the Fiscal Year 2007/08 (in %). In overall comparison, the ratio of the loans loss provision to the total loan and advances was found highest as 0.3660 in the Fiscal Year 2007/08 of SCBNL and the lowest was observed in the Fiscal Year 2003/04 as 0.0030 of NIBL.

From the point of mean, it can be said that SCBNL has high loan loss provision in comparison to other Banks as 0.1017. Thus the table shows that the increase ratio indicates the increased volume of non-performing loans. The increasing loan loss ratio indicates the poor and ineffective credit policy and poor performance of the economy.

Figure 4.6
Loan Loss Provision to Total Loan & Advances Ratio



4.1.2 Comparative Credit efficiency in Standard Chartered Bank, Everest Bank Ltd, NABIL Bank and Nepal Investment Bank Ltd.

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

I) Total Assets to Liabilities Ratio

Banks creates credit through loans and advances and multiplies their assets much more times than their liability permits. This ratio measures the ability in to assets. The higher ratio of total assets to total liability ratio is favorable as it increase overall capacity of the organization. The following table shows the ratio of total assets to total liability of selected commercial banks during study period.

Table 4.7

Total Assets to Total Liabilities Ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
SCBNL	1.0675	1.0779	1.0730	1.080	1.081	1.0759
EBL	1.0762	1.0764	1.0642	1.0594	1.0762	1.0705
NABIL	1.0971	1.1067	1.0917	1.0816	1.0702	0.2582
NIBL	1.0582	1.0782	1.0711	1.0730	1.0743	0.3099

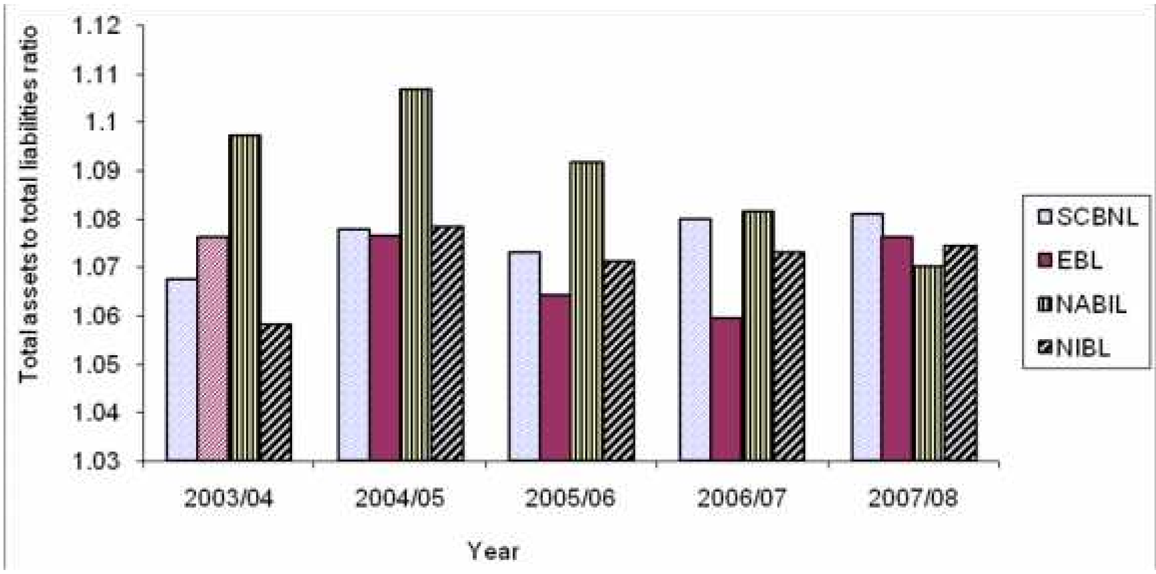
Source: Annual Report 2003-2008

Table 4.7 shows that the ratio of total assets to total liabilities of SCBNL was 1.0675, 1.0779, 1.0730, 1.080, 1.081 respectively. The ratio of EBL was 1.0762, 1.0764, 1.0642, 1.0594, 1.0762. Like wise, the ratio of NABIL was 1.0971, 1.1067, 1.0917, 1.0816, 1.0702 whereas the ratio of NIBL was 1.0582, 1.0782, 1.0711, 1.0730, 1.0743 respectively from the Fiscal Year 2003/04 to the Fiscal Year 2007/08 (in %).

The combined mean ratio of SCBNL is 1.0759 and has higher ratio than that of the others combined mean. SCBNL has been able to utilize the fund more efficiently and effectively to the extend in comparison with other banks however still this position could not be sufficient balance for a developing country the ratio should not be below.

Figure 4.7

Total Assets to Total Liabilities Ratio



II) Interest Expenses to Total Deposits Ratio

This ratio is measures the percentage of total interest paid against total deposits. A high ratio indicates higher interest expanses on total deposits.

Commercial banks are dependent upon its ability to generate cheaper fund. The cheaper fund has moved the probability of generating loans and vice versa.

Table 4.8

Interest Expenses to Total Deposits Ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
SCBNL	0.0130	0.0131	0.0131	0.017	0.0016	0.0116
EBL	0.0460	0.0390	0.029	0.0284	0.0264	0.0023
NABIL	0.0197	0.0168	0.0209	0.0238	0.0238	0.0028
NIBL	0.0283	0.0249	0.0260	0.0280	0.0288	0.0033

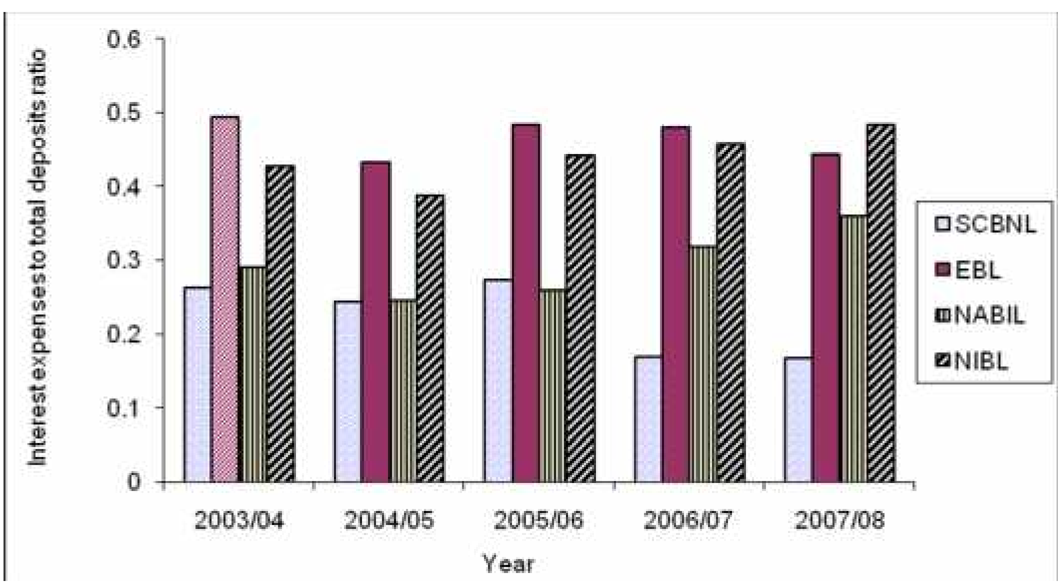
Source: Annual Report 2003-2008

Table 4.8 shows that the ratio in 5 years of SCBNL was 0.0130, 0.0131, 0.0131, 0.017, 0.0016, 0.0116 respectively. The ratio of EBL was 0.0460, 0.0390, 0.029, 0.0284, 0.0264. Like wise, the ratio of total deposit on interest expanses of NABIL was 0.0197, 0.0168, 0.0209, 0.0238, 0.0238 whereas the ratio of NIBL was 0.0283, 0.0249, 0.0260, 0.0280,and 0.0288 respectively from the Fiscal Year 2003/04 to the Fiscal Year 2007/08 (in %). In overall comparison, the ratio of total deposit on interest expanses was found highest as 0.460 of EBL in the Fiscal Year 2003/04 and the lowest was observed in the Fiscal Year 2007/08 as 0.0016 of SCBNL.

