CHAPTER I
INTRODUCTION

1. General Background

A competitive, efficient, and healthy financial system is vital for enhancing growth, efficiency and maintaining stability of the overall economy. It is essential for the healthy sustainable growth of the country. As an economy grows and matures, its financial sector must grow with it. It must be able to meet the increasingly sophisticated demands that are placed on it. A well developed financial system promotes investment and credit activities by identifying and financing lucrative business opportunities, mobilizing savings, efficiently allocating resources, helping diversify risks and facilitating the exchange of goods and services. Within a short span of time, Nepalese financial system has grown significantly both in terms of business volume and the size of markets. A number of financial institutions with varied nature of operation have come into existence offering a wide range of financial services.

Credit is also a main financial service which a bank offers. A good credit line helps a bank to boost its profit and vice versa. So, Credit is defined as a contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company. Credit, in commerce and finance, is a term used to denote transactions involving the transfer of money or other property on promise of repayment, usually at a fixed future date. The transferor thereby becomes a creditor, and the transfer, a debtor; hence credit and debt are simply terms describing the same operation viewed from opposite standpoints. An accounting entry that either decreases assets or increases liabilities and equity on the company's balance sheet. On the company's income statement, a debit will reduce net income, while a credit will increase net income.

Responsible use of credit revolves around the family budget and how much you can afford to devote to loan payments. As a general guideline, borrowing may be justified for automobiles, homes, recreational vehicles, education, home improvements, and other purchases that have value lasting beyond the time it takes to pay them off. Borrowing to pay for daily expenses such as groceries, gasoline, and utilities is often a recipe for trouble. These bills will often accumulate faster than you can pay them off. Responsible use of credit also refers to living within your means. You should limit the size of the home you buy or the price of the car you drive by the size of the monthly payment you can comfortably afford.

1.1 Study Background

Credit is defined as confidence in a borrower's ability and intention to repay. People use the credit they have with financial institutions, businesses, and individuals to obtain loans. And they use the loans to buy goods and services. The credit a person has typically determines how much they will be permitted to borrow, for what purpose, for how long, and at what interest rates.

The level of "confidence" lenders have in potential borrowers depends on many factors. A person's income is an indicator of a person's ability to repay, particularly when compared to the amount of debt they already have. The amount of borrowing a person has already done and how well they handled repayment is an indicator of their intention and ability to repay. The reasons people borrow are varied and personal. Loans allow you to obtain goods and services today, such as homes and automobiles, and spread the cost over time. This makes these purchases more affordable than they might otherwise be. Most Americans could not afford homes or cars without the ability to borrow.

Many people who have built up their savings use loans instead because they consider rebuilding their savings more difficult than repaying the loan. Many people who already have the money to pay for items use credit cards because it is more convenient and safer than using cash or checks. They just pay the full balance when the bill comes.

1.2 Focus of the study

The commercial bank plays a vital role in the country's economy. It provides different types of loan and other facilities to the client. Furthermore, it also helps to facilitate the trade and commerce of the nation. The main focus of the study is to know about the different types of loan and the activities conducted before the issuance of the various types of loan. The study also focuses on generation of interest income by the bank. Generally bank earns interest from two sources i.e. interest income and non-interest income. The interest income is generated from loan whereas the non-interest income is generated from commission related activities such as ABBS fee, balance certificate fee, good for payment fee, locker charges, FX trading profit, remittance fee, inter branch transaction fee, loan administration fee, loan commitment fee, loan prepayment fee and so on.

However the main focus of the study lies on the personal lending unit of the Nabil Bank Limited in order to get the practical exposure to the functioning of the business organization there by understanding the challenges faced by the organization in the real business environment and learning to deal with the real management problems through various managerial skills.

1.3 Statement of the problem

The products and services that are sold in the most favorable prices can be an initial step of the firm in obtaining the trust and be included in the top list of the customers. However, because of the tight competition of various services, particularly in banks, the perception of the customers and potential customers are also divided according to the services that they want to achieve. In addition, the impact of the economic problems and financial crunches among the financial institutions creates a great challenge in the banks. With all the challenges that are ahead on the banks, how will they gather the customer satisfaction which is the same focus of the other competing banking institutions?

With the growing commercial banks in the country, the throat cut competition among the rivals is in the peak. Most of the newly established banks are facing great challenge in attracting good credit clients in their banking channel whereas oldies are getting enough threats in retaining their existing clients and maintaining their status in the market. Therefore, the study of personal lending could be a milestone for those who want to pursue their career and those who want to know about the lending structure in Nabil Bank Ltd.

However, the study aims to answer the questions which are as follows;

- Do the bank have proper credit policy?
- Is bank managing its credit behavior?
- What is the position of Non-performing Asset of the bank?
- Is bank applying credit policy according to direction of NRB?
- Is credit efficiency of Nabil Bank influences the profitability?
- What is the situation of total loans and advances with total deposit and its net profit?
- What is the impact of deposit and loan advance in liquidity?
- Is the bank mobilizations and credit policy effective and efficient?

1.4 Objectives of the study

The main objective of the thesis is to study the personal lending activities of the Nabil Bank Limited, the process of obtaining the approval before the issuance of the various loans. How the loans are processed and the standard charges are also the concern of the study. The main aim is also to know the customer's satisfaction on the product rendered by the bank i.e. Personal Lending Products. The research also aims at the bank's strategy for the retention of the potential customers and also the strategy to attract the potential clients in the target market. The main objective of the thesis is to get the practical exposure to the functioning of the business organization there by understanding the challenges faced by the organization in the real business environment and learning to deal with the real management problems through various managerial skills.

However, the core objectives are as follows.

- To analyze the status and scenario of credit practices of Bank in Nepal.
- To analyze detail, in depth operational procedures of credit business at Nabil Bank.
- To examine the strength and weakness of credit business of Nabil.
- To analyze opportunities and threats of credit business at Nabil bank.
- To access about the competitors' standing, existing regulatory environment in terms of credit business and the perception of general consumers about the credit service of Nabil Bank.
- To give proper and feasible recommendations, strategic options to Nabil bank on the basis of the in depth study undertaken to increase its credit business.
- To analyze the level of customer satisfaction regarding the personal lending by Nabil Bank.

1.5 Limitations of the study

The study mainly focuses on secondary data So, there lies some limitations and the limitations are as follows.

- Since our project is confined to only one topic, only the data related to functioning of credit department is presented.
- Amongst the various products of credit at Nabil bank, Nabil Education Loan have only been studies in depth. Other various products have just been introduced without analysis. Thus it is the limitation of the scope of the study.
- Analysis is mainly based on primary as well as secondary data such as the published documents of Nepal Rastra Rank and Nabil Bank. The published documents and the personal information have their own limitations.
- Due to confidentiality maintained by the bank, information regarding customers was not available in detail.
- Validity of report fully depends on the information provided by the concerned authorities.
- Time and resources constraints are other limitations of the study.

CHAPTER – II

REVIEW OF LITERATURE

The review of literature basically highlights the existing literature and research work related to the present research being conducted with the view of finding out what had been already explained by the authors and researchers and how the current research adds further benefits to the field of research. This review specially focuses on study on credit management commercial bank. This chapter is basically concerned with review of literature relevant to the Personal Lending Unit (Credit) of Nabil bank limited. This review of literature had been classified into two subgroups as follow.

- Conceptual Review
- Review of related Studies

2.1 Theoretical /Conceptual Review

2.1.1 Concept of Commercial Bank

Simply, Bank is financial institutions that accepts deposits and invest the amount in the leading activities and also provides commercial service. In ancient, the word Bank was originated from Latin word Bancus, French word Banque and Italian word Banca. A Bank accepts deposits from its customer and provides loan. These all functional activity is formed as current banking activities. A banker or bank is a person or company carrying on the business of receiving money collecting drafts, for customers subject to the obligation of honoring cheques drawn upon them from time to time by the customers to the extent to the amount available on their customer (Shekher & Shekher, 1999). Commercial bank is a corporate business venture which has certain paid up capital and provide loan, accept deposit. Commerce is the financial transactions related to selling and buying activities of goods and services. Therefore commercial banks are those banks, which work from commercial viewpoint. They perform all kinds of banking functions as accepting deposits, advancing credits, credit creation and agency functions. They provide short-term credit, medium term credits and long terms credit as well as issuing guarantee, bonds, letter of credit, etc to trade and industry. "A commercial bank is the bank which exchanges money, accepts deposit transfers loans and performs banking functions " (Commercial Bank Act, 2031 B.S.). The commercial bank has its own role and contribution in the economic development. It is a resource for the economic development, it maintain economic confluence of various segments and extends credit to people.

"A Bank is a business organization that receives and holds deposits and funds from others, provide loans and extend credits and transfers funds by written order of depositors" (Grolier incorporation, 2000).

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

2.1.2 Functions of Commercial Banks

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

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

Assist in foreign Trade:

The banks assist the traders engaged in foreign trade of the country. It discounts the bills of exchange drawn by exporters on the foreign importers and enables the exporters to receive money in the home currency. Similarly, it also accepts the bills drawn by foreign exports.

Offers Investment Banking and Merchant Banking Services:

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

2.1.3 Concept of Credit

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

Banks generally grants credit on four ways.

- Overdraft

- Cash Credit
- Direct Credit
- Discounting of Bills

2.1.4 Types of Credit

Overdrafts

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

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 sum to the borrowers. It is principal form of medium term debt financing having maturities of 1 to 8 years. Barely and Myers urge that bank credits with maturities exceeding 1 years are called term credits. The firm agrees to pay interest based on the bank's prime rate and to repay principle in the regular installments. Special patterns of principle payments over time can be negotiated to meet the firm's special needs (Richard, 1996).

Working Capital Credit

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

Priority or Deprived sector Credit

Commercial banks are required to extend advances to the priority and deprived sector 12% of the total Credit must be towards priority sector including deprived sector. Rs.2 million for agriculture cum service sector and Rs.2.5 million for single borrowers are limit sanctioned to priority sector. Institutional support to ‘Agriculture Development bank’ and ‘Rural Development Bank’ are also considered under this category. Deprived sector lending includes, advances to poor/downtrodden/weak/deprived people up to Rs 30,000 for generating income or employment. Institutional Credit to Rural Development Bank. Credits to NGOs those are permitted to carryout banking transactions for lending up to Rs.30, 000.

Hire Purchase Financing (Installment Credit)

Hire-Purchase credits are characterized by periodic repayment of principle and interest over the maturity of the credit. Hirer agrees to take the goods on hire at a stated rental including their repayment of principle as well as interest with an option to purchase. A recent survey of commercial banks indicates those banks are planning to offer installment credits on a variable rate basis. It can be secured and unsecured as well as direct and indirect installment credits on a variable rate basis. It can be secured and unsecured as well as direct and indirect installment credit.

Housing Credit (Real Estate Credit)

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

Project Credit

Project credit is granted to the customers as per project viability. The borrowers have to invest certain proportion to the project from their equity and the rest will be financed as project credit. Construction credit is short-term credits made to developers for the purpose of completing proposed projects. Maturities on developers for completing proposed projects. Maturities on construction credits range from 12 months to as long as

4 to 5 years, depending on the construction credits range from 12 months to as long as 4 to 5 years, depending on the size of the specific project . The basic guideline principle involved in disbursement policy is to advance funds corresponding to the completion policy is to advance funds corresponding to the completion stage of the project. Term of credit needed for project fall under it (Johnson, 1940).

Consortium Credit

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

Credit Cards and Revolving Lines of Credit

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

Off-Balance Sheet Transaction

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

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

Bank Guarantee

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

Letter of Credit (L/C)

It is issued on behalf of the customer (buyer/importer) in favor of the exporter (seller) for the import of goods and services stating to pay certain sum of money on the submission of certain documents complying the stipulated terms and conditions as per 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 (Jhonson, 1940).

2.1.5 Objectives of the Sound Credit Policy

The purposes of a written credit policy are:

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

2.1.6 Lending Criteria

While screening a credit application 5-c to be first considered supported by documents.

Character

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

- Memorandum and Article of Association
- Registration certification Tax registration certificate (Renewed)
- Resolution to borrow

- Authorization-person authorizing to deal with the bank.
- Reference of other lenders with whom the applicant has dealt in the past of bank A/C statement of the customer.

Capacity

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

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

Capital

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

Collateral

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

Conditions

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

2.1.7 Features of Sound lending Policy

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

Safety

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

Liquidity

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

Purpose

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

Profitability

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

Collateral/Security

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

Legality

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

Spread

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

National Interest

Even when an advance satisfies all the aforesaid principles, it may still not be suitable. The advance may run counter to national interest. It in the changing concept of banking factors such as purpose of the advance, viability of the proposal and national interest are assuming greater importance than security, small borrowers and export-oriented industries

2.1.8 Principle of Credit Policy

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

Principle of Safety Fund

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

Principle of Liquidity

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

Principle of Security

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

Principle of Purpose of Credit

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

Principle of Profitability

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

Principle of Spread

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

Principle of National Interest

In lending and granting advances, interest of nation should not be distorted (if undermined). Priority and deprived sector of economy and other alarming sector should be given proper emphasis while extending advances. Every Bank should always follow the rule "Do not put your all eggs in the same basket". So if every bank makes appropriate portfolio in their investment the credit management would be excellent.

2.1.9 Lending / Credit process

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

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

• Loan application

• Citizenship certificate of applicant

• Firm/ company registration certificate (if self employed)

• Income tax registration certificate (if self employed)

• Authenticated partnership deed in case of partnership firm, and memorandum and article of association in case of company

• Attested copy of board resolution in case of company resolved to avail loan and banking facilities form bank against the pledge, hypothecation, and mortgage of fixed property owned by company or property of third party named.

• Letter of authority authorizing to sign loan deed and other relevant document paper which are deemed necessary while dealing with bank on behalf of firm/company.

• Feasibility report/scheme (for new project).

Lending appraisal and possessing

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

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

The bank tries to ascertain the following during loan processing:

• The cost of estimate is examined so that the appropriate estimate can be accepted. Under and over estimates are rejected. Similarly, the specification of machinery should be proper.

• Working capital projection has to be reasonable as compared to past performance and on the basis of target for future expansion.

• The return rates should be adequate like return on investment (ROI), internal rate of return (IRR) and debt service coverage ratio (DSCR).

• The capacity, competency, integrity and commitment of promoters, partners, proprietors, directors and personnel should be intact.

• SWOT (strength, weakness, opportunity and threat) analysis of the proposed project must give reasonable assurance.

2.1.10 Right of Commercial Banks against Breach of Lending

Agreement

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

• The bank may write to the appropriate office for registration or transfer, in accordance with prevailing law, of the assets auctioned by it pursuant to this section in the name of the person whose bid has been approved.

• The concerned office shall do the registration or transfer if it receives such written request from any commercial bank for registration or transfer of assets pursuant to sub-section (5) of section 47 A. of the Commercial Bank Act 2031(1974).

• In case no one offers a bid in an auction held by a bank pursuant to this action, the bank may take over the ownership of such assets, and in such situation, government offices must register or transfer those assets in their records as notified by the bank.

• If any person, institution or industry fails to comply with the terms of agreement or any terms regarding loans and advances, with the bank, or fails to repay loans to the commercial bank within the time limit stipulated in the documents, or incase the bank finds through investigation that any person, institution or industries concerned has not invested the amount of the loan and advance for the concerned purpose, or has misappropriated in the documents or notwithstanding anything mentioned in prevailing law the bank may auction or otherwise dispose of any property pledged to it, or the security deposited with it, and thus recover the principal and interest.

• If the borrowing person, institution, or industry concern relinquishes in any manner title to the property pledge to the commercial bank as collateral, or in case the value of such collateral declines due to any other reason, the commercial bank may, not with outstanding anything mentioned in prevailing law, ask the concern to furnish additional collateral within a period specified by it. In case the concerned person, institution or industry concern fails to furnish additional collateral within the specified time limit, the commercial bank may recover its principal and interest by auctioning or otherwise disposing of the collateral pledged to it.

• If principal and interest can't be recovered through the auction sale of the collateral pledge to the bank pursuant to subsection (1) and (2) section 47.A of the Commercial Bank Act 2031(1974), the bank may recover the balance by auctioning the other assets of the concerned person, institution or industries concern.

• The amount of principal and interest, and expenses incurred in auction, or in other kind of disposal shall be deducted from the amount raised through the auction or disposal otherwise of assets pursuant to this section and the balance shall be refunded to the concerned person, institution, or industry concern.

• In case a complaint is field to the effect that the person who is required to relinquish the assets after their transfer under sub-section (6) and (7) of section 47.A of the Commercial Bank Act 2031 (1974) of the has created any obstacle or used force while the concerned person or the commercial Bank Act 2031 (1974) bank itself seeks to utilized such assets, action shall be taken according to prevailing law to have possession in the assets.

2.1.11 Project Appraisal

Before providing credit to the customer, bank makes analysis of project from various aspects and angles. It will help the bank to see whether project is really suitable to invest. The purpose of project appraisal is to achieve the guarantee of reasonable return from the project. Project appraisal answers the following questions: - Is the project technically sound? - Will the project provide a reasonable return? - Is the project in line with the overall economic objectives of the country? Generally, the project appraisal involves the investigation from the following aspects (Gautam, 2004).

1. Financial aspect
2. Economic aspect
3. Management /organizational aspect
4. Legal aspect

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

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

2. Limit of Credit and Advances in a Particular Sector.

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

  Note: The core capital includes {paid up capital + share 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, daughter in law, unmarried daughter, adopted son, adopted unmarried daughter, father, mother, stepmother, brothers and sisters whom be should look after. And the above members personally or combined take 25% or more share of another company.

- Firm, company and members as a related group.
- Members of board of directors, shareholders and other relatives as stated in serial number ‘b’ takes less than 25% of board of directors of the company solely or combined but have control on the other company by the following ways:
- Being president of board of directors of the company.
- Being executive directors of the 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.

2.2 Review of NRB Directives

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

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

Capital Structure of Banks

The current regulation of NRB prescribes that all the new commercial banks are to be established in Kathmandu at national level should have minimum paid up capital Rs.2000 million; the existing banks in operation are required to enhance the capital level to Rs.2000 million by the end of FY 2065/66 BS. For this purpose and objective all the commercial banks have furnished their plans to enhance the level of capital accordingly. With effect from fiscal year 2062/63, the commercial banks need to have minimum of capital adequacy as below:

Table: 2.1 Maintenance Minimum Capital Fund (Required capital on the basis of risk weighted assets)

F/Y	Core Capital	Capital Fund
2063/64	5.5%	11%
2066/67	5.0%	11%
2067/68	5.5%	11%
2068/69	5.0%	11%

Source: Annual Report of Nabil Bank Limited

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

General Loan Loss Provision

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

Table: 2.2 General Loan Loss Provision

F/Y	Loan Loss Provision available for Supplementary Capital
2058/59	Pass, Sub-Standard and Doubtful
2059/60	Pass, Sub-Standard
2060/61	Pass (Up to 1.25% of total risk weighted assets)
2061/62	Pass (Up to 1.25% of total risk weighted assets)
2062/63	Pass (Up to 1.25% of total risk weighted assets) and so on

Source: Nepal Rastra Bank

Classification of outstanding loan and advances on the basis of aging

Effective from Fiscal year 2058/59, banks should classify outstanding amount of Loans and Advances on the basis of aging. Loan and advantages should be classified into the following four categories:

1. Pass Loans

Loans and advance whose principal amount not due and past due for a period up to three month shall be included in this category. These are classified as Performing Loans.

2. Sub-Standard Loans

All loans and advances that are past due for a period of three month to six month shall be included in this category.

3. Doubtful Loans

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

4. Loss Loans

All loans and advances which are past due for a period of more than one year as well as advances which have least possibility of recovery or considered unrecoverable and those having thin possibility of even partial recovery in future shall be include in this category.

Provision for good loan

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

Additional arrangement for Loss Loan Provision

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

• The borrower has been declared bankrupt

• The credit has not been used for the purpose originally intend.

• The borrower is absconding or cannot be found

• Owing to non-recovery, initiation as to auctioning of the collateral has passed six months and if the recovery process is under litigation.

• Loans provided to the borrowers included in the blacklist and where the credit information bureau blacklists the borrower

• Non-security at all or security that is not in accordance with the borrower's agreement with the bank

• Purchased or discounted bills are not realized within 90 days from the due date

Additional arrangement in respect of term loan

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

Loan Loss Provision Policy

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

Table: 2.3 Loan Loss Provision Policies

S.N	**Classification of loans**	**Define as**	**Age**	**Loan loss provision**
01	Pass or Good	Performing Loan	Principle not overdue up to 3 months	1%
02	Sub-Standard	Non-Performing Loan	Principle overdue by more than 3 month to 6 months	25%
03	Doubtful	Non-Performing Loan	Principle overdue by more 6 month to 12 months	50%
04	Loss or Bad	Non-Performing Loan	Principle overdue by more than 12 months	100%

Source: Nepal Rastra Bank

Additional Provisioning for Personal Guarantee Loans

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

Rescheduling and restructuring of Loan

In respect of loans and advances falling under the category of Substandard, Doubtful or Loss, banks may reschedule or restructure such loans only receipt of a written plan of action from the borrower citing the following reasons:

• Evidence of existing of adequate loan documentation

• The internal and external cause contribution to deterioration of the quality of loan.

