CHPATER-I

INTRODUCTION

1.1 Background of the Study

Nepal has adopted mixed and liberal economic policy with an implicit objective to assist the state and the private sector. Especially after restoration of the democracy, the concept of the liberalization policies has been incorporated as directive principal and state policies. This liberalization has helped in establishing many companies, banks, finance companies and manufacturing industries. Thus these establishments help the country for its development.

The growth of banking is not so long. Compared to other developing or developed countries, the institutional development in banking system of Nepal is far behind. Even though the specific date of the beginning of money and banking deal in Nepal is not obvious, it is speculated that during the reign of the King Mandev the coin "Manank" and "Gunank" during the reign of the king Gunakamadev were in use. After the unification of Nepal, Prithvi Narayan Shaha had minted coin 'Mohar' in his name. An institution called "Taksar" was established in 1989 and it started to issue the coin scientifically. During the reign of Ranodip Singh an office named "Tejarath" was established in Kathmandu in 1993(B.S.) It used to provide loans to government officials and people against deposit of gold and silver. It had also extended its branches outside Kathmandu valley for providing loan. But this office had no right to accept deposit of public and it had no characteristics of modern banks. (Bhandari, 2004:6)

After the establishment of Nepal Bank Limited on 30th Kartik, 1994 (B.S.), modern banking system started in Nepal. Under the Nepal Rastra Bank Act 2012, Nepal Rastra Bank was established in 2013, Baishakh 14th in Nepal. Rastriya Banijya Bank was established in Government sector in 2022 and Agricultural Development Bank in 2024, 7th Magh. Nepal Arab Bank limited is the 1st joint venture bank established in 2041 under the Commercial Bank Act 2031 and Companies Act 2021. (Shrestha, 2004:2)

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

1.2 Credit Management

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

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

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

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

1.3 Introduction of Organizations under Study

Everest Bank Ltd (EBL)

Everest Bank Ltd is a joint venture bank with Panjab National Bank of India established in 1993 A.D. It started its operation from 18th October 1994. Under the technical service agreement signed between two banks Punjab National Bank has been providing top management services and banking expertise to Everest Bank Ltd. The bank operates with the objective of extending professionalized banking services to various section of the society in Nepal and there by contributes to the economic development of the country. Its head office is in Lazimpat, Kathmandu. Currently, it has 35 branches all over the country. The major branches connected through anywhere branch banking System (ABBS) through which the clients can withdraw and deposit money from ABBS.

Nabil Bank Ltd (NABIL)

Nabil Bank Ltd is the 1st joint venture bank in Nepal, established in 1984 A.D. under the company Act. Dubai Bank Ltd was the initial foreign joint venture partner with 50% equity investment. The shares owned by DBL were transferred to Emirates Bank International Ltd (EBIL), Dubai. Later on EBIL sold its entire holding to National Bank Ltd, Bangladesh (NBLB). Nabil bank limited had the official name Nepal Arab Bank Ltd till Dec31st 2001. Hence 50% equity shares of Nabil Bank Ltd are held by

NBLB and out of another 50%, financial institutions has taken 20% and remaining 30% were issued to general public of Nepal. At present 19 branches are operated in different parts of the country.

Himalayan Bank (HBL)

HBL was incorporated in 1992 by the distinguished business personalities of Nepal in partnership with employees' provident fund & Habib Bank Limited one of the largest commercial banks of Pakistan. But the banks operation was commenced from January 1993 only. It is the first commercial bank of Nepal with maximum share holding by the Nepalese private sector. The bank offers commercial activities, industrial & merchant banking. Out of its issued capital promoters holds 51% of share, Habib Bank Ltd holds 20%, financial institutions 14% and rest 15% by Nepalese citizen. HBL was access to the worldwide correspondent network of Habib Bank for fund transfer L/C or any other banking business and where in the world. It is the 1st bank proving ATM facility in the country.

1.4 Statement of the Problem

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

It is no debate that high profitable or successful organization can easily fulfill the every need of the organization, customers and can serve the society. To improve the profitability situation of the bank, it is necessary to establish the higher creditability position of the bank. Thus, the creditability is the major source and building better creditability position is the major strategy of every commercial bank.

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

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

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

1.5 Objectives of the Study

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

1 To assess credit practices of selected Nepalese commercial banks
2 To explore the credit efficiency of selected Nepalese commercial banks
3 To analyze the industry environment of selected Nepalese commercial banks in terms of credit practices.
4 To examine the management quality of selected Nepalese commercial banks in terms of credit practices.
5 To explore the relationship with loan and advances, non-performing loan and net profit of selected Nepalese Commercial banks.

1.6 Significance of the Study

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

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

1.7 Limitations of the Study

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

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

Secondary analysis is based on published financial data on collected from stock exchange center and share department of the concerned banks. The secondary analysis covers time span of current five years. Various financial tools are used to know financial condition of the bank. However, the study tries to find out credit position and its importance in selected commercial banks.

1.8 Organizational Structure of the Study

The present study is organized in such a way that the stated objectives can easily be fulfilled. The structure of the study will try to analyze the study in a systematic way.

The study report has presented the systematic presentation and finding of the study. The study report is designed in five chapters which are as follows:

Chapter-I: Introduction

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

Chapter- II: Review of Literature

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

Chapter-III: Research Methodology

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

Chapter-IV: Presentation and Analysis of data

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

Chapter-V: Summary, Conclusion and Recommendation

On the basis of the results from data analysis, the researcher concluded about the performance of the concerned organization in terms of credit management. It also gives important suggestions to the concerned organization for better improvement.

CHAPTER- II

REVIEW OF LITERATURE

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

2.1 Theoretical Review of Credit Management

"Banking is the business of collecting and safeguarding money as deposits and lending of same. The banker's business is then to taken the debt of other people to offer his own in exchange and there by to create money. He may be a dealer in debts, but in distress is only the observe of wealth and it would be equally permissible to describe the banker as a liquefies of wealth."(Geoffery, 1945: 81)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.1.1 Financial Analysis

Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the items of balance sheet and profit and loss account. Financial analysis can be undertaken by management of the firm or by parties outside the firm viz. owners, creditors, investors and others. Ratio analysis is a powerful tool of financial analysis. A ratio is defined as "The indicated quotient of two mathematical expressions" and "as the relationship between two things" (Adhikari, 1993:731)

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

Webster's new collegiate Dictionary defines a ratio as "The indicated quotient of two mathematical expressions and as the relationship between or more things". In financial analysis a ratio is used as a benchmark for evaluating the financial position and performance of a firm.

Standard of comparison

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

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

Types of ratios

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

Credit practices ratio

- **Total loan to total deposit ratio**

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

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

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

- **Loan and advances to current assets**

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

- **Interest income to loan and advances**

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

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

It describes the quality of assets that a bank is holding. NRB has directed the commercial banks to classify its loan & advances into the category of pass, standard, doubtful and loss and to wake the provision of 1, 25, 50 and 100 percent respectively.

NRB has classified the pass and substandard loan as performing loans and other two types of loan as non-performing loans. The provision created against the pass and substandard loan is called the general loan loss provision and provision created against the doubtful and loss loan is called specific loan loss provision. The amount of loan loss provision in B/S refers to general loan loss provision. The provision for loan loss reflects the increasing probability of non-performing loan. Increase in loan loss provision decreases in profit result to decrease in dividends. But its positive impact is that strengthens the financial conditions of banks by controlling the credit risk and reduced the risks related to deposits.

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

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

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

Credit efficiency ratio

- Interest expenses to total deposit ratio

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

- **Total loan to liabilities ratio**

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

- **Interest expenses to total expenses ratio**

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

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

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

- **Interest income to total income ratio**

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

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

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

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

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

2.1.2 Statistical Tools

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

Regression and Correlation

Regression and Correlation Analysis are the techniques of studying how the variations in one series are related to the variation in another series. Measurement of degree of relationship between two or more variables is called correlation analysis and using the relationship between a known variable and an unknown variable to estimate the unknown one is termed as regression analysis. Thus, correlation measures the degree of relationship between the variables while regression analysis shows how the variables are related. Regression analysis shows how the variables are related. Regression and Correlation analysis thus determines the nature and strength of the relationship between two variables. (Sharma, 2058:405)

2.2 Factors Affecting Credit Policy

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

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

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

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

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

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

2.3 Review of Related Studies

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

2.3.1 Review of Articles

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

Nepal Rastra Bank (NRB) has issued directives to all commercial banks and financial institution ensuring transparency during loan disbursement. As per provision, all commercial banks as well as financial institutions are now required to disclose the name of loan defaulters in every six months. 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. 1 million. If the creditor fails to clear the amount within time, or is found mission the loans among others, the creditor can be blacklisted.

Due to slowdown in the world economy and deteriorating law and order situation of the country, many sectors of the economy are already sick. When any sector of economy catches cold, bank start sneezing. From this perspective, the banking industry as a whole is not robust. In case of investors having lower income, portfolio management may be limited to small saving income. But on the other hand, portfolio management means to invest funds in various schemes of mutual funds like deposits, shares and debentures for the investors with surplus income. Therefore portfolio management becomes very important both for an individuals as well as institutional investors. Large investors would like to select the best mix of investment assets. (Shreshtha, 1998:15)

The investor or whether banks, financial institutions, individuals, private or government sector, most not took the proposal by making decision without having adequate judgment because sometimes they perform out of norms, related studies, policies and techniques. A project appraisal will best viable only if it has accessed through conscious analysis as well as through investment decisions to make its macro and micro level viability effective." (Lamichhane, 2002:321)

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

In the post report titled 'Loan Loss provision rises Notably' published in the Kathmandu Post, the reporter had made an endeavor to highlight some facts and figures regarding loan loss provision of commercial banks. 'The banking sector is witnessing a huge surge in loan loss provisioning reserve lately. The increment is primarily a result of a directive issued by Nepal Rastra Bank (NRB) in 2001 that introduced stringent loan provisioning criteria for commercial banks. As per data recently released by the central bank, the total loan loss provision in the country's banking sector increased from around Rs. 8.73 billion in mid-April 2001 to Rs. 13.18 billion in mid-April 2003. The increment is over 51 percent. As per the latest NRB figures, a remarkable surge has been seen in loan provision of Nepal Bank Ltd (NBL). Against the provision of Rs. 1.7 million in mid-April 2002, the loan provision amount surged to whopping Rs. 7.33 billion in a year"

The reporter further states that apart from the two technically insolvent government-invested banks, loan provision of other joint venture private banks has also risen significantly and the notable increments seen in the loan loss provisioning amounts is due to the eight-point prudential directives that the central bank issued in mid- to all commercial banks.

The reporter concludes, "The directives laid down stringent guidelines relating to loan loss provisioning to ensure a good health of the overall banking system. The directive requires loans to be provisioned to the extent of cent percent if payment is defaulted for one year. Likewise, the directives require loans to be provisioned to the extent of 25 per cent if payment is defaulted for over three months and 50 per cent if the period of default extends beyond six months. The earlier directive required progressive provisioning of loans, but allowed maximum of three years, unlike the present system of just year, for loans to be provisioned to the extent of cent percent'.

Mr. Binam Ghimire in his article titled "Credit sector reform and NRB" has tried to highlight the effects of change or amendment in NRB directives regarding loan classification and loan loss provisioning. "Although the circumstances leading to financial problem or crisis in many Nepali banks differ in many respects, what is common acres most of the banks is the increased size of non performing assets (NPAs), To resolve the problem of the losses or likely losses of this nature facing the industry NRB has, as the central bank, amended several old directives and issued many new circulars in the recent years."(Ghimire, 2003:49)

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

In the conclusions he has mentioned that in the recent years NRB has worked for management and reform of the credit of the financial institution more seriously and

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

In the article by Mr. Dependant B Chhetri, titled "Non Performing Assets: A need for Rationalization", the writer has attempted to provide connation of the term NPA and its potential sources, implication of NPA in financial sector in the South East Asian region. He had also given possible measures to contain NPA. "Loans and advances of financial institutions are meant to be serviced either part of principal of the interest of the amount borrowed in stipulated time as agreed by the parties at the time of Loan settlement. Since the date becomes past dues, the loan becomes non-performing asset. The book of the account with lending institution should be effectively operative by means of real transaction effected on the part of the debtor in order to remain loan performing."(Chettri, 2000:17).

As stated by the writer, the definition of NPA differs from country to country. In some of the developing countries of Asia Pacific Economic Cooperation (APEC) forum, a loan is classified as non-performing only after it has been arrear for at least 6 months. Similarly, it is after three months, in India. Loans thus defaulted are classified into different categories having their differing implication on the asset management of financial institution. He also stated that NPAs are classified according to international practice into 3 categories namely Substandard, Doubtful and Loss depending upon the temporal position of loan default. "Thus the degree of NPA assets depends solely on the length of time the asset has been in the form of none obliged by the loanee. The more time it has elapsed the worse condition of asset is being perceived and such assets are treated accordingly. "As per Mr. Chhetri's view, failure of business for which loan was used, defective and below standard credit appraisal system credit program sponsored by Government, slowdown in economy/recession, diversion of fund is some of the factors leading to accumulation of NPAs.

He said that there is serious implication of NPAs, on financial institution. He further added that the liability of credit institution dies not limit to the amount declared as NPA but extend to extra amount that required for provisioning depends upon the level of NPAs and their quality. As per his view, rising level of NPAs create a psyche of worse environment especially in the financial sector. He mentioned that by reviving the activities of the financial institution like waiving interest, rescheduling the loan, writing off the loan, appointing private recovery agent, taking help of tribunals and law of land etc NPAs can be reduced.

Finally he concluded that financial institutions are beset with the burden of mounting level of NPAs in developing countries. "Such assets debar income flow of the financial institution while claiming additional resources in the form of provisioning thereby hindering gainful investment. Rising level of NPAs cannot be taken as stimulus but the vigilance demanded to solve the problem like this, eventually will generate vigor to gear up the banking and financial activities in more active way contributing to energizing growth."

2.3.2 Review Journal

In an article published in New Business Age, Mr. Kamal Subedi titled “Growth in Major Commercial Banks” has compared between the first six month of the fiscal year 2007-08 and 2008-09, which shows that there has been noticeable increase in credit outflow by the commercial banks except of Nepal Bank Ltd (NBL) and Rastriya Banijya Bank (RBB) (the government owned banks). There has been increase in credit-deposit (CD) ratios of all commercial banks except of NBL and RBB in which case it has gone down by 10.41% and 5.99% respectively. It may be because their concentration was only on recovery of the huge Non Performing Assets (NPA). However, Mr. Subedi pointed out that no matter what the size of NPA is and the circumstances are, each bank has to collect the deposit in order to create a lending and to invest in the new ventures. Except RBB all banks have increment in deposit collection. (Shubedi, 2009:48)

A decrease in CD ratio (the percentage of the deposit mobilization over the credit) signifies the presence of high liquidity and comparatively lower fund mobilization and vise versa. High liquidity and idle funds will result in lower profits. HBL has the highest growth of 18.47% in CD ratio over the last year. Similarly, NABIL, Everest Bank Ltd (EBL) and Nepal SBI Ltd (SBI) have recorded growth rates of 6.28%, 11.83% and 7.45% respectively in their CD ratio. However, this ratio of other commercial banks has declined, largely due to factors external to the banks.