Comprising to the mean of entire banks of the table given above, it can be observed that EBL has the lowest ratio of interest expenses to total deposit than other Banks which indicates that the EBL Bank is successful to collect cheaper deposit than others.

Figure 4.8

Interest Expenses to Total Deposits Ratio



Interest Expanses to Total Expanses Ratio

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

Table 4.9

Interest Expanses to Total Expenses Ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
SCBNL	0.2636	0.2450	0.2729	0.1697	0.1679	0.2238
EBL	0.4932	0.4337	0.4841	0.4810	0.4438	0.4672
NABIL	0.2914	0.2455	0.2591	0.3194	0.3611	0.2953
NIBL	0.4286	0.3881	0.4419	0.4575	0.4831	0.4398

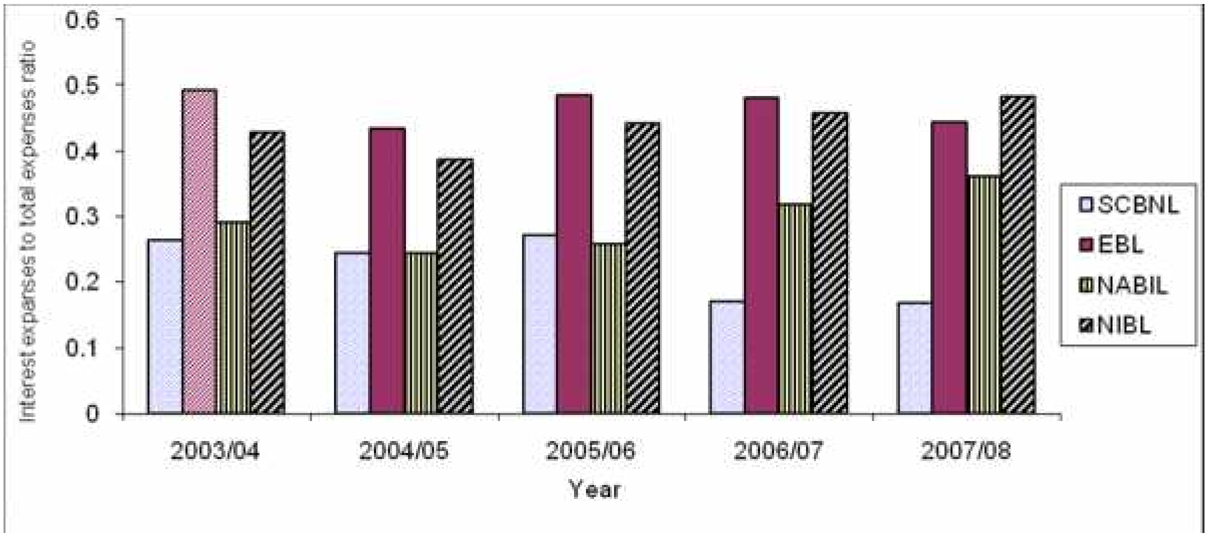
Source: Annual Report 2003-2008

Table 4.9 shows that the ratio in 5 years of SCBNL of total expenses of interest expenses was 0.2636, 0.2450, 0.2729, 0.1697, 0.1679 respectively. The ratio of EBL was 0.6503, 0.6291, 0.5038, 0.4810, 0.4438. Like wise, the ratio of total deposit on interest expanses of NABIL was 0.2914, 0.2455, 0.2591, 0.3194, 0.3611 whereas the ratio of NIBL was 0.4286, 0.3881, 0.4419, 0.4575 and 0.4831 respectively from the Fiscal Year 2003/04 to the Fiscal Year 2007/08 (in %). In the table, EBL bank has decreasing trend whereas the others have fluctuating trends. It has the highest ratio as 0.6503 in the Fiscal Year 2003/04.

Comprising to the mean of entire banks of the table given above, it can be observed that SCBNL has the lowest total expenses ratio of interest expenses (0.2238) than other Banks. It shows that decrease in the cost of the deposits, the volume of interest expenses ratio has been decreasing.

Figure 4.9

Interest Expanses to Total Expenses Ratio



III) Non- Interest Bearing Deposits to Total Deposits Ratio

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

Table 4.10

Non- Interest Bearing Deposits to Total Deposit Ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
SCBNL	0.2845	0.2375	0.2251	0.0214	0.2235	0.1984
EBL	0.1078	0.1171	0.0969	0.1076	0.1195	0.1098
NABIL	0.2134	0.2153	0.1693	0.1609	0.1795	0.062
NIBL	0.1551	0.1311	0.1048	0.1040	0.1086	0.1207

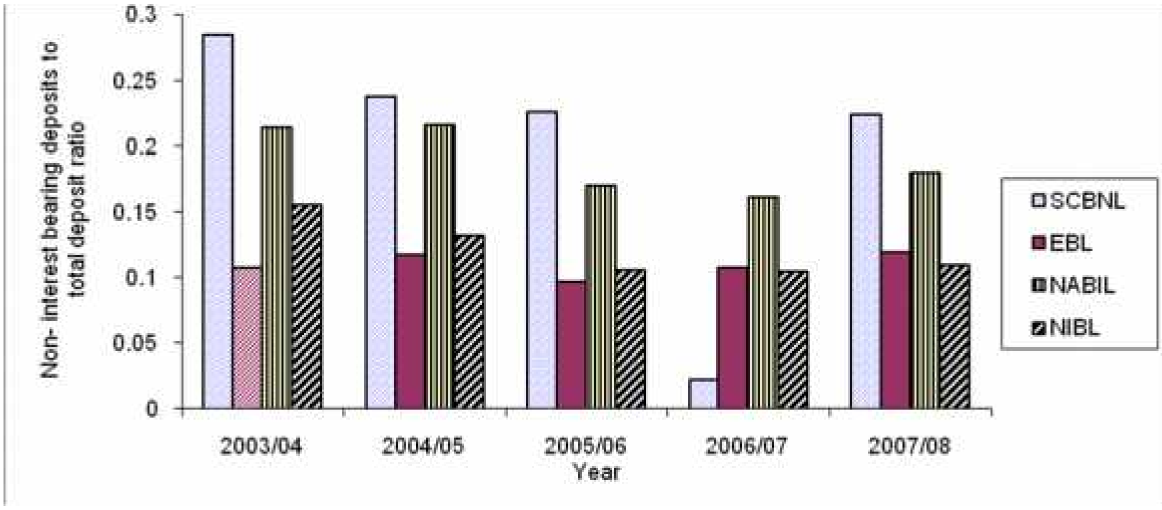
Source: Annual Report 2003-2008

Table 4.10 shows that non-bearing deposits of SCBNL 0.2845, 0.2375, 0.2251, 0.0214, 0.2235 respectively which was in fluctuating trend. The ratio of EBL was 0.1078, 0.1171, 0.0969, 0.1076, 0.1195. Like wise, the ratio of NABIL was observed to be 0.2134, 0.2153, 0.1693, 0.1609 and 0.1795 whereas NIBL has 0.1551, 0.1311, 0.1048, 0.1040 and 0.1086 in the Fiscal Year 2003/04 to the F.Y 2007/2008. According to the table SCBNL has the highest ratio as 0.2845 in the F.Y 2003/04 and NIBL has the lowest ratio 0.1040 in the F.Y 2006/07 and possess the fluctuating trend on the ratio.