• The reduced or risk inherent to borrower/enterprise determined by analyzing its balance sheet and profit and loss account in order to estimate recent cash flows and to project future ones, in addition to assessing market conditions.

• An evaluation of the borrower/enterprise's management with particular emphasis on efficiency, commitment and high standards of business ethics.

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

• Expect for priority sector, in respect of all types of rescheduling or restructured or swapped loan, if such credit falls under Pass category according to Nepal Rastra Bank directives, loan loss provision shall be provided at minimum 12.50%

• In case of rescheduling or restructuring or swapping or insured of insured or guaranteed priority sector credit, the loan loss provisioning shall be provided at one fourth of the percentage.

• In respect of swapped loans, the bank accepting the loans in swapping has to provide loan loss provision classifying the loan is swapping shall obtain certification from the concerned bank of financial institution as to the existing classification.

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

Table: 2.4

Loss Loan Provision for Priority Sector Lending

Classification of Loans	**Provision for priority/deprived sector lending**
Pass or Good	0.25%
Sub-Standard	5.00%
Doubtful	12.50%
Loss or Bad	25.00%

Source: Nepal Rastra Bank

2.3 Review of Related Studies

In this section, efforts have been made to examine and review of some related articles in different economics journals, discussion papers, magazines, newspapers and other related books. Some of articles are as follows.

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

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

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

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

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

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

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

Mundal (2011) in his articles “Lending Policy: Human and Organizational Aspects” It’s an ongoing debate if human and organizational aspects play a role in the formulation of lending policies of banks and financial institution. It takes the human and organizational factor such as skill, attitudes, human equations and leadership. Policies are ever evolving and cannot be successfully implemented unless the issues in these areas are adequately taken care of and the right environment is set up. When change brings about development of new technical skills, there is ground for clash between experiences these skills. It is more so when both the aspects are equally important. While experience, authority and probably powers are bound to go with one generation. The newer skill involves pencil work, enthusiasm for and the time available to use them would go with the other generation.

A combination of both developing own people and hiring professionals form relevant sector would be good to enhance the internal efficiency and competitiveness. In this regard there are three gaps that are evident even today.

- Skill gaps
- Organizational change
- Generation gaps

It is important to ensure adequate leverage to the operating executives at the industry level vis-à-vis the borrowing clientele including the prospective one. To much estimation the loan market should not become a buyer market pre dominantly, this is likely to cause distortion in the financial system, lending to unhealthy competition amongst lenders.

The country like Nepal needs sincere implementation of change particularly in financial sectors. To be more specific these are require in the process of credit evaluation, writing of credit policy and the bringing about new product. This will certainly assist the development and maturity of the financial market. This will also assists Nepal in the process of integration with global financial market and with the expanding market of the two large neighboring countries. We should take a pragmatic view of the fast developing would and adapt to the changes first for survival and then progress.

2.4 Review of Previous Research Works

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

Regmi (2004) has conducted a research topic on “A study on credit practices of joint venture commercial banks with reference to Nepal SBI Bank Ltd. and Nepal Bangladesh Bank Ltd.” This study is mainly focused on the lending practices and the volume of credit in comparison to the deposits. Therefore, the major gap in this research is study of the risk involved in the lending practices or the study of credit risk. Therefore, further study on the risk involved in creating credit can be made.

His main objectives:

• To determine impact of deposit in liquidity and its effect on lending practices.

• To know the volume of contribution made by both bank in lending.

• To examine lending efficiency and its contribution in profit.

• To analyze trend of deposit utilization towards loan and advances and net profit and their projection for next five years.

His major findings:

• Current ratio of NSBL is higher than that of NBBL.

• NSBL has poor position due to high volume of interest sensitive liability in deposit mix.

• The ratio of loans and advances to total assets of NBBL is higher than NSBL.

• The ratio of credit to government enterprises to total credit of NBBL is higher than that of NSBL.

His major recommendations:

• Cash and bank balance to interest-sensitive deposit measures the liquidity risk arising from fluctuation of interest rate in the market.

• Earning per share (EPS) reflects the relative measure of profitability.

• Increase interest suspense and loan loss provision affects net profit.

• Nepal Rastra Bank should regulate all the deposit accepting financial institution under the supervision and regulatory activity so that general people can feel the security of their deposits.

Shrestha (2005) has conducted research topic on “A study of Nonperforming Loan & loan loss provision of Commercial Bank, A case study of NABIL, SCB and NBL” has made study about a part of credit risk associated with those banks.

Her main objectives:

• To find out the proportion of non-performing loan in the selected commercial banks.

• To find out the factors leading to accumulation of nonperforming loan in commercial banks.

• To study and analyze the guidelines and provisions pertaining to loan classification and loan loss provisioning.

• To find out the relationship between loan and loan loss provision in the selected commercial bank.

• To study and the impact of loan loss provision on the profitability of the commercial banks.

Her major findings:

• The NBL has the highest portion of the loan in total asset followed by NABIL and SCBNL.

• Loan Loss Provision is also highest in NBL where as the SCBL has the least Loan Loss Provision.

• SCBL has the least Loan Loss Provision.

Her major recommendations:

• NBL should reduce highest portion of the loan in total assets.

• SCBL shows the risk-averse attitude.

• NBL should reduce Loan Loss Provision.

• The customers are seeking different innovative products with quality.

So, banks should modify their products. The banks should come out with new products in retail banking. Hence to retain the customers banks have to come out with competitive products satisfying the desire of the customer at the click of a button.

Subba (2006) has conducted a research topic on “Study to Credit Management of commercial banks (i.e. Machchhapuchhre Bank Ltd. and Kumari Bank Ltd.)". The objective to analyze how the selected commercial banks have managed different types of risk in this competitive Nepalese banking Industry.

His main objectives:

• To analyze the risk of selected commercial banks in Nepal they are, Credit Risk, Market Risk and Operation Risk.

• To examine credit management and its efficiency.

• To offer suitable suggestions based on findings of this study.

His major findings:

• To minimizing the risk in commercial banks is the major challenge

• Capital adequacy ratio depicts that both KBL and MBL has higher CAR than statutory requirement

• Gap analysis is the major tool for managing the liquidity risk.

His major recommendations:

• For credit risk management, both banks have Credit Policies Guidelines (CPG). Similarly, NPL is regularly monitored by both the banks on regular basis and provisioning is done on quarterly basis by categorizing the loan as per NRB guidelines. Similarly, sector wise and security wise lending is being analyzed by these banks on monthly basis.

• The top management analyzes the gap between asset and liabilities and makes decision to make adjustment for it. Further,

• In regard to operational risk, the major steps banks are taking to reduce it are preparing and implementing the different operational guidelines and policies & frequently monitoring their compliance. Most of these policies are prepared as per NRB guidelines. Similarly,

• Employees' training is also the major tools for minimizing the operation risk in these banks.

Shrestha (2007) has conducted a research topic on “A study of Credit risk management of Nepalese commercial banks comparative study between Kumari bank ltd. and Machhapuchchhre bank Ltd.” has made study about a part of credit risk associated with those banks. The study aims to examine and analyze how the selected commercial Banks have managed mainly credit risk in this competitive Nepalese banking industry.

His main objectives:

• To examine the credit risk position of the selected commercial banks in Nepal (KBL and MBL).

• To analyze the credit risk management system and practices of KBL and MBL.

• To evaluate the organizational structure of KBL and MBL to manage the credit risk.

His major findings:

• The major problems in credit risk are related to the broad areas of concentrations, credit processing, and market- and liquidity-sensitive credit exposures.

• From the personal interview of the key respondents it was found that both banks have been extending credit in those highly concentrated sectors after getting approval from the board of director.

• In regard to concentration risk, KBL has more risk in manufacturing.

His major recommendations:

• The major problems in credit risk are related to the broad areas of concentrations, credit processing, and market- and liquidity-sensitive credit exposures.

• From the personal interview of the key respondents it was found that both banks have been extending credit in those highly concentrated sectors after getting approval from the board of director. This clarifies that concentration risk is the main source of credit risk for KBL and MBL.

Limbu (2008) has conducted a research topic on "Credit Management of NABIL Bank Limited" highlighted that aggregate performance and condition of Nabil bank. In the aspect of liquidity position, cash and bank balance reserve ratio shows the more liquidity position. Cash and bank balance to total deposit has fluctuating trend in 5 years study period. Cash and bank balance to current deposit is also fluctuating. The average mean of Cash and bank balance to interest sensitive ratio is able to maintain good financial condition

His main objectives:

• To evaluate various financial ratio of the Nabil Bank.

• To analyze the portfolio of lending of selected sector of banks.

• To determine the impact of deposit in liquidity and its effect on lending practices.

• To offer suitable suggestions based on findings of this study.

His major findings:

• Non–performing assets to total assets ratio is decreasing trend.

• Debt to equity ratio is in an increasing trend.

• Total interest income to total income ratio of bank is in increasing trend. His major recommendations:

• The bank is able to obtain higher lending opportunity during the study period. Therefore, credit management is in good position of the bank.

• High total debt to total assets ratio posses' higher financial risk and vice-versa. It represents good condition of Total assets to net worth ratio.

• Loan must be given if the banker is satisfied that the borrower ca repay money from the cash flow generated from operating activities. However, the banks want to ensure that their loan is repaired even in case of failure of business. To prevent banks from such happenings, the bank take collateral is disposed for the recovery of loan. Therefore, the bank should take proper valuation of collateral so that the bank at least will be able to recover its principle and interest amount in case of failure of the borrower to repay the loan.

Shrestha (2009) has conducted research topic on "Credit risk management of Nabil Bank Limited and Nepal Investment Bank Limited in Nepal" The main objective of the study is to evaluate the credit risk management. In order to achieve this, the specific objectives have been formulated.

His main objectives:

• To evaluate the status of the loan portfolio of the banks.

• To evaluate problems and weakness in credit risk management.

• To review the prevailing laws rules and regulation enforced by Nepal Rastra Bank and assess its impact on profitability and liquidity of bank.

• To offer suitable suggestions based on findings of this study.

His major findings:

• The liquidity position of NIB is comparatively better than NABIL.

• The mean current ratio of NABIL is 1.89 and NIB is 1.99 the current ratio of NIB is little higher than NABIL. Cash and bank balance to total deposit ratio of NIB has higher than NABIL.

• The loan & advances to total deposit ratio of NABIL is lower than NIB. The total investment to total deposit of NABIL is higher than NIB.

• The profitability position of NABIL and NIB are Return on loan & advances ratio of NABIL is higher than that of NIB.

His major recommendations:

• Commercial banks have to maintain more liquid assets but the current ratios of some banks are below the standard of 1:1.

• NABIL is mobilizing its funds on investment in various securities efficiently.

• The credit risk ratio shows the proportion of no-performing loan in total Loan & Advances.

• Lack of proper financial analysis of the borrower by the banks is one of the major causes behind increasing NPA of Nepalese commercial banks. Therefore, proper financial analysis should be performed before giving loan to the borrower.

Khanal (2010) has conducted research topic on "An analysis of Credit risk Management of Himalayan Bank and Nabil Bank Limited" The objective of the study is to evaluate the credit risk and lending management of HBL and NABIL bank.

His main objectives:

• To evaluate the status of the loan portfolio management of the stated banks HBL and NABIL.

• To evaluate problems and weakness in credit risk management of HBL and NABIL bank.

• To examine relationship between total investments, deposits, loans and advances net profit and asset and compare them.

His major findings:

• The overall aspect of liquidity position of NABIL is comparatively better than HBL.

• Assets management aspect of NABIL is better than HBL which is justified by higher Mean loan & advances to total deposit ratio.

• NABIL has taken more risk than that of HBL. HBL has comparatively more investment in govt. securities and other investment which is less productive however it is low risky.

• NABIL has lower credit risk However HBL has also decreasing trend of ratios.

• There is positive correlation between total deposit, loan & advances, net profits, total investment of two banks.

His major recommendations:

• Overall all financial performance of NABIL is better than HBL. But HBL is also operating smoothly in many aspects. Investment policy ensures maximum amount of credit to all sectors with proper utilization.

• Competition is increasing day by day in banking industry. Again complete foreign bank can be established after 2010 BS. So the bank should adopt efficient and modern management concept to make their activities quick and moving there by fulfilling the growing demand of current financial services.

2.5 Research Gap:

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make this study meaningful and purposeful. Various researchers conduct on liquidity management, credit management, credit risk management, financial performance and financial analysis of various commercial banks. In order to perform those analysis researchers had used various ratio analysis. The past researches in measuring financial analysis of bank had been focused on the limited ratios, which are incapable of solving the problems. In this research various ratio are systematically analyzed and generalized. The ratios are categorized according to their areas nature. In this research a study on credit management of Nabil bank limited is done by measuring various ratios analysis, trend analysis and various financial tools as well statistical tools. This study tries to show financial analysis by applying and analyzing various financial tools like liquidity ratio, asset management ratio, profitability ratio, lending efficiency ratio and other ratio as well as different statistical tools like average mean, standard deviation, coefficient of variation coefficient of correlation and trend analysis. Probably this will be the appropriate research in the area of credit policy of Bank and finance.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Introduction

Research refers to search for knowledge. One can also define research as a scientific search for pertinent information on a specific topic. In fact research is an art of scientific investigation. The Advance Learner’s Dictionary of current English lay down the meaning of research as “careful investigation or inquiry especially through search for new fact in any branch of knowledge”. The research methodology that is adopted for the present study is mentioned in this chapter which deals with research design, sources of data, data collection, processing and tabulating procedure and methodology.

3.2 Research Design

A research design is the arrangement of condition for collection and analysis of data in manner that aims to combine relevance to the research purpose with economy in procedure. Since the main objectives of this study is to analyze financial performance of the banks, all the indicators that shows the financial performance of the banks were calculated using data obtained from the five year end internally generated accounting records maintained by sampled Banks. The study depends on the secondary data. Various financial parameters and effective research techniques are employed to evaluate the financial performance of the banks. Furthermore, various descriptive as well as analytical techniques are used. The study is designed as to give a clear picture of the Bank's financial circumstances with the help of available data with useful suggestions and recommendation.

3.3 Sources of Data

Necessary data are collected from secondary sources. Secondary sources of data are the information collected from books, journals, newspaper, annual reports. However, the major sources of secondary data are as follows:-

- NRB Directives.

- Banking and Financial Statistic
- Annual Reports
- National newspaper, journals, and magazines
- Internet

3.4 Population and Sample

At present thirty two Commercial banks are operating in Nepal. All the commercial banks are considered as the population. It is not possible the study all the data related with all JVBs because of the limited time period. Currently 31 commercial banks are running in Nepal. Among all the 31 Commercial bank currently operating in Nepal, Nabil Bank Limited has been selected as sample for the present study.

3.5 Data Collecting Procedures

Especially the annual report of NABIL and the website of concern Bank are taken as main source of data collection for purpose of study. The annual reports of the concerned banks were obtained from their head office and their websites. NRB publication, such as Banking and Financial Statistics Economic Reports, Annual Reports of NRB etc .has been collected from the personal visit of concerned department. Besides, a detail review materials are collected from the Campus and central library of T.U.

3.6 Method of Data Analysis Technique:

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

1 Financial Analysis.

2 Statistical Analyses.

3.6.1 Financial Tools:

3.6.1.1 Ratio Analysis:

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

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

A. Liquidity Ratio:

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

i. Current Ratio:

Current ratio indicates whether the concern has instant ability to payout the current liabilities as they mature. The ratio is the yardstick to judge the soundness of the short term financial position of the business unit or industry. Standard of current ratio is 2:1 for the manufacturing concern and 1:1 for financial and other service sectors.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Where, current assets = cash in hand, cash at bank, bills receivable, sundry debtors or account receivable, short term loan & advances, inventories , prepaid expenses etc. Current Liabilities = Bills Payable, Sundry Creditor, Accrued expenses, Bank overdraft, short term loan, provision for taxation, etc.

ii. Cash Reserve Ratio:

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

$$\text{Cash Reserve Ratio} = \frac{\text{Cash and bank balance}}{\text{Total deposit}}$$

iii. Cash & Bank Balance to Current Deposit Ratio:

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

$$\text{Cash and bank balance to Current assets ratio} = \frac{\text{cash and bank balance}}{\text{current assets}}$$

iv. Cash and Bank Balance to Interest Sensitive Deposit Ratio:

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

$$\text{Cash and bank balance to interest sensitive deposit ratio} = \frac{\text{Cash and bank balance}}{\text{Sensitive deposit}}$$

B. Activity Ratio:

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

i. Credits Advances to Fixed Deposit Ratio:

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

$$\text{Credits and Advances to Fixed Deposit Ratio} = \frac{\text{Credits and Advances}}{\text{Fixed Deposits}}$$

ii. Credits Advances to Total Deposits Ratio:

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

$$\text{Credits and Advances to Total Deposits Ratio: } = \frac{\text{Credit and Advances}}{\text{Total Deposits}}$$

iii. Credit and Advances to Total Assets Ratios:

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

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

iv. Non-Performing Assets to Total Assets Ratio:

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

$$\text{Non-performing assets to total assets ratio} = \frac{\text{Non-performing assets}}{\text{Total assets}}$$

C. Leverage Ratio:

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

i. Total Debt to Equity Ratio:

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

Total Debt = long term Debt + current liability

$$\text{Total Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Equity}} \times 100\%$$

ii. Total Debt to Total Assets Ratio:

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

$$\text{Total Debt to Total Assets Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}} \times 100\%$$

iii. Total Assets to Net worth Ratio:

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

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

E. Profitability Ratio:

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

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

i. Net Profit to Gross Income Ratio:

$$\text{Net Profit to Gross income ratio} = \frac{\text{Net profit}}{\text{Gross income}}$$

ii. Interest Income to Total Income Ratio:

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

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

iii. Operating Profit to Loan and Advances Ratio:

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

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

iv. Return on Loan and Advances Ratio:

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

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

v. Net Profit to Total Assets:

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

This ratio is computed by

Net profit to total assets ratio = $\frac{Net\ Profit}{Total\ Assets}$

vi. Earning per Share (EPS):

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

Earning per share = $\frac{Profit\ After\ Tax}{No\ of\ Common\ Share}$

D. Lending Efficiency Ratio:

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

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

Loan loss provision to total loan and advances describes the quality assets that a bank holds. The provision for loan loss reflects the increasing probability of non-performing loan. The provision of loan means the net profit of the banks will come down by such amount. Increase in loan loss provision decreases in profit and results to decrease in dividends but its positive impact is that it strengthens financial conditions of the bank by controlling the credit risk and reduces the risks related deposits. The low ratio indicates the good quality of assets in total volume of loan and advances. High ratio indicates more risky assets in total volume of loan advances.

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

ii. Non-Performing Loan to Total Loan and Advances:

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

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

iii. Interest Expenses to Total Deposit Ratio:

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

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

3.6.2 Statistical Tools

Under this heading some statistical tool such as coefficient of correlation analysis between different variables, trend analysis of deposit, loan and advances, net profit and EPS are used to achieve the objective of the study.

A. Average Mean:

An average is a single value related from a group of values to represent them in some way, a value, which is supposed to stand for whole group of which it is a part, as typical of all the values in the group. There are various types of averages. Arithmetic mean (AM, Simple & Weighted), median, mode, geometric mean, harmonic mean are the major types of averages.

Mathematically:

Arithmetic Mean (AM) is given by,

$$\bar{X} = \frac{\sum X}{n}$$

Where, $\bar{X}$ = Arithmetic mean

$\sum x$ = Sum of all the values of the variable X n = Number of observations

B. Standard deviation:

The standard deviation measures the absolute dispersion. It is said that higher value of standard deviation the higher the variability and vice versa. Karl Pearson introduced the concept of standard deviation in 1823 A. D. and this is denoted by the small Greek letter (pronounced sigma) the formula to calculate the standard deviation is given below:

$$\sigma = \sqrt{\frac{1}{n}\sum(X - \overline{X})^2}$$

$$= \sqrt{\frac{1}{n}\sum X^2}$$

Where, x = X−$\bar{X}$

C. Coefficient of variation:

The coefficient of variation reflects the relation between standard deviation and mean. The relative measure of dispersion based on the standard deviation is known as coefficient of variation. The coefficient of dispersion based on standard deviation multiplied by 100 is known as the CV. It is used for comparing variability of two distributions; The CV is defined as,

$$CV = \frac{\sigma}{\bar{X}} \text{ X } 100$$

Greater the CV, the distribution is more variable or conversely less consistent, less uniform, less stainable and homogenous than the consistent more uniform, more stable and homogenous. This nature of CV uses that actual size of working capital.