As per the NRB directives, all commercial banks have to maintain Loan Loss provision according to the size of overdue loans. Nepal Credit and Commerce Bank (NCCB) were able to decrease its loan loss provision by 27.63% as compared to the previous year indicating a good recovery of interest as well as principal. In case of Nepal Investment Bank (NIBL), growth in loan loss provision (which in fact decreased by 6.73%) was much less than the growth of the total credit (which in fact decreased by 6.73%) was much less than the growth of the total credit (which increased by 53%). Similarly, NBL and HBL were able to maintain a healthy composition of loan loss provision (decreased by 9.49% & 0%) and credit (increased by 3.70% and 26.78%), again signifying good results form their loan recovery efforts. In case of remaining banks, the situation is not satisfactory as the growth of loan loss provision is higher than the growth of credit.

A bank's stability depends on the reserve it maintains. NABIL's reserve growth is very good i.e. 1400% on retained earning and 67.86% on other reserves. Similarly, all other banks have except NCCB and BOK made noticeable increment in it. The major yardstick to measure the status of the bank (which is the prime concern of shareholders) is the profitability of the banks-the spread between what the banks has earned and expensed. In this regard, KBL has made the significant growth of 181.25% in profit as compared to the previous year. Similarly Standard Chartered Bank (SCBL), NABIL, HBL, BOK, EBL, NIB, NSBI, NICB and NCCB have the growth percentage of 7.72%, 6.33%, 43.73%, 29.83%, 61.8%, 62.76%, 29.76%, 37.89% and 4.03% respectively.

Nepal Government of Nepal has promulgated Ordinance to replace several existing laws related to the banks and financial institution like Commercial Bank Act 2031, Finance Act etc related to financial institutions. The major highlights of the ordinance are universal banking that makes all the banks and financial institutions governed by a single act making the legal process much efficient and with less confusion and it has protected the rights and welfare of the depositors and investors.

However this ordinance has lots of unclear issues, which has created confusion to the existing banks and financial institutions. The ordinance has classified the financial institutions into categories replacing the present terms as commercial, development of finance companies. The act has classified the category, as “Ka” category ca mention itself as a Bank, the rest of the category should name itself only as a financial institution. The ordinance has created confusion to the existing development banks and finance companies as what category they belong to? The positive aspect of this ordinance is that the financial institutions which fall under the “Kha” category will also be allowed to carry out several financial activities that were previously allowed to only commercial banks, such as opening current accounts, issuing drafts and traveler’s cheques, dealing in foreign exchange and issuing Letter of Credits. Even the financial institutions, which falls under the category “Ga” are permitted to handle current account, saving account and to some extent, foreign currency transactions. Due to these changes, the consumer will benefit due to the competition among these banks and financial institutions.

In an article published in New Business Age written by Sudir Khatri, has analyzed the ordinance Pros and Cons, in general speaking termed as Umbrella Act. He has expressed his disagreement in the ordinance regarding the qualification of the Board of director’s composition. The qualification set is out of the total number of directors, two thirds have to be graduates in specified disciplines-management, commerce, economic, accounting, finance, law, banking and statistics. Another requirement is five years work experience either in banking or public limited companies or in a gazette level government posts. He argues why a science graduate or someone with engineering background cannot be the director, it is not justifiable to question on the capacities of the people with these background as the in the past some successful General Manager and Directors in Nepal Industrial Development Corporation (NIDC) were engineers. He further writes that activities like project financing and asset valuation require engineers and similarly that there cannot be any reason for the position of director in banks to be graduates in some specified fields only. CEO of the “Ka” category qualification required is Masters Degree in the chosen few subject and the term would be four year. The act however does not mention the renewal of the CEOs term. The Board or AGM of the institution should be decided the CEO's tenure. (Khatri, 2009:18)

Similarly, he points out argument in the requirement of five years work experience. The performance of the public limited companies is so poor that the efficiency of the staff is questionable. In such situation how can one hire some one with the experience in public limited companies? As per the act, it is mandatory to appoint a professional director in the Board chosen from the list of professional experts enlisted by NRB. Such director will not have voting right; it is questionable that can be contribute significantly towards the development of a bank or financial institution without the voting right?

For the existing banks and other financial institutions a two-year period has been granted to apply for the license. Entirely new Memorandum of Association and Articles of Association have to be prepared and a special general meeting of shareholder has to be called. If any institution fails to obtain the license on the said period their license will be seized. However, there is no clear information on whether the institutions can prepare Memorandum of Articles in their own format or are there any prescribed format available or will be made available by the central bank-Nepal Rastra Bank for this purpose.

This ordinance has given the full authority to NRB for monitoring, inspection, supervision etc. NRB is vested with the power to fix interest rates in lending and deposits and the Act also states that NRB can also delegate this authority to the individual banks themselves. However, such delegated authority can be taken bank. This makes banking more risky; it indicate that NRB is interest to take control on fixation of interest rates as when required.

In an article published written by Mr. Atma Shrestha in Business Age entitled "Entrepreneur-Friendly Credit Policy" has reviewed the present credit policy with main focus of the credit decision being based on the collateral. He argues that only collateral should not be considered as the basis of the credit decision.(Shrestha,2009:34).

Access to finance is vital element for entrepreneurship development in the country. Without it one cannot think of starting business of any sort. It’s mainly due to this reason; most of the students after completing there single-mindedly look for employment opportunity. No other options, mo matter how lucrative and attractive it would be enter into their mind. It has created huge pressure in the labor market. In the absence of entrepreneurial activities in the country, employment opportunity will be very limited and even qualified and competent people do not get job. The established very limited and even qualified and competent people do not get job. The established very limited and even qualified and competent people do not get job. The established notion of the Nepalese bankers that money lent to the wealthy people based on collateral is safe. But is not actually a safe assumption in the face of greater difficulty in loan recovery form these people. Also, this particular segment of market is already over-banked. With the worsening business performance of the Nepalese corporate sector mostly due to the poor management compounded by other factors like sluggish economic conditions and political instability, banks must now explore newer market segment for their sustained growth and success.

Under this backdrop, Nepalese commercial banks must change their policy and must understand that event the people living in the low and middle level of economic pyramid can potentially be lucrative market. They can ignore them only at their peril, especially at the time when the competition in the market consisting of people at upper level of economic pyramid can potentially be lucrative market. They can ignore them only at their peril, especially at the time when the competition in the market consisting of people at upper level of economic pyramid is very intense and has already saturated. In this context, potential entrepreneurs armed with skills, knowledge and readiness to take plunge in the business word can form a formidable market opportunity for the Nepalese banking industry-only if it can come out of the cocoon of traditional collateral-driven lending approach.

At the time when Nepalese banking industry is confronting with the increasing NPA, it might seem unwise and untimely to suggest that commercial banks extend loan to the potential entrepreneurs without collateral. It is not that they must ignore the collateral altogether while making credit decision. Collateral may be one of the important elements of the credit decisions. But this should not be a pre-condition for any credit decision. Lesson should be learned from the past experience of this credit policy that collateral alone does not ensure quality of credit decision. The fluctuation and stagnancy in the real state business has further reinforces this view. More important, Nepalese bankers must themselves have to have entrepreneurship spirit which means, they should not hesitate to take educated risk by giving more weight to the entrepreneurship dimension of the credit proposals while making credit decision. The ability of lending is identifying and investing a distinct competitive advantage in the crowded market. However it’s essential that any government rules and regulations that inhibit the promotion of entrepreneurship in the country must be abolished.

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

The ordinance relating to banks and financial institutions has been promulgated that has been bought into existence effective February 4,2004. The banks and financial institutions Ordinance, 2004 has replaced the existing Agricultural Bank Act, 2024. Commercial Bank Act, Development Bank Act, and Nepal Industrial Development Corporation Act and Finance Companies Acts and ha bought all such institutions under the preview of a single Act. Though this ordinance came as an achievement in the financial sector reform program, it’s being a matte of debate among the various finance experts that the ordinance having six months existence time should be enacted? At this time since there is no parliament in the country and the parliament is authorized to enact permanent law. It is obvious that the financial sector must go through uncertainty in the future. The ordinance, popularly called as Umbrella Act.

In an article “Comments on Umbrella Ordinance 2004” Mr. Tirth Upadhyay, President of ICAN has expressed clearly described the Ordinance along with his views? The Ordinance is comprehensive and prescribes in detail the provisions for licensing, incorporation, governance and merger and dissolution procedures for banks and financial institutions (FIs). This is a significant improvement over the existing

Acts but apprehension is expressed about the discretionary power that the Ordinance has vested on Nepal Rastra Bank (NRB). (Upadhyay, 2009:17)

The ordinance is divided into 12 chapters and contains altogether 93 sections. The first chapter defines the various terms used in the Ordinance but has conspicuously omitted to define" security" and "collateral" among some important terms. These words have been frequently used in relation to lending activity but in the absence of universally acceptable definition the ongoing anomalies owing to the ambiguity are e4xpeccted to continue though it ha been clarified that the financial institutions henceforth can lend against personal or corporate guarantees.

Second chapter specifies the procedures for establishing a bank or financial institution and has brought transparency in licensing procedure. The authority has to either issue the license within 120 days of application or notify the reason of refusal within the said period. Further, a foreign bank's presence in Nepal either though a joint venture or branch banking is legally mandated. This provision will probably meet the long outstanding demand of the donors and conforms to Nepal's entry to WTO. Buying back of its share by a financial institution, a unique provision is legal slated by this ordinance, and that could be considered progressive. But it has failed to explain the objective of such provision and at the same time appears to be too restrictive to implement. The ordinance h failed to prescribe condition for enhancing the stake of joint venture partner, fresh issue of shares to strategic partner, issue under Employees Stock option plan and preferential issue that is vital from the investor's perspective.
Chapter 3 deals with the constitution and Board of Directors and appointment of CEO. Henceforth, in addition to directors appointed by the shareholders, meeting, the FIs must have one independent director in its Board appointed from amongst the names in a roster maintained by NRB. Also, the academic qualification of remaining directors has been prescribed that requires that 2/3rd of all directors must possess required academic qualification and experience but it has failed to ensure that people of requisite qualification are elected by the general meeting. Similarly, academic qualification for a position of CEO is also prescribed and his /her tenure is limited to four years. But the intention for limiting the tenure of such paid executive remains unexplained. It might prevent young and dynamic person from taking this leadership position. Further, the authority and responsibility specified are not commensurate to

the potion of a CEO. As the law does not guarantee vesting of executive authority on CEO, it may be played down at the hands of unscrupulous directors and might inconsistent with the principle of divesting management from investor to professional managers.

Chapter 4 places restriction on using bank of FI's name or carrying out financial transactions by institutions other than those licensed by NRB as per the Ordinance.
Chapter 5 deals with capital adequacy, reserves and provisioning for NPA's. But the more it has tried to be transparent, the more it has vested discretionary powers with NRB. To protect the interest of depositors, the prime concern of legislatures in drafting the law should be continued maintenance of adequate capital and such an important matter should not be left to the discretion of NRB. The lesson should be learnt from the past experiences where NRB's leniency sent two largest banks technically bankrupt. In this regard, it may be pertinent to remind why the Basel Committee recommendation on capital adequacy (that is universally acceptable) is not being made mandatory obligation on the part o the promoters is not created to meet the capital gap within specified time. Such an obligation is vital for protecting the depositor's interest. As has been the case with the two largest banks (i.e. Nepal Bank Ltd. And Rastriya Banijya Bank) and a few other private sector banks in Nepal, continued flouting with NPA's has eaten away not only their equity but the depositor's money as well.

Chapter 6 prescribes the financial transactions that banks a FIs are empowered to undertake. It has attempted to include all types of traditional financial transactions hitherto undertaken by a bank or FI but has failed to visualize the requirement of a modern banking like debt securitization swap and hedge transactions and dealing in other financial derivatives. The finance company will be benefited with this Ordinance as they are now authorized to accept interest free deposit.

Regulatory, inspection and supervision responsibility with regard to FIs continue to remain with NRB. The new provision has enlarged the scope of NRB's regulatory role. Banks set up with foreign shareholding will now be required to submit to NRB the inspection reports prepared by their headquarters. Severe penalty including suspension of Board or taking over the management of FIs has been prescribed if the result of NRB inspection indicates non-compliance with its directives or if the FIs are found to be guilty of engaging in activities that are detrimental to the interest of the shareholders or the depositors.

The deregulated interest rate regime appears to be drifting away as the Ordinance has empowered NRB to intervene in rate fixation but it does not specify the conditions that would oblige NRB to do so. Looking at the current rate of interest offered on deposit on FIs that has gone below the inflation rate, NRB intervention could bring relief to thousands of small depositors especially old, disabled and pensioners whose lifetime saving is at stake.

Loan disbursement and its recovery procedures are covered under Chapter 8 that re-establishes the NRB's authority to regulate lending and minimize the chances of loan going to an unscrupulous borrower or diversion of the funds. The Ordinance has specifically provided for the compulsory registration of all charges on assets pledged as collateral but the agency responsible for such registration (other than real estate) is not identified. The authority of FIs in loan recovery has been extended and it may now reach to other assets of the borrower in case the security for loan falls short or becomes inadequate. The hitherto requirement of disposal of non-banking assets within seven years has been done away with. It may result in accumulation of significant unproductive assets in FIs balance sheet. The role of Loan Recovery Tribunal has been undermined and no role is envisaged for Asset Management Company that is in the offing.

The role of the auditor of FIs has been extended and it goes beyond the scope of expertise of accounting profession. Auditors shall require among others, to certify whether FIs have acted (or failed to act) to protect the interest of depositors or investor and whether the business of FIs has bee conducted satisfactorily. Basis of such opinion is not outlined and accordingly it will serve o purpose other than becoming a ritual.

Chapter 10 deals with merger that permits FIs to merge with other FIs only. This is a new provision but does not prescribe the circumstances when such merger will be permitted. The missing part on merger is the safeguard of interest of minority shareholders. It does not entitle shareholders opposed to the merger to ask for compulsory acquisition that is vital for promoting foreign investment.Chapter 11 prescribes penalty for various offences that could be both various offences that could be both civil and criminal. Chapter 12 has laid down procedures for voluntary winding up of FIs, arbitration and miscellaneous administrative and operational procedures. The client confidentiality is guaranteed but with so many restrictive sub-clauses it is doubtful if the objective would ever be met. Similarly depositor's right is clearly protected by reiterating that there would be no other claimant on deposit kept with FIs other than the depositor himself of his nominee but with such right. The state may interfere in one or other pretext defeating the intension of law and lessening the confidence in the banking system.

For the first time, the law has taken cognizance of international terrorism and NRB is empowered to suspend operation of account related to organization of account related to organization or individual associated with such activity. But it has omitted any anti-money laundering provision. Probably, a separate Act is being envisaged to deal with such transaction.

In conclusion, it could be said that the Ordinance is comprehensive and deals with significant aspect of operation of FIs. However, attempts should be made to limit NRB's discretionary power by framing transparent, prudent and unambiguous policies and regulations. Further work would be necessary to integrate the country's financial sector with international financial sector with international financial market and effort should be directed to encourage adoption of international bet practices like International Financial Reporting Standards (IFRS), International standards on Auditing (ISA). Bassel Committee Recommendation etc.

2.3.3 Review of Previous Thesis

Raja Ram Khadka (2003) in his thesis "**A study on the Investment Policy of Nepal Arab Bank Ltd. in comparison to other joint venture banks of Nepal**"1 has compared investment policy of NABIL with NGBL and NIBL. Mr. Khadka has found out that the liquidity position of NABIL is comparatively worse than that of Nepal Grindlays Bank Ltd. (NGBL) and Nepal Indosuez Bank Ltd (NIBL). It is also comparatively less successful in on-balance sheet utilization as well as off-balance sheet operation than that of NGBL and NIBL. In case of profitability ratio he has concluded that the profitability position of NABIL is comparatively not better than that of other joint venture banks (JVBs). NABIL is more successful in deposit utilization but fails to maintain high growth rate of profit in comparison with NGBL and NIBL.