From the mean observation, it can be said that SCBNL has the highest ratio of mean than others. In this way, the deposit mixture of SCBNL carries the highest level of interest bearing deposits in its deposit mixture which indicates that it is the most successful in collecting cheapest funds. The major portion of non-interest bearing deposit consists of current deposits and this deposit is particularly maintained by business enterprises.

Figure 4.10

Non- Interest Bearing Deposits to Total Deposit Ratio



IV) Interest Income to Total Income Ratio

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

Table 4.11

Interest Income to Total Income Ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
SCBNL	0.6580	0.6871	0.6762	0.2710	0.2644	0.5113
EBL	0.8372	0.8323	0.8471	0.8344	0.8294	0.8361
NABIL	0.7022	0.7076	0.7481	0.7587	0.7902	0.1676
NIBL	0.8005	0.7741	0.8025	0.7926	0.7978	0.7935

Source: Annual Report 2003-2008

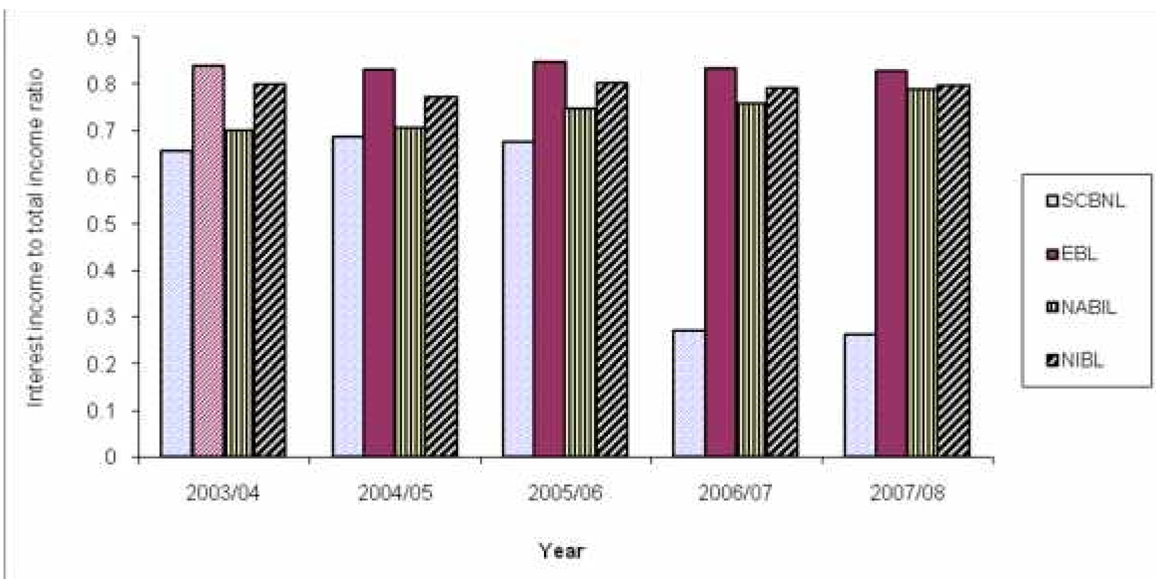
Table 4.11 shows from the SCBNL banks point of view, the ratio of interest income to total income in five Fiscal Years were 0.6580, 0.6871, 0.6762, 0.2710 and 0.2644 respectively. Same wise, EBL has 0.8372, 0.8323, 0.8471, 0.8344 and

0.8294. Likewise, the NABIL has 0.7022, 0.7076, 0.7481, 0.7587, 0.7902 whereas The NIBL bank has 0.8005, 0.7741, 0.8025, 0.7926 and 0.7978 respectively in the Fiscal Year 2003/04 to 2007/08. The highest ratio was obtained as 0.8700 of EBL in 2004/05 and the lowest was 0.2644 of SCBNL in 2007/08.

From the point of mean, it can be said that EBL has the high interest income to total income ratio than other banks. This shows that in total income of EBL was 83.78%, 51.13% of SCBNL, 16.67% of NABIL and 79.35% of NIBL. The lowest ratio of NABIL indicates its low dependency in fund-based activity. The highest ratio of EBL indicates greater dependency on fund-based activities.

Figure 4.11

Interest Income to Total Income Ratio



V) Interest from Loan, Advances and Overdraft to Total Interest Income Ratio

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

Table 4.12

Interest from Loan and Advances & Overdraft to Total Interest Income Ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
SCBNL	0.5354	0.5494	0.5015	0.5160	0.5484	0.5301
EBL	0.8568	0.8809	0.8532	0.8451	0.8586	0.8589
NABIL	0.7604	0.7783	0.7528	0.7352	0.7562	0.1733
NIBL	0.9065	0.8674	0.8226	0.8215	0.8692	0.8574

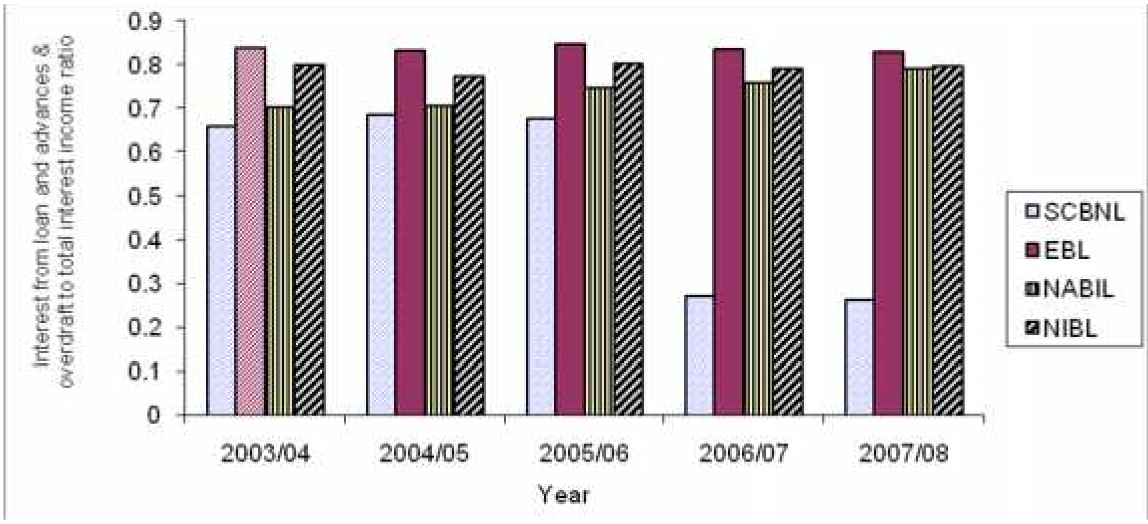
Source: Annual Report 2003-2008

Table 4.12 shows from the SCBNL banks point of view, the ratio of interest from loan and advances and overdraft to total interest income in five Fiscal Years were 0.5354, 0.5494, 0.5015, 0.5160 and 0.5484 respectively. Same wise, EBL has0.8568, 0.8809, 0.8532, 0.8451 and 0.8586. Likewise, the NABIL has 0.7604, 0.7783, 0.7528, 0.7352, 0.7562 whereas The NIBL bank has 0.9065, 0.8674, 0.8226, 0.8215 and 0.8692 respectively in the Fiscal Year 2003/04 to 2007/08. The highest ratio was obtained as 0.9065 of NIBL in 2003/04 and the lowest was 0.5015 of SCBNL in 2005/06.