D. Coefficient of correlation (r):

Deposit has played a very important role in performance of commercial banks and similarly loan & advances are important to mobilize the collected deposits. Correlation analysis is the statistical tools that we can use to describe the degree to which one variable is linearly related to another. Coefficient of correlation is the measurement of the degree of relationship between two casually related sets of figure whether positive or negative. In this study, simple correlation is use to examine the relationship of different factors with working capital and other variable. The Karl Pearson's Coefficient of Correlation is given by the following formula:

$$\text{Coefficient of Correlation (r)} = \frac{\sum(X-\overline{X})(Y-\overline{Y})}{n\ \sigma x.\sigma y}$$

Where

σx = Standard deviation of series X.

σy = Standard deviation of series Y.

n = number of pair of observations.

The Karl Pearson's coefficient of correlation always lies between -1 and +1. The value of correlation in minus shows negative correlation and in plus shows positive correlation, nearer the value of r towards -1 & +1, there is high degree of negative and positive correlation respectively. As the value of r reaches to zero, there is correlation between the variables under study.

Coefficient of Correlation between deposit and loan & advances measures the degree of relationship between the two variables. In this analysis, deposit is independent variable (X) and loan & advances is dependent variables(Y). The main objectives of computing 'r' between these two variables are to justify whether deposits are significantly used on loan & advances in a proper way or not.

E. Probable Error:

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

$$P.E.(r) = 0.6745 * \frac{1-r^2}{\sqrt{n}}$$

Here, r = Correlation coefficient

n = Number of pairs of observations

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

F. Trend Analysis:

Trend Analysis is the statistical tool for analyzing the data of selected banks in suitable manners. It helps to forecast the future value of bank expectation. It is used to measure the change of financial, economical as well as commercial trend. The least square method to trend analysis has been used in measuring the trend analysis. This method is widely used in practice. The straight line trend of a time series of data is represented by the following relation.

$$Y = a + bx$$

Here, Y is the dependent variable

a is y intercept or value of y when x = 0, b is the slope of the trend line or amount of change that comes in y for a unit change in x.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

The basic objective of analyzing the financial performance and interpretation is to highlight the lending strength of commercial banks. Lending strength is the important aspect of any bank, which if not kept in track, while performing the function, can lead to very critical situation, This, in fact, shows the situation of commercial banks in terms of investment in loans and advances, whether the company is lending in accordance with the deposits it is collecting and the investments made by shareholders or not should be analyzed regularly. Any idle deposit is loss to the bank. Here, under this topic, an attempt is made to analyze the lending strength of Nabil Bank. And the available data are translated, analyze and interpreted so that the financial forecast of the bank can be done easily. Hence, the financial ratios have been calculated for this purpose. Though there are many ratios but due to various shortcomings and constraints only related ratios have been taken for strength and weakness for the Nabil Bank Limited.

The ratios are as follows:-

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

4.1.1 Current Ratio: The ratio is the yardstick to judge the soundness of the short term financial position of the business unit or industry. Current ratio indicates whether the concern has instant ability to payout the current liabilities as they mature. High ratio indicates sound liquidity position of the bank and vice-versa. But too high ratio is not good for bank since it reveals the under utilization of fund. Standard of current ratio is 2:1. In the following table, we can see the data relating to Current Ratio of NABIL.

Table: 4.1

Current Assets to Current Liability Ratio

(Amount in million)

Year	**Current Assets**	**Current Liabilities**	**Ratio**
2006/07	16954.00	9258.50	1.83
2007/08	20122.10	14923.60	1.35
2008/09	17337.00	14469.00	1.20
2009/10	29576.00	25527.00	1.16
2010/11	35980.68	31621.87	1.14
Mean			1.34
S.D			0.26
C.V			0.19

Source: Annual Report of Nabil Bank Limited (2006/07 to 2010/11)

The tabulated data represented in the following figure.

Figure: 4.1

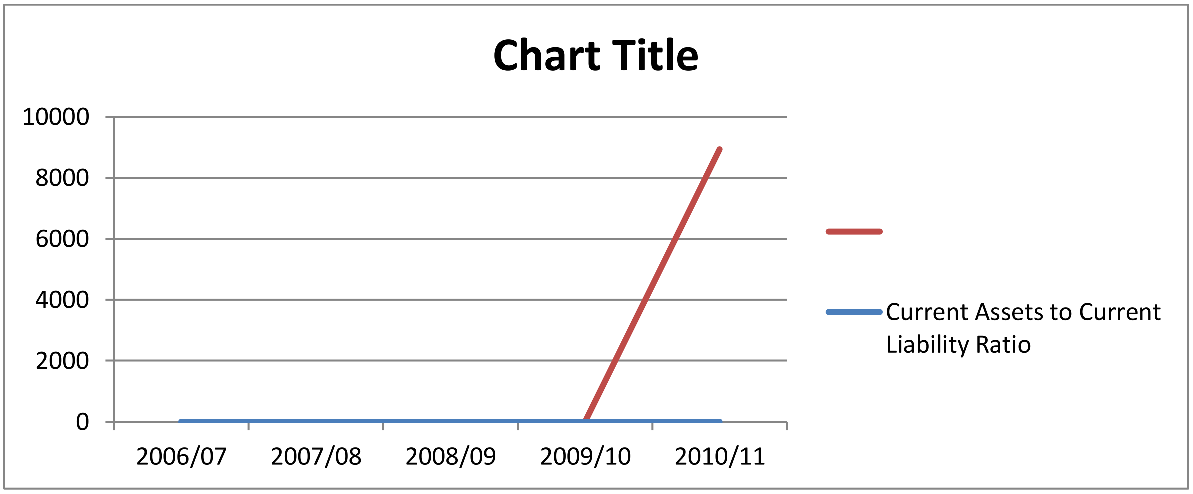


Table 4.1 reveals the current assets to current liabilities ratio of NABIL. The highest ratio is 1.83: 1 in year 2006/07 and lowest ratio 1.14:1 in year 2010/11. The current mean ratio is 1.34:1. Standard deviation and coefficient of variation are 0.26 and 0.19 respectively. The current ratios of first three year are lower than average ratio and first two year is higher than mean ratio. In the beginning of study year the current ratio are higher than standard ratio but at end of study period NABIL has maintain the standard current ratio. While observing the average current ratio it is notice that the banks have met the standard ratio, which is able to meet its short term obligation.

4.1.2 Cash and Bank Balance to Total Deposit Ratio:

Cash and bank balance to total deposit ratio shows that percentage relation between cash and bank to total deposit. It means the liquid balance available in respect to total deposit of the bank whereas the difference between the cash & bank balance to total deposit is said as the investment of the bank. The reserve requirement below 10% of deposit liabilities is noted as fully liberalized, 10%-15% as largely liberalized, 15%-25% as partially repressed and above 25% as completely repressed, it is ranked by 3, 2, 1 and 0 respectively. The ratio calculations are as follows:

Table: 4.2

Cash and Bank Balance to Total Deposit ratio

(Amount in million)

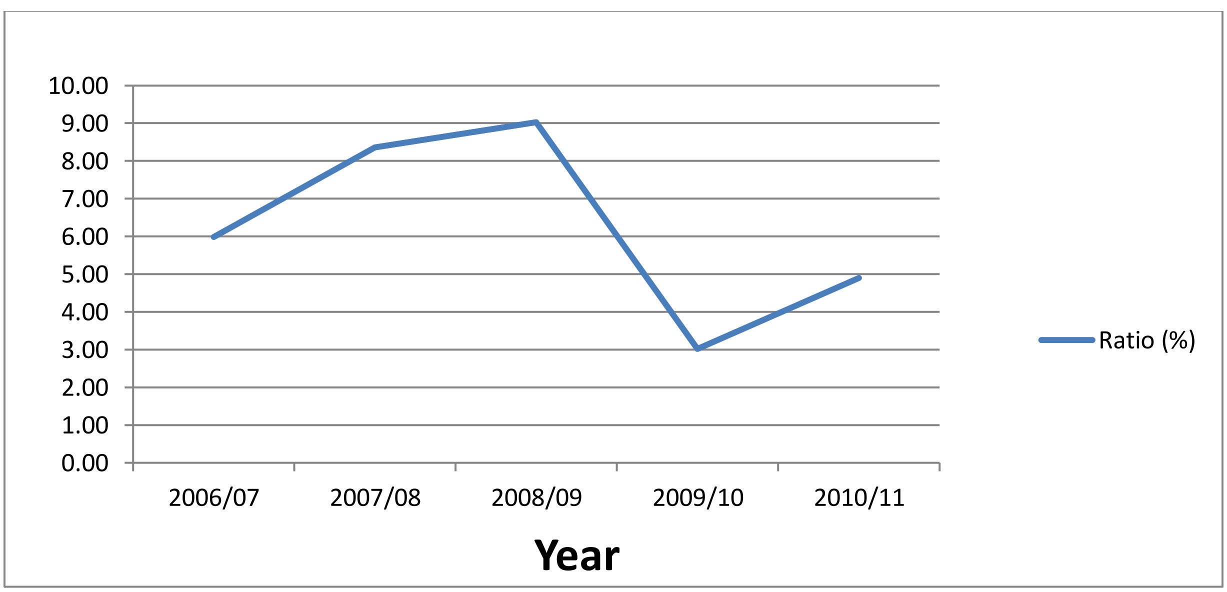
Year	Cash and Bank Balance	Total Deposit	Ratio(%)
2006/07	1399.00	24491.09	5.99
2007/08	2671.00	31304.82	8.37
2008/09	3372.51	37348.26	9.03
2009/10	1400.09	46340.70	3.02
2010/11	2436.55	49696.11	4.90
Mean			6.26
S.D			2.48
C.V			0.40

Source: Annual Report of Nabil Bank Limited (2006/07 to 2010/11)

Cash & bank balance to total deposit ratio is shown in the following figure:

Figure: 4.2

Cash and Bank Balance to Total Deposit ratio



In above table shows that the cash and bank balance to total deposit ratio of Nabil Bank is fluctuating trend. Similarly, the ratios are 5.99, 8.37, 9.03, 3.02 and 4.90 percent respectively in F/Y 2006/07 to 2010/11. The average mean ratio is 6.262 percents. Standard deviation and coefficient of variation of cash and bank balance to total deposit ratio are 2.477 and 0.396 respectively. in the study period. The highest ratio is 9.03% in year 2008/09 and the lowest ratio 3.02% in year 2009/10. These all ratio shows that the bank is not maintain the good liquidity position of the bank. These ratios show low liquidity position of the bank. Therefore, it shows that the bank much utilization of resource. Cash reserve ratio in year 2006/07 is 5.99%, 8.37 in 2007/08 and 4.90% in 2010/11. It's show the optimum utilization of resource by Nabil bank.

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

Cash and Bank Balance to Current Deposit = Cash and Bank Balance/Current Deposit

Table: 4.3

Cash and Bank Balance to Current Deposit Ratio

(Amount in million)

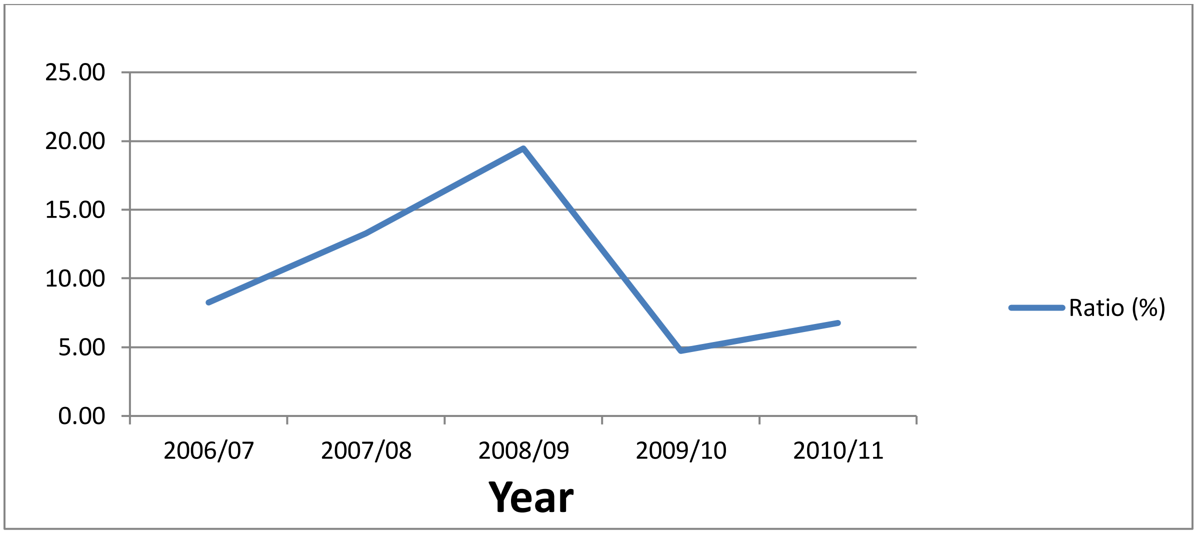
Year	Cash and Bank Balance	Current Deposit	Ratio(%)
2006/07	1399.00	16594.00	8.25
2007/08	2671.00	20122.10	13.27
2008/09	3372.51	17337.00	19.46
2009/10	1400.09	29576.00	4.73
2010/11	2436.55	35980.68	6.77
Mean			10.50
S.D			5.92
C.V			0.56

Source: Annual Report of Nabil Bank Limited (2006/07 to 2010/11)

Figure: 4.3

Cash and Bank Balance to Current Deposit Ratio

Cash & bank balance to current deposit ratio is shown in the following figure:



Above figure shows the calculation of Cash and bank balance to current deposit of Nabil Bank. Similarly, the ratios are 8.25, 13.27, 19.46, 4.73 and 6.77 percents respectively from the first year to last year 2006/07 to 2010/11 of the research period. Standard deviation and coefficient of variation of Cash and bank balance to current deposit ratio are 5.92 and 0.564 respectively. The mean average calculation is 10.496 percent, which means consistency in this ratio during the research period. Cash and bank balance would not sufficient to meet the demand of current depositors. So here seems to be making more cash and bank balance to meet the current deposit. Otherwise the bank would lose its image from the view points of customers if all current depositors demand their deposit. Here mean ratio is only 10.496% so more cash and bank balance is required to maintain the current depositor required.

4.1.4 Cash and Bank Balance to Interest Sensitive Deposit Ratio:

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

Table: 4.4

Cash and Bank Balance to Interest Sensitive Deposit Ratio:

(Amount in million)

Year	Cash and Bank Balance	Sensitive Deposit	Ratio (%)
2006/07	1399.00	10187.35	13.70
2007/08	2671.00	12159.97	21.90
2008/09	3372.51	14620.41	23.10
2009/10	1400.09	13783.58	10.20
2010/11	2436.55	14288.52	17.10
Mean			17.20
S.D			5.44
C.V			0.32

Source: Annual Report of Nabil Bank Limited (2006/07 to 2010/11)

Figure: 4.4

Cash and Bank Balance to Interest Sensitive Deposit Ratio:

Cash & bank balance to Interest Sensitive Deposit Ratio is shown in the following figure:

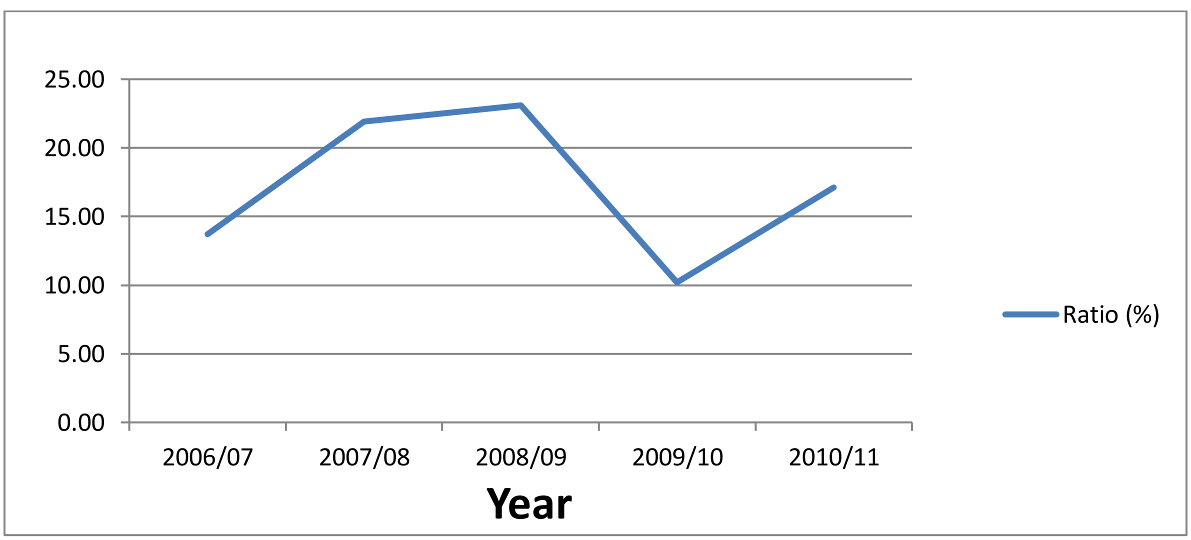


Figure 4.4 shows that the cash and bank balance to interest sensitive ratio of Nabil bank is in fluctuating trend. The ratios are 13.70, 21.90, 23.10, 10.20 and 17.10 percent respectively according to consecutive year 2006/07 to 2010/11. The mean ratio is 17.20 percents. This means that the bank is able to maintain this ratio in the good financial condition. The highest ratio is 23.10% in the year 2008/09 and lowest ratio of 10.20% in the year 2009/10. Standard deviation and coefficient of variation of Cash, bank balance and interest sensitive deposits are 5.44 and 0.316 respectively. The sensitive deposit ratio is volatiles so the condition of sensitive of bank also fluctuating. Therefore, credit management neither good nor bad position of the Nabil Bank.

4.2 Assets Management Ratio:

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

4.2.1 Credit and Advances to Fixed Deposit Ratio:

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

$$\text{Credit \& advances to fixed deposit} = \frac{Credit\ and\ Advances}{Fixed\ Deposits}$$

Table: 4.5

Credit and Advances to Fixed Deposit Ratio

(Amount in million)

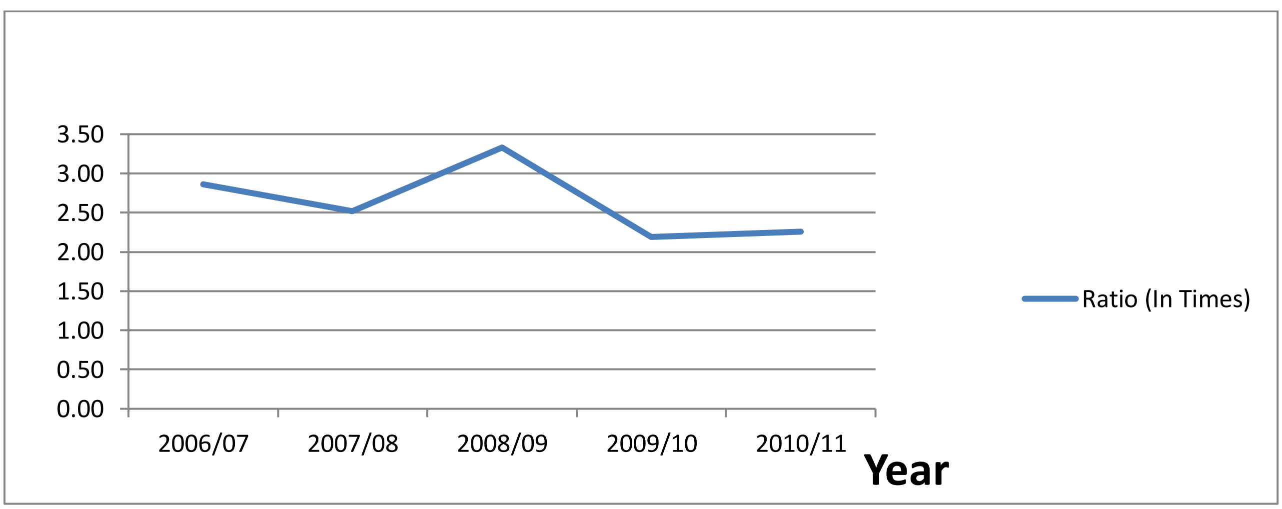
Year	Credit and Advances	Fixed Deposit	Ratio (%)
2006/07	15545.78	5435.10	2.86
2007/08	21365.05	8464.09	2.52
2008/09	27589.93	8310.71	3.33
2009/10	32268.87	14711.16	2.19
2010/11	38034.09	16840.83	2.26
Mean			2.63
S.D			0.47
C.V			0.18

Source: Annual Report of Nabil Bank Limited (2006/07 to 2010/11)

Figure: 4.5

Credit and Advances to Fixed Deposit Ratio

Credit and Advances to Fixed Deposit Ratio is shown in the following figure:



From the above figure it is visualized that Loan and advances to fixed deposits ratio of NABIL are fluctuating and decreasing during the study period.. The overall ratio of Nabil bank in 2006/07 is 2.86:1 and decreasing in 2007/08 year to 2.52:1 after that the Ratio are increasing trend i.e. 3.33:1 in 2008/09, 2.19:1 in year 2009/10 and 2.26:1 in 2010/11years respectively. The mean average, Standard deviation and coefficient of variation of Credit and advance to fixed deposit ratio of Nabil are 2.632, 0.47 and 0.178 respectively at research period.