He has recommended that NABIL bank should increase cash and bank balance to meet loan demand. NABIL’s loan and advances to total deposits ratios are lower than that of other JVB’s to overcome this situation, NABIL is strongly recommended to follow liberal lending policy and invest more and more percentage amount percentage amount of total deposits in loans and advances.

He has focused his study on the investment policy of Nabil bank and has taken NGBL and NIBL average ratios as banking average. Mr. Khadka has recommended to adopt liberal lending policy however has not explained regarding liberal lending and invest more and more percentage amount of total deposits in loans and advances. However while adopting liberal policy on lending he has not explained the consequences like bad debt, default loan, which may arise due to very flexible and liberal lending policy. He has also not explained the regarding what is good liberal lending policy. (Khadka ,1998:26)

Gautam (2004) Conducted a study “**Lending Practices and Procurers of Nepal Bangladesh Bank Limited**” has outlined his major findings as follows.

Not concentrating only in big cities and large groups he has suggested NB Bank to expand branches in rural areas. Banks should invest in productive sector, develop the concept of micro financing and group financing Make should maintain the balance in its loan portfolio and current requirement of the customers. Banks should give preferences to the short term lending. Banks should provide the consortium loan for those for those projects under government guarantee and security thereby uplifting the economic condition of the country.

A thesis study conducted by **Lila Prasad Ojha** (2005) on **“Lending Practices: A study on Nabil Bank Limited, Standard Chartered Nepal Limited and Himalayan Bank Limited”** has found out that the measurement of lending strength in relative term has revealed that the total liability to total assets of SCBNL has the highest ratio. However, the performance of other two banks has not deviated far from the mean ratio of SCBNL and the combined average. SCBNL tendency to invest in government securities have resulted with the lowest ratio of loans and advances to total assets ratio. The steady and high volume of loans and advances throughout the years has resulted Nabil ratio to be the highest. The ratio of loans and advances and investment to deposits ratio has measured the portion of total deposits that is used to increase the income of the banks irrespective of the portfolios of its application. Nabil has deployed the highest proportion of its total deposits in earning activities and this ratio is significantly above the ratio of other two banks. The combined ratio is highly deviated from the mean ratio of Nabil and SCBNL. This is the indicative of that in fund mobilizing activities Nabil is significantly better than SCBNL.

He has further concluded that the overall liquidity strength of SCBNL can be considered the best among the banks. However the liquidity risk arising from interest rate in SCBNL is the most likely. Since the market is highly sensitive towards the interest rate and SCBNL has generally been offering low interest rate as compare to other banks. The analysis of lending strength of HBL in Loans and Advances is the best. However Loans and advances, investments to deposits ratio have upgraded the performance of Nabil. If HBL succeeded in collecting the less cheaper sources of fund in future, the lending strength of HBL would push the performance of Nabil and SCBNL far behind in the coming future. Also the contribution made by HBL in the productive sector of economy is highly appreciable and the best among these three commercial banks. The highest growth rate, proportionately high volume of loans and advances and the best contribution in agriculture and priority and the high level of deposits mobilization of HBL has put this bank in the top position in the lending function as demand by national priority, national development.

On basis of the findings and conclusions he has recommended for the banks as the liquidity position of all these three banks is found to be high. He has recommended the banks to look upon new area of lending and investment. The rural economy has always been realizing the credit needs and the dominance of non-organized moneylender in this area has been prevailing. To compromise between the liquidity and credit need of rural economy these banks are highly recommended to expand their credit in this area. SCBNL’s contribution in loans and advances is the lowest and this has low degree of variation and low growth rate as compare to Nabil and

HBL.SCBNL is recommended to give extra priority on productive and priority sector loan. The increasing provision on loan loss and high volume of non-performing assets in Nabil and HBL certainly attracts the high attraction of any person interested with these banks. The high volume of HBL non-performing assets may have caused due to the failure of industrial and agricultural sector. Nabil's increased non-performing, assets may have caused due to the accumulated bad debts that is kept behind the curtain to show the efficiency of management.

He has used different statistical tools like standard deviation, correlation, trend analysis and financial tools for the data analysis and presentation. In his study he has also taken sector wise loan-priority sector, productive sector etc. The different sector wise loan classification are presented and analyzed. Only secondary data has been used for the study, the overview of the theoretical aspect of the lending practices of the banks has not been analyzed. He has taken five years data from 1997 to 2001 for study of lending practices of Nabil, SCBNL and HBL.

A thesis conducted by **Subi Joshi** (2006) on "**A study on financial Analysis of NIBL"** has found out that the analysis of the banks shows that the deposit have bee increasing gradually during the study period i.e. (2053/054-2057/058). However the rate of increase was comparatively low in the year 1997/98 than in the year 2000/01. Total loans and advances have been also increasing. The total investment of the bank has been increasing over the years, which is mainly due to bank strategy of safe lending and also a as a result of increase in customer deposits and limited opportunities for prudent lending. As the loan and advances from the bank is increasing provision for loan loss has also been increasing. The bank has been holding adequate provision for losses over the years and the general loan loss provision was 4% in average of the total risk assets.

In her study she has recommended that the bank should focus more on non –risky lending opportunities such as mortgages, housing loans and personal loans. It should carefully examine safety of principal as well as sources of repayment, capital structure, requirement and credit worthiness of a borrower for providing credits. In other words, credit manager should evaluate credit risk by considering well-known five C's of credit viz character, capacity, capital, collateral and conditions.

The financial analysis of NIBL has been analyzed and interpreted in this thesis. Analysis on terms of loan and advances is simply presented with comparison with the previous year data only. On the loans and advances part, it has only simple comparison been done. Whether the loan classifications and provisioning of loans, investment in priority and deprived sector loan investment regulation of NRB's directives has been followed or not has not been explained.

The review of above relevant literature has contributed to enhance fundamental understanding and knowledge, which is required to make this study meaningful and purposive. There has been lots of article published related to investment policy published related to investment policy, loan and advances of commercial banks. There are various researches conducted on investment analysis and policy of commercial banks, Impact and Implementation of NRB guidelines in commercial banks but there are a few research conducted on lending aspect of commercial banks. There was a thesis done by Lila Prasad Ojha on "Lending Practices:

A study conducted by Niva Shrestha (2007) on the topic **'A study on non-performing loans and loan loss provisioning of commercial banks'** revealed that SCBNL had risk averse attitude o the management or they have policy of investing low in the risky assets i.e. loans and advances as compared to NBL AND NABIL because the loans and advance to total asset ratio of NBL, NABIL & SCBNL during the study period was appeared to be 52.3%. 47.0% and 29.34% respectively. The SCBNL has higher proportion of the investment in risk free or nominally risky asset like treasury bills, National Saving bonds etc.

In the same way, the proportion of non-performing loan with regard to total loans of NBL, NABIL & SCBNL was found to be 48.37%, 10.67% & 4.38% respectively. That means 51.63%, 89.33% & 95.62% of total loan of NBL, NABIL & SCBNL was found to be performing loan. Not only the public sector bank, even private sector bank like NABIL has higher proportion of non-performing loan. However, in recent years NABIL has shown significant decrement in non-performing asset, which are the result of effective bank credit management and its efforts of recovering bad debts through the recovery of establishment of recovery cell.

However the better activity ratio of SCBNL has proved this bank the best in managing the lending portfolio according to the demand of profit-oriented business. The high volume of lending activities and high volume of productive sector loan of Nabil has put this bank in the top position in absolute term.

A study conducted by Rajendra Shrestha (2008) on the topic **'A study on non-performing assets of Nabil and SCBL'** In the same way, proportion loan loss provision of NBL was found to be significantly higher (i.e. 40.17%) as compared to other two commercial banks. The proportion of NABIL and SCBNL was found to be 5.69% and 4.49%.The average ratio of provision held to non-performing loan of NBL, NABIL & SCBNL was found to be 80.03%, 57.85% and 122.32% respectively shows that the SCBNL has maintained adequate level of provision against non-performing loan where as NABIL was found to be comparatively lower. The NBL was found to be an average position.

A study conducted by Sangita Poudel (2009) on the topic **'A study Credit Management of Financial Institution of Nepal"** the loans and advances to total deposit ratio of NBL, NABIL and SCBNL during the study period was found to be 57.63%, 56.35% and 35.94% respectively. It indicates that SCBNL has the most consistent and variability during the study period where as the NBL has the higher consistent and variability as comparison to other two banks. NABIL has the moderate level of consistent and variability.

2.5 Research Gap

Previous researchers analyzed the credit management by using secondary source of information in terms of credit practices or lending practices. But actually speaking, credit management can be determined by various factors. Among of them, banking environment and management quality in terms of credit may be the strong determinant for credit management in banks. In present context, these are the heart issue in Nepalese commercial banks. The previous scholars could not submit the present facts. Present study tries to define credit management by applying those various facts. It can be very useful or important in this area. Thus, present study may be valuable piece of research work.

CHAPTER-III

RESEARCH METHODOLOGY

Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. It is necessary for the researcher to know not only the research methods but also the methodology. When we talk about the research methodology we not only talk of research methods but also consider the logic behind the methods we use in the context of our research study and explain why we are using a particular method or technique and why we are not using others so that research results are capable of being evaluated either by the researcher himself or by others. The study of research methodology gives the student the necessary training in gathering materials and arranging them, participating in the field work which required, and also training in techniques for collection of data appropriate to particular problems, in the use of statistics, questionnaires and controlled experimentation and in recording evidence, sorting it out and interpreting it. (Kothari, 2003:13)

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

3.1 Research Design

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

3.2 Nature and Sources of Data

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

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

3.3 Population and Sample of Survey Design

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

Here only 3 sample commercial banks are taken out of 26 commercial banks. For selecting the samples, non-random sampling method is used here among different methods. The samples are taken only from commercial banks. Organization under study is as follows, whose general introduction and major objectives are presented in chapter one. The sample organizations are as follows:

Himalayan Bank Ltd.
Everest Bank Ltd.
NABIL Bank Ltd.

Likewise, financial statements of five years (beginning from 2004/05 to 2007/08) are selected as samples for the purpose of it.

3.4 Primary Data Collection Techniques

Individual data sheet was used to gather information about selected characteristics of the respondents. Selection of the items for individual data sheet was primarily based on earlier international researches concept on the related subject and the previous research findings. The instrument has sixteen items relating to industrial environment and rewiring seven items are related to management quality. Few demographic variables such as gender position, age, major profession and experience in work in an organization were also designed and included in the instrument. The demographic variables were designed in nominal scale. All variables were designed in six-point liker type scale "-strongly disagree" and "6- strongly agree" and average in between.

3.5 Primary Data Collection Procedure

Convenient sampling technique was followed to gather the opinion or characteristics of employees of the concerned bank. Questionnaire were administered and returned in four-five days. In many situations, the researcher asked the respondents to give opinions of the questions and ticked on replied answers to administer the questionnaire. Researcher personally visited head office of the related banks. The last hour of the 5 day was used to request the respondents to fill up the questionnaire. In most of the cases, meaning of the items and instruments were described to the respondents, which helped them to give fair opinion.

3.6 Tools and Techniques Employed

To meet the objectives of the study, the sources of secondary data of commercial bank are analyzed by using financial tools such as Ratio analysis. Secularly all the scores of individual data sheet (represented by primary data) were entered into SPSS version 11.5 database for tabulation & analysis simple descriptive analysis tools such as frequency, mean, standard deviation were used. Often source inferential tools such as analysis of variance ANOVA was also used to know the differences among selected commercial banks.

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

3.6.1 Credit Practices Ratios

- Total Loan to total deposit ratio
- Loan and advances to total assets ratio
- Loan and advances to current assets
- Interest income to loan and advances
- Loan loss provision to total loan and advances ratio
- Non-performing loan to total loan and advances ratio

3.6.2 Credit Efficiency Ratios

- Interest expenses to total deposit ratio
- Interest expenses to total expenses ratio
- Non-interest bearing deposit to total deposit ratio
- Interest income to total income ratio
- Interest from loan, advances and overdraft to total interest income ratio
- Interest suspense to total interest income from loan and advances ratio

3.7 Nature of Respondents

This section deals the nature of respondents of present research. Nature of respondents can be discussed so many demographic variables such as gender, age, designation, department, experience.

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

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

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

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

4.1 Comparative Financial Condition of Selected Nepalese Commercial **B**anks

Financial analysis assists in identifying the major strengths and weaknesses of a firm. It indicates whether a company has enough cash to meet its obligations and ability to utilize properly their

available resources. Financial analysis can also be used to assess the company's liability as and ongoing enterprise and determine whether a satisfactory return is being earned for the risks return. Thus, comparative financial condition of the banks in terms of credit practices is necessary to find out the comparative credit practices in those banks.

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

4.1.1 Comparative Credit Practices in Nabil Bank, Himalayan Bank and Everest Bank

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

i) Total Loans to Deposit Ratio

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

Table 4.1
Total Loans to deposit ratio

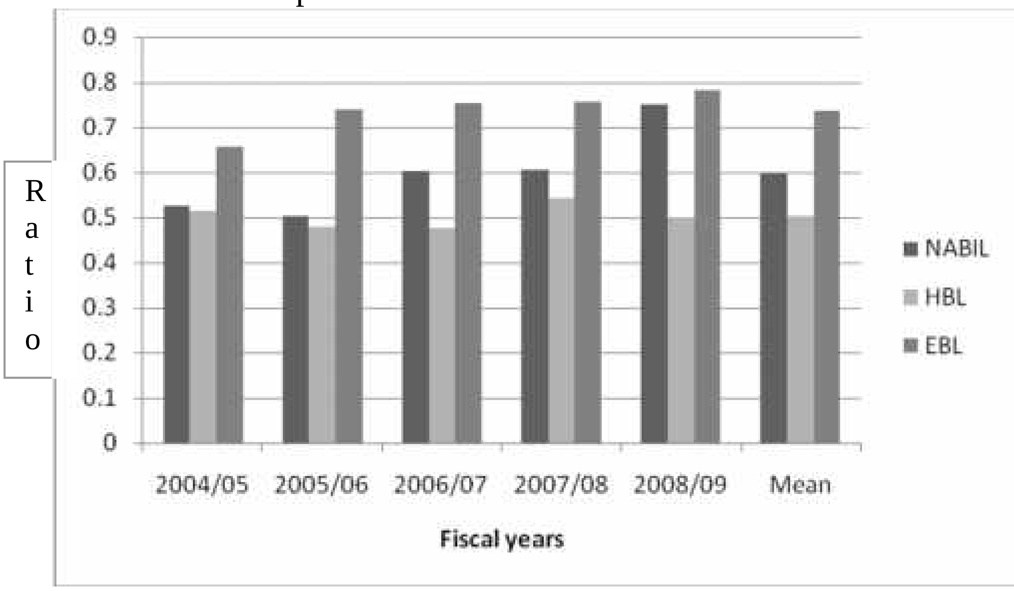
Bank/F.Y	2004/05	2005/06	2006/07	2007/08	2008/09	Mean
NABIL	0.5031	0.6034	0.6055	0.7505	0.8504	0.6076
HBL	0.4789	0.4761	0.5430	0.5007	0.6055	0.5526
EBL	0.7400	0.7540	0.7560	0.7820	0.8001	0.7978

Source: Annual Report of HBL, EBL and NABIL

Table 4.1 shows that the ratio of credit deposit ratio in NABIL was 0.5031, 0.6034, 0.6055, 0.7505 & 0.8504 respectively. Similarly the ratio of HBL was 0.4789, 0.4761, 0.5430, 0.5007 & 0.6055 whereas the ratio of EBL was 0.7400, 0.7540, 0.7560, 0.7820 & 0.8001 respectively. In overall comparison, EBL has the highest ratio in F/Y 2008/09 i.e. 0.8001 and HBL has observed the lowest ratio in F/Y 2005/06 with 0.4761.