From the point of mean, EBL has the greatest ratio than of other three banks and NABIL possess the lowest ratio. It shows that EBL is strong to mobilize the loan and advances and overdraft to earn interest than the others. Also EBL is able to earn high interest on its total interest income in comparison.

Figure 4.12

Interest from Loan and Advances & Overdraft to Total Interest Income Ratio



VI) Interest Suspense to Interest Income from Loans & Advances Ratio

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

Table 4.13

Interest Suspense to Interest Income from Loans & Advances Ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
SCBNL	0.3001	0.2625	0.2987	0.2743	0.1420	0.2555
EBL	0.0782	0.1533	0.1741	0.1426	0.1160	0.1328
NABIL	0.2171	0.2182	0.1677	0.1421	0.1294	0.0214
NIBL	0.0449	0.0700	0.1105	0.0924	0.0797	0.0795

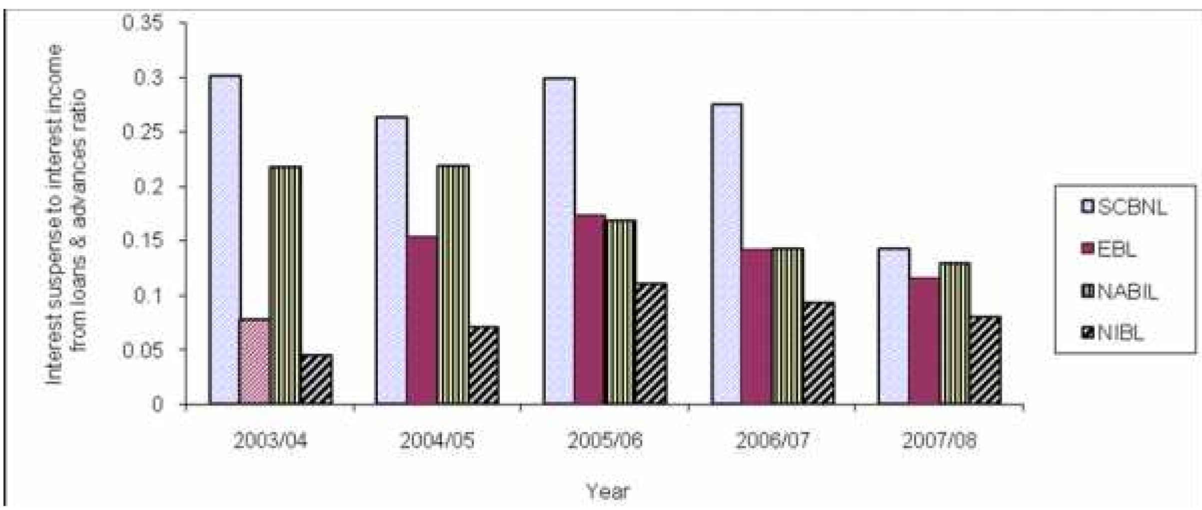
Source: Annual Report 2003-2008

Table 4.13 shows the ratio of interest income from loans and advances in interest suspense in five Fiscal Years were 0.3001, 0.2625, 0.2987, 0.2743 and 0.1420 respectively. EBL has 0.0.782, 0.1533, 0.1741, 0.1426 and 0.1160. Likewise, the NABIL has 0.2171, 0.2182, 0.1677, 0.1421 and 0.1294 whereas The NIBL bank has 0.0449, 0.0700, 0.1105, 0.0924 and 0.0797 respectively in the Fiscal Year 2003/04 to 2007/08. The highest ratio was obtained as 0.3001 of SCBNL in 2003/04 and the lowest was 0.0700 of NIBL in 2004/05.

From the point of mean, it can be said that SCBNL has the higher interest suspense to interest income from loans and advances ratio than other banks. If there is increasing trend of this ratio, the volume of non-performing loans will increase resulting bad interest turnover, which will ultimately lead to failure of the banks. From the above analysis on table 4.13, SCBNL has the best performance rather than the other three banks in comparison.

Figure 4.13

Interest Suspense to Interest Income from Loans & Advances Ratio



4.2 Relationship of Loans and Net profit

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

For the research purposes, net profit and loans during study period (5yrs) are averaged to get profit and loans variable. After getting profit and loans variable, the data are analyzed using person's correlations coefficient. The following table presents the correlation coefficient of the profit and loans during study period.

Table 4.14

Relation of Loans & Advances and Net Profit in NABIL: Correlation Matrix

		Loans	Net Profit
Loans	Pearson Correlation	1	0.9543
	N	5	5
Net Profit	Pearson Correlation	0.9543	1
	N	5	5

Source: Annual Report 2003-2008

The table 4.14 presents the correlation coefficient between loans and net profit during study period. The calculated Pearson’s correlation coefficient was found 0.9543, which is high degree of correlation. It indicates that loans and net profit were found high related with each other. That means, increasing loans helps to increase the net profit whereas increase in loans, decrease the net profit. Similarly, coefficient of determination was found to be 0.9106 which indicates that 91.06% of the total changes in profit had been determined by loan. Loans have high influence on the net profit of NABIL Bank. Effective loans management directly affects the net profit of the NABIL Bank. Effective loans management helps to increase and stable the net profit of the NABIL Bank. No exception is found in case of NABIL Bank. Thus, it is logical to review the impact of various components of working on net profit.

Table 4.15

Relation of Loans & Advances and Net Profit in SCBNL:- Correlation Matrix

		Loans	Net Profit
Loans	Pearson Correlation	1	0.8531
	N	5	5
Net Profit	Pearson Correlation	0.8531	1
	N	5	5

Source: Annual Report 2003-2008

The table 4.15 presents the correlation coefficient between loans and net profit during study period. The calculated Pearson's correlation coefficient was found 0.8531, which is high degree of correlation. It indicates that loans and net profit were found high related with each other. That means, increasing loans helps to increase the net profit whereas increase in loans, decrease the net profit. Similarly, coefficient of determination was found to be 0.7278 which indicates that 72.78% of the total changes in profit had been determined by loan. Loans have high influence on the net profit of SCBNL Bank. Effective loans management directly affects the net profit of the SCBNL Bank. Effective loans management helps to increase and stable the net profit of the SCBNL Bank. No exception is found in case of SCBNL Bank. Thus, it is logical to review the impact of various components of working on net profit.

Table 4.16

Relation of Loans & Advances and Net Profit in EBL: - Correlation Matrix

		Loans	Net Profit
Loans	Pearson Correlation	1	0.9903
	N	5	5
Net Profit	Pearson Correlation	0.9903	1
	N	5	5

Source: Annual Report 2003-2008

The table 4.16 presents the correlation coefficient between loans and net profit during study period. The calculated Pearson's correlation coefficient was found 0.9903, which is high degree of correlation. It indicates that loans and net profit were found high related with each other. That means, increasing loans helps to increase the net profit whereas increase in loans, decrease the net profit. Similarly, coefficient of determination was found to be 0.9807 which indicates that 98.07% of the total changes in profit had been determined by loan. Loans have high influence on the net profit of EBL Bank. Effective loans management directly affects the net profit of the EBL Bank. Effective loans management helps to increase and stable the net profit of the EBL Bank. No exception is found in case of EBL Bank. Thus, it is logical to review the impact of various components of working on net profit.