4.2.2 Credit and Advances to Total Deposit Ratio:

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

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

Table 4.6

Credit and Advances to Total Deposit Ratio

(Rupees in million)

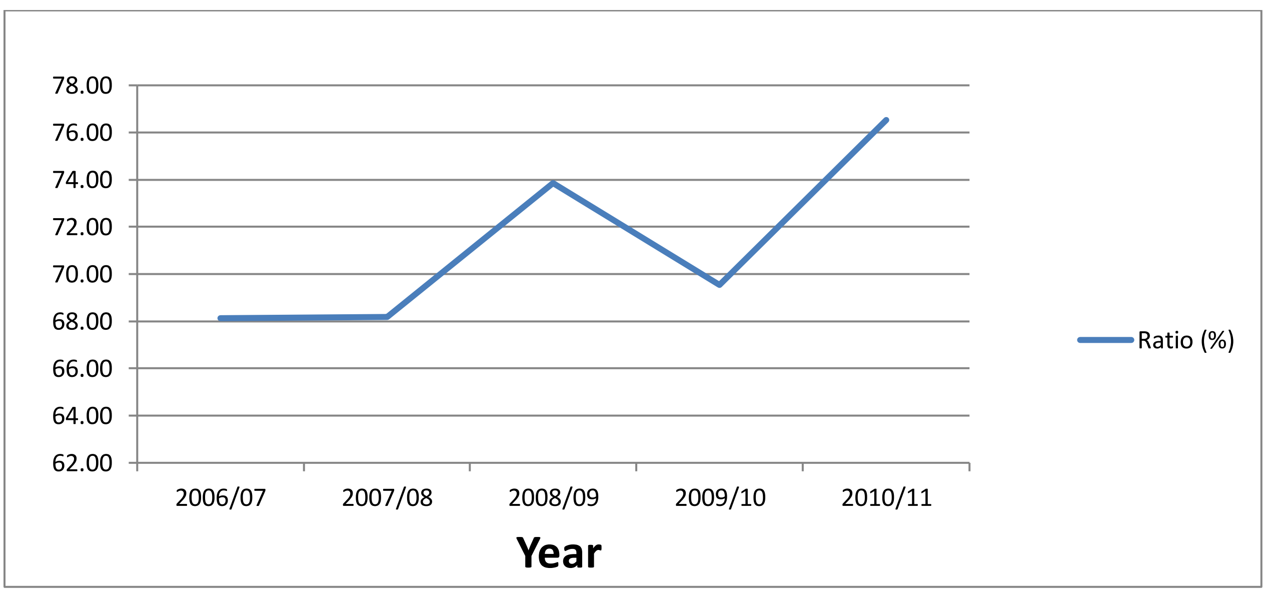
Year	Credit and Advances	Total Deposit	Ratio (%)
2006/07	15545.78	24491.09	68.13
2007/08	21365.05	31304.82	68.18
2008/09	27589.93	37348.26	73.85
2009/10	32268.87	46410.70	69.53
2010/11	38034.09	49696.11	76.53
Mean			71.24
S.D			3.77
C.V			0.05

Source: Annual Report of Nabil Bank Limited (2006/07 to 2010/11)

Figure 4.6

Credit and Advances to Total Deposit Ratio

Credit and Advances to Total Deposit Ratio is shown in the following figure:



The above figure represents year in X axis and ratio(%) in Y axis. Above Table shows that the total credit and advances to total deposit ratio of NABIL is in fluctuating and increasing trend. Similarly, the highest ratio is 76.53 percent in year 2010/11 and lowest ratio 68.13 percent in year 2006/07. The average mean ratio of NABIL is 71.24 percent in the study period. This means the bank is able to proper mobilization of collected deposit. According to NRB directives above 70% to 90% of loan and advances to total deposit ratio is able to better mobilization of collected deposit. So all of the year the bank has tries to meet the NRB requirement or it has utilized its deposit to provide loan. Standard deviation and coefficient of variation of Credit and advances to total deposit are 3.77 and 0.053 respectively. This means that credit management is in good position of the bank.

4.2.3 Credit and Advances to Total Assets Ratio:

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

Credit & advances to total assets = Credit & advances/Total assets × 100%

Table: 4.7

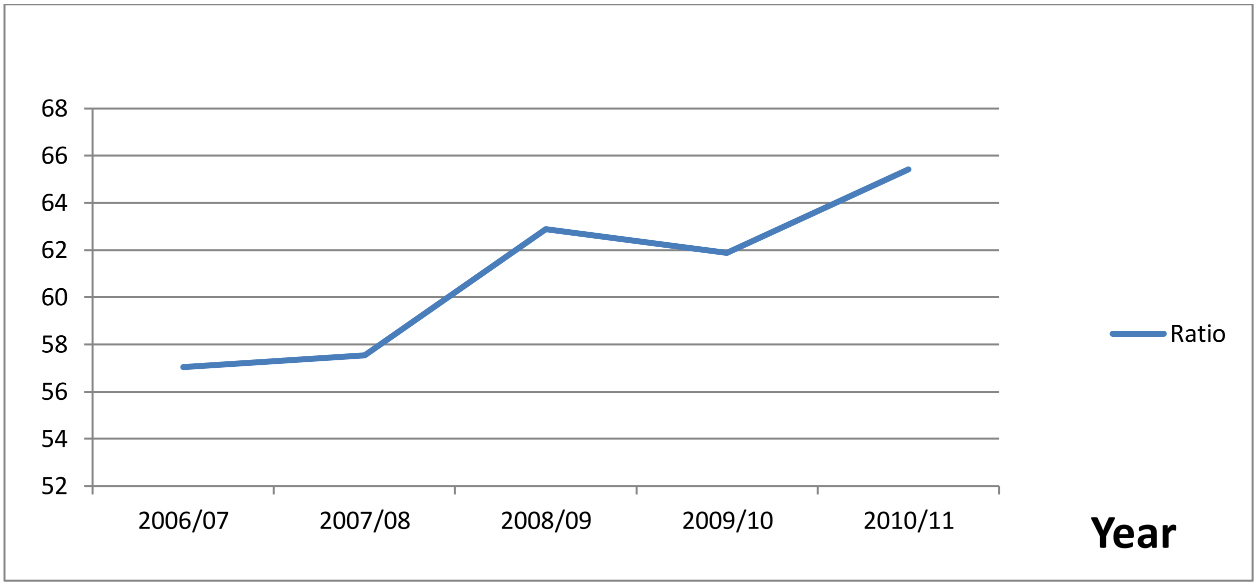
Credit and Advances to Total Assets

Year	Credit and Advances	Total Asset	Ratio (%)
2006/07	15545.78	27253.39	57.04
2007/08	21365.05	37132.76	57.54
2008/09	27589.93	43867.40	62.89
2009/10	32268.87	52150.24	61.88
2010/11	38034.09	58141.44	65.42
Mean			60.95
S.D			3.59
C.V			0.06

Source: Annual Report of Nabil Bank Limited (2006/07 to 2010/11)

Figure: 4.7

Credit and Advances to Total Assets



The above figure represents year in X axis and ratio (%) in Y axis. From the above table shows the Nabil bank has generally mixed or fluctuating and increasing trends of credit and advances to total assets ratio under the study period. Similarly, the ratios are 57.04%, 57.54%, 62.89%, 61.88% and 65.42% in their respective year 2006/07 to 2010/11. The highest ratio is 65.42% in the year 2010/11 and the lowest ratio is 57.04% year 2006/07. The average mean ratio is 60.954%. It shows that bank has capability in utilizing total assets in the form of credit and advances. Standard deviation and coefficient of variation of Credit and advances to total assets ratio are 3.59 and 0.059 respectively. Consistency in the utilization of assets in the form of credit and advance is satisfactory because the ratios are fluctuating increasing.

4.2.4 Non-Performing Assets to Total Assets Ratio:

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

Table: 4.8

Non-performing assets to Total Assets ratio

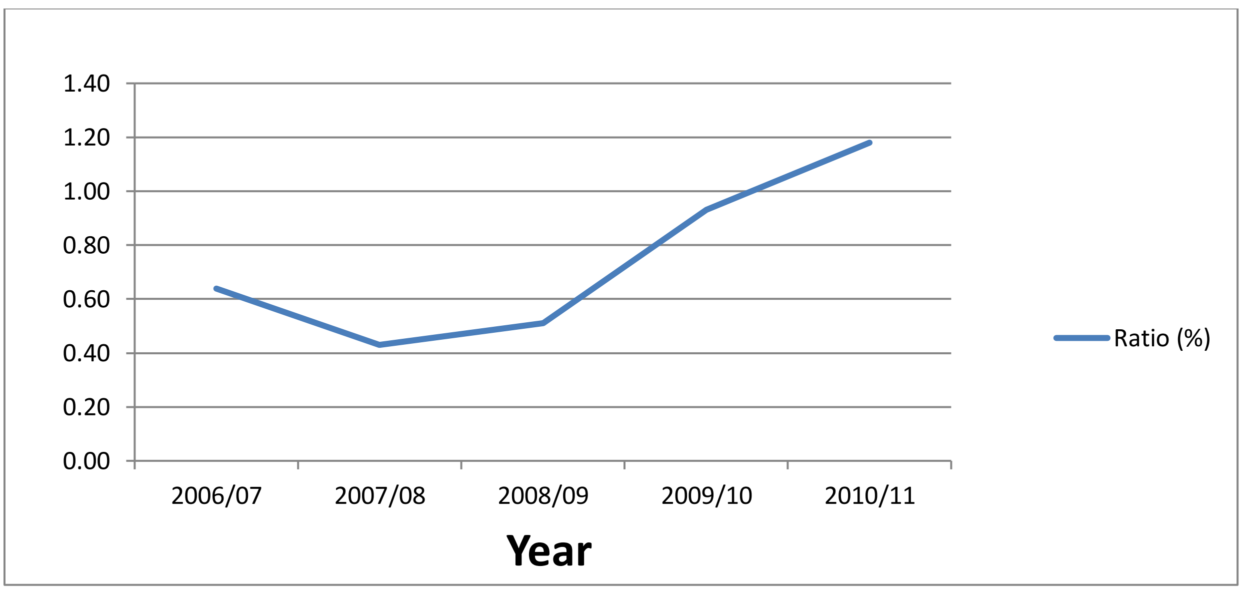
Year	Non - Performing Assets	Total Asset	Ratio (%)
2006/07	174.11	27253.39	0.64
2007/08	161.09	37132.76	0.43
2008/09	224.82	43867.40	0.51
2009/10	486.28	52150.24	0.93
2010/11	689.70	58141.44	1.18
Mean			0.74
S.D			0.31
C.V			0.42

Source: Annual Report of Nabil Bank Limited (2006/07 to 2010/11)

Figure 4.8

Non-performing assets to Total Assets ratio

Non-performing Assets to Total Asset Ratio is shown in the following figure:



The above figure represents year in X axis and ratio (%) in Y axis. Table 4.8 shows that the total non-performing assets to total assets ratio of NABIL is in increasing trend. The highest ratio is 1.18 % in year 2010/11 and lowest ratio 0.43% in year 2007/08. The mean ratio is 0.738%. The bank is able to obtain higher lending opportunity. The increasing trends of Ratios are 0.64%, 0.43%, 0.51% and 0.93% and 1.18% in year 2006/07 to 2010/11 respectively. These are able to obtain higher lending opportunity. But non performing loan are also increasing. According to the direction of NRB to the commercial banks, the ratio of non-performing assets to total assets should be about 5%. However, referring to this table, Nabil bank is able to keep the level of non-performing assets at a satisfactory level, which is on an average 1.19%. Standard deviation and coefficient of variation of Non-performing assets to total assets ratio are 0.31 and 0.42 respectively.

4.3 Leverage Ratio:

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

4.3.1 Total Debt to Equity Ratio:

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

Total debt = Debentures & Bonds + Borrowings + Deposits + Bills Payable + Proposed & Undistributed Dividends + Income Tax Liabilities

Total Equity = share capital + Reserve and surplus

Total debt to equity = Total Debt/Equity

Table: 4.9

Total Debt to Equity Ratio

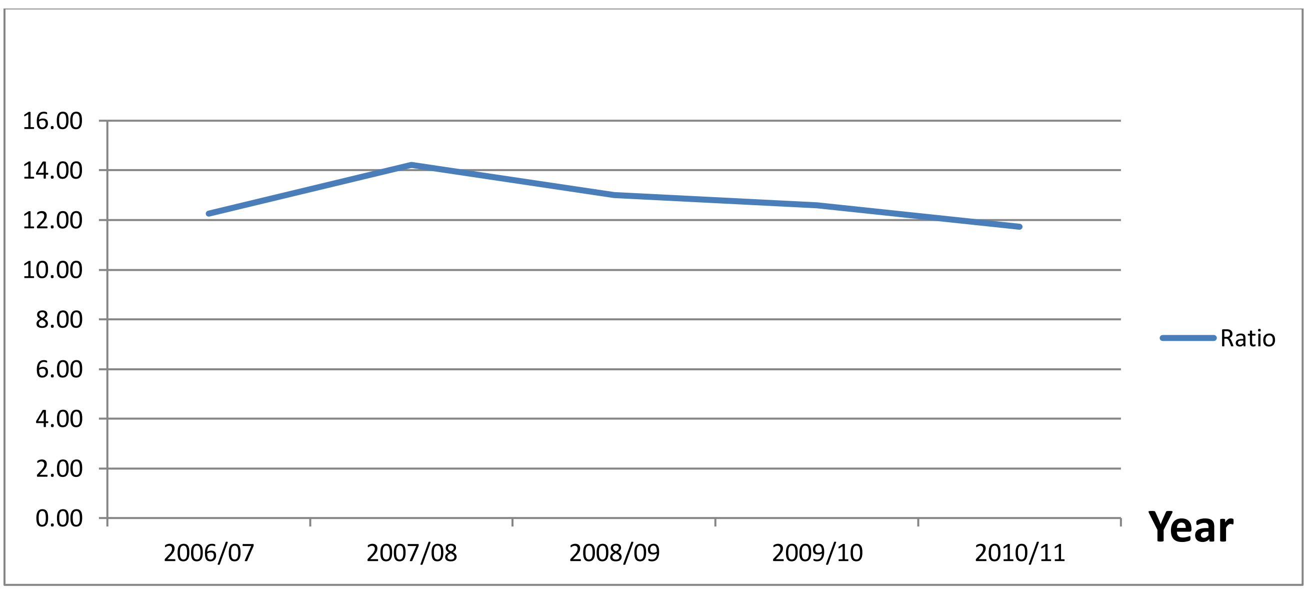
Year	Total Debt	Total Equity	Ratio (%)
2006/07	25198.30	2055.12	12.26
2007/08	34692.90	2439.82	14.22
2008/09	40737.20	3130.24	13.01
2009/10	48315.50	3834.75	12.60
2010/11	53574.90	4566.52	11.73
Mean			12.76
S.D			0.94
C.V			0.07

Source: Annual Report of Nabil Bank Limited (2006/07 to 2010/11)

Figure: 4.9

Total Debt to Equity Ratio

Total Debt to Equity Ratio is shown in the following figure:



The above figure represents year in X axis and ratio (%) in Y axis. Above table shows Debt to total equity ratio of NABIL. The debt to total equity ratio of NABIL is continuously deprecating from second study year 2007/08 till research period. The ratio is 12.26:1 in the first year 2006/07, 14.22:1 in the second year 2007/08, 13.01:1 in the third year 2008/09, 12.60:1 in the fourth year 2009/10 and 11.73:1 in the fifth year 2010/11 of the research period. The average mean ratio is 12.764. Excess amount of debt capital structure results heavy burden in payment of interest. Standard deviation and coefficient of variation of Total debt to equity ratio are 0.94 and 0.074 respectively. Risk of liquidation increase if the debt cannot be repay in the time. High gearing ratio may provide high return to the equity shareholders if the bank makes profit.

4.3.2 Total Debt to Total Assets

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

Total debt to Total Asset = $\frac{Total\ Debt}{Total\ Assets}$

Table: 4.10

Total Debt to Total Assets

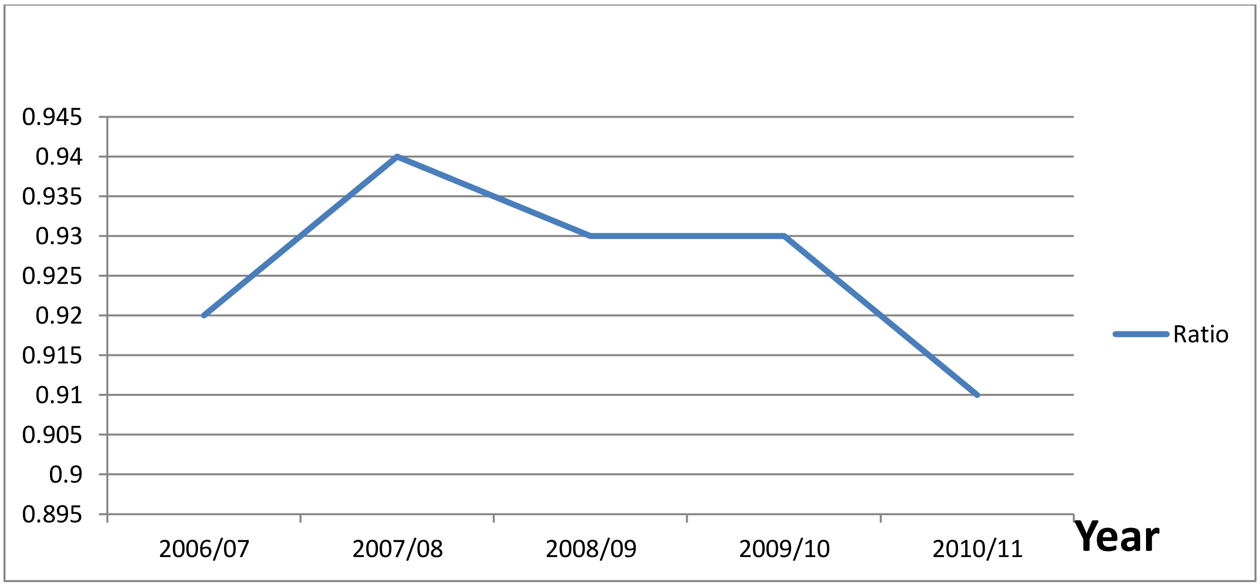
Year	Total Debt	Total Assets	Ratio
2006/07	25198.30	27253.39	0.92
2007/08	34692.90	37132.76	0.94
2008/09	40737.20	43867.40	0.93
2009/10	48315.50	52150.24	0.93
2010/11	53574.90	58141.44	0.91
Mean			0.93
S.D			0.011
C.V			0.012

Source: Annual Report of Nabil Bank Limited (2006/07 to 2010/11)

Figure: 4.10

Total Debt to Total Assets

Total Debt to total assets is shown in the following figure:



The above figure represents year in X axis and ratio (in times) in Y axis. Above table shows the total debt to total asset ratio of Nabil bank. The ratio is found as 0.92:1, 0.94:1, 0.93:1, 0.93:1 and 0.91:1 from 1st to 5th year of the study period 2006/07 to 2010/11 respectively. The average mean ratio in 5 years research period is 0.92. It means almost 926% of total assets is financed by the outsider's' funds. It is seen that there is not much deviation in the ratio for the five years study period. Standard deviation and coefficient of variation Total debt to total asset ratio are 0.011 and 0.012 respectively. It means no change in the policy on this ratio for the five years.