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

Figure 4.1
Total Loans to deposit ratio



ii) Interest Income to Loans & Advances

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

Table 4.2
Interest income to loan & advances

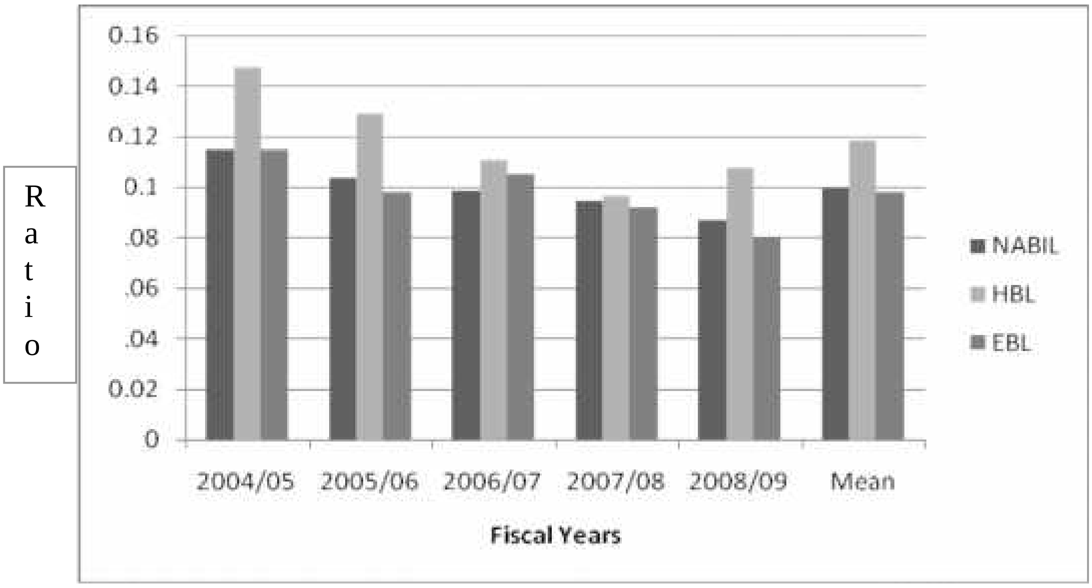
Bank/F.Y.	2004/05	2005/06	2006/07	2007/08	2008/09	Mean
NABIL	0.1034	0.0983	0.0945	0.0870	0.0865	0.0994
HBL	0.1289	0.1108	0.0964	0.1075	0.1170	0.1192
EBL	0.0980	0.1050	0.0920	0.0800	0.079	0.095

Source: Annual Report of HBL, EBL and NABIL

Table 4.2 shows that the ratio of interest income to loan and advances ratio in NABIL was 0.1034, 0.0983, 0.0945, 0.0870 & 0865 respectively. Likewise, the ratio of HBL was 0.1289, 0.1108, 0.0964, 0.1075 & 0.1170 and the ratio of EBL was 0.0980, 0.1050, 0.9200, 0.080 & 0.0790 respectively. But HBL has the highest ratio in F/Y 2004/05 i.e. 0.1289 and EBL has the lowest ratio in F/Y 2008/09 i.e. 0.079.

Calculated mean value of HBL is highest with 0.1181 as compare to Nabil and EBL, which are 0.0996 and 0.098 respectively. From this point of view HBL has the best performance in earning interest income.

Figure 4.2
Interest income to loan & advances



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

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

Table 4.3
Non-performing loan to total loan and advances (in %)

Bank/F.Y	2004/05	2005/06	2006/07	2007/08	2008/09	Mean
NABIL	0.0714	0.0554	0.0335	0.0132	0.0092	0.0593
HBL	0.1210	0.1008	0.0888	0.0744	0.0691	0.072
EBL	0.0104	0.0220	0.0170	0.016	0.015	0.0251

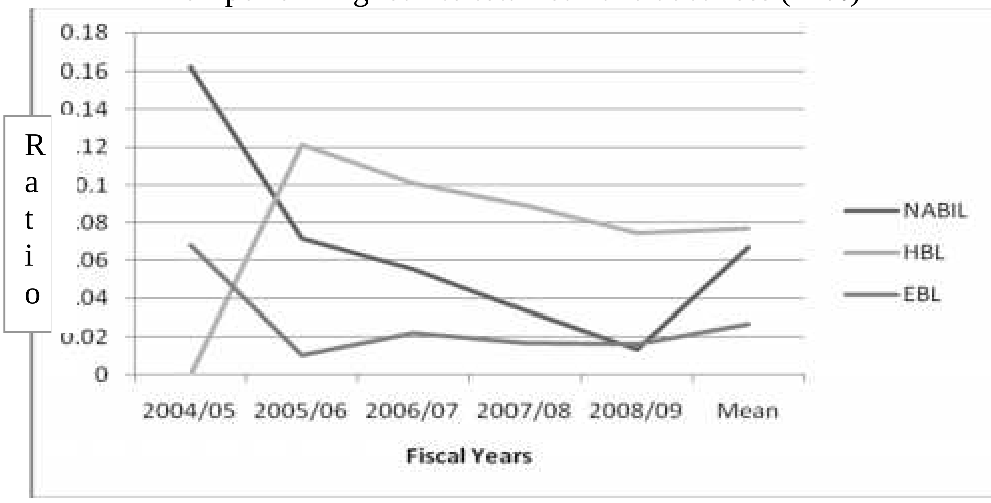
Source: Annual Report of HBL, EBL and NABIL

Table 4.3 shows that from the NABIL point of view, the ratio in five yrs is 0.0714, 0.0554, 0.0335, 0.0132 & 0.0092 respectively. Likewise the ratio of HBL is 0.1210, 0.1008, 0.088, 0.0744 & 0.0691 respectively whereas in EBL the ratios were 0.0104, 0.0220, 0.0170, 0.016 & 0.015 respectively. In overall comparison, EBL has the lowest non-performing loan to total loan and advances (i.e. 0.0104) and HBL has the highest ratio (i.e. 0.1210)

From the mean point of view, it can be said that EBL has the lowest ratio than NABIL and HBL. Banking sector is seriously affected by the non-performing loan. Both banks are not far from this above fact. If non-performing loan increases, the overall banking business will be affected. So provision amount will increase and profit will decrease. So, it is suggested that both banks (NABIL&HBL) to be very careful while granting loan and to do effective follow up for recovery of non -performing loan.

Figure 4.3

Non-performing loan to total loan and advances (in %)



v) Loans and advances to total assets ratio

Loans & advance is the major part of total assets for the bank. This ratio indicates the volume of loans & advance out of the total Assets. A high degree of the ratio indicates that the bank has been able to

mobilize its fund through lending function. However lending always carries a certain risk of default. Therefore a high ratio represents low liquidity and low ratio represents low productivity with high degree for safety in terms of liquidity.

Table 4.4

Loans & advances to total assets ratio

Bank/F.Y	2004/05	2005/06	2006/07	2007/08	2008/09	Mean
NABIL	0.4882	0.4532	0.4219	0.4683	0.4891	0.4601
HBL	0.4554	0.4623	0.4312	0.4282	0.4827	0.4520
EBL	0.5120	0.5713	0.5912	0.6095	0.6123	0.5793

Source: Annual Report of HBL, EBL and NABIL

Table 4.4 shows that the ratio of loans & advance to total assets in five yrs for NABIL was 0.4882, 0.4532, 0.4219, 0.4683 & 0.4891 respectively. Similarly, the ratio of HBL was 0.4554, 0.4623, 0.4312, 0.42872 & 0.4827 respectively whereas the ratio of EBL was 0.5120, 0.5713, 0.5912, 0.6095 & 0.6123 respectively.

Figure No: 4.4

Loans & advances to total assets ratio of NABIL

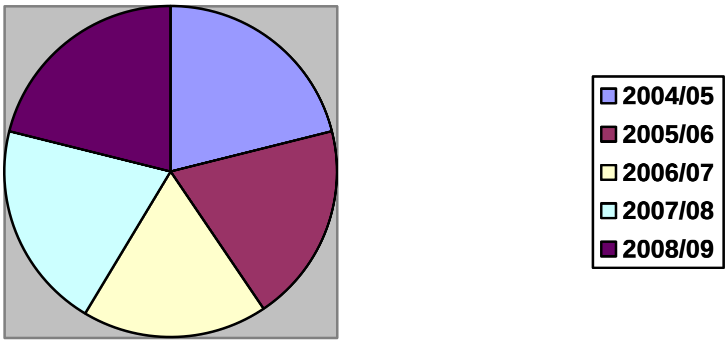


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Figure No: 4.5

Loans & advances to total assets ratio of HBL

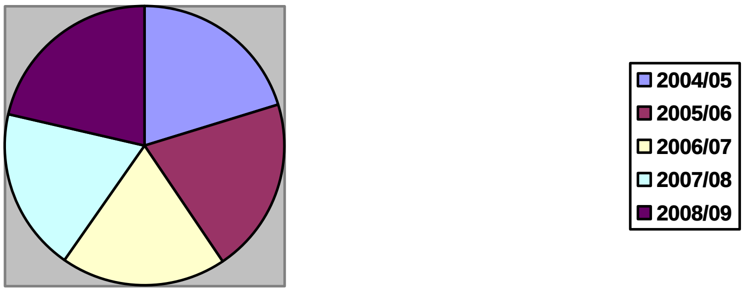
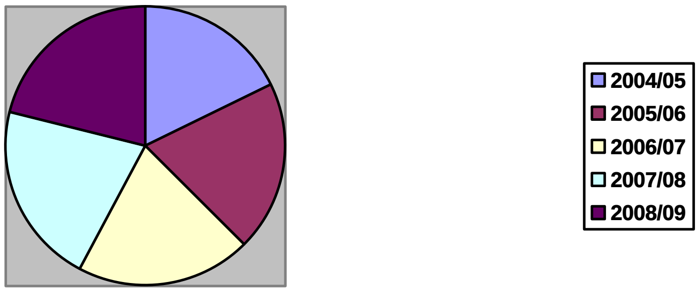


Figure No: 4.6

Loans & advances to total assets ratio of EBL



From the mean point of view, it can be said that the mean ratio of EBL has the highest than NABIL and HBL. It can be concluded that the higher mean ratio indicates the good lending performance. So EBL has good lending performance than NABIL and HBL.

v) Loan and advances to current assets ratio

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

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

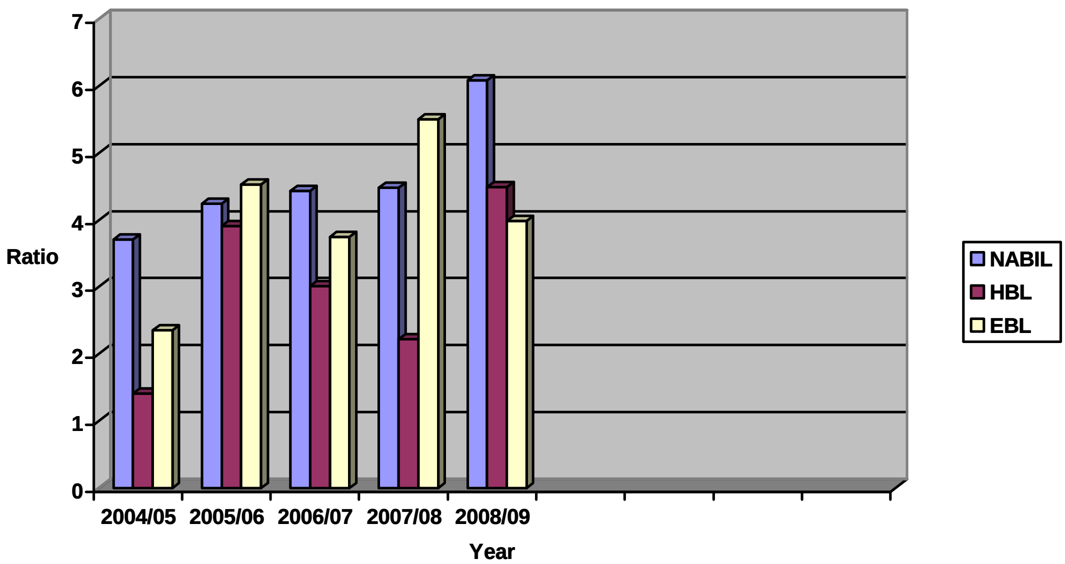
Table 4.5
Loan and Advances to Current Assets Ratio

Bank/F.Y	2004/05	2005/06	2006/07	2007/08	2008/09	Mean
NABIL	3.7100	4.2420	4.4357	4.4778	6.0836	4.5898
HBL	1.4120	3.9090	3.0107	2.2261	4.4941	3.0104
EBL	2.3560	4.5270	3.7520	5.4980	3.9880	4.0242

Source: Annual Report of HBL, EBL and NABIL

Table 4.5 shows that, from the NABIL point of view, the ratio for five yrs was 3.7100, 4.2420, 4.4357, 4.4778 & 6.0836 respectively. Similarly, the ratio of HBL was 1.4120, 3.9090, 3.0107, 2.2261 & 4.4941 respectively whereas the ratio of EBL was 2.3560, 4.5270, 3.7520, 5.4980& 3.9880 respectively. In overall comparison NABIL has the highest loan and advances to current assets ratio (i.e6.0836) in F/Y 2008/09 and HBL has the lowest ratio (i.e.1.4120) in F/Y 2004/05.

Table 4.5
Loan and Advances to Current Assets Ratio



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

vi) Loans loss provision to total loan and advances ratio

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

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

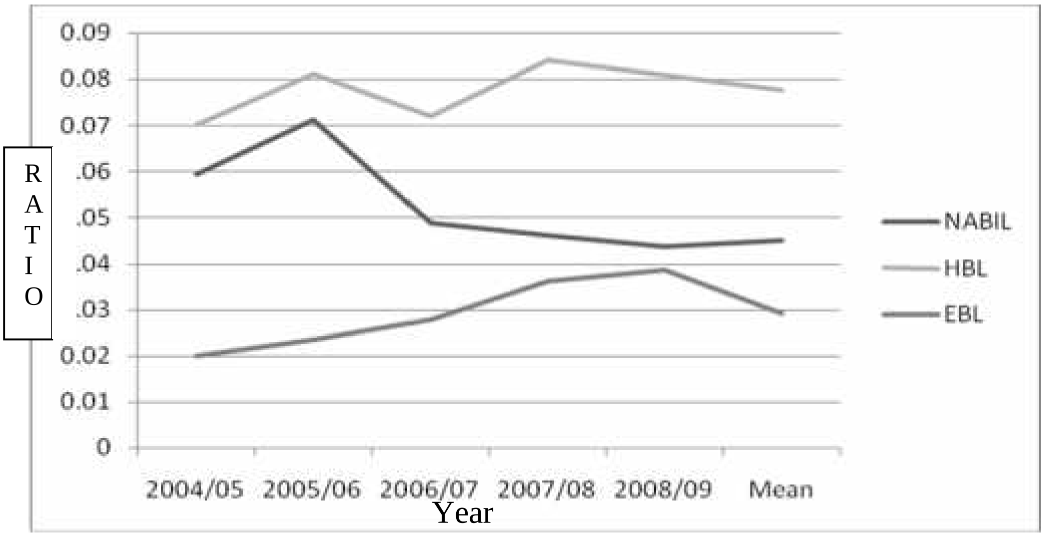
Table 4.6
Loan Loss Provision to Total Loan & Advances

Bank/F.Y.	2004/05	2005/06	2006/07	2007/08	2008/09	Mean
NABIL	0.0592	0.07111	0.0489	0.0461	0.0438	0.0451
HBL	0.0702	0.0812	0.0722	0.0842	0.0809	0.0777
EBL	0.0201	0.0236	0.0279	0.0363	0.0386	0.0293

Source: Annual Report of HBL, EBL and NABIL

Table 4.6 shows that from the NABIL point of view, the ratio of loan loss provision to total loans & advances in five yrs is 0.0592, 0.07111, 0.0489, 0.0461 &0.0438 respectively. Likewise, the ratio for HBL is 0.0702, 0.0812, 0.0722, 0.0842 & 0.0809 respectively whereas the ratio of EBL was 0.0201, 0.0236, 0.0279, 0.0363 & 0.0386 respectively. But HBL has the highest loan loss provision to loan and advances ratio (i.e. 0.0842) in F/Y 2007/08 and EBL has the lowest ratio (i.e.0.0201) in F/Y 2004/05.