Table 4.17

Relation of Loans & Advances and Net Profit in NIBL: - Correlation Matrix

		Loans	Net Profit
Loans	Pearson Correlation	1	0.9898
	N	5	5
Net Profit	Pearson Correlation	0.9898	1
	N	5	5

Source: Annual Report 2003-2008

The table 4.17 presents the correlation coefficient between loans and net profit during study period. The calculated Pearson's correlation coefficient was found 0.9898, which is positive correlation. It indicates that loans and net profit were found high related with each other. That means, increasing loans helps to increase the net profit whereas increase in loans, decrease the net profit. Similarly, coefficient of determination was found to be 0.9797 which indicates that 97.97% of the total changes in profit had been determined by loan. Loans have high influence on the net profit of NIBL Bank. Effective loans management directly affects the net profit of the NIBL Bank. Effective loans management helps to increase and stable the net profit of the NIBL Bank. No exception is found in case of NIBL Bank. Thus, it is logical to review the impact of various components of working on net profit.

4.3 Relationship between loans & advances and Non- performing Loan in NABIL: - Correlation Matrix

Table 4.18

Relationship between Loans & Advances and Non- Performing Loan in NABIL: - Correlation Matrix

		Loans	Non- Performing Loan
Loans	Pearson Correlation	1	0.5216
	N	5	5
Non- Performing Loan	Pearson Correlation	0.5216	1
	N	5	5

Source: Annual Report 2003-2008

Table 4.18 presents the correlation coefficient between non- performing loan and loans during study period. The calculated Pearson's correlation coefficient was found 0.5216, which shows positive correlation. It indicates that non- performing loans and loans were positively correlated with each other. That means, decreasing non- performing loan results loans and vice versa in loans management. Coefficient of determination was found 0.2721 which indicates that 27.21% total charge in loans management has been positively determined by non- performing loans.

Loan management has been positively influenced by non- performing loans. Effectively loans management helps to decrease the non- performing loans. Exception is found in case of NABIL banks. Thus it is logical to review the impact of various components of working in loans management.

Table 4.19

Relationship between Loans & Advances and Non- Performing Loan in SCBNL: - Correlation Matrix

		Loans	Non- Performing Loan
Loans	Pearson Correlation	1	-0.9753
	N	5	5
Non- Performing Loan	Pearson Correlation	-0.9753	1
	N	5	5

Source: Annual Report 2003-2008

The Table 4.19 presents the correlation coefficient between non- performing loan and loans during study period. The calculated Pearson's correlation coefficient was found -0.9753, which shows highly negative correlation. It indicates that non-performing loans and loans were highly negatively correlated with each other. That means, decreasing non- performing loan results loans and vice versa in loans management. Coefficient of determination was found 0.9512 which indicates that 95.12% total charge in loans management has been negatively determined by non-performing loans.

Loan management has been negatively influenced by non- performing loans. Effectively loans management helps to decrease the non- performing loans. No exception is found in case of SCBNL banks. Thus it is logical to review the impact of various components of working in loans management.

Table 4.20

Relationship between Loans & Advances and Non- Performing Loan in EBL: - Correlation Matrix

		Loans	Non- Performing Loan
Loans	Pearson Correlation	1	0.4915
	N	5	5
Non- Performing Loan	Pearson Correlation	0.4915	1
	N	5	5

Source: Annual Report 2003-2008

The Table 4.20 presents the correlation coefficient between non- performing loan and loans during study period. The calculated Pearson's correlation coefficient was found 0.4915, which shows negative correlation. It indicates that non-performing loans and loans positively correlated with each other. That means, decreasing non- performance in loans management. Coefficient of determination was found 0.0.2416 which indicates that 24.16% total charge in loans management has been positively determined by non- performing loans.

Loan management has been positively influenced by non- performing loans. Effectively loans management helps to decrease the non- performing loans. Exception is found in case of EBL banks. Thus it is logical to review the impact of various components of working in loans management.

Table 4.21

Relationship between Loans & Advances & Non- Performing Loan in NIBL:- Correlation Matrix

		Loans	Non- Performing Loan
Loans	Pearson Correlation	1	0.5557
	N	5	5
Non- Performing Loan	Pearson Correlation	0.5557	1
	N	5	5

Source: Annual Report 2003-2008

The Table 4.21 presents the correlation coefficient between non- performing loan and loans during study period. The calculated Pearson's correlation coefficient was found 0.5557, which shows positively correlation. It indicates that non-performing loans and loans were highly positively correlated with each other. That means, decreasing non- performing loan results loans and vice versa in loans management. Coefficient of determination was found 0.3088 which indicates that 30.88% total charge in loans management has been positively determined by non-performing loans.

Loan management has been positively influenced by non- performing loans. Effectively loans management helps to decrease the non- performing loans. Exception is found in case of NIBL banks. Thus it is logical to review the impact of various components of working in loans management.

4.4 Major Findings of the Study

From the analysis of the data, this section deals about the meaningful on credit management in selected commercial banks. The financial conditions of the selected banks in terms of their creditability were designed to assess from the study for the primary objectives. It was also specified to explore the position of the banks at their environment. Both secondary as well as primary sources of information were used to meet the stated objectives of the study. Followings are the details of the finding are presented as below:

1. From the Stand Point of Credit Practice

- The credit practices of SCBNL in terms of total loans to deposit ratio is found to be the highest more than the others (i.e 0.4115). It indicates that the SCBNL has been strong to mobilize its total deposit as loan. In terms of interest income to loan and advances ratio SCBNL has the highest mean scores of 0.4115 than of others. From the point of view SCBNL has the best performance in earning interest income.
- Leading policy of EBL with regard to non-performing loans to total loans and advances was found to be the lowest with the mean value with 0.019 as compare to the other commercial banks. The result indicates that if non-performing loan increases, the overall banking business will be affected negatively.
- The ratio of loans and advances to total assets was found greater in EBL in comparison with other commercial banks shows the good lending performance of EBL, and in terms of loan and advances to current assets

ratio, EBL again has highest mean than that of 5.008. This means that EBL has relatively better practice in short term lending process.

- Lending policy of EBL in terms of loan loss provision to total loans and advances was found relatively better than that of SCBNL, NABIL and NIBL. The mean point of EBL was found lower than that of other banks i.e 0.0203<0.0244<0.0293<0.1017. The result indicates that the low degree of the ratio shows not only the strong and effective credit policy but also healthy performance of the country in the field of banking sectors.

2. From the Stand Point of Credit Efficiency

- Efficiency measurement of selected banks in terms of total assets to liability was found better for SCBNL. The mean score value for the four commercial banks, SCBNL, EBL, NABIL, NIBL was found 1.0759, 0.2152, 0.2582, 0.3099 respectively. The result indicates that the SCBNL is able to utilize its fund most successfully than other three commercial banks.
- Efficiency measurement reveals that the ratio for EBL with regard to interest expenses to total deposit is found relatively lower in comparison to others i.e.0.0023. This implies that EBL is successful to collect cheaper deposit than the rest three banks. But the interest expenses to total expenses ratio of SCBNL has observed lowest than ratios of others. This decrease ratio, here, can mean that cost of deposit is also decreasing in terms of credit efficiency.
- The ratio of non-interest bearing deposits to total deposits is found highest i.e. 0.1984 in SCBNL. From this analysis SCBNL can be viewed as the most successful in collecting cheapest fund in the form of current deposit that creates from the deposit acceptance from business enterprises. However, high current amount deposit may adversely affect the bank at the time of adverse situation.
- The result of interest income to total income ratio for 0.8378 is found higher of EBL than other three major commercial banks. It indicates that the higher

ratio of EBL shows its high dependency on fund-based activities. The ratio of interest from loan and advances to total interest income of EBL is also found higher(0.8663), indicating that this bank is strong to mobilize the loan and advances to earn interest and also make more impact on total income.