4.3.3 Total Assets to total Book Net worth Ratio:

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

Table: 4.11

Total Assets to Net Worth

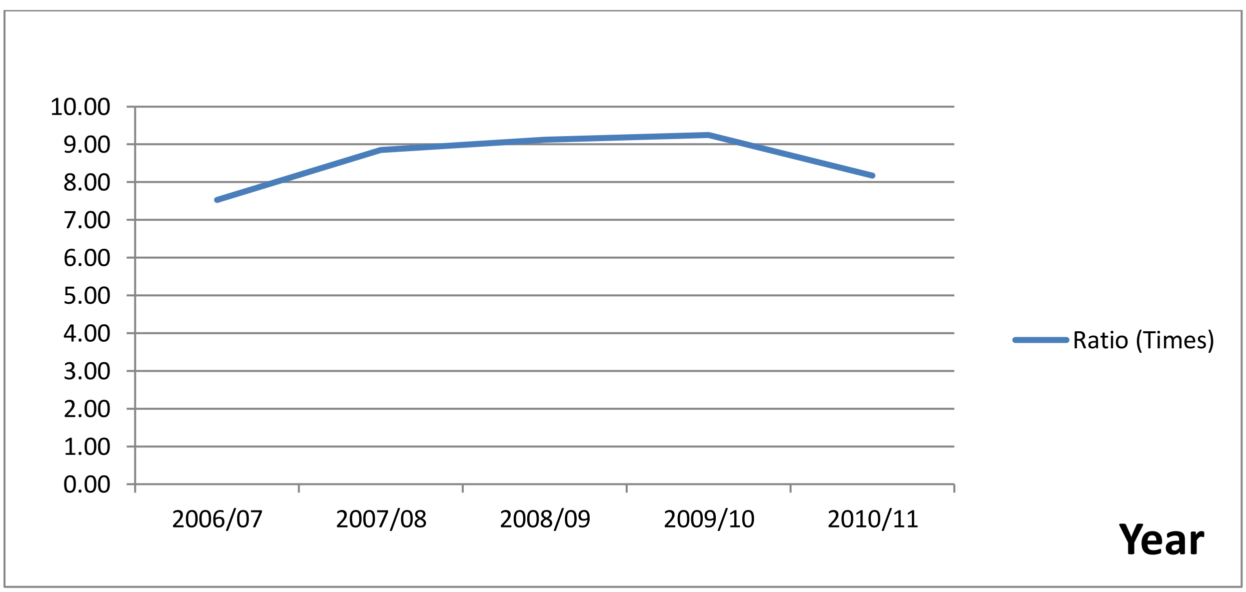
Year	Total Assets	Net Worth	Ratio (Times)
2006/07	27253.39	3620.51	7.53
2007/08	37132.76	4189.80	8.86
2008/09	43867.40	4811.86	9.12
2009/10	52150.24	5640.73	9.25
2010/11	58141.44	7103.27	8.18
Mean			8.59
S.D			0.72
C.V			0.084

Source: Annual Report of Nabil Bank Limited (2006/07 to 2010/11)

Figure: 4.11

Total Assets to Net Worth

Total Assets to Net Worth is shown in the following figure:



The above figure represents year in X axis and ratio (in times) in Y axis. Above table shows Total assets to net worth ratio of the bank are increasing and decreasing at last year of the study period. It is lowest 7.53 times in the first year 2006/07 and 9.25 times in year 2009/10 In over all the study period the average ratio at that time is 8.588 times. The ratios are 8.86, 9.12 and 8.18 in consecutive year 2007/08, 2008/09 and 2010/11 respectively. It represents good condition of Total assets to net worth ratio. Standard deviation and coefficient of variation of total assets to net worth ratio are 0.72 and 0.084 respectively. Here above table we see that total assets and net worth are increasing year by year beside last year of study period.

4.4 Profitability Ratio:

Profit is major objective of any business organization. Profit is engine that drives the business enterprises. Profitability ratios are very helpful to measure the overall efficiency in operation of a financial institution. Profitability ratio is calculated on the basis of sales and investment. In the context of banks, no bank can survive without profit. Profit is one the major indicates or efficient operation of a bank. The banks acquire profit by providing different services to its customers or by providing loan and advances and making various kinds of investment opportunities. Profitability ratios measure the efficiency of bank. A higher profit ratio shows the higher efficiency of a bank. The following ratios are calculated:

4.4.1 Net Profit to Gross Income Ratio:

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

Table 4.12

Net Profit to Gross Income Ratio

(Amount in Million)

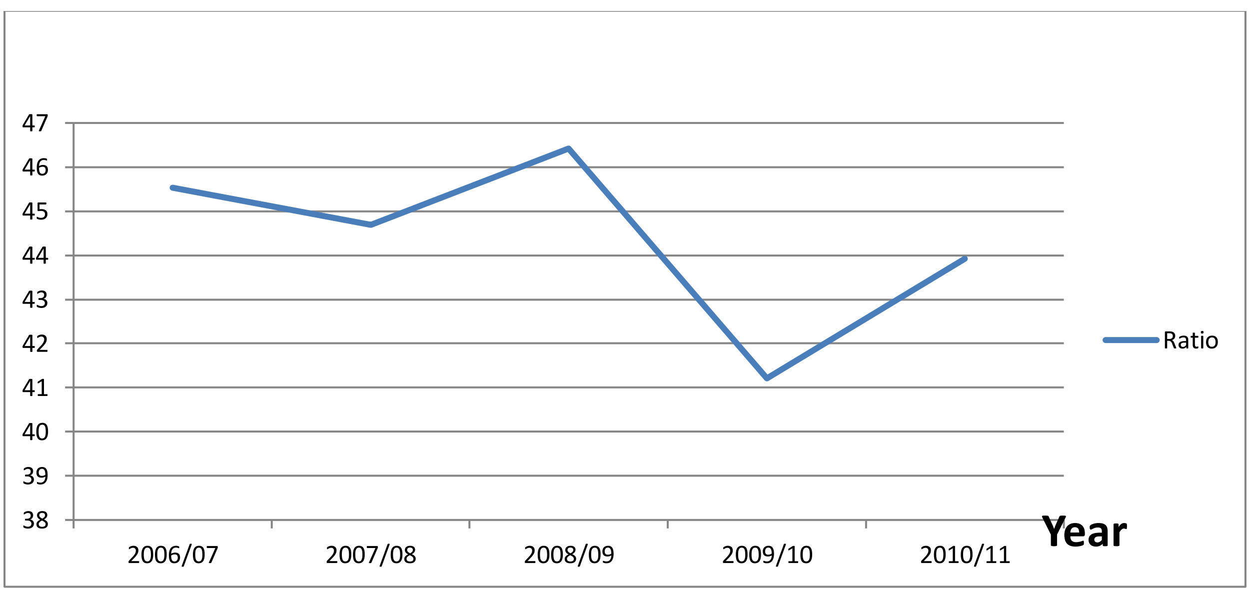
Year	Net Profit	Gross Income	Ratio (%)
2006/07	673.96	1480.16	45.53
2007/08	746.47	1670.43	44.69
2008/09	1031.05	2220.98	46.42
2009/10	1139.10	2764.09	41.21
2010/11	1337.75	3046.13	43.92
Mean			44.35
S.D			1.99
C.V			0.045

Source: Annual Report of Nabil Bank Limited (2006/07 to 2010/11)

Figure 4.12

Net Profit to Gross Income Ratio

The Net Profit to Gross Income Ratio is shown in the following figure:



The above figure represents year in X axis and ratio (%) in Y axis. Table no 4.12 shows that the total net profit to gross income ratio of NABIL is in fluctuating and decreasing trend. Similarly, the overall highest ratio is 46.42% in year 2008/09 and lowest ratio 41.21% in year 2009/10. The mean ratio is 44.35%. The Ratios are 45.53%, 44.69% and 43.92 in year 2006/07, 2007/08 and 2010/11 respectively. These are able to obtain average efficiency of the bank. Standard deviation and coefficient of variation of net profit to gross income ratio are 0.99 and 0.045 respectively.

4.4.2 Interest Income to Total Income Ratio:

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

Table: 4.13

Interest Income to Total Income Ratio

(Amount in million)

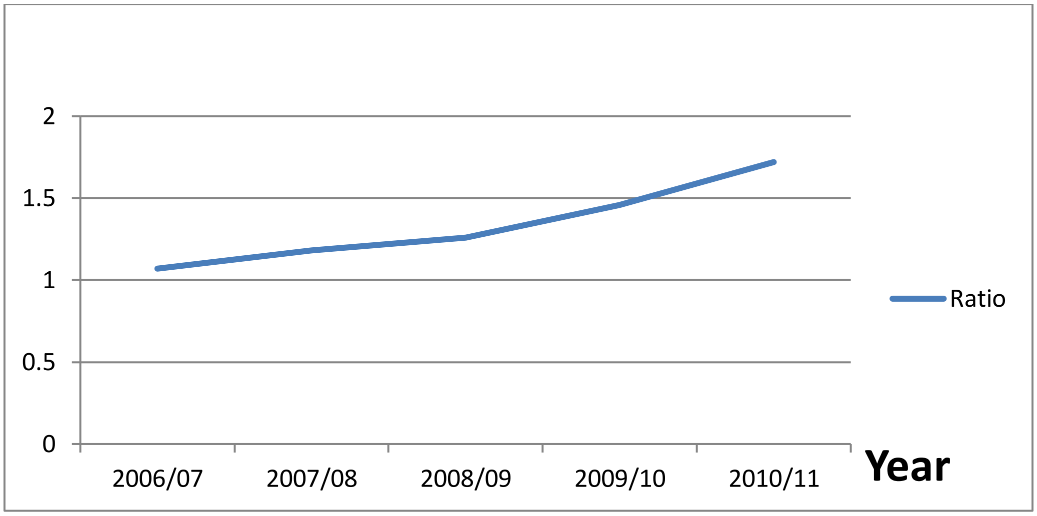
Year	Interest Income	Total Income	Ratio (%)
2006/07	1587.76	1480.16	1.07
2007/08	1978.70	1670.43	1.18
2008/09	2798.49	2220.98	1.26
2009/10	4047.73	2764.09	1.46
2010/11	5254.03	3046.13	1.72
Mean			1.34
S.D			0.28
C.V			0.21

Source: Annual Report of Nabil Bank Ltd (2006/07 to 2010/11)

Figure: 4.13

Interest Income to Total Income Ratio

Interest Income to Total Income Ratio is shown in the following figure:



The above figure represents year in X axis and ratio (%) in Y axis. Table 4.13 shows that the total interest income to total income ratio of NABIL is in increasing trend. The ratios are 1.07 times, 1.18 times, 1.26 times, 1.46 times and 1.72 times in fiscal year 2006/07 to 2010/11 respectively. The highest ratio is 1.72 times in year 2010/11 and lowest ratio 1.07 times in year 2006/07. The mean ratio is 1.34 times in the study period. The ratio indicates the high contribution made by lending and investing activities. Standard deviation and coefficient of variation of interest income to total income are 0.28 and 0.21 respectively. The total interest income to total income is continuously increasing trend. Therefore, credit management is in a good position of the bank.

4.4.3 Operating Profit to Loan and Advances Ratio:

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

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

Table: 4.14

Operating profit to Loan and advances Ratio

(Amount in million)

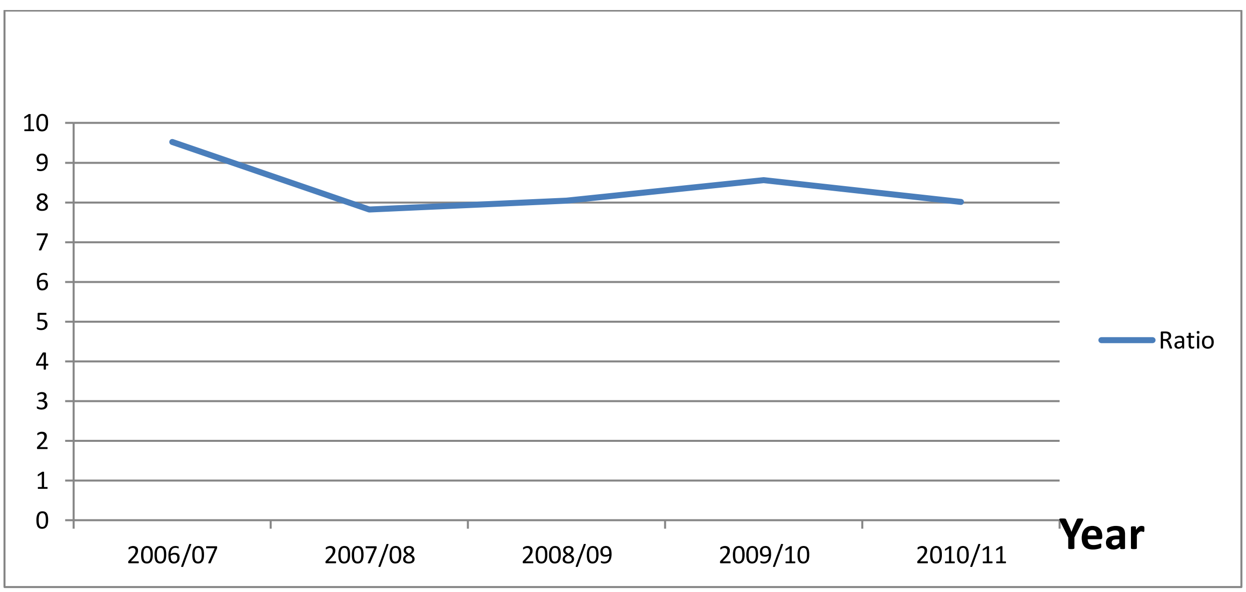
Year	Operating Profit	Credit and Advances	Ratio (%)
2006/07	1480.16	15545.78	9.52
2007/08	1670.43	21365.05	7.82
2008/09	2220.98	27589.93	8.05
2009/10	2764.09	32268.87	8.56
2010/11	3046.13	38034.09	8.01
Mean			8.39
S.D			0.69
C.V			0.08

Source: Annual Report of Nabil Bank Limited (2006/07 to 2010/11)

Figure: 4.14

Operating Profit to Loan and Advances Ratio

Operating Profit to Loan and Advance Ratio is shown in the following figure:



The above figure represents year in X axis and ratio (%) in Y axis. Table 4.14 shows that the operating profit to loan and advances ratio of NABIL is in fluctuating decreasing trend. The highest ratio is 9.52% in the year 2006/07 and lowest ratio 7.82% in the year 2007/08.The average mean ratio over the period is 8.392%. This shows the high profitability in 2006/07 and low profitability in 2007/08 through loan and advance of the bank. Ratios are 8.05%, 8.56% and 8.01% in year 2008/09, 2009/10 and 2010/11 respectively. These show the fine profitability position of commercial bank, But there is a declining in operating profit to loan and advance ratio. Standard deviation and coefficient of variation of operating profit to loan advances are 0.69 and 0.082. Anyway credit management is in good position of the bank.

4.4.4 Return on Loan and Advances Ratio:

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

Table: 4.15

Return on Loan and Advances Ratio

(Amount in million)

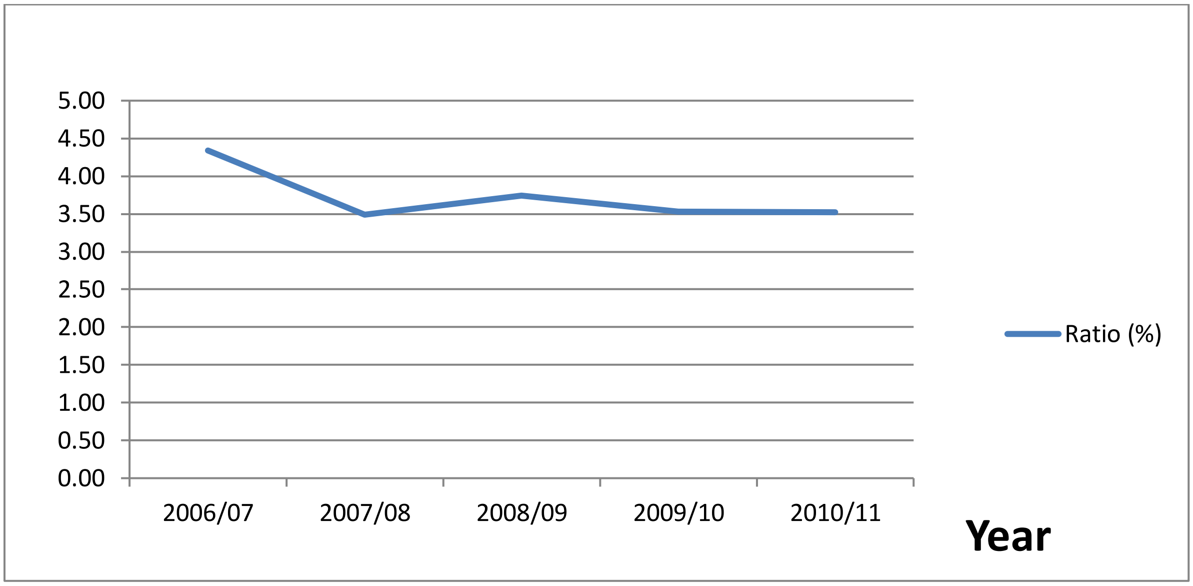
Year	Net Profit	Credit and Advances	Ratio (%)
2006/07	673.96	15545.78	4.34
2007/08	746.47	21365.05	3.49
2008/09	1031.05	27589.93	3.74
2009/10	1139.10	32268.87	3.53
2010/11	1337.75	38034.09	3.52
Mean			3.72
S.D			0.36
C.V			0.10

Source: Annual Report of Nabil Bank Limited (2006/07 to 2010/11)

Figure: 4.15

Return on Loan and Advances Ratio

Return of Loan and Advances Ratio is shown in the following figure:



The above figure represents year in X axis and ratio (%) in Y axis. Table 4.15 shows that return on loan and advances ratio of NABIL is in fluctuating trend. The highest ratio is 4.34% in the year 2006/07 and lowest ratio 3.49% in the year 2007/08. The average mean ratio is 3.724%. The Ratios are 3.74%, 3.53% and 3.52% in years 2008/09, 2009/10 and 2010/11 respectively. These show the highest earning in 2006/07 and lowest earning capacity in 2007/08 from loan and advances. Standard deviation and coefficient of variation of return on loan advances are 0.36 and 0.097 respectively. These show the little high earning capacity of Nabil Bank through loan and advances. Thus, credit management is in good position.

4.4.5 Net profit to Total assets:

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

Table: 4.16

Net profit to Total Assets

(Amount in million)

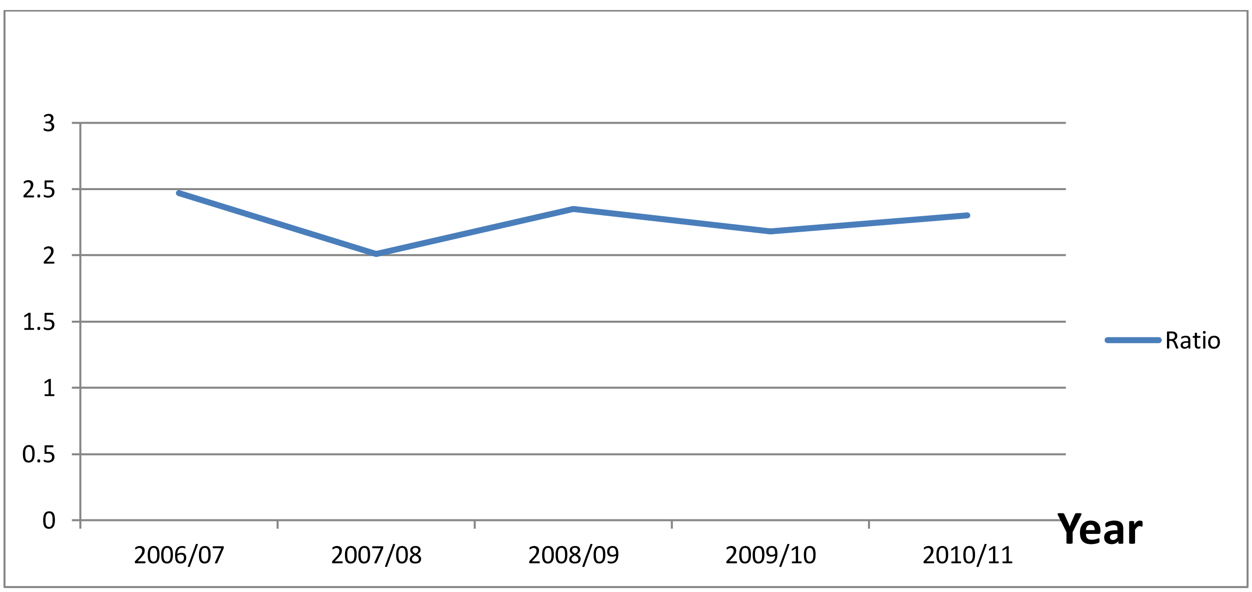
Year	Net Profit	Total Assets	Ratio (%)
2006/07	673.96	27253.39	2.47
2007/08	746.47	37132.76	2.01
2008/09	1031.05	43867.40	2.35
2009/10	1139.10	52150.24	2.18
2010/11	1337.75	58141.44	2.30
Mean			2.62
S.D			0.18
C.V			0.07

Source: Annual Report of Nabil Bank Limited (2006/07 to 2010/11)

Figure: 4.16

Net profit to Total Assets

Net Profit to Total Assets Ratio is shown in the following figure:



The above figure represents year in X axis and ratio (%) in Y axis. In above table shows that the Net profit to total assets ratio of NABIL is in fluctuating trend. Similarly, the overall ratio is 2.47% 2.01%, 2.35%, 2.18% and 2.30% in years 2006/07 to 2010/11 respectively. The highest ratio is 2.47 in 2006/07 and lowest ratio is 2.01% in the year 2007/08. The mean ratio is 2.62%. This shows the normal earning capacity through asset utilization. Standard deviation and coefficient of variation of net profit to total assets ratio are 0.18 and 0.07 respectively. In above the five year research period net profit and total assets both are fluctuating trend.