Figure 4.6
Loan Loss Provision to Total Loan & Advances



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

4.1.2 Comparative Credit Efficiency in NABIL Bank and Himalayan Bank and Everest Bank

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

i) Total assets to liability ratio

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

shows the ratio of Total assets to total liability of selected commercial banks during study period.

Table 4.7
Total Asset to Total Liabilities Ratio

Bank/F.Y	2004/05	2005/06	2006/07	2007/08	2008/09	Mean
NABIL	1.0700	1.061	1.0695	1.0862	1.0971	1.077
HBL	1.0343	1.0384	1.0434	1.0477	1.565	1.044
EBL	1.066	1.087	1.0823	1.0762	1.11	1.0843

Source: Annual Report of HBL, EBL and NABIL

Table 4.7 shows the ratios of the banks have been in increasing trend. EBL has the higher mean ratio than NABIL and HBL. The combined mean ratio is 1.0684 and NABIL and EBL has higher ratio than that of the combined mean. NABIL and EBL has been able to utilize the fund more efficiently and effectively to the extend in comparison with the HBL however still this position could not be sufficient balance for a developing country the ratio should not be below.

ii) Interest expenses to total deposit Ratio

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

Table 4.8
Interest Expenses to Total Deposit Ratio

Bank/F.Y	2004/05	2005/06	2006/07	2007/08	2008/09	Mean
NABIL	0.0400	0.0291	0.0209	0.0197	0.0168	0.0253
HBL	0.0419	0.0311	0.0264	0.0223	0.0226	0.02886

EBL	0.0510	0.0460	0.0460	0.0390	0.029	0.0422

Source: Annual Report of HBL, EBL and NABIL

Figure 4.8
Interest Expenses to Total Deposit Ratio

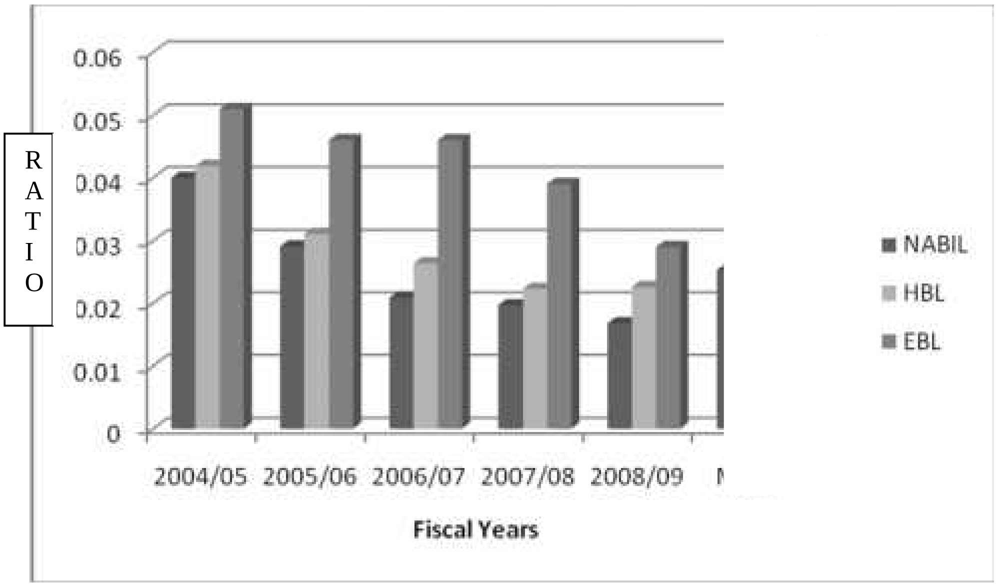


Table 4.8 shows that the cost of the deposit of NABIL was found in decreasing trend except F/Y 2004/05. It has highest ratio in F/Y 2004/05 i.e. 0.0400 and lowest ratio in F/Y 2008/09 i.e. 0.0168. HBL has highest ratio in F/Y 2004/05 i.e. 0.0419 and lowest ratio in F/Y 2007/08 i.e. 0.0223. It has decreasing trend. Similarly, EBL has the highest ratio in F/Y 2004/05 i.e. 0.0510 and lowest ratio in F/Y 2008/09 i.e. 0.029. The ratios are found in decreasing trend.

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

iii) Interest Expenses to total expenses ratio

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

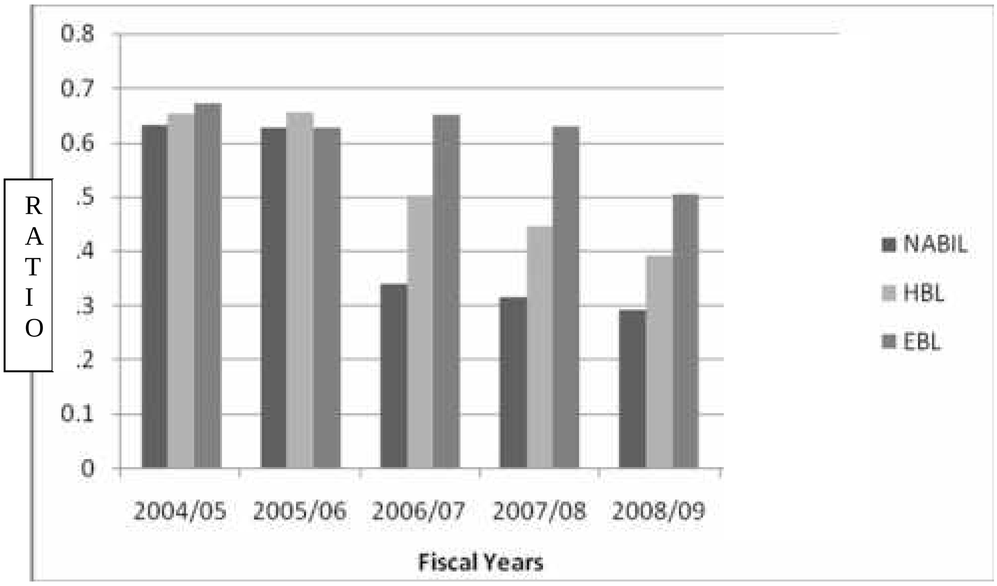
Table 4.9
Interest Expenses to Total Expenses Ratio

Bank/F.Y	2004/05	2005/06	2006/07	2007/08	2008/09	Mean
NABIL	0.6331	0.6268	0.3379	0.3138	0.2914	0.4406
HBL	0.6525	0.6556	0.5006	0.4461	0.3912	0.5292
EBL	0.6728	0.6275	0.6503	0.6291	0.5038	0.6167

Source: Annual Report of HBL, EBL and NABIL

Table 4.9 shows that the interest expenses to total expenses of NABIL & HBL are higher in starting two years. NABIL has decreasing trend. It has highest ratio in F/Y 2004/05 i.e. 0.6331 and lowest ratio in F/Y 2008/09 i.e. 0.2914. HBL has highest ratio in F/Y 2005/06 i.e. 0.6556 and lowest ratio in F/Y 2008/09 i.e. 0.3912. HBL has also decreasing trend. Likewise, EBL has highest ratio in F/Y 2004/05 i.e. 0.6728 and lowest in F/Y 2008/09 i.e. 0.5038. It has fluctuating trend.

Figure 4.9
Interest Expenses to Total Expenses Ratio



From mean point of view, it can be said that NABIL has low interest expenses to total expenses ratio than HBL and EBL. Thus, it shows that decrease in cost of the deposits, the volume of interest expenses ratio has been decreasing.

iv) Non-interest bearing deposits to total deposit ratio

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

Table 4.10
Non-Interest Bearing Deposits to Total Deposit Ratio

Bank/F.Y	2004/05	2005/06	2006/07	2007/08	2008/09	Mean
NABIL	0.2622	0.2055	0.2027	0.2547	0.2134	0.2277
HBL	0.2345	0.1969	0.1660	0.1852	0.2076	0.1980
EBL	0.1027	0.1062	0.1067	0.1079	0.1171	0.1081

Source: Annual Report of HBL, EBL and NABIL

Figure 4.10
Non-Interest Bearing Deposits to Total Deposit Ratio

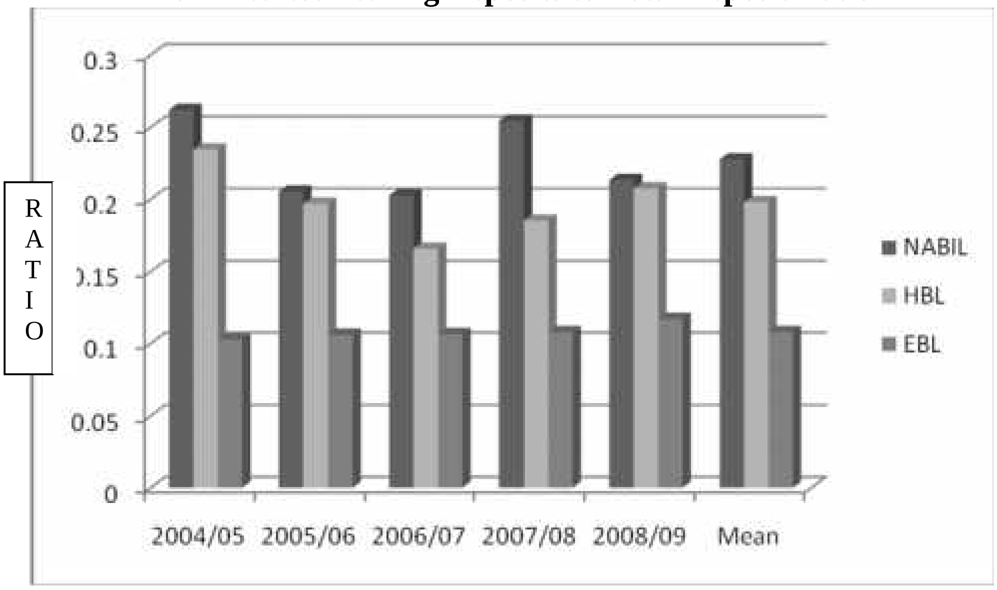


Table 4.10 shows that non-interest bearing deposits to total deposit of NABIL & HBL were in fluctuating trend. NABIL has highest ratio in F/Y 2004/05 i.e. 0.2622 and lowest ratio in F/Y 2006/07 i.e. 0.2027. Similarly, HBL has highest ratio in F/Y 2004/05 i.e. 0.2345 and the lowest ratio in F/Y 2006/07 i.e. 0.1660 whereas EBL has highest ratio in F/Y 2008/09 i.e. 0.1171 and lowest ratio in F/Y 2004/05 i.e. 0.1027. It has ratios in increasing trend.

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

v) Interest income to total income ratio

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

lending & investment and high contribution by other fee based activities in total income.

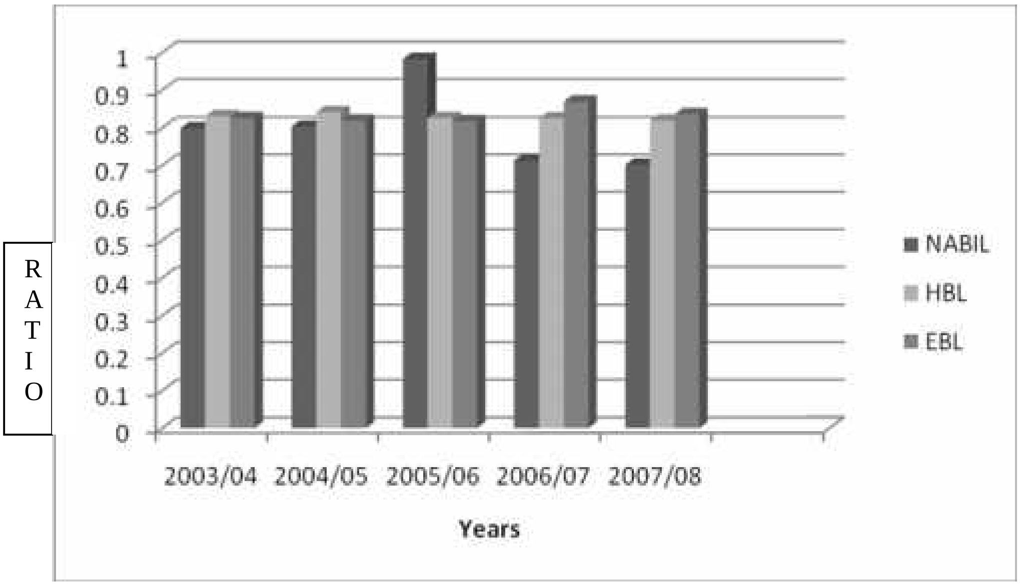
Table 4.11
Interest Income to Total Income Ratio

Bank/F.Y.	2004/05	2005/06	2006/07	2007/08	2008/09	Mean
NABIL	0.7996	0.8043	0.9834	0.7131	0.7022	0.7405
HBL	0.8318	0.8420	0.8267	0.8260	0.8198	0.8293
EBL	0.8270	0.8200	0.8180	0.8700	0.8370	0.8344

Source: Annual Report of HBL, EBL and NABIL

Table 4.11 shows that from the NABIL point of view, the ratio of Interest Income to Total income in five yrs were 0.7996, 0.8043, 0.6834, 0.7131 & 0.7022 respectively whereas the highest ratio in F/Y 2005/06 i.e. 0.8043 and the lowest ratio in F/Y 2008/09 i.e. 0.7022. Likewise, the ratio of HBL in five yrs were 0.8318, 0.8420, 0.8267, 0.8260 & 0.8198 respectively whereas the highest ratio in F/Y 2005/06 i.e. 0.8420 and the lowest ratio in F/Y 2008/09 i.e. 0.8198. The ratio of EBL in five yrs were 0.8270, 0.8200, 0.8180, 0.8700 and 0.8370 respectively whereas the highest ratio in F/Y 2007/08 and lowest ratio in F/Y 2006/07.

Figure 4.11
Interest Income to Total Income Ratio



From mean point of view, it can be said that EBL has high interest income to total income ratio than NABIL and HBL. This shows that in total income of NABIL, HBL and EBL, interest income contributes 74.05%, 82.93% and 83.44% respectively. The lowest ratio of NABIL indicates its low dependency in fund-based activity. The highest ratio of EBL indicates greater dependency on fund-based activities.