- NABIL has low degree of ratio of interest suspense to interest income from loans and advances observed 0.0214. The low degree of ratio of NABIL shows that it has high interest turnover. The decreasing ratio is also the symbol of effectiveness.

The overall evaluation of selected banks on the basis of credit efficiency measurements provides the controversial result towards the all four commercial banks. The ratio of interest expenses to total deposits seems to be the better for EBL, interest expenses to total expenses and non-interest bearing deposits to total deposits seems to be better for SCBNL whereas the ratio of interest suspense to interest income from loans and advances were observed better for NABIL.

3. From the Stand Point of Correlation Analysis

- The correlation coefficient between loan and net profit of SBNL was 85.31% means moderate relationship between loan and net profit was high whereas NABIL has 95.43%, 99.03% and NIBL has 98.98%. But EBL has 99.03% and it shows the high relationship between loan and net profit among these four commercial banks. In the same way, coefficient of determination of EBL was found 98.07%, NABIL has 91.06%, SBNL has 72.78% and NIBL has 97.97% of total change in net profit by total loan in all these commercial banks. The profit is highly determined by loan in EBL in compared to others.
- In the same way, correlation of loan and non-performing loan was found to be -97.53%, 49.15%, 52.16%, 55.57% in SCBNL, EBL, NABIL, NIBL respectively. That means the trend of increasing volume of loan decreases the non-performing loan at high level in all these four commercial banks during

study period. Similarly, coefficient of determination was stood as 0.2721. 0.9512, 0.2416 and 0.3088 of SCBNL, EBL, NABIL, NIBL respectively indicates that 27.21% of total change in loan has been explained by non-performing loan in SCBNL , 95.12% total change in EBL, 24.16% total change in NABIL and 30.88% was total change in loan has been determine by non-performing loan in NIBL.

CHAPTER - V

SUMMARY, CONCLUSION & RECOMMENDATIONS

This chapter is a complete conclusion and suggestion package. Which contains summary conclusion of the finding and actionable plans. This would be meaningful to the top management of the banks to indicate an action and achieve the desire result. The present study has been designed to overcome the issues relating to credit management in commercials banks. It was aimed to find out comparative credit management in NABIL, SCBNL, EBL & NIBL bank. The prime components of credit management is the financial condition in terms of leading practices, industrial environment of that bank and the management quality in terms of credit management, designed for to meet the objectives. Present study successfully explored the financial condition in terms of credit management of selected banks, industry environment of these banks and management quality to support credit management. It is clear evident that the bank having good financial position or condition has good industrial environment and high quality of management.

5.1 Summary

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

The first chapter of the study deals about basic assumption of the study. Basically it highlights the concept and importance or significance of the study. It also presents research issues, research problems, basic objectives of the study, limitation of the study, process of the study and introduction of the study. Lastly, it discuss about the organizational structure of the study.

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

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

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

The cursory observation of these selected banks in terms of credit practices reveals that except that for interest income to loan and advances ratio (which is observed to be better for SCBNL Bank), all the other ratios proves that NABIL and EBL Banks seems to best lending performance. It does not mean that SCBNL have not well performance in credit practices but in overall evaluation the results shows that the lending practice of NABIL and EBL was founded relatively better position than SCBNL Bank.

The overall evaluation of selected banks on the basis of credit efficiency measurements provides the controversial results towards the SCBNL, EBL, NABIL and NIBL Banks. The ratio of interest expenses to total deposits, interest expenses to total expenses and non-interest bearing deposits to total deposits seems to be better for SCBNL whereas total assets to liability, interest income and interest income to total income is favorable to and interest from loan and advances to total income is favorable to EBL. Interest suspense to total interest income from loan and advances ratios is more favorable to the SCBNL. However, credit efficiency measurement variable adopted by the banks may differ from banks to banks.

The correlation coefficient between loan and net profit of SBNL was 85.31% means moderate relationship between loan and net profit was high whereas NABIL has 95.43%, 99.03% and NIBL has 98.98%. But EBL has 99.03% and it shows the high relationship between loan and net profit among these four commercial banks. In the same way, coefficient of determination of EBL was found 98.07%, NABIL has 91.06%, SBNL has 72.78% and NIBL has 97.97% of total change in net profit by total loan in all these commercial banks. The profit is highly determined by loan in EBL in compared to others. In the same way, correlation of loan and non-performing loan was found to be -97.53%, 49.15%, 52.16%, 55.57% in SCBNL, EBL, NABIL, NIBL respectively. That means the trend of increasing volume of loan decreases the non-performing loan at high level in all these four commercial banks during study period. Similarly, coefficient of determination was stood as 0.2721. 0.9512, 0.2416 and 0.3088 of SCBNL, EBL, NABIL, NIBL respectively indicates that 27.21% of total change in loan has been explained by non-performing loan in SCBNL , 95.12% total change in EBL, 24.16% total change in NABIL and 30.88% was total change in loan has been determine by non-performing loan in NIBL.

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

5.2 Conclusion

The present study successfully explored the result to meet the stated objectives of the study and found meaningful. The result showed that a credit practice of SCBNL and EBL was found relatively better in comparison to the other commercial banks because the most of the credit practices scored the better position in SCBNL and EBL whereas, credit efficiency measurement provides controversial result towards the banks. However it was found better in SCBNL because most of the ratio designed for the study supported the SCBNL. The correlation between loan and advances to net profit was found in moderate level in EBL and high degree in SCBNL. Likewise, the correlation between loan and non-performing loan was found high negative degree in SCBNL. The impact of loan and advances to net profit and impact of non-performing loan and performing loan to net profit was found higher in NIBL during the study period.

5.3 Recommendations

The present study can be valuable pieces of research works in credit management topic. It explored the existing situation and identified the various components for further improvement in credit management. Secondary sources of information are used for fulfilling the objectives. It may be useful for academicians, parishioners, especially to bank management and/or any others who are directly or indirectly involved in banking activities. Based on the findings of the study, the researcher recommended highlighting the guidelines to put forward for further improvement.

1. The credit practice of SCBNL and EBL was found relatively better than others during the study period. It is suggested to the other commercial banks

for the better improvement. Similarly, interest income from loan and advances was found greater in EBL. The main source of income is based on loan and advances. Thus, proper level of portfolio should be maintained so that profitability position will be maximized.