4.4.6 Earning per Share:

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

Table: 4.17

Earning Per Share

(Amount in million)

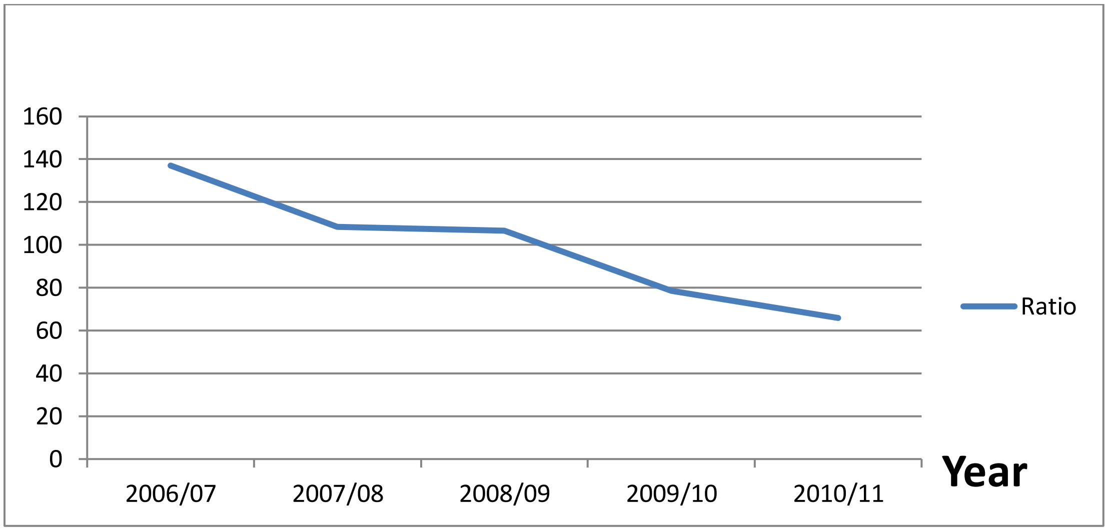
Year	Net Profit	No. of Equity Shares	Earning per share(Rs)
2006/07	673.96	4916544	137.08
2007/08	746.47	6892160	108.31
2008/09	1031.05	9657470	106.80
2009/10	1139.10	14491240	78.61
2010/11	1337.75	20297694	65.90
Mean			99.34
S.D			27.88
C.V			0.28

Source: Annual Report of Nabil Bank Limited (2006/07 to 2010/11)

Figure: 4.17

Earning Per Share

Earning Per Share is shown in the following figure:



Above table shows that Earning per share of NABIL is in decresing trend. The highest EPS is RS 137.08 in year 2006/07 and lowest EPS Rs.65.90 in year 2010/11. The average means EPS of Nabil Bank is Rs. 99.34 in the study period. This shows the bad profitability in the coming last years. Earning per shares are Rs.108.31, Rs.106.80 and Rs. 78.61 in year 2007/08, 2008/09 and 2009/10 respectively. These mean that the bad profitability in the study years. Standard deviation and coefficient of variation of Earning per shares are27.88 and 0.28 respectively. Aggregate profit is in increasing trends. The EPS of NABIL decreasing due to increase in its no of equity Therefore, credit management and overall performance of company is in good position.

4.4.7 Price Earning Ratio:

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

Price earning ratio (PE ratio) = Market value per share / Earning per share

Table : 4.18

Price Earning Ratio

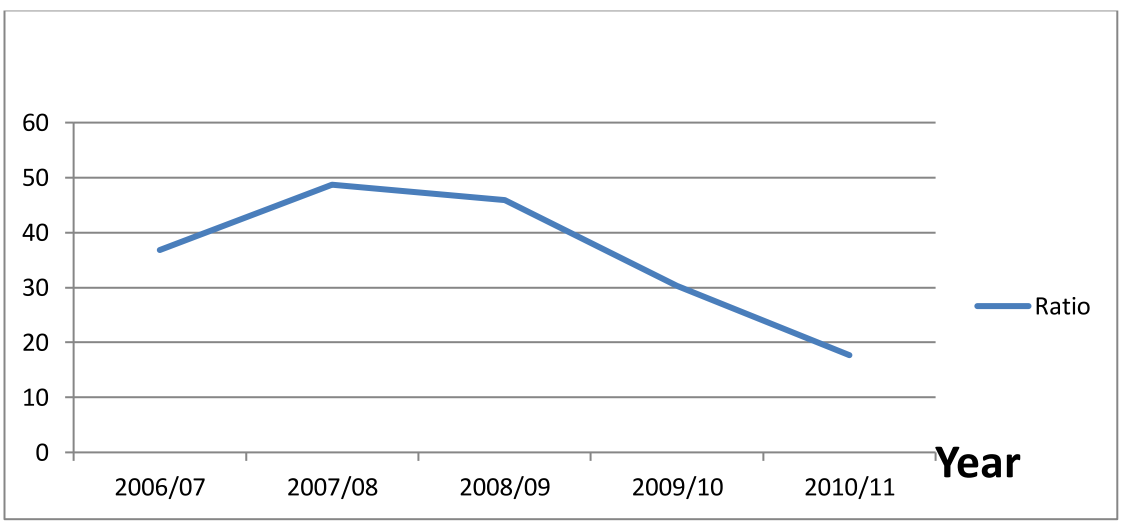
Year	Market price per share	Earning per share	Ratio(Times)
2006/07	5050	137.08	36.84
2007/08	5275	108.31	48.70
2008/09	4899	106.76	45.89
2009/10	2384	78.61	30.33
2010/11	1252	70.76	17.69
Mean			35.89
S.D			12.52
C.V			0.35

Source: Annual Report of Nabil Bank Limited (2006/07 to 2010/11)

Figure: 4.18

Price Earning Ratio

Price Earning Ratio is shown in the following figure:



Above table shows that price earning ratio earning of Nabil Bank is in fluctuating decreasing trend. The highest price earning ratio is 48.70 in year 2007/08 and lowest ratio 17.35 times in year 2010/11. The average mean ratio of the Nabil is 35.89 times in the study period. This shows the worse profitability in the last years. Ratios are 36.84 times, 45.89 and 30.33 times in year 2006/07, 2008/09 and 2009/10 respectively. These mean that the average profitability in the coming last years. It represents high expectation of company in market and high demand of share. But it is recommended to risk in invest in market price. Standard deviation and coefficient of variation of price earning ratios are 12.52 and 0.35 respectively. Anyway creditability seems to be good position.

4.5 Lending Efficiency Ratio:

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

The following are the various type of lending efficiency ratio:

4.5.1 Total Loan Loss Provision to Total Loan and Advances Ratio:

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

Table: 4.19

Loan Loss Provision to Total Loan and Advances Ratio

(Amount in million)

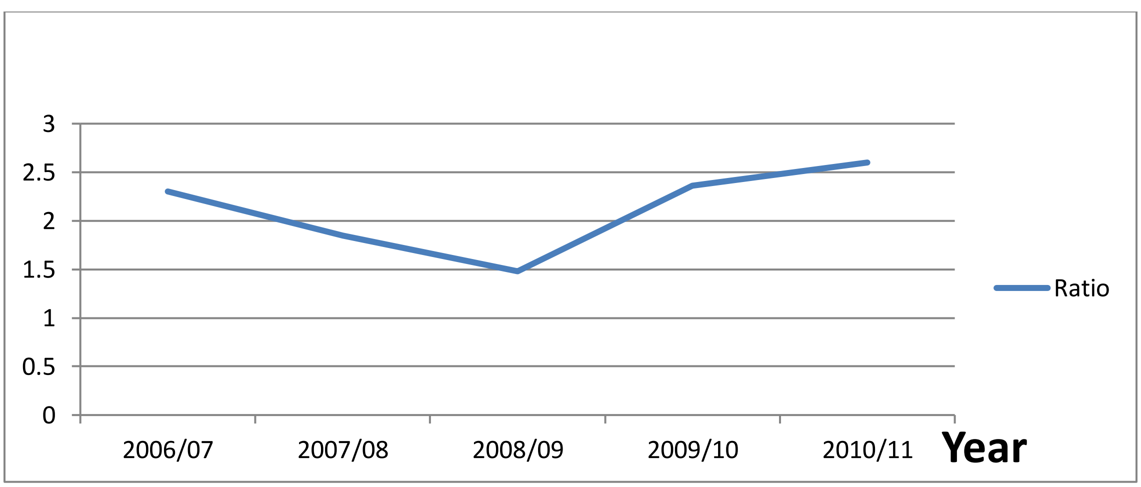
Year	Loan Loss Provision	Credit and Advances	Ratio (%)
2006/07	357	15545.78	2.30
2007/08	394	21365.05	1.85
2008/09	409	27589.93	1.48
2009/10	762	32268.87	2.36
2010/11	990	38034.09	2.60
Mean			2.12
S.D			0.49
C.V			0.23

Source: Annual Report of Nabil Bank Limited (2006/07 to 2010/11)

Figure: 4.19

Loan Loss Provision to Total Loan and Advances Ratio

The Loan Loss Provision to Total Loan and Advances Ratio is shown in the following figure:



Above table shows that loan loss provision to total loan and advances ratio of NABIL is in fluctuating trend. The highest ratio is 2.60% in year 2010/11 and lowest ratio 1.14% in year 2008/09. The mean ratio of the study period is 2.12%. This shows that good quality of assets in total volume of loan and advances. Ratios are 3.30%, 2.70% and 2.20% in the year 2005, 2006 and 2007 respectively. These indicate the moderate quality of assets in total volume of loan and advances. The ratio is fluctuating this indicates that bank average performance. Thus, credit management is in a average position. So all of the year, the bank has met the NRB requirement. Standard deviation and coefficient of variation of loan loss provision and total loan and advances are 0.49 and 0.231 respectively.

4.5.2 Non-Performing Loan to Total Loan and Advances Ratio:

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

Table: 4.20

Non-Performing Loan to Total credit and Advances

The Non – performing Loan to Total Credit and Advances is shown in the following figure:

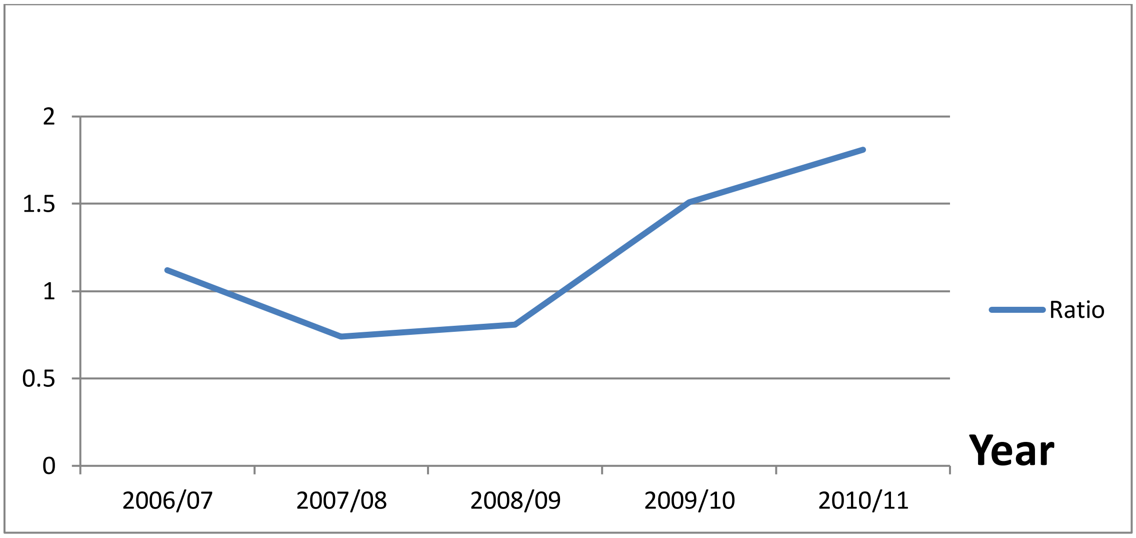
(Amounts in million)

Year	Non-performing loan	Credit and Advances	Ratio (%)
2006/07	174.11	15545.78	1.12
2007/08	161.09	21365.05	0.74
2008/09	224.82	27589.93	0.81
2009/10	486.28	32268.87	1.51
2010/11	689.70	38034.09	1.81
Mean			1.20
S.D			0.46
C.V			0.38

Source: Annual Report of Nabil Bank Limited (2006/07 to 2010/11)

Figure: 4.20

Non-Performing Loan to Total credit and Advances



Above table shows that None performing loan to total loan and advance of NABIL is in fluctuating trend. The ratios are 1.12%, 0.74%, 0.82%, 1.51% and 1.81% in consecutive year 2006/07 to 20010/11 respectively. The highest ratio is1.81 % in the year 2010/11and lowest ratio is 0.74% in the year 2007/08. The average non-performing loan to total loan and advances ratio of NABIL is 1.198% during the study period. This ratio indicates the not efficient operating of credit management. Ratios are fluctuating increasing trends it indicate the bank is increasing the non-performing loan from total loan. Therefore, credit management is not good position recently. Standard deviation and coefficient of variation of non- performing loan to credit and advances ratio are 0.46 and 0.384 respectively.

4.5.3 Interest Expenses to Total Deposit Ratio:

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

Table: 4.21

Interest Expenses to Total Deposit Ratio

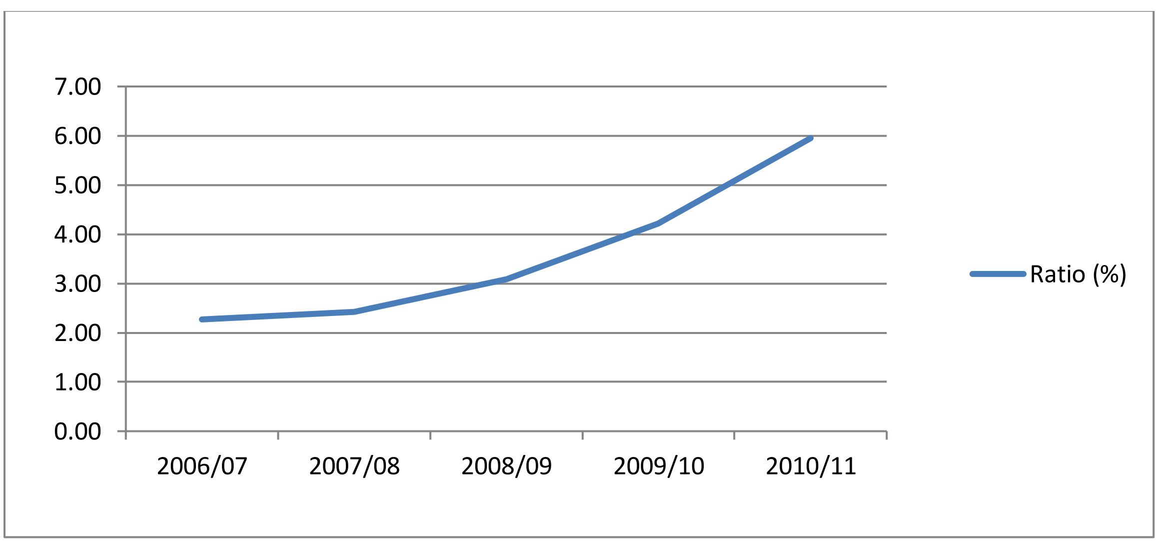
(Amounts in million)

Year	Interest Expenses	Total Deposit	Ratio (%)
2006/07	555.71	24491.09	2.27
2007/08	758.44	31304.82	2.42
2008/09	1153.28	37348.26	3.09
2009/10	1960.11	46410.70	4.22
2010/11	2955.43	49696.11	5.95
Mean			3.59
S.D			1.53
C.V			0.43

Figure: 4.21

Interest Expenses to Total Deposit Ratio

The Interest Expenses to Total Deposit Ratio is shown in the following figure:



Above figure shows that interest expenses to total deposit ratio of NABIL is in increasing trend. The highest ratio is 5.95% in the year 2010/11 and lowest ratio is 2.27% in the year 2006/07. The average mean point of interest expenses to total deposit ratio is 3.59% during the study period. Ratios are 2.42%, 3.09% and 4.22% in respective year 2007/08, 2008/09 and 2009/10. That this ratio does not indicate higher interest expenses on total deposit. Commercial banks are dependent upon its ability to generate cheaper fund. Standard deviation and coefficient of variation of interest expenses to total deposit ratio are 1.53 and 0.426 respectively.

4.6 Statistical Analysis

4.6.1 Correlation Coefficient

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

Coefficient of Correlation (r) = $\frac{\sum(X-\overline{X})(Y-\overline{Y})}{n\sigma x.\sigma y}$

Here,

N = Number of pairs of X and Y observed.

X = values of credit and advances.

Y = values of total assets.

r = Karl Pearson's Coefficient of Correlation.

Probable Error

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

$$S.E.(r) = \frac{1-r^2}{\sqrt{n}}$$

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

$$\text{Probable Error (P.E.)} = 0.6745 \times \frac{1-r^2}{\sqrt{n}}$$

Where r = coefficient of correlation

n = no of observations

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

If $r < P.E(r)$, then the value of r is not significant

If $r > P.E(r)$, then the value of r is significant

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

• Total credit and Total assets

• Loan and advance and Total deposit

A. Correlation Coefficient between Deposit & Loan & Advances

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

Table: 4.22 Correlations between Deposit and Loan and Advances

Evaluation Criterions

Correlation Coefficient (r)	**Coefficient of determination r2**	**P E(r)**	**6 P E(r)**	**Remarks**
0.990	0.980	0.0060	0.0360	Significant

The above table shows that the correlation coefficient between deposit and loan and advances of NABIL. The correlation between deposit and loan and advances of NABIL is 0.990. There is highly positive correlation between loan and advances and deposit collection. The coefficient of determination is 0.980, which depicts that 98% of loan has been explained by the deposit collection and least is determined by other factor. It shows that increase in deposit highly lead to increase loan and advances. In accordance to increase in deposit NABIL’s loan and advances is increasing in trend. Probable error (P.E.) is 0.0060 and 6 P E(r). is 0.0360. Probable error of the correlation coefficient denoted by P.E. is the measure of testing the reliability of the calculated value of r. Here, ‘r’ is greater than 6 P E(r). Then there is evidence of significant correlation between loan and deposit. That further reveals there is significant relationship between loan and advances and total deposit of NABIL.

B. Coefficient of Correlation between loan and advance and total Asset

The coefficient of correlation between deposit and asset measures the degree of relationship between these two variables. The following Table No. 4.30 shows the coefficient correlation between loan and advance and total assets i.e. r, P. E(r) 6 P.E(r) and coefficient of determination (r^2) of NABIL during the study period. The table 4.10 shows represent the correlation coefficient between loan and advance and total assets.

Table: 4.23

Correlation between loan and advance and total Asset

Evaluation Criterions

Correlation Coefficient (r)	**Coefficient of determination r2**	**P E(r)**	**6 P E(r)**	**Remarks**
0.925	0.8556	0.04355	0.2613	Significant

The above table shows that the coefficient of correlation between loan and advance and total assets of NABIL is 0.925. It shows the highly positive correlation between this two variable. So both lending and total asset move same direction. In addition, coefficient of determination of NABIL is 0.8556. It means there is 85.56 percent of loan and advance is explained by total asset. The correlation coefficient is significant because the correlation coefficient is more than 6 P Err. It refers that there is significant relationship between lending and total asset. From the above analysis, the conclusion can be drawn that NABIL has high degree positive correlation between loan and advance deposit and total assets.