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

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

Table 4.12

Interest from loan and advances & overdraft to total interest income

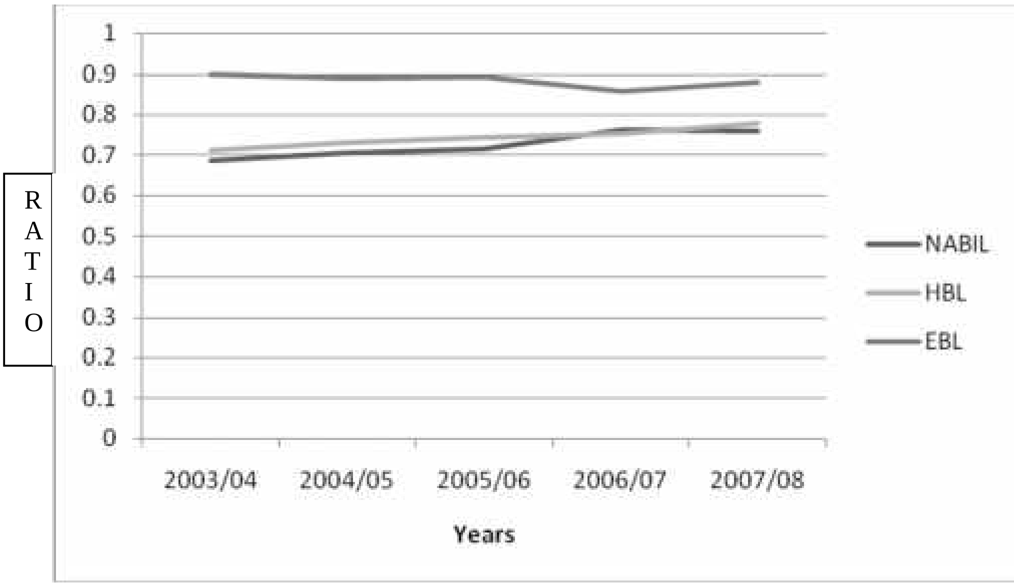
Bank/F.Y	2004/05	2005/06	2006/07	2007/08	2008/09	Mean
NABIL	0.6870	0.7061	0.7151	0.7627	0.7604	0.7263
HBL	0.7112	0.7311	0.7427	0.7524	0.7787	0.7432
EBL	0.9000	0.8900	0.8920	0.8560	0.8800	0.8836

Source: Annual Report of HBL, EBL and NABIL

Table 4.12 shows that from the NABIL point of view, the ratio in five yrs were 0.6870, 0.7061, 0.7151, 0.7627 & 0.7604 respectively whereas the highest ratio in F/Y 2007/08 i.e. 0.7627 and the lowest ratio in F/Y 2004/05 i.e. 0.6870. Likewise, the ratio in five yrs of HBL were 0.7112, 0.7311, 0.7427, 0.7524 & 0.7787 respectively whereas the highest ratio in F/Y 2008/09 i.e. 0.7787 and the lowest ratio in F/Y 2004/05 i.e. 0.7112. Similarly, the ratios of EBL were 0.9, 0.89, 0.892, 0.856 & 0.88 respectively whereas the highest ratio in F/Y 2004/05 i.e. 0.9 and lowest in 2007/08 i.e. 0.8560.

Figure 4.12

Interest from loan and advances & overdraft to total interest income



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

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

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

Table 4.13

Interest suspense to interest income from loans & advances ratio

Bank/F.Y	2004/05	2005/06	2006/07	2007/08	2008/09	Mean
NABIL	0.2262	0.1257	0.1616	0.1476	0.1468	0.1615
HBL	0.2512	0.2924	0.3570	0.4303	0.3697	0.3401
EBL	0.0372	0.0752	0.0867	0.0963	0.0941	0.0779

Source: Annual Report of HBL, EBL and NABIL

Table 4.13 shows that, from the NABIL point of view. The ratio in five yrs were 0.2262, 0.1257, 0.1616, 0.1476 & 0.1468 respectively whereas the highest ratio in F/Y 2004/05 i.e. 0.2262 and the lowest ratio in F/Y 2005/06 i.e.0.1257. Similarly, the ratios of HBL were 0.2512, 0.2924, 0.3570, 0.4303 & 0.3697 respectively. Likewise, the highest ratio in F/Y 2007/08 i.e. 0.4303 and the lowest ratio in F/Y 2004/05 i.e. 0.2512. Whereas, the ratio of EBL were 0.0372, 0.0752, 0.0867, 0.0963 & 0.0941 respectively. The highest ratio was in F/Y 2007/08 i.e. 0.0963 and lowest ratio in F/Y 2004/05 i.e. 0.0372.

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

4.2 Relationship of Loans and Net Profit

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

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

Table 4.14
Relationship between loan and advance and net profit in HBL: Correlation Matrix

		LOANS	NET PROFIT
LOANS	Pearson Correlation	1	0.429
	N	5	5
Net profit	Pearson Correlation	0.429	1
	N	5	5

Source: Annual Report of HBL, EBL and NABIL

The table 4.14 presents the correlation coefficient between loans and net profit during study period. The calculated Pearson's Correlation Coefficient was found 0.429, which shows low degree of correlation. It indicates that loans and net profit were found low related with each other. That means, increasing loans helps to increase the net profit whereas decrease in loans decreases in net profit similarly. Coefficient of determination was found to be 0.1840 which indicates that 18.40% of total change in profit has been determined by the loans.

Loans have low influence on net profit of the HBL. Effective loans management helps to increase and stable the net profit of the HBL. No exception is found in case of HBL. Thus, it is logical to review the impact of various components of credit in net profit of the HBL.

Table 4.15

Relation of loans and net profit in NABIL: - Correlation Matrix

		Loans	Net Profit
Loans	Pearson Correlation	1	.508
	N	5	5
Net Profit	Pearson Correlation	.508	1
	N	5	5

Source: Annual Report of NABIL

The table 4.15 presents the correlation coefficient between loans and Net profit during study period. The calculated Pearson's correlation coefficient was found 0.508, which shows moderate degree of correlation. It indicates that loans and net profit were found moderate related with each other. That means, increasing loans helps to increase the net profit whereas increase in loans decreases the net profit. Similarly, coefficient of determination was found to be 0.2581 which indicates that 25.81% of total change in profit has been determined by loans. Loans have moderate influence on net profit of the NABIL Bank. Effective loans management directly affects the net profit of the NABIL Bank. Effective loans management helps to increase and stable the net profit of the NABIL Bank. No exception is found in case of NABIL Bank. Thus, it is logical to review the impact of various components of working on net profit.

Table 4.16

Relation of loans and net profit in EBL: - Correlation Matrix

		Loans	Net Profit
Loans	Pearson Correlation	1	0.938
	N	5	5
Net Profit	Pearson Correlation	0.938	1
	N	5	5

Source: Annual Report of EBL

The table 4.16 presents the correlation coefficient between loans and Net profit during study period. The calculated Pearson's correlation coefficient was found 0.938, which shows high degree of correlation. It indicates that loans and net profit were found highly related with each other. That means, increasing loans helps to increase the net profit. Similarly, coefficient of determination was found to be 0.8798 which indicates that 87.98% of total change in profit has been determined by loans. Loans have high influence on net profit of the EBL. Effective loans management directly affects the net profit of the EBL. Effective loans management helps to increase and stable the net profit of the EBL. Thus, it is logical to review the impact of various components of working on net profit.

4.3 Relationship of Loans and Non-Performing Loans

Effective non-performing loans directly affect the volume of the loan of the HBL. It is regarded as the most important indicator. It helps to increase the risky in loans management of the HBL whereas weak level of non-performing loans is signal of the better performance of the loans management. Thus, it is logical to review the valuation of non-performing loans & loans management.

For the research purpose, the non-performing loan and loan management during study period (5 yrs) are averaged to get non-performing loans and loans variables. After getting non-performing loan and loans, then data are analyzed using Pearson's correlation coefficient. The following table presents the correlation coefficient of the non-performing loan and loans management during study period.

Table 4.17

Relationship between loans and non-performing loans in HBL: Correlation Matrix

		Loans	Non Performing Loan
Loans	Pearson Correlation	1	.934
	N	5	5
Non Performing Loan	Pearson Correlation	.934	1
	N	5	5

Source: Annual Report of HBL

The table 4.17 shows the correlation coefficient between non-performing loan and loans during study period. The calculated Pearson's correlation coefficient was found 0.934, which shows highly positive correlation. It indicates that non-performing loans and loans were found highly related with each other. That means, increasing non-performing loans helps to increase the bad loans whereas decrease in non-performing loan increases the good loans. Similarly, coefficient of determination was found to be 0.8723 which indicates that 87.23% of total change in loans management has been determined by non-performing loans.

Loans management has been highly influenced by non-performing loans. Effective loans management helps to decrease the non-performing loans. No exception is found in cure of HBL. Thus it is logical to review the impact of various components of working in loans management.

Table 4.18

Relationship between loans and non-performing loan in NABIL: Correlation Matrix

		Loans	Non Performing Loan
Loans	Pearson Correlation	1	-.862
	N	5	5
Non Performing Loan	Pearson Correlation	-.862	1
	N	5	5

Source: Annual Report of NABIL

The table 4.18 presents the correlation coefficient between non-performing loan and loans during study period. The calculated Pearson's correlation coefficient was found –0.862, which shows highly, negative correlation. It indicates that non-performing loans and loans were highly negatively related with each other. That means, decreasing non-performance in loans management. Coefficient of determination was found 0.7430 which indicates that 74.30% of total change in loans management has been negatively determined by non-performing loans.

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

Table 4.19

Relationship between loans and non-performing loan in EBL: Correlation Matrix

		Loans	Non-Performing Loan
Loans	Pearson Correlation	1	-.275
	N	5	5
Non-Performing Loan	Pearson Correlation	-.275	1
	N	5	5

Source: Annual Report of EBL

The table 4.19 presents the correlation coefficient between non-performing loan and loans during study period. The calculated Pearson's correlation coefficient was found –0.275, which shows negative correlation. It indicates that non-performing loans and loans were negatively related with each other. That means, decreasing non-performance in loans management. Coefficient of determination was found 0.0756 which indicates that 7.56% of total change in loans management has been negatively determined by non-performing loans.

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

4.4 Impact of Loan and Advances on Net Profit

Loans have high implication for determining net profit. Effective loans directly affect the net profit of the Banks. It means that the net profit of the Banks is largely depended by the loans management. Thus, it is more significance to know the impact of loans in net profit.

To find out the result the five yes data (study period) of net profit, loans are averaged to get a variable of net profit & loans. Thereafter, simple regression analysis is used for computation. The following table presents the regression analysis of the independent variables loans on dependent variables net profit of the NABIL Bank.

Table 4.20

Impact of loan and advance on net profit in NABIL: Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.508	.258	.011	166891506.54138

a. Predictors: (Constant), Loans

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	29098846883752690.000	1	29098846883752690.000	1.045	.382
	Residual	83558324866953600.000	3	27852774955651220.000		
	Total	112657171750706300.000	4			

a. Predictors: (Constant), Loans and advance
b. Dependent Variable: Net Profit

Table 4.20 shows the dependency of Net profit on loans. The calculated R was found 0.508 indicates that there is moderate relationship dependent variable profit on independent variable loans. After considering the error term, the adjusted R square value

was found 0.011, which indicates that 1.1% of the total variation in the dependent variable net profit has been explained by the independent variable loans. Thus, it can be concluded that loans is a strong determinant of net profit. Therefore management of loans should seriously be taken to achieve the goal of the NABIL Bank.

Similarly, ANOVA table shows that the result presented above was not significant at 0.01 levels. The result of net profit volume and volume of loans resulted relatively higher level of 'F' statistics. The lower level of 'F' statistic resulted relatively higher level of significance. Although, it was significantly at overall evaluation, beta coefficient shows that the result of loans was not found significant.

Table 4.21

Impact of loans and advance on net profit in HBL: Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.429	.184	-.088	34275912.56805

a. Predictors: (Constant), Loans

Table 4.22

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	794720202973961.000	1	794720202973961.000	.676	.471
	Residual	3524514547118485.000	3	1174838182372828.000		
	Total	4319234750092446.000	4			

a. Predictors: (Constant), Loans

b. Dependent Variable: Net Profit

Table 4.21shows the dependency of net profit on loans. The calculated R was found 0.429 indicates that there is low positive relationship dependent variable profit on loans. After considering the error term, the adjusted R square value was found –0.088, which indicates that –8.8% of the total variation in the dependent variable net profit has been explained by the loans. Thus, it can be concluded that loans is a strong determinant of net profit. Therefore, management of loans should seriously be taken to

achieve the goal of the HBL.Similarly, ANOVA table shows that the result presented above was not significant at 0.01 levels. The result of net profit volume and volume of loan resulted relatively higher level of 'F' statistic. The lower level 'F' statistic resulted relatively higher level of significance. Although, it was significantly at overall evaluation, beta coefficients show that the result of loans was not found significant.

Table 4.22

Impact of loan and advance on net profit in EBL: Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.938	0.8798	.019	106821516.84637

a Predictors: (Constant), Loans

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8653928297232620.000	1	8653928297232620.000	1.849	0.211
	Residual	1407250607106575.000	3	469083535702191.000		
	Total	10061178904339190.000	4			

a. Predictors: (Constant), Loans and advance
b. Dependent Variable: Net Profit

Table 4.22 shows the dependency of Net profit on loans. The calculated R was found 0.938 indicates that there is highly relationship dependent variable profit on independent variable loans. After considering the error term, the adjusted R square value was found 0.019, which indicates that 1.9% of the total variation in the dependent variable net profit has been explained by the independent variable loans. Thus, it can be concluded that loans is a strong determinant of net profit. Therefore management of loans should seriously be taken to achieve the goal of the EBL. Similarly, ANOVA table shows that the result presented above was not significant at 0.01 levels. The result of net profit volume and volume of loans resulted relatively higher level of 'F' statistics. The lower level of 'F' statistic resulted relatively higher level of significance.

Although, it was significantly at overall evaluation, beta coefficient shows that the result of loans was not found significant.

4.5 Cash Flow Analysis

The cash flows of the banks are grouped into three categories according to the nature of business activities, namely cash flows from operating activities, investing activities and financing activities. These activities show the movements of cash in the three banks. They are summarized in the following table.

4.5.1 Cash Flow Analysis of HBL

The cash flow of HBL from different activities is shown in the following table.