2. The credit efficiency measurement provides controversial result towards the banks. However it was found better in SCBNL because most of the ratio designed for the study supported the SCBNL. This analysis shows that the banks used its fund in diversified sectors, is successful to collect cheaper deposit as well as successful to manage loan and advances. Thus, it is suggested to maintain proper level of balance for all the banks.
3. The relationship between loan and advances to non-performing loan was found negative in SCBNL. It indicates that SCBNL has effectively managed its loan and advances. The impact of performing loan and non-performing loan on net profit was found positive values for all the selected banks. But still, SCBNL needs to manage its loan effectively so as to reduce the non-performing loan amount.
4. All the commercial banks (selected) are concentrating their operation in urban areas. Most of the people who live in rural areas are not benefited from these successful and giant commercial banks. Thus, they should think about expanding their business and operations to rural areas too. This will provide financial support to rural households and raise their standard of living.
5. Although there is major political instability in the recent economic scenario of the country, the government has to encourage the coming up new entrepreneurs, encourage the small-scale industries, should give priority to export to export business, and encourage foreign investors. The bank in return should extend support from their side in every possible way.
6. Future researchers are recommended to focus into non financial performance indicators such as job satisfaction, service quality performance, customers' satisfaction, stakeholders support, government rating, supervisor's teamwork, human resource development, human resource planning, human resource management, job designation etc.

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Annex
Loan & Advances to Total Assets Ratio

NABIL

F/Y	Loan & advances	Total assets	Ratios
2003/04	8189992851	16745486638	0.489086584
2004/05	10586170002	17186330816	0.615964519
2005/06	12922543153	22329971078	0.578708459
2006/07	15545778730	27253393008	0.570416268
2007/08	21365053318	37132759149	0.575369399

SCBNL

F/Y	Loan & advances	Total assets	Ratios
2003/04	6410242081	23642059790	0.271137208
2004/05	8143207783	21893578211	0.371945038
2005/06	8935417810	25776332320	0.346652026
2006/07	10502637135	28596689451	0.367267587
2007/08	13718597132	33335788336	0.411527605

EBL

F/Y	Loan & advances	Total assets	Ratios
2003/04	5884122609	9608570861	0.612382704
2004/05	7618671476	11732516418	0.649363803
2005/06	9801307676	15959284686	0.614144548
2006/07	13664081665	21432574300	0.637538052
2007/08	18339085562	27149342884	0.675489114

NIBL

F/Y	Loan & advances	Total assets	Ratios
2003/04	6917796616	13255496016	0.521881385
2004/05	9933084423	16274063706	0.610362882
2005/06	12776208037	21330137542	0.598974480
2006/07	17286427389	27590844761	0.626527659
2007/08	26996652258	38863306084	0.6944656605

Total Assets to Liabilities Ratio

NABIL

F/Y	Total assets	Liabilities	Ratios
2003/04	16745486638	15263804335	1.097071626
2004/05	17186330816	15528692508	1.106746805
2005/06	22329971078	20454976661	1.091664461
2006/07	27253393008	25196343293	1.081640804
2007/08	37132759149	34695560160	1.070245270

SCBNL

F/Y	Total assets	Liabilities	Ratios
2003/04	23642059790	22146320779	1.067538939
2004/05	21893578211	20311162795	1.077908657
2005/06	25776332320	24022193543	1.073021590
2006/07	28596689451	26480336090	1.079921696
2007/08	33335788336	30843240340	1.080813428

EBL

F/Y	Total assets	Liabilities	Ratios
2003/04	9608570861	8928252318	1.076198400
2004/05	11732516418	10899899053	1.076387622
2005/06	15959284686	14996476386	1.064202302
2006/07	21432574300	20231059034	1.059389638
2007/08	27149342884	25228105304	1.076154652

NIBL

F/Y	Total assets	Liabilities	Ratios
2003/04	13255496016	12526482990	1.058197742
2004/05	16274063706	15093960704	1.078183787
2005/06	21330137542	19914697827	1.071075129
2006/07	27590844761	25712721223	1.073042582
2007/08	38873306084	36186520036	1.074248257

Loan & Advances to Current Assets Ratio

NABIL

F/Y	Loan & advances	Current Assets	Ratios
2003/04	8189992851	1889219943	4.335118778
2004/05	10586170002	1427808921	7.414276411
2005/06	12922543153	2365140526	5.463752781
2006/07	15545778730	1963358483	7.917952256
2007/08	21365053318	4623501754	4.620967928

SCBNL

F/Y	Loan & advances	Current Assets	Ratios
2003/04	6410242081	4241763149	1.511221126
2004/05	8143207783	3370807894	2.415802988
2005/06	8935417810	2578742423	3.465029206
2006/07	10502637135	3782172568	2.776879412
2007/08	13718597132	4247780814	3.229591576

EBL

F/Y	Loan & advances	Current Assets	Ratios
2003/04	5884122609	819249931	7.182329087
2004/05	7618671476	1619989208	4.702914957
2005/06	9801307676	1619927493	6.050460726
2006/07	13664081665	2239142059	6.102373724
2007/08	18339085562	3013971830	6.084690434

NIBL

F/Y	Loan & advances	Current Assets	Ratios
2003/04	6917796616	1536922910	4.501069358
2004/05	9933084423	1480480845	6.709363689
2005/06	12776208037	2406521396	5.308994416
2006/07	17286427389	2804484200	6.163852657
2007/08	26996652258	20144941568	1.340120653

Loan Loss Provision to Total Loan & Advances Ratio

NABIL

F/Y	Loan loss provision	Total Loan & Advances	Ratios
2003/04	358664187	8189992851	0.043792979
2004/05	360566575	10586170002	0.034060153
2005/06	356239106	12922543153	0.027567260
2006/07	357245035	15545778730	0.022980196
2007/08	394407016	21365053318	0.018460381

SCBNL

F/Y	Loan loss provision	Total Loan & Advances	Ratios
2003/04	283620230	6410242081	0.044244855
2004/05	277661010	8143207783	0.034097252
2005/06	270862401	8935417810	0.030313345
2006/07	287511222	10502637135	0.027375146
2007/08	245386620	13718597132	0.017887151

EBL

F/Y	Loan loss provision	Total Loan & Advances	Ratios
2003/04	211718478	5884122609	0.035598131
2004/05	281418795	7618671476	0.036938040
2005/06	334946772	9801307676	0.034173682
2006/07	418604423	13664081665	0.030635387
2007/08	497346200	18339085562	0.027119466

NIBL

F/Y	Loan loss provision	Total Loan & Advances	Ratios
2003/04	206296249	6911796616	0.029846979
2004/05	325159170	9933084423	0.032734965
2005/06	410943787	12776208037	0.032164770
2006/07	482672514	17286427389	0.027922051
2007/08	532652478	26996652258	0.019730316

Interest Expenses to Total Expenses Ratio

NABIL

F/Y	Interest expenses	Total expenses	Ratios
2003/04	282947633	971123979	0.291360979
2004/05	243544611	992048481	0.245496683
2005/06	357161304	1378691378	0.259058198
2006/07	555710109	1739938201	0.319384969
2007/08	758436212	2100091764	0.361144320

SCBNL

F/Y	Interest expenses	Total expenses	Ratios
2003/04	275809176	1046207844	0.263627517
2004/05	254126645	1037070545	0.245042776
2005/06	303198419	1111099128	0.272881520
2006/07	413055152	2433906020	0.169708752
2007/08	471729700	2809549473	0.167902258

EBL

F/Y	Interest expenses	Total expenses	Ratios
2003/04	316366263	641492072	0.493172522
2004/05	299565269	690744370	0.433684706
2005/06	401397351	829219283	0.484066590
2006/07	517166241	1075091126	0.481044098
2007/08	632609264	1425454207	0.443794870

NIBL

F/Y	Interest expenses	Total expenses	Ratios
2003/04	326202325	761042883	0.428625420
2004/05	354549207	913481355	0.388129659
2005/06	490946961	1110892449	0.441939237
2006/07	685530264	1498364594	0.457518996
2007/08	992158398	2053676312	0.483113328