C. Coefficient of correlation between deposit and investment

Coefficient of correlation between deposit and investment measure the degree of relationship between these two variables. In this analysis, deposit is independent variables (X) and investment is dependent variable(Y). The main objective of computing "r" between these two variables is to justify whether deposits are significantly used as investment in a proper way or not.

Table: 4.24

Coefficient of correlation between deposit and Investment

Evaluation Criterions

Correlation Coefficient (r)	**Coefficient of determination r2**	**P E(r)**	**6 P E(r)**	**Remarks**
0.970	0.941	0.0178	0.1069	Significant

Above table shows that coefficient of correlation between total deposits and investments of NABIL. The coefficient of correlation between total deposits and investments of NABIL is 0.970 .There is positive relationship between these two variables. It refers that deposit and investment of all banks move together very closely but not proportionately. Moreover, the coefficient of determination of is 0.941. It means 94.1 percent of variation in investment has been explained by total deposit. The correlation NABIL is significant because the correlation coefficient is greater than the value of 6 P Err. In other words, there is significant relationship between deposits and investment of NABIL.

D. Co-efficient of Correlation between Loan and advance and Net Profit

Co-efficient of correlation between lending and net profit is used to measure the degree of relationship between two variable i.e. Loan and advance and net profit of NABIL during the study period. Where Loan and advance is independent variable (X) and net profit is dependent variable (Y). This ratio determine the degree of relationship whether there the net profit is significantly correlated or not and the variation of net profit to loan and advance through the coefficient of determination.

Table: 4.25

Correlation between Loan and advance and Net profit

Evaluation Criterions

Correlation Coefficient (r)	**Coefficient of determination r2**	**P E(r)**	**6 P E(r)**	**Remarks**
0.988	0.976	0.0072	0.0432	Significant

The above table shows the correlation coefficient between net profit and loan and advances of NABIL. The correlation coefficient between net profit and loan and advances is 0.988. There is highly positive correlation between loan and advances and net profit. The coefficient of determination is 0.976 which depicts that 97.6% of profit is explained by the loan and advance. Probable error P.E.(r) is 0.0072 and 6 P E(r) is 00432. Probable error of the correlation coefficient denoted by P.E(r) is the measure of testing the reliability of the calculated value of r. Here, 'r' is greater than 6 P.E(r) then there is evidence of significant correlation between profit and lending. That further reveals there is significant relationship between loan and advances and net profit of NABIL.

4.6.2 Time Series Analysis (Trend Analysis)

Trend analysis plays an important role in the analysis and interpretation of financial statement. Trend in general terms, signifies a tendency. It helps in forecasting and planning future operation. Trend analysis is a statistical tool, which shows the previous trend of the financial performance and forecasts the future financial results of the firms.

Trend analysis is based on some assumptions:

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

A. Trend Analysis of Total Deposit:

Deposits are the important part in banking sector hence its trend for next five years will be forecasted for future analysis. This is calculated by the least square method. Here the effort has been made to calculate the trend values of Total deposit of NABIL for further five year 2015/16. Where,

Y= dependent variable,

a =Y-intercept,

b = slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be Y = a + b x……………………. (I)

Where x = X - Middle year Y = 37836.2 + 6544.59X

Table: 4.26

Trend Analysis of Total Deposit (Amount in million)

Year	Total Deposits
2006/07	24747.02
2007/08	31291.61
2008/09	37836.20
2009/10	22380.79
2010/11	50925.38
2011/12	57469.97
2012/13	64014.56
2013/14	70559.15
2014/15	77103.74
2015/16	83648.33

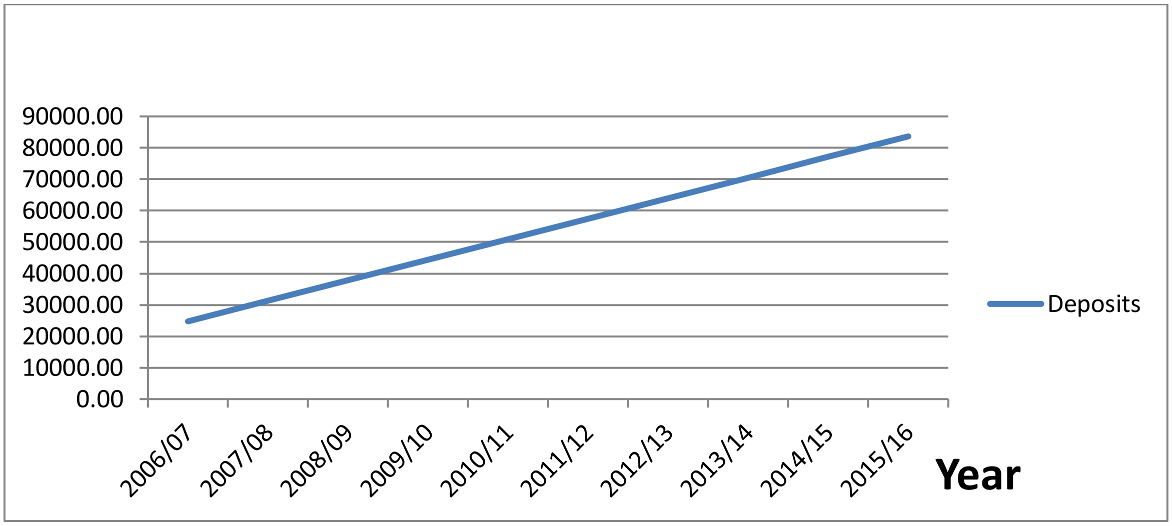
Source: Annual Report of Nabil Bank Limited (2006/07 to 2010/11)

Appendix 1

The trend of total deposit of NABIL is presented in following figure:

Figure : 4.22

Trend line of Total Deposit



In the figure above, x-axis represents year and y-axis represents amount (in million). Above table shows that the trend of total deposit of NABIL. The trend of total deposit of NABIL is in increasing trend. The rate of increment of total deposit for NABIL seems to be smoothly increasing trend. The trend analysis has projected deposit amount in fiscal year FY 2011/12 to FY 2015/16.

B. Trend Analysis of total Loan and Advance:

Here, the trend values of loan and advances of NABIL have been calculated for further five year. The following Table shows the actual and forecasted trend values of NABIL.

Y= a + bx

Where, Y= dependent variable,

a=Y-intercept

b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be Y = a + b x…………………… (I)

$Y = 26960.7 + 5588.04X$

Table: 4.27

Trend Analysis of Loan and Advance

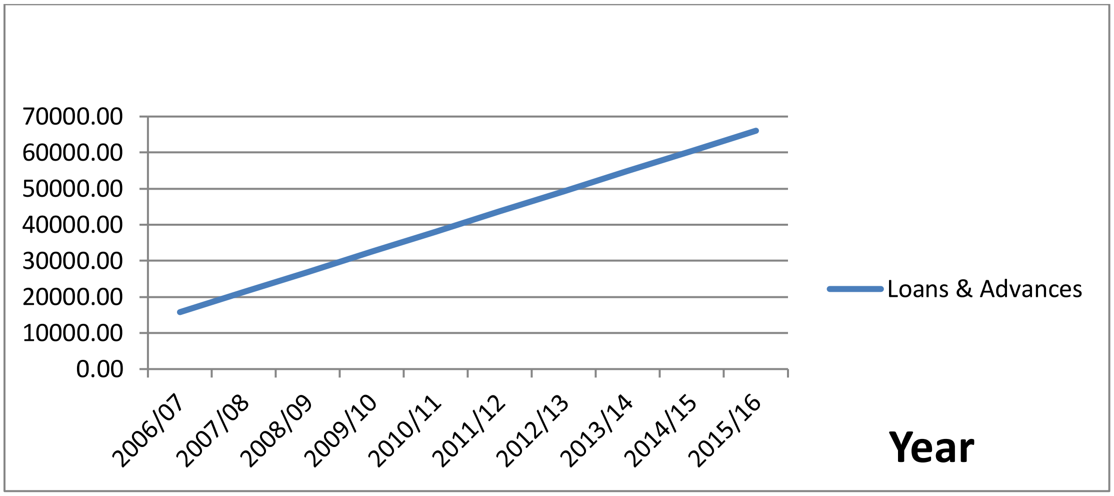
(Amount in million)

Year	Loan and Advance
2006/07	15784.62
2007/08	21372.66
2008/09	26960.70
2009/10	32548.74
2010/11	38136.78
2011/12	43724.82
2012/13	49312.86
2013/14	54900.90
2014/15	60488.94
2015/16	66076.98

Source: Annual Report of Nabil Bank Limited (2006/07 to 2010/11)

Appendix 2

The trend of loan and advance is represented in the following figure:



In the figure above, x-axis represents year and y-axis represents amount (in million). Above table shows trend values of loan & advances of NABIL. The trend values of loan & an advance of NABIL is increasing trend. It is suggest to increase in loan and advance in same way to make better profit. The trend projected for father five year FY 2011/12 to FY 2015/16. From the above analysis, it is clear that NABIL is mobilizing its collected deposits and other funds in the form of loan and advances. The trend analysis has done amount in fiscal year FY 206/07 to FY 2015/16.

C. Trend Analysis of Total Investment:

Investment is main source of profit earning of commercial bank. Under this topic, an attempt has been made to analyze trend analysis total investment of NABIL for further five years

Y= a + bx

Where,

Y= dependent variable,

a=Y-intercept,

b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Whereas Yc = 11292.7 + 1200.3X

Table: 4.28

Trend Analysis of Total investment

(Amount in Million)

Year	Total Investment
2006/07	8892.10
2007/08	10092.40
2008/09	11292.70
2009/10	12493.00
2010/11	13693.30
2011/12	14893.60
2012/13	16093.90
2013/14	17294.90
2014/15	18494.50
2015/16	19694.80

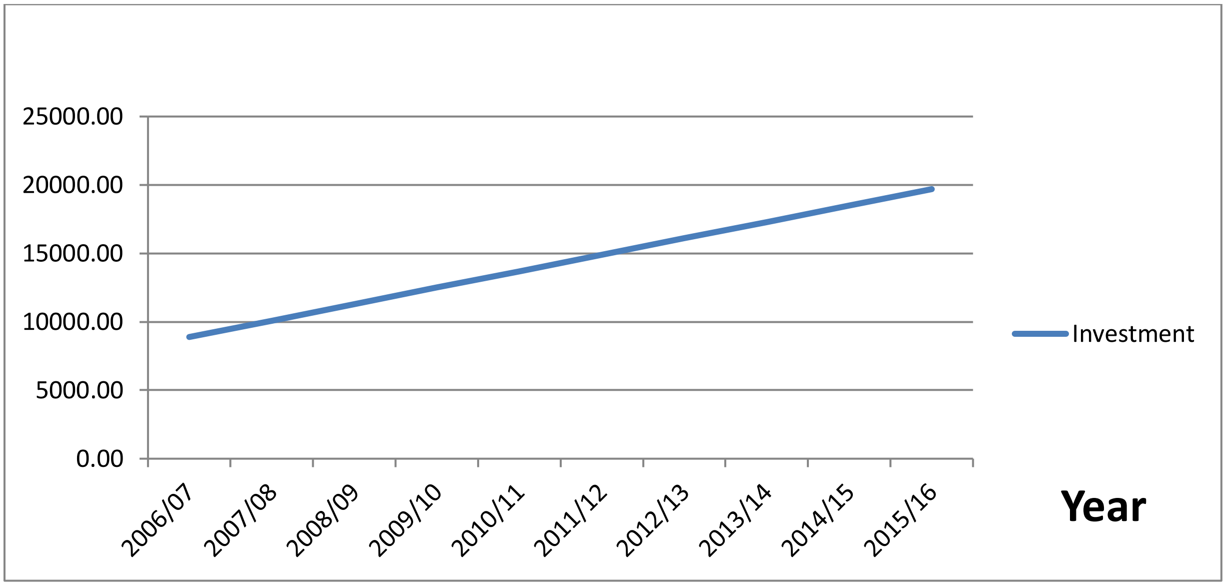
Source: Annual Report of Nabil Bank Limited

Appendix 3

The trend line of total investment for the projected five years are presented in following figure:

Figure: 4.24

Trend line of Total investment



In the figure above, x-axis represents year and y-axis represents amount (in million). Above table and figure shows that trends of total investment of NABIL. The trend of Total investment of NABIL is in increasing trend. The rate of increment of Total investment for NABIL seems to be moderately increasing trend. It is better for company. This type of increment should maintain regularly. The trend analysis has projected deposit amount for further fiscal year FY 2010/11 to FY 2015/16.

D. Trend Analysis of Net Profit

Here, the trend values of net profit of NABIL have been calculated for five years FY 2006/07 to FY 2010/11 and forecasting for further next five year till F/Y 2015/16

Where, Y= a + bx

Where, Y= dependent variable,

a=Y-intercept,

b=slope of trend line or annual growth rate, X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Yc = 985.666 + 172.021X

Table: 4.29

Trend Analysis of Net profit

(Amount in million)

Year	Net Profit
2006/07	641.62
2007/08	813.65
2008/09	985.67
2009/10	1157.69
2010/11	1329.71
2011/12	1501.73
2012/13	1673.75
2013/14	1845.77
2014/15	2017.79
2015/16	2189.81

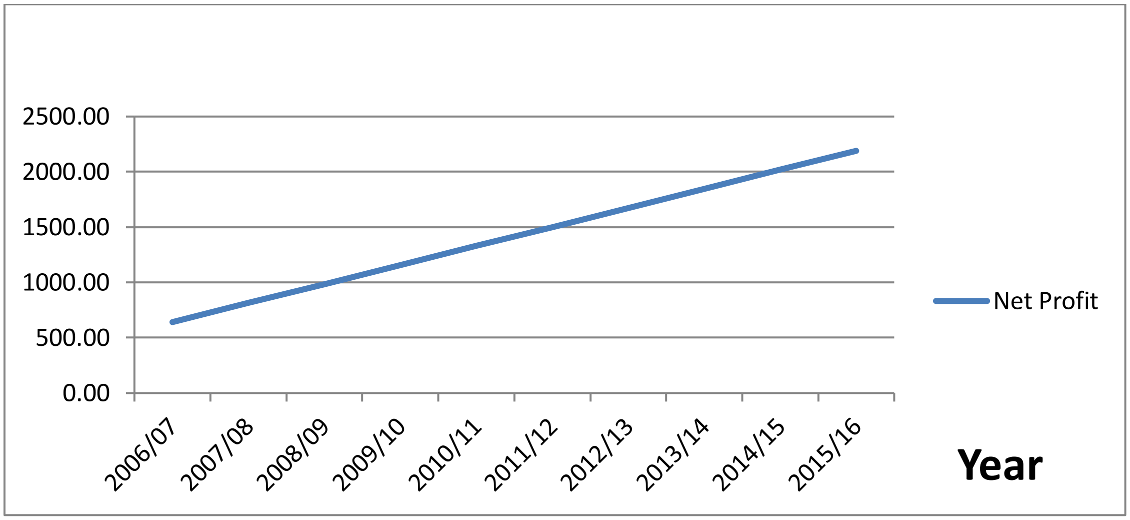
Source: Annual Report of Nabil Bank Limited (2006/07 to 2010/11)

Appendix 4

Trend lines of net profit for the projected five years are follows:

Figure: 4.25

Trend line of Net profit



In the figure above, x-axis represents year and y-axis represents amount (in million). Above table shows that the trend of net profit of NABIL. The trend of net Profit of NABIL is in increasing trend. The rate of increment of net profit for NABIL seems to be aggressively increasing trend. It is better for company but this type of increment should maintain regularly. The trend analysis has projected deposit amount for fiscal year FY 2010/11 to FY 2015/16.

4.7 Major Finding of the Study

The major findings of this study derived from the analysis of data are summarized below. In this part, the researcher has enlisted the major findings of the study according to the data presentation and analysis of data. The analysis, which are derived from the credit management of NABIL bank limited. The major findings of the study, based on the financial and statistical tools can be presented as follows

• The highest current ratio of NABIL is 1.83:1 and lowest ratio 1.14:1. The standard deviation and coefficient of variation of current ratio are 0.257 and 0.192 respectively. The current mean ratio is 1.336 times. The average current ratio of NABIL is appropriate it is notice that the banks have met the standard ratio, which is able to meet its short term obligation.

• The cash and bank balance to total deposit of the Nabil bank shows the fluctuating trend during the study period. The standard deviation and coefficient of variation are 2.477 and 0.396 respectively. The mean ratio, standard deviation and coefficient of variation are is 6.262%, 2.477 and 0.396 respectively in the study period.

• The Cash and bank balance to current deposit of the bank shows the fluctuating trend during the study period. The standard deviation and coefficient of variation are 5.92 and 0.564 respectively. The mean ratio is 10.496% in the study period. This means that the bank is able to be maintained in the good liquidity position of the bank. Therefore, that credit management is in good position of the NABIL.

• Cash and bank balance to interest sensitive ratio of Nabil bank is also in fluctuating trend. The standard deviation and coefficient of variation are 5.44 and 0.316 respectively. The mean ratio is 17.2 percents. This means that the bank is able to maintain this ratio in the good financial condition.

• The Credit and advances to fixed deposits ratio of NABIL are fluctuating and decreasing during the study period. The standard deviation and coefficient of variation are 0.47 and 0.178 respectively. The average ratio is 2.632 times in the study period.

• The credit and advances to total deposit ratio is little fluctuating trend. The standard deviation and coefficient of variation are 3.77 and 0.053 respectively. The average mean ratio of NABIL is 71.24 percent in the study period. This means the bank is able to proper mobilization of collected deposit.

• The standard deviation and coefficient of variation of credit and advances to total assets ratio are 3.59 and 0.059 respectively. The average credit and advances to total assets ratio is 60.954%. It shows that bank has capability in utilizing total assets in the form of credit and advances. Consistency in the utilization of assets in the form of credit and advance is satisfactory. The ratio indicates the high contribution made by lending and investing activities.

• The total non-performing assets to total assets ratio of NABIL is in increasing trend. The standard deviation and coefficient of variation are 0.31 and 0.42 respectively. The average ratio is 0.738%. This indicates that the bank has lowered their nonperforming asset. The bank is able to obtain higher lending opportunity.

• The debt to total equity ratio of NABIL is continuously deprecating from second study year 2007/08 till research period. The standard deviation and coefficient of variation are 0.94 and 0.074 respectively. The average ratio is 12.764 times. Excess amount of debt capital structure results heavy burden in payment of interest. Risk of liquidation increase if the debt cannot be repay in the time The analysis indicates that the bank is highly leveraged because the claim of the outsiders exceeds than those of the owners over the bank assets.

• The Debt to total assets ratio of NABIL is fluctuating. The standard deviation and coefficient of variation are 0.011 and 0.012 respectively. On an average 92% of assets are financed through debt capital that is outsiders cost bearing fund, which implies that the bank has riskier debt financing position.

• Total assets to net worth ratio of the bank are increasing and decreasing at last year of the study period. The standard deviation and coefficient of variation are 0.72 and 0.084 respectively. The average ratio is 8.588 times at the study period. It is good for company.

• The total net profit to gross income ratio of NABIL is in fluctuating. There is highest ratio is 46.42% and lowest ratio 41.21%. The bank is able to obtain higher efficiency. The mean, standard deviation and coefficient of variance are 44.35, 1.99 and 0.045 respectively. This means that credit management is in good position.

• The total interest income to total income ratio of NABIL is in increasing trend. The standard deviation and coefficient of variation are0.28 and 0.21 respectively. The mean ratio is 1.34 times in the study period. Here interest income play dominant role in total income. The ratio indicates the high contribution made by lending and investing activities.

• Operating profit to loan and advances ratio of NABIL is fluctuating decreasing trend. The standard deviation and coefficient of variation are 0.69 and 0.082 respectively. The average ratio over the period is 8.392%. This shows the better profitability position of the bank.

• Return on loan advances ratio of NABIL is also in fluctuating trend and stepping downward in end of study period. It indicates contribution in return is decreasing by loan and advance. The standard deviation and coefficient of variation are 0.36 and 0.097 respectively. The average ratio is 3.724%. Anyway this shows the normal earning capacity of NABIL in loan and advances.

• Net profit to total assets ratio of NABIL is in fluctuating trend. The standard deviation and coefficient of variation are 0.18 and 0.07 respectively. The mean ratio is 2.62%. This shows the normal earning capacity through asset utilization.

• Earning per share of NABIL is in decreasing trend. The highest EPS is RS 137.08 and lowest EPS Rs.65.9. The standard deviation and coefficient of variation are 27.88 and 0.28 respectively. The average EPS of Nabil Bank is Rs. 99.34 in the study period. These mean shows the better profitability in the study years. The EPS of NABIL decreasing due to increase in its no of equity. Therefore, credit management and overall performance of company is in good position.