Table No. 4.23

Cash Flow from different Banking Activities of HBL (Rs. in million)

Particulars	Year						
	2002/03	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**
A) Cash Flow from Operating Activities (CFOA)		**345.01**	**453.16**	**652.30**	**589.74**	**636.56**	**725.69**
1. Cash Receipts	**906.44**	**1034.67**	**1242.7**	**1575.25**	**1389.79**	**1454.31**	**1519.62**
1.1 Interest Income	753.97	862.05	1033.66	1326.38	1149.00	1201.23	1245.90
1.2 Commission and Discount Income	71.68	101.98	110.33	125.97	101.70	102.56	123.93
1.3 Exchange Gain	75.78	63.96	87.33	114.22	104.60	109.60	112.42
1.4 Non-Operating Income	0.62	1.06	1.69	2.32	2.45	10.76	3.30
1.5 Other Income	4.39	5.62	9.69	6.35	32.04	30.15	34.08
2. Cash Payments	**(519.92)**	**(689.66)**	**(789.54)**	**(922.95)**	**(800.05)**	**(817.74)**	**(793.93)**
2.1 Interest Expenses	473.79	532.55	593.44	732.69	578.13	554.13	491.54
2.2 Staff Expenses	45.25	47.36	59.88	76.90	101.54	120.15	152.51
2.3 Office Overhead Expenses	0.88	109.75	132.55	113.36	120.38	143.47	149.87
2.4 Exchange Loss	-	-	-	-	-	-	-
2.5 Non-operating Expenses	-	-	-	-	-	-	-
2.6 Other Expenses	-	-	-	-	-	-	-
B) Cash Flow from Investing Activities (CFIA)	**(1862.44)**	**(2644.65)**	**(4346.58)**	**(3673.57)**	**(1524.22**	**(3134.27)**	**(1921.65)**
1.Changes in Balance with Banks	27.38	(302.12)	174.92	537.24	(483.32)	780.12	144.93
2.Changes in Money at Call and Short Notice	(1291.82)	(1978.93)	(556.91)	(625.11)	(3705.30	(202.25)	21.88
3.Changes in Investments	(378.20)	(505.03)	(1747.47)	1866.74	5073.95	1018.33	(883.33)
4.Changes in Loans, Advances ar Bills Purchased	901.20	1022.91	1978.75	1790.62	376.06	1088.12	2136.25
5.Changes in Fixed Assets	9.83	60.71	21.74	31.34	140.90	(65.69)	102.30
6.Changes in Other Assets	91.65	178.94	215.08	72.74	121.94	515.64	202.71
(C) Cash Flow from Financing ctivities(CFFA)	**1756.09**	**2386.96**	**4100.72**	**3019.16**	**1247.30**	**2432.12**	**1073.00**
1.Changes in Borrowings	(264.77)	232.65	(104.00)	(49.12)	454.49	111.83	50.87
2.Changes in Deposits	1874.56	2066.12	4263.38	3489.31	982.53	2388.00	965.25
3.Changes in Bills Payable	3.01	2.12	54.36	(42.90)	29.66	(8.85)	17.65

4.Changes in Other Liabilities	203.29	86.07	277.86	(378.13)	(219.38)	(58.86)	39.22
5.Dividend Paid	-	-	-	-	-	-	-
(D) Net Cash Flow of the Year (A+B+C)	**(6.58)**	**87.32**	**14.01**	**(3.97)**	**312.82**	**(65.59)**	**(122.95)**
(E) Opening Cash Balance	**87.20**	**80.62**	**167.94**	**153.93**	**149.96**	**462.78**	**397.19**
(F) Closing Balance (D+E)	**80.62**	**167.948**	**153.93**	**149.96**	**462.78**	**397.19**	**274.24**

Source: Annual Report of HBL

Above analysis shows the cash inflow and outflow of HBL during seven years study period. Operating activities of HBL is in fluctuating trend. Operating efficiency of this bank is increasing from the year 2006/07 to 2008/09. HBL has the maximum operating activities in year 2008/09.

Investing activities of HBL is increasing from the year 2002/03 to 2004/05. But it fluctuates from the year 2005/06 to 2008/09. HBL has the maximum investment of (Rs.2644.65) million in year 2003/04. By investing more cash in investing activities it can achieve profitable opportunity.

Cash flow from financing activities of HBL is increasing from the year 2002/03 to 2004/05. But the year between 2006/07 and 2008/09, it is fluctuating. HBL has more cash flow from investing activities in year 2004/05 i.e. (Rs.4100.72). It appears cash acquisition efficiency of bank is better in year 2004/05.

Cash flow activities of HBL are also shown by the help of following figure.

4.5.2 Cash Flow Analysis of EBL

The cash flow of EBL from different activities is shown in the following table.

Under analysis table no shows the cash inflow and outflow of EBL. The operating efficiency of EBL is in increasing trend. Cash flow from investing activities is increased from the year 2002/03 to 2005/06. Cash flow from investing activities is maximum in the year 2005/06 i.e. (Rs.1733.48). Cash from financing activities is increasing from the year 2002/03 to 2005/06. But it is fluctuating from the year 2006/07 to 2008/09.

Table No.4.24
Cash Flow from different Banking Activities of EBL
(From 17th July, 2001 to 15th July, 2008)

(Rs. in million)

Particulars	Year						
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
A) Cash Flow from Operating Activities (CFOA)	**33.42**	**36.79**	**58.92**	**105.37**	**131.35**	**138.95**	**273.18**
1. Cash Receipts	**139.24**	**219.46**	**327.25**	**465.51**	**540.93**	**635.33**	**785.06**
1.1 Interest Income	104.20	175.94	267.44	385.02	443.82	520.17	657.25
1.2 Commission and Discount Income	14.73	23.56	25.90	30.56	36.77	61.50	74.33
1.3 Exchange Gain	2.39	3.18	3.50	16.50	45.41	32.21	27.79
1.4 Non-Operating Income	2.56	3.96	1.47	1.39	1.14	1.25	1.87
1.5 Other Income	15.36	12.82	28.94	32.04	13.78	20.20	23.82
2. Cash Payments	**(105.82)**	**(182.67)**	**(268.33)**	**(360.14)**	**(409.58)**	**(496.38)**	**(511.88)**
2.1 Interest Expenses	74.45	118.12	177.89	236.14	257.05	307.64	316.37
2.2 Staff Expenses	7.69	13.39	18.63	26.00	32.19	37.37	48.53
2.3 Office Overhead Expenses	17.48	29.15	42.10	50.45	63.73	71.90	78.96
2.4 Exchange Loss	-	-	-	-	-	-	-
2.5 Non-operating Expenses	3.22	4.13	3.45	3.86	-	-	-
2.6 Other Expenses	2.98	17.88	26.26	43.69	56.62	56.14	68.03
B) Cash Flow from Investing Activities (CFIA)	**(839.24)**	**(764.61)**	**(1529.75)**	**(1733.48)**	**(1455.47)**	**(1543.64)**	**(1670.90)**
1.Changes in Balance with Banks	176.24	168.17	(165.93)	488.16	(300.58)	(577.64)	499.86
2.Changes in Money at Call and Short Notice	-	-	314.68	(170.27)	(153.95)	86.13	(187.45)
3.Changes in Investments	85.66	65.12	387.38	641.61	(791.31)	39.06	(881.68)
4.Changes in Loans, Advances and Bills Purchased	569.49	493.21	905.30	735.58	(1040.25)	(1026.17)	(1051.07)
5.Changes in Fixed Assets	7.85	15.68	14.77	28.17	(65.13)	(38.68)	(20.44)
6.Sales of Fixed Assets	-	-	-	-	0.18	1.09	0.12
7.Changes in Other Assets	38.99	22.43	73.55	28.17	(65.13)	(31.63)	(40.64)
8. Sales of Non-banking Assets	-	-	-	1.36	18.90	4.20	10.40
(C) Cash Flow from Financing Activities(CFFA)	**715.47**	**849.87**	**1082.78**	**1676.69**	**1382.47**	**1364.13**	**1389.82**
1.Changes in Borrowings	(20)	-	-	80	1.77	(81.77)	-
2.Changes in Deposits	653.24	824.04	1108.49	1517.08	892.10	1228.35	1368.94
3.Changes in Bills Payable	9.33	(2.82)	(3.93)	7.77	(9.50)	19.97	(0.07)
4.Changes in Other Liabilities	24.67	27.78	(21.77)	33.38	319.64	238.78	90.48
5.Changes in Share Capital	57.56	0.87	(0.01)	38.46	178.46	4.28	-
6.Share Premium	-	-	-	-	-	6.43	-
7.Dividend Paid	-	-	-	-	-	(51.91)	(69.53)
(D) Net Cash Flow of the Year (A+B+C)	**(8.42)**	**37.42**	**(16.18)**	**68.23**	**58.35**	**(40.55)**	**(7.90)**
(E) Opening Cash Balance	**37.84**	**29.42**	**66.81**	**50.63**	**118.86**	**177.21**	**136.66**
(F) Closing Balance (D+E)	**29.42**	**66.81**	**50.63**	**118.86**	**177.21**	**136.66**	**128.76**

Source: Annual Report of EBL

4.5.3 Cash Flow Analysis of NABIL

The cash flow of NIBL from different activities is shown in the following table.

Table No.4.25

Cash Flow from different Banking Activities of NABIL

(From 17th July, 2001 to 15th July, 2008)

(Rs. in million

Particulars	Year						
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
A) Cash Flow from Operating Activities (CFOA)	**160.02**	**124.11**	**130.43**	**148.41**	**141.46**	**202.78**	**348.06**
1. Cash Receipts	**397.91**	**353.33**	**350.36**	**423.43**	**392.69**	**563.01**	**905.78**
1.1 Interest Income	322.37	296.17	279.86	349.76	326.22	459.51	731.40
1.2 Commission and Discount Income	18.22	17.39	18.35	16.20	16.20	40.81	55.75
1.3 Exchange Gain	53.21	35.27	44.80	51.67	42.86	50.83	87.98
1.4 Non-Operating Income	0.02	0.00	0.11	-	3.10	1.11	13.81
1.5 Other Income	4.09	4.50	7.24	5.80	4.31	10.74	16.84
2. Cash Payments	**(237.89)**	**(229.22)**	**(219.93)**	**(275.02)**	**(251.23)**	**(360.23)**	**(557.72)**
2.1 Interest Expenses	139.80	132.03	115.73	163.43	130.44	189.21	326.20
2.2 Staff Expenses	18.88	20.95	23.25	29.78	36.06	58.43	85.09
2.3 Office Overhead Expenses	64.32	66.43	69.18	71.36	76.06	93.68	120.71
2.4 Exchange Loss	-	-	-	-	-	-	-
2.5 Non-operating Expenses	-	-	-	0.25	-	-	-
2.6 Other Expenses	14.89	9.81	11.77	10.43	8.68	18.91	25.72
B) Cash Flow from Investing Activities (CFIA)	**(704.44)**	**(568.87)**	**(968.61)**	**(1316.28)**	**(4.92)**	**(3967.05)**	**(4333.18)**
1.Changes in Balance with Banks	77.97	98.76	113.77	(45.07)	97.79	(448.16)	(185.98)
2.Changes in Money at Call and Short Notice	680.25	127.84	(38.72)	-	-	(40.00)	(270.00)
3.Changes in Investments	(101.80)	80	(90)	(786.86)	148.12	116.92	(2157.24)
4.Changes in Loans, Advances and Bills Purchased	(35.95)	(262.23)	659.44	(363.04)	(294.68)	(3222.51)	(1416.78)
5.Changes in Fixed Assets	(2.75)	7.48	3.69	(9.27)	(10.50)	(170.79)	(99.21)
6.Changes in Other Assets	86.72	4.37	102.34	(112.03)	64.20	(202.51)	(203.97)
(C) Cash Flow from Financing Activities(CFFA)	**595.90**	**410.56**	**816.16**	**1206.56**	**(156.36)**	**3903.72**	**4099.53**
1.Changes in Borrowings	41.07	(50.00)	90.00	(20.00)	21.50	(91.67)	354.67
2.Changes in Deposits	477.96	(143.32)	544.40	1272.93	(81.45)	3748.00	3601.91
3.Changes in Bills Payable	20.69	(17.68)	(1.27)	(3.67)	1.64	24.81	26.20
4.Changes in Other Liabilities	11.18	-	25.94	(42.70)	(55.05)	222.58	175.80
5.Dividend Paid	45.00	64.78	43.91	-	-	-	(59.06)
(D) Net Cash Flow of the Year (A+B+C)	**12.81**	**(31.88)**	**(14.55)**	**38.70**	**(9.98)**	**139.45**	**114.41**
(E) Opening Cash Balance	**66.42**	**79.24**	**47.35**	**32.80**	**71.50**	**61.52**	**200.97**
(F) Closing Balance (D+E)	**79.24**	**47.35**	**32.80**	**71.50**	**61.52**	**200.97**	**315.38**

Source: Annual Report of NABIL

Above analysis shows that cash flow from operating activities of NABIL is greater in initial year but it is decreasing in year 2002/03 to 2006/07. Cash available for operating activities is maximum in the year 2008/09 i.e. Rs.348.06 million.

Cash flow from investing activities is increasing from the year 2002/03 to 2004/05. But in year 2006/07 cash outflow from investing activities is significantly lower i.e. (Rs.4.92) than other years. In year 2007/08, bank drastically increased its investment activities having an outflow of (Rs.3967.05) million.

NIBL is unable to create cash inflow from financing activities during the year 2006/07. It has outflow of (Rs.156.36) million. Its cash acquisition capacity is maximum in year 2008/09 i.e. Rs.4099.53 million.

4.5.4 Comparative Cash Flow Analysis of HBL, EBL and NABIL

4.5.4.1 Cash Flow Analysis from Operating Activities (CFOA)

Following comparative table shows the cash flow from operating activities and their percentage change.

Table No.4.26

Comparative CFOA of HBL, EBL and NABIL

(Rs. in million)

	Banks					
Year	**HBL**	**% Change**	**EBL**	**% Change**	**NIBL**	**% Change**
2002/03	386.52	-	33.42	-	160.02	-
2003/04	345.01	(10.74)	36.79	10.08	124.11	(22.44)
2004/05	453.16	31.35	58.92	60.15	130.43	5.09
2005/06	652.30	43.94	105.37	78.84	148.41	13.79
2006/07	589.74	(9.60)	131.35	24.66	141.46	(4.68)
2007/08	636.56	7.94	138.95	5.79	202.78	30.24
2008/09	725.69	14.00	273.18	96.60	348.06	71.64

Source: Annual Report of HBL, NABIL and EBL

From the above analysis operating activities of HBL and NABIL are in fluctuating trend whereas EBL has the increasing trend during seven years study period. We observed the more fluctuations in cash inflows of HBL, there is the highest cash inflow of Rs.725.69 million in FY 2008/09 and the lowest cash inflow of Rs.345.07million in FY 2003/04.

In the above analysis we can see the positive as well as negative changes in cash flow from operating activities of HBL and NABIL due to fluctuations in operating activities. Whereas EBL has the positive cash changes due to the increasing trend of cash flow from operating activities. It indicates that EBL operating efficiency is increasing during the study period.

4.5.4.2 Cash Flow Analysis from Investing Activities (CFIA)

Following comparative table shows the cash from investing activities of three banks.

Table No.4.27
Comparative CFIA of HBL, EBL and NABIL
(Rs. in million)

Year	Banks					
	HBL	**% Change**	**EBL**	**% Change**	**NABIL**	**% Change**
2002/03	1862.44	-	839.24	-	704.44	-
2003/04	2644.65	42.00	764.61	(8.89)	568.87	(19.25)
2004/05	4346.58	64.35	1529.75	100.07	968.61	70.27
2005/06	3673.57	(15.48)	1733.48	13.32	1316.28	35.89
2006/07	1524.22	(58.51)	1455.47	(16.04)	4.92	(99.63)
2007/08	3134.27	105.63	1543.64	6.06	3967.05	805.31
2008/09	1921.65	(38.69)	1670.9	8.24	4333.18	9.23

Source: Annual Report of HBL, NABIL and EBL

The investing activities of three banks have incurred cash outflows throughout the study period. In comparison HBL has the highest cash outflow than EBL and NABIL. They all have the cash outflow of fluctuating trend. Study shows that HBL has the highest cash outflow of (Rs.4346.58) million in FY 2004/05 where as NABIL has the lowest cash outflow of (Rs.4.92) million in FY 2006/07. Cash flow from financing activities of three banks in all FYs verifies the fact that there never occurred cash inflow from investing activities.

Considering percentage changes in investing activities of three banks, we observed that the negative and positive cash changes in three banks. It is because of fluctuations in investing activities. We can see the more changes in investing activities of NABIL in the year 2007/08 i.e. 805.31%. It means that NABIL drastically increased its investment in this year in comparison to previous years.