Non- Interest Bearing Deposit to Total Deposit Ratio

NABIL

F/Y	Non-interest bearing deposits	Total deposits	Ratios
2003/04	3012933088	14119032115	0.213395158
2004/05	3140410593	14586608707	0.215294086
2005/06	3276385918	19347399440	0.169345029
2006/07	3758107748	23342285327	0.160999992
2007/08	5727554250	31915047467	0.179462501

SCBNL

F/Y	Non-interest bearing deposits	Total deposits	Ratios
2003/04	6020121274	21161441728	0.284485403
2004/05	4592917196	19335094726	0.237543041
2005/06	5191359323	23061032081	0.225113920
2006/07	5280635501	24647020755	0.214250459
2007/08	6648604776	29743998794	0.223527604

EBL

F/Y	Non-interest bearing deposits	Total deposits	Ratios
2003/04	869748111	8063902086	0.107856978
2004/05	1182537634	10097690989	0.117109707
2005/06	1337578966	13802444988	0.096908842
2006/07	1956840019	18186253541	0.107599953
2007/08	2865612294	23976298535	0.119518544

NIBL

F/Y	Non-interest bearing deposits	Total deposits	Ratios
2003/04	1787088357	11524679645	0.155066207
2004/05	1869059344	14254573663	0.131119975
2005/06	1984144317	18927305974	0.104829727
2006/07	2546691757	24488855696	0.103993906
2007/08	3741630135	34451726191	0.108605012

Interest income to total income ratio

NABIL

F/Y	Interest income	Total income	Ratios
2003/04	1001616901	1426330907	0.702233189
2004/05	1068746769	1510448268	0.707569264
2005/06	1309998500	1751212283	0.748052371
2006/07	1587758714	2092811636	0.758672537
2007/08	1978696727	2504038548	0.790202183

SCBNL

F/Y	Interest income	Total income	Ratios
2003/04	1042175628	1583816937	0.658015206
2004/05	1058677576	1540790237	0.687100392
2005/06	1189602957	1777252991	0.669349250
2006/07	1411981867	5215226827	0.270742177
2007/08	1591195526	6046840179	0.263144961

EBL

F/Y	Interest income	Total income	Ratios
2003/04	657249073	785058755	0.837197304
2004/05	719296855	864211917	0.832315363
2005/06	903411137	1066510218	0.847072182
2006/07	1144408308	1371500407	0.834420684
2007/08	1548657132	1867227705	0.829388471

NIBL

F/Y	Interest income	Total income	Ratios
2003/04	731402930	913713859	0.800472624
2004/05	886799959	1145628453	0.774072918
2005/06	1172742193	1461428862	0.802462729
2006/07	1584987354	1999763447	0.792587421
2007/08	2194275722	2750307828	0.797829137

Interest from loan, advances & overdraft to total interest income ratio

NABIL

F/Y	Interest from loan, advances & overdraft	Total interest income	Ratio
2003/04	761616605	1001616901	0.760387134
2004/05	831829635	1068746769	0.778322479
2005/06	986231566	1309998500	0.752849386
2006/07	1167255366	1587758714	0.735159162
2007/08	1496243925	1978696727	0.756176479

SCBNL

F/Y	Interest from loan, advances & overdraft	Total interest income	Ratio
2003/04	558006372	1042175628	0.535424507
2004/05	581664037	1058677576	0.549425104
2005/06	596622321	1189602957	0.501530630
2006/07	728588546	1411981867	0.516004180
2007/08	872690380	1591195526	0.548449493

EBL

F/Y	Interest from loan, advances & overdraft	Total interest income	Ratio
2003/04	563137120	657249073	0.856809303
2004/05	633624534	719296855	0.880894348
2005/06	770826560	903411137	0.853240046
2006/07	967177963	1144408308	0.845133644
2007/08	1329694619	1548657132	0.858611368

NIBL

F/Y	Interest from loan, advances & overdraft	Total interest income	Ratio
2003/04	663016258	731402930	0.906499319
2004/05	769195061	886799959	0.867382833
2005/06	964689365	1172742193	0.822592869
2006/07	1302121998	1584987354	0.821534629
2007/08	1907261454	2194275722	0.861986310

Interest suspense to total interest income from loan & advances ratio

NABIL

F/Y	Interest suspense	Total interest income from loan & advances	Ratio
2003/04	112447523	517962940	0.217095692
2004/05	122307801	560469027	0.218224014
2005/06	109673450	653811235	0.167744823
2006/07	112186850	789386811	0.142118982
2007/08	128043421	989764860	0.129367516

SCBNL

F/Y	Interest suspense	Total interest income from loan & advances	Ratio
2003/04	146566546	488378563	0.300108475
2004/05	133460066	508389523	0.262515374
2005/06	160694438	537977424	0.298701081
2006/07	182452998	665157608	0.274300400
2007/08	115480631	813194903	0.142008552

EBL

F/Y	Interest suspense	Total interest income from loan & advances	Ratio
2003/04	24092000	308256983	0.078155569
2004/05	59609591	388739064	0.153340882
2005/06	79923994	459167548	0.174062811
2006/07	83373555	584479080	0.142645918
2007/08	92216004	794889029	0.116011670

NIBL

F/Y	Interest suspense	Total interest income from loan & advances	Ratio
2003/04	21984375	489716862	0.044892011
2004/05	38384472	548404945	0.069992936
2005/06	77940920	705556139	0.110467354
2006/07	90440382	979284933	0.092353491
2007/08	99520485	1249470914	0.079650101

Calculation for correlation coefficient between loans and net profit

NABIL

(In Rs. Million)

F/Y	Loans & advances(X)	Net profit(Y)
2003/04	8549	455
2004/05	10947	520
2005/06	13279	635
2006/07	15903	674
2007/08	21759	746

SCBNL

(In Rs. Million)

F/Y	Loans & advances(X)	Net profit(Y)
2003/04	6693	158
2004/05	8420	157
2005/06	9206	658
2006/07	10790	691
2007/08	13963	818

EBL

(In Rs. Million)

F/Y	Loans & advances(X)	Net profit(Y)
2003/04	6095	143
2004/05	7900	170
2005/06	10136	237
2006/07	14082	296
2007/08	18836	451

NIBL

(In Rs. Million)

F/Y	Loans & advances(X)	Net profit(Y)
2003/04	7338	152
2004/05	10258	232
2005/06	13178	350
2006/07	17769	501
2007/08	27529	696

Calculation for Correlation Coefficient between Loans & Advances & Non-Performing Loan

NABIL

(In Rs. Million)

F/Y	Loans & advances(X)	Non-performing(Y)
2003/04	8549	132
2004/05	10947	144
2005/06	13279	182
2006/07	15903	178
2007/08	21759	161

SCBNL

(In Rs. Million)

F/Y	Loans & advances(X)	Non-performing(Y)
2003/04	6693	251
2004/05	8420	225
2005/06	9206	194
2006/07	10790	196
2007/08	13963	127

EBL

(In Rs. Million)

F/Y	Loans & advances(X)	Non-performing(Y)
2003/04	6095	104
2004/05	7900	135
2005/06	10136	127
2006/07	14082	112
2007/08	18836	126

NIBL

(In Rs. Million)

F/Y	Loans & advances(X)	Non-performing(Y)
2003/04	7338	181
2004/05	10258	280
2005/06	13178	272
2006/07	17769	421
2007/08	27529	309