• Price earnings ratio of NABIL is decreasing from second year. The standard deviation and coefficient of variation are 12.52 and 0.35 respectively. The highest price earning ratio is 48.70 and lowest ratio 17.35 times in year 2004. The average ratio of the Nabil is 35.89 times in the study period. This shows the price of company falling. It represents low expectation of company in market.

• Loan loss provision to total loan advances ratio of NABIL is in fluctuating trend. The standard deviation and coefficient of variation are 0.49 and 0.231 respectively. The average ratio is 2.12%. This shows that good quality of assets in total volume of loan and advances. It indicates aggregate loan of bank are safe. Thus, credit management is in good position. So, the bank has met and maintained the NRB requirement in all year.

• Non-performing loan to total loan advances ratio is increasing trend. The standard deviation and coefficient of variation are 0.46 and 0.384 respectively. The average non-performing loan to total loan and advances ratio of NABIL is 1.198% during the study period. This ratio indicates the more efficient operating of credit management. The increasing ratios indicate the increasing the banks non-performing loan from total loan.

• Interest expenses to total deposit ratio of NABIL is in increasing trend. The standard deviation and coefficient of variation are 1.53 and 0.426 respectively. The average point of interest expenses to total deposit ratio is 3.59% during the study period.. This ratio indicates higher interest expenses on total deposit. So NABIL consider to collect cheaper fund.

• The correlation between deposit and loan and advances of NABIL is 0.990. There is highly positive correlation between loan and advances and deposit collection. The coefficient of determination is 0.980, which depicts that 98% of loan has been explained by the deposit collection and least is determined by other factor. It shows that increase in deposit highly lead to increase loan and advances. There is significant relationship between loan and advances and total deposit of NABIL.

• The correlation between loan and advance and total assets of NABIL is 0.925. It shows the highly positive correlation. The coefficient of determination of NABIL is 0.8556. It means there is 85.56 percent of loan and advance is explained by total asset. It refers that there is significant relationship between lending and total asset.

• Correlation coefficient between total credit and total assets is 0.990, which shows high degree of positive correlation. It can be concluded that total assets and total credit are increasing and can be said that increasing assets will have positive impact towards total credit. Correlation coefficient between total deposit and loan & advances has high degree of positive correlation i.e. 0.989. It is concluded that increasing total deposit will have positive impact towards loan & advances.

• The correlation between total deposits and investments of NABIL is positive by 0.970. It refers that deposit and investment of all banks move together. The coefficient of determination of is 0.941. It means 94.1 percent of variation in investment has been explained by total deposit. The relation of NABIL is significant because the correlation coefficient is greater than the value of 6 P E(r)

• The correlation between net profit and loan and advances is 0.988. This is highly positive. The coefficient of determination is 0.976 which depicts that 97.6% of profit is explained by the loan and advance. There is significant relationship between loan and advances and net profit of NABIL.

• Trend analysis tools are done for future forecasting. The trend of total deposit of NABIL is in increasing trend. The rate of increment of total deposit for NABIL seems to be aggressive increasing trend. The trend analysis has projected deposit amount in fiscal year FY 2011/12 to FY 2015/16.

• The trend values of loan & an advance of NABIL is increasing trend. It is suggested to increase in loan and advance in same way to make better profit. The trend analysis is increasing highly.

• The trend of Total investment of NABIL is also increasing trend. The rate of increment of Total investment for NABIL seems to be moderately. It is better for company. This type of increment should maintain regularly.

• The trend of net Profit of NABIL is in increasing trend. The rate of increment of net profit for NABIL seems to be smoothly increasing trend. It is better for company but this type of increment should maintain regularly. The trend analysis has projected deposit amount for fiscal year FY 2010/11 to FY 2015/16.

CHAPTER – V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Banks & Financial Institutions are the backbone of the economic development of the country. They have promoted industrialization and economic development by channeling the public deposits into industrial as well as agricultural sector. Commercial banks play an important role in the economic development of the country as they provide capital for the development of the industry, trade as well as agriculture by disbursing the saving collected as deposits from the people. Commercial banks investment strongly support for the economic condition of the country. Loan granted to small sector and agricultural sector support to increase the per capita income of the people. Bank loan help the growth of trade and commerce, energy sector and empower the economic activities of the countries. Banks can also be defined in terms of “Negotiators of Credit”. The activity of bank as a negotiator of credit is characterized by lending of other people’s, that is, of borrowed money.

Credit is defined as a contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company. Credit, in commerce and finance, is a term used to denote transactions involving the transfer of money or other property on promise of repayment, usually at a fixed future date. The transferor thereby becomes a creditor, and the transfer, a debtor; hence credit and debt are simply terms describing the same operation viewed from opposite standpoints. An accounting entry that either decreases assets or increases liabilities and equity on the company's balance sheet. On the company's income statement, a debit will reduce net income, while a credit will increase net income. The level of "confidence" lenders have in potential borrowers depends on many factors. A person's income is an indicator of a person's ability to repay, particularly when compared to the amount of debt they already have. The amount of borrowing a person has already done and how well they handled repayment is an indicator of their intention and ability to repay. The reasons people borrow are varied and personal. Loans allow you to obtain goods and services today, such as homes and automobiles, and spread the cost over time. This makes these purchases more affordable than they might otherwise be.

Lending is the most essential activities of the bank. The formulations and implementations of sound lending policies are among the most important responsibilities of the bank directors and management. Well conceived lending policies and careful lending practices are essential if a bank is to perform its credit creation function effectively and minimize the risk inherent in any extension of credit. The quality of loan, quality of borrower and the qualities of the securities determine the health of any bank. The efficiency of banker lies in how it multiplies the deposits of depositors. Hence lending should be accompanied by some principles and practices. No banker will willingly give a loan, unless he had sufficient confidence in the borrower that it will not be necessary to seek the help of court for the recovery. Safety of funds, liquidity of funds, purpose of loan, security of loan, profitability, spread of loan portfolio and compliance with the national interest are some of the principles that banker should consider while granting loan.

With the growing commercial banks in the country, the throat cut competition among the rivals is in the peak. The products and services that are sold in the most favorable prices can be an initial step of the firm in obtaining the trust and be included in the top list of the customers. However, because of the tight competition of various services, particularly in banks, the perception of the customers and potential customers are also divided according to the services that they want to achieve. In addition, the impact of the economic problems and financial crunches among the financial institutions creates a great challenge in the banks. With all the challenges that are ahead on the banks, how will they gather the customer satisfaction which is the same focus of the other competing banking institutions? Most of the newly established banks are facing great challenge in attracting good credit clients in their banking channel whereas oldies are getting enough threats in retaining their existing clients and maintaining their status in the market.

5.2 Conclusions

This research is conducted with the major objective of highlighting Personal Lending of NABIL. The observation and conclusion is derived by analyzing feature and objective of sound credit management including liquidity ratio, asset, debt management, profitability and lending efficiency ratio as we as relevant financial and statistical ratios.

This has helped to reach conclusion and provide workable solution for the credit policy and management of selected sample banks. In the financial analysis, average current ratio of ratio of NABIL is 1.336 times. NABIL has better liquidity position because the standard ratio is more than 1:1. The banks have met the standard ratio, which able to meet its short term obligation. The cash and bank balance to total deposit of the Nabil bank shows the fluctuating. The mean ratio is 6.262 percent in the study period.

The Cash and bank balance to current deposit of the bank shows the fluctuating during the study period. The mean ratio is 10.496 percents. This means that the bank is able to be maintained in the good liquidity position of the bank. Therefore, that credit management is in good position of the NABIL. Cash and bank balance to interest sensitive ratio of Nabil bank is fluctuating. The mean ratio is 17.2 percents. This means that the bank is able to maintain this ratio in the good financial condition. The Loan and advances to fixed deposits ratio of NABIL are fluctuating and decreasing during. The average credit and advances to total deposit ratio of NABIL is 71.24. This means the bank is able to proper mobilization of collected deposit. The average mean credit and advances to total assets ratio is 60.954%. It shows that bank has capability in utilizing total assets in the form of credit and advances. The total non-performing assets to total assets ratio of NABIL is in increasing trend. The average mean ratio is 0.738%. This indicates that the bank has lower nonperforming asset.

The debt to total equity ratio of NABIL is continuously deprecating from second study year. The average mean ratio is 12.764 times. The analysis indicates that the bank is highly leveraged because the claim of the outsiders exceeds than those of the owners over the bank assets. The Debt to assets ratio of NABIL is fluctuating. The average 92% of assets are financed through debt capital that is outsiders cost bearing fund, which implies that the bank has riskier debt financing position. Total assets to net worth ratio of the bank are increasing and decreasing at last. The total net profit to gross income ratio of NABIL is in fluctuating. The bank is able to obtain higher efficiency. This means that credit management is in good position. The total interest income to total income ratio of NABIL is in increasing. The mean ratio is 1.34 times. The ratio indicates the high contribution made by lending and investing activities. Operating profit to loan and advances ratio of NABIL is fluctuating decreasing trend. The average mean ratio over the period is 8.392%. Return on loan advances ratio of NABIL is also fluctuating. It indicates contribution in return is decreasing by loan and advance.

The average ratio is 3.724%. Net profit to total assets ratio of NABIL is in fluctuating trend. The mean ratio is 2.62%. This shows the normal earning capacity through asset utilization. Earning per share of NABIL is in decreasing. The average means EPS of Nabil Bank is Rs. 99.34 in the study period. The EPS of NABIL decreasing due to increase in its no of equity. Price earning ratio of NABIL is decreasing from second year. The average mean ratio of the Nabil is 35.89 times. This shows the price of company falling. It represents low expectation of company in market. Loan loss provision to total loan advances ratio of NABIL is in fluctuating trend. Non-performing loan to total loan advances ratio is increasing trend. The average ratio of NABIL is 1.198% during the study period. The increasing ratios indicate the increasing the banks non-performing loan from total loan. Interest expenses to total deposit ratio of NABIL is in increasing trend. The average ratio is 3.59%. This indicates higher interest expenses on total deposit. So NABIL consider to collect cheaper fund.

In statistical analysis the correlation between deposit and loan and advances of NABIL is 0.990. There is high positive correlation. The coefficient of determination is 0.980, which depicts that 98% of loan has been explained by the deposit collection and least is determined by other factor. There is significant relationship between loan and advances and total deposit of NABIL. The correlation between loan and advance and total assets of NABIL is positive 0.925. The 85.56 percent of loan and advance is explained by total asset. It refers that there is significant relationship between lending and total asset. Correlation between total credit and total assets is 0.990, which shows high degree of positive correlation. It is concluded that increasing total deposit will have positive impact towards loan & advances.

The correlation between total deposits and investments of NABIL is 0.970. It refers that deposit and investment of all banks move together. This means that 94.1 percent of variation in investment has been explained by total deposit since coefficient of determination is 0.941. The relation of NABIL is significant. The correlation between net profit and loan and advances is 0.988. This is highly positive.

The coefficient of determination is 0.976 which depicts that 97.6% of profit is explained by the loan and advance. There is significant relationship between loan and advances and net profit of NABIL. The trend of total deposit of NABIL is in increasing trend. The rate of increment of total deposit for NABIL seems to be aggressive increasing trend. The trend values of loan & advance of NABIL is increasing trend. It is suggested to increase in loan and advance in same way to make better profit.

The trend analysis is increasing highly. The trend of Total investment of NABIL is also increasing trend. The rate of increment of Total investment for NABIL seems to be moderately. It is better for company. The trend of net Profit of NABIL is in increasing trend. The rate of increment of net profit for NABIL seems to be smoothly increasing trend. It is better for company but this type of increment should maintain regularly. The trend analysis has projected deposit amount for fiscal year FY 2010/11 to FY 2015/16. It is better for company but this type of increment should maintain regularly.

5.3 Recommendations

Based on the analysis and finding of the study, the following recommendations can be made as suggestions to make the credit policy and management of NABIL effective and efficient way. This would help to draw some outline and make reforms in the respective banks

• Generally, banks have to maintain standard liquid assets. The current ratio of NABIL is considerable. Because the bank have more than 1:1 ratio. This can be regarded as good liquidity position. The liquidity position affects external and internal factors such as prevalent investment situations, central bank requirements and so on.

• Loan must be given if the banker is satisfied that the borrower ca repay money from the cash flow generated from operating activities. However, the banks want to ensure that their loan is repaired even in case of failure of business. The bank should take proper valuation of collateral so that the bank at least will be able to recover its principal and interest amount in case of failure of the borrower to repay the loan.

• Considering the growth position of financial market, the lending policy management capabilities, strategic planning and fund flow situation, bank should maintain enough liquid assets to pay short-term obligations. So, it is recommended to maintain sound liquidity position to NABIL.

• Government securities such as Treasury bills, Development bonds, saving certificates etc. are risk less investment alternatives because they are free of default risk as well as liquidity risk and can be easily sold in the market. NABIL has invest more amount in Government securities but it is decreasing so its recommend to make constant investment.

• EPS and DPS play a vital role to determine the market price of the share and also indicate the financial performance of banks. Higher EPS and DPS indicate good performance of the banks. It is recommended to increase EPS and DPS for high demand for stock.

• Provision reduces the profit. The provision to total loan and advances ratio of NABIL is in decreasing trend. The mean ratio is 2.12%. This shows that good quality of assets in total volume of loan and advances. The provision of bank is continuously decreasing indicate the good quality of assets in total volume of loan and advances. This also indicates that bank increasing performance. So it is recommended to be more conscious in this regards.

- Lack of proper financial analysis of the borrower by the banks is one of the major cause behind increase in NPA commercial banks. Therefore, the proper financial analysis should be performed before giving loan to the borrowers.

- NABIL banks recommended to formulate and implement the sound and effective investment policy to increase volume of total investment and loan and advances in proper way, so that that helps to meet required level of profitability as well as social responsibility. The banks should consider rural areas in making investment policy.

- Political instability directly affected the economic sector such as hotel and tourism, manufacturing and trading sector. Bank loan and advances are decreasing in this sector. So banks should give priority to these sectors as well as create new investing sector to mobilize deposit.

- Due to poor credit administration, the credit recovery process is slow as well as legal process in the recovery of credit is lengthy and ineffective. Clear-cut objective and policy of the credit management is lacking so that non-performing loan is going upward. To get better result in the coming future, bank should reduce the volume of non-performing loan.

- Any way NABIL bank has been showing significant improvement, it should keep up with its growth trend to give strong competition to all the banks in the industry. In the light of growing competition in the banking sector, NABIL should be customer oriented. It should strengthen and activate its marketing.

- Total deposit is not correlated with the loan and advances. This is very serious matter and the main reason is the case of over liquidity that the bank has maintained so far. Thus, the bank should mobilize the deposit and try to bring the correlation between total deposit and loan and advance in an appropriate level.

- The economic liberalization policy adopted by Nepal Government has created an environment of cutthroat competition in the banking sectors. In this context NABIL bank is suggested to formulate and implement sound and effective financial and non-financial strategies to minimize their operational expenses to meet required level of profitability.

• Bank should carefully examine the principle of safety as well as sources of repayment, capital structure and credit worthiness of a borrower before providing loans. In other word, credit and risk must be evaluated by considering well-known five C s of credit viz. character, capacity, capital, collateral and condition so that the bank is able to mobilize and utilize the resources.

• The bank should develop an innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient and satisfactory way by optimally utilizing the modern technology and offering new facilities to the customers at competitive prices. The bank is also required to explore new market areas. For this purpose, it is recommended to form a strong market department in its central level, which deals with the banking products, places, price and promotion.

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Appendix-1

Trend Analysis of Nabil Bank Limited

Year(X)	Total Deposit(Y)	X=X-2008/09	x^2	xY
2006/07	24491.1	-2	4	-48982
2007/08	31304.8	-1	1	-31305
2008/09	37348.3	0	0	0
2009/10	46340.7	1	1	46340.7
2010/11	49696.1	2	4	99392.2
Total n=5	∑Y=189181	∑X=0	$\sum X^2$=10	∑XY=65445.9

Source: Annual Report of Nabil Bank Limited

Where,

Y= dependent variable

a= Y-intercept

b= slope of trend line or annual growth rate

x= deviation from some convenient time periods.

Let trend line be

Y= a+bx………………………………………… (I)

Where x=X-Middle year

a=$\frac{\sum Y}{n}$

b=$\frac{\sum xy}{\sum x^2}$

NABIL

a=37836.2

b=6544.59

Where as

Ye=37836.2+6544.59X

Therefore, the trend values of total deposits would be

Fiscal Year (t)	X=t-2008	Trend Values
2006/07	-2	24747.02
2007/08	-1	31291.61
2008/09	0	37836.20
2009/10	1	44380.79
2010/11	2	50925.38
2011/12	3	57469.97
2012/13	4	64014.56
2013/14	5	70559.15
2014/15	6	77103.74
2015/16	7	83648.33

Appendix-2

Trend Analysis of Nabil Bank Limited

Year(x)	Loan and advances(Y)	x=X-2008/09	x^2	xY
2006/07	15545.8	-2	4	-31092
2007/08	21365.1	-1	1	-21365
2008/09	27589.9	0	0	0
2009/10	32268.9	1	1	32268.9
2010/11	38034.1	2	4	76068.2
Total n=5	$\sum$Y=134804	$\sum$X=0	$\sum X^2$=10	$\sum$XY=55880.4

Source: Annual Report of Nabil Bank Limited

Where,

Y=dependent variable

a=Y-intercept

b= slope of trend line or annual growth rate

x= deviation from some convenient time periods.

Let trend line be

Y= a+bx………………………………………. (I)

Here,

a=$\frac{\sum Y}{n}$

b=$\frac{\sum xy}{\sum x^2}$

a=26960.7

b=5588.04

Where as

Ye=26960.7+5588.04X

Therefore, the trend values of total loans and advances would be

Fiscal Year (t)	**X=t-2008**	**Trend Values**
2006/07	-2	15784.62
2007/08	-1	21372.66
2008/09	0	26960.70
2009/10	1	32548.74
2010/11	2	38136.78
2011/12	3	43724.82
2012/13	4	49312.86
2013/14	5	54900.90
2014/15	6	60488.94
2015/16	7	66076.98

Appendix-3

Trend Analysis of Nabil Bank Limited

Year(x)	Total Investment(Y)	x=X-2008/09	x^2	xY
2006/07	8945.31	-2	4	-17891
2007/08	9939.77	-1	1	-9939.8
2008/09	10826.4	0	0	0
2009/10	13670.9	1	1	13670.9
2010/11	13081.2	2	4	26162.4
Total n=5	∑Y=56463.6	∑X=0	$\sum X^2$=10	∑XY=12003

Source: Annual Report of Nabil Bank Limited

Let trend line be

Y= a+bx…………………………………………. (I)

Where,

Y=dependent variable

a=Y-intercept

b= slope of trend line or annual growth rate

x= deviation from some convenient time periods.

Where x=X-Middle year

Here,

a=$\frac{\sum Y}{n}$

b=$\frac{\sum xy}{\sum x^2}$

NABIL

a=11292.7

b=1200.3

Where as

Ye=11292.7+1200.3X

Therefore, the trend values of total investment would be

Fiscal Year (t)	X=t-2008	Trend Values
2006/07	-2	8892.10
2007/08	-1	10092.40
2008/09	0	11292.70
2009/10	1	12493.00
2010/11	2	13693.30
2011/12	3	14893.60
2012/13	4	16093.90
2013/14	5	17294.90
2014/15	6	18494.50
2015/16	7	19694.80

Appendix-4

Trend Analysis of Nabil Bank Limited

Year(x)	Net Profit(Y)	x=X-2008/09	x^2	xY
2006/07	673.96	-2	4	-1347.9
2007/08	746.47	-1	1	-746.47
2008/09	1031.05	0	0	0
2009/10	1139.1	1	1	1139.1
2010/11	1337.75	2	4	2675.5
Total n=5	∑Y=4928.33	∑X=0	$\sum X^2$=10	∑XY=1720.21

Source: Annual Report of Nabil Bank Limited

Where,

Y=dependent variable

a=Y-intercept

b= slope of trend line or annual growth rate

x= deviation from some convenient time periods.

Let trend line be

Y= a+bx…………………………………………. (I)

Where x=X-Middle year

Here,

a=$\frac{\sum Y}{n}$

b=$\frac{\sum xy}{\sum x^2}$

a=985.666

b=172.021

Where as

Ye=985.666+172.021X

Therefore, the trend values of total investment would be

Fiscal Year (t)	X=t-2008	Trend Values
2006/07	-2	641.62
2007/08	-1	813.65
2008/09	0	985.67
2009/10	1	1157.69
2010/11	2	1329.71
2011/12	3	1501.73
2012/13	4	1673.75
2013/14	5	1845.77
2014/15	6	2017.79
2015/16	7	2189.81