4.5.4.3 Cash Flow Analysis from Financing Activities (CFFA)

Following comparative table shows the cash from financing activities of three banks

Table No.4.28
Comparative CFFA of HBL, EBL and NABIL

(Rs. in million)

Year	Banks					
	HBL	**% Change**	**EBL**	**% Change**	**NABIL**	**% Change**
2002/03	1756.09	-	715.47	-	595.90	-
2003/04	2386.96	35.92	849.87	18.78	410.56	(31.10)
2004/05	4100.72	71.80	1082.78	27.40	816.16	98.79
2005/06	3019.16	(26.37)	1676.69	54.85	1206.56	47.83
2006/07	1247.3	(58.69)	1382.47	(17.55)	(156.36)	(112.96)
2007/08	2432.12	94.99	1364.13	(1.33)	3903.72	(2596.62)
2008/09	1073.00	(55.88)	1389.82	1.88	4099.53	5.02

Source: Annual Report of HBL, NABIL and EBL

The above analysis shows that cash flow of financing activities of three banks is in fluctuating trend. HBL flow more cash for financing activities than EBL and NABIL. It shows that cash acquisition efficiency of HBL is more than other two banks. Alternatively NABIL is unable to create cash inflow from financing activities i.e. (Rs.156.36) million during the year 2006/07. But in year 2007/08 and 2008/09 it flows more cash in financing activities in comparison to preceding years.

In the analysis of proportionate changes of cash flow from financing activities, we observed that all the banks have the positive and negative changes. During the year 2006/07 NABIL is unable to generate cash inflow. Due to this reason NABIL has more proportion of net cash changes than other years.

Cash from financing activities of three banks is also shown by the help of following figure.

4.6 Impact of Non-Performing Loan and Performing Loan on Net Profit

Performing loan and non-performing loan have high implication for determining net profit. Effective performing loan and non-performing loan directly affects the net profit of the organization. It means that the net profit of the organization is largely depended by the performing loan and non-performing loan of the organization. Thus, it is more significance to know the impact of performing loan and non-performing loan in net profit.

To find out the result the five years data (study period) of net profit, performing loan and non-performing loan are average to get a variable of net profit, performing loan & non-performing loan

respectively. Thereafter, linear regression analysis is used for computation .The following table presents the regression analysis of the independent variables performing loans and non-performing loans on dependent variable net profit of NABIL Bank.

Table 4.29

Impact of non-performing loan and performing loan on net profit in NABIL: Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.719	.517	.033	164999289.58986

a. Predictors: (Constant), N.P.LOAN, P.LOAN

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	58207640620387600.000	2	29103820310193810.000	1.069	.483
	Residual	54449531130318700.000	2	27224765565159360.000		
	Total	112657171750706300.000	4			

a. Predictors: (Constant), Loans and Non Performing Loan

b. Dependent Variable: Net Profit

Above table 4.29 shows the dependency of net profit on performing loan and non-performing loan. The calculated R was found 0.719 indicates that there is high positive relationship dependent variable profit on two independent variables performing loans and non-performing loans. After considering the error term, the adjusted R square value was found 0.033 which indicates that 3.3% of the total variation in the dependent variable net profit has been explained by the two independent variables performing loans and non-performing loans. Thus, it can be concluded that performing loans and non-performing loans is strong determinant of net profit. Therefore, management of performing loans and non-performing loans should seriously be taken to achieve the foal of the NABIL Bank.

Similarly, ANOVA table shows that the result presented above was hot significant at 0.01 levels. The result loans and volume of non-performing loans resulted relatively higher level of 'F' statistic. The

lower level of 'F' statistic resulted relatively higher time of significance. Although, it was significantly at overall evaluation beta coefficient shows that the result of performance loans and non-performing loans was not found significant individually.

Table 4.30

Impact of non-performing loan and performing loan on net profit in HBL: Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.810(a)	.657	.313	27232052.48799

a. Predictors: (Constant), Performing Loan and Non Performing Loan

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2836065384675451.000	2	1418032692337725.000	1.912	.343
	Residual	1483169365416995.000	2	741584682708497.000		
	Total	4319234750092447.000	4			

a. Predictors: (Constant), Performing Loan and Non Performing Loan
b. Dependent Variable: Net Profit

Table 4.30 shows the dependency of net profit o performing loan and non-performing loan. The calculate R was found 0.810 indicates that there is high positive relationship dependent variable profit on two independent variables performing loan and non-performing loan. After considering the error term, the adjusted R square value was found 0.313 which indicates that 31.3% of the total variation in the dependent variable net profit has been explained by the two independent variables performing loan and non-performing loan. Thus, it can be concluded that performing loan and non-performing loan is a strong determinant of net profit. Therefore, management of performing loan and non-performing loan should seriously be taken to achieve the goal of the HBL.

Similarly, ANOVA table show that the result presented above was not significant at 0.01 levels. The result of net profit volume, volume of performing loan and volume of non-performing loan resulted relatively higher level of "F" statistic resulted relatively higher level

of significance. Although, it was significantly at overall evaluation, beta coefficient shows that the result of performing loan and non-performing loan was not found significant individually.

Table 4.31

Impact of non-performing loan and performing loan on net profit in EBL: Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.986	.972	.0887	16833281.65705

a Predictors: (Constant), Non-Performing Loan,, Outstanding loan

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9777819532993660.000	3	3259273177664556.000	11.502	.213
	Residual	283359371345527.300	1	283359371345527.300		
	Total	10061178904339190.000	4			

a Predictors: (Constant), Non-Performing Loan, Outstanding loan
b Dependent Variable: Net Profit

In the table (i.e.4.25), the adjusted R square was found to be 0.0887 considering independent variables outstanding loan, non-performing loan and dependent variable net profit. It means that 8.87 percent total variation in dependent variable net profit has been explained by independent variables outstanding loan and non-performing loan. Thus, it can be concluded that outstanding loan and non-performing loan has high influence on net profit volume during the study period. Outstanding loan and non-performing loan can be described as strong determinant for determining of profit.

Similarly, ANOVA table show that the result presented above was not significant at 0.01 levels. The result of net profit volume, volume of performing loan and volume of non-performing loan resulted relatively higher level of "F" statistic resulted relatively higher level of significance. Although, it was significantly at overall evaluation, beta coefficient shows that the result of performing loan and non-performing loan was not found significant individually.

4.7 General Status of Industry Environment in the Selected Banks

General status of industry environment in Selected Nepalese commercial banks Analysis of industry environment in credit management view point indicates the position of bank within the industry with respect to credit management. It is important from credit management view point to find out in which environment bank operates while competitors for the same set of customers by offering more or less identical products and services. It shows that the bank is in a better position to identify its strength and weaknesses or not. Six point Likert type scale was used to gather the information, thus, mean score 4-6 shows voting into positive side while mean score 1-3 shows voting into negative side in certain item. In the same way, standard deviation was also used to know the fluctuation in responses. The high variation of responses indicates that some of the respondents are strongly agree while many others are strongly disagreed. In such situation, it becomes very difficult to make a generalization.

For research purpose, fifteen variables were designed to know the industry environment in respective banks. The following table presents the descriptive results of industry environment in selected banks.

Table 4.32

Descriptive results of industry environment in selected Nepalese Commercial banks

Variables	N	Mean	Std. Deviation
Banking sector has high discretionary power in providing loans	51	4.8824	.47527
Limited number of banks are the source of banking loans	51	4.6667	.55377
There is lack of free and fair competition among bankers	51	4.3137	.46862
Customers have much bargaining power for banking loan interest	51	4.3137	.50952
Promoters can not gent loan from their own bank in Nepal	51	5.2745	.49309
It is very hard to find attractive customer’s project in Nepal	51	5.0980	.64047
Customers have interest groups that can make pressure to loans	51	4.1569	.46358
Very similar schemes of commercial banks created competition	51	4.3137	.50952
There are many substitute of banking loan in today’s context	51	4.1569	.54305
Alternative services are available in banking loans	51	4.3333	.68313
One scheme can substitute another scheme in bank lending sector	51	4.3725	.66214
It is very hard to start open new banks due to heavy investment	51	5.0392	.63121
Registration is also very complex to enter in banking business	51	4.8824	.76543
Nepalese banks utilized high capacity that is barrier for newcomer	51	3.4118	1.18620
Most of the banks have their unique business that no others have	51	3.3333	1.01325
Valid N (list wise)	51	4.4366	

Above table 4.32 shows the clear picture of descriptive result of all the variables of industry environment. The table presents that the most of the items scored above average. Only the item ‘Nepalese commercial banks utilized high capacity that is barrier for newcomer’ and ‘Most of the banks have their unique business that no other have’ scored below the average (i.e. 3.4118 and 3.3333). It indicates the respondents were found relatively disagreed with statement. In the same way, the items ‘Promoters can not get loan from their loan from their own bank in Nepal’, ‘it is very hard to

find attractive customer's project in Nepal' and 'it is hard to start open new banks due to heavy investment' scored the average above 5. It means that the most of the respondents were highly agreed with these statements. It was found that there are no practices to be got loan by the promoters in Nepalese commercial banks, it is very hard to find attractive customer's project in Nepal and it is hard to start up new banks due to heavy investment. And remaining other variables scored above the average indicates that the respondents were found agreement with this statement. Instantly, average mean score of overall result stood as 4.4366, which indicates that general status of industry environment in selected Nepalese commercial banks were found relatively positive.

Likewise, standard deviation of the variables 'Nepalese banks utilized high capacity that is barrier for newcomer' and 'Most of the banks have their unique business that no others have' just above average indicates that the respondents were found relatively high fluctuation in responses in these cases. And the remaining other variables scored below average indicates that the respondents were relatively low level of fluctuation in remaining other cases.

4.7.1 General status of management quality in selected Nepalese commercial banks

Management quality is also the major and important component of credit management. It is being another major statistic to measure the credit management of the banks. High integrity, high competence and high nature of alliance of management directly help to make effective credit management. Thus, it is also logical to review the management quality to know the credit management.

For research purpose, seven variables were designed to assess the management quality in selected Nepalese commercial banks. The following table presents the descriptive statistics of management quality in selected commercial banks

Table 4.33

Descriptive statistics of management quality in selected Nepalese commercial banks

Variables	N	Mean	Std. Deviation
Top level management is skilled or experienced	51	4.8235	.55519
Top level management encourages employee participation	51	4.9020	.50020
Management is successful to understand customers	51	4.5882	.57189
Bank management have good relationship with supplier	51	4.4902	.67446
Management is successful in credit management	51	4.3333	.47610
Top level management is satisfied with credit administration	51	4.6863	.46862
Bank management is able to success to improve credit worthiness	51	4.7451	.48345
Valid N (list wise)	51	4.6527	

The table no 4.33 present the clear picture of result of management quality. The table shows that all the variables designed for study scored above the average, which indicates that the most of the respondents were found agreement with the statements. But in comparison, the respondents were found the highest level of agreement with the statement 'Top level management encourages employee participation' (i.e. 4.9020) and found the lowest level of agreement with the statement 'Management is successful in credit management' (i.e. 4.3333). The remaining other variables appeared in between two. Similarly, the mean score of overall result was found to be 4.6527, which indicates the quality of management in selected Nepalese commercial banks was found to be good. It is also concluded that the result seen above was not found in so satisfactory

level. Thus, management should improve their quality for the effective management of credit.

In the same way, the result also shows that the standard deviation of all the variables stood below the average. It indicates that the responses were not found high fluctuation in responses in above cases.

4.8 Analysis of Variance between the Selected Nepalese Commercial Banks

The differences between the selected commercial banks in variety of variables are to be statistically identified. One-way analysis of variance (ANOVA) is an appropriate tool to find such differences among the group. Present study comprised two group of primary information selected from three different commercial banks. Differences observed among the group were discussed in the above section. It is to be analyzed whether the differences observed in the mean is statistically different or not. The following Table presents 'F' statistics and level of significance. Higher the 'F' statistics and lower the level of significance more chances will be the differences among the groups in case of each variable.

The major and the most important component for credit management are the industry environment and the management quality by which any organization can easily meet its goal. For research purpose, many questionnaires were built to find out the level of industry environment and management quality. It was also found some meaning differences between the respondents of these

banks. Therefore, the researcher tries here to find out the significance of the different between the banks among various items.

Differences observed among the groups and detail analysis was discussed in the above section. It is to be analyzed whether the differences observed in the mean is statistically different or not. 'F' statistics and level of significance presents that higher of 'F' statistics and lower level of significance less than 0.01 prove the significant differences between the selected Nepalese commercial banks. The table presents the 'F' statistics and level of significance between the selected commercial banks.

Table 4.34

Analysis of variance of the variables between the selected banks

Items	F	Sig.
Banking sector has high discretionary power in providing loans	9.482	.003
Limited number of banks are the source of banking loans	4.384	.041
There is lack of free and fair competition among bankers	2.242	.141
Customers have much bargaining power for banking loan interest	1.883	.176
Promoters can not gent loan from their own bank in Nepal	7.065	.011
It is very hard to find attractive customer's project in Nepal	2.636	.111
Customers have interest groups that can make pressure to loans	1.861	.179
Very similar schemes of commercial banks created competition	.066	.799
There are many substitute of banking loan in today's context	.402	.529
Alternative services are available in banking loans	4.512	.039
One scheme can substitute another scheme in bank lending sector	.198	.658
It is very hard to start open new banks due to heavy investment	3.411	.071
Registration is also very complex to enter in banking business	.089	.766
Nepalese banks utilized high capacity that is barrier for newcomer	16.831	.000
Most of the banks have their unique business that no others have	17.137	.000
Top level management is skilled or experienced	.014	.907
Top level management encourages employee participation	1.768	.190
Management is successful to understand customers	.296	.589
Bank management have good relationship with supplier	5.134	.028
Management is successful in credit management	.000	1.000

Top level management is satisfied with credit administration	.836	.365
Bank management is able to success to improve credit worthiness	1.526	.223

The above table 4.34 clearly presents the 'F' statistics and level of significance of the selected items. It shows the significant (High 'F' statistics and less than 0.01 and 0.05 level of significance) differences between the selected commercial banks. The result was not found significant in most of the cases in present data set. Industry environment level was observed by using fifteen items. Among the selected items, three items (i.e. 'Banking sector has high discretionary power in providing loans', 'Nepalese banks utilized high capacity that is barrier for newcomer' and 'Most of the banks have their unique business that no others have') were found significant in 0.01 levels. Similarly, two items (i.e. Limited number of banks are the source of banking loans and Alternative services are available in banking loans) were found in 0.05 levels of significance. And remaining other variables were not found significant different. Therefore, in general, employees from three commercial banks were not found significantly different in terms of industry environment level. In the same way, the management quality was observed by using seven variables. Out of seven variables, only one variable (i.e. Bank management have good relationship with supplier) was found the 0.05 levels of significance. Therefore, in general, the difference observed in mean from three commercial banks in variety of variables in terms of management quality was not found significant different.

4.9 Major Findings of the Study

Present study successfully explored the result to meet the stated objectives of the study and found meaningful. The result showed that a credit practice of EBL was found relatively better in comparison to other two banks because the most of the ratio of credit practices scored the better position in EBL whereas, credit efficiency measurement provides controversial result towards the NABIL and EBL, however it was found better in EBL because most of the ratio designed for the study supported the EBL. The correlation between loan and advance to net profit was found in moderate level in NABIL (i.e. 0.508), low degree in HBL (0.429) and high degree in EBL (i.e.0.938). Likewise, the correlation between loan and non-performing loan was found higher positive degree in HBL (i.e. 0.934), high negative degree in NABIL (i.e. –0.862) and low negative degree in EBL (i.e. -0.275). The impact of loan and advances to net profit and impact of non performing loan and performing loan to net profit was found higher in NABIL and EBL during the study period. Primary information indicated that the industry environment was found positive in selected banks. Likewise management quality was also good in the selected banks. In the same way, Analysis of variance indicated that most of the items designed for the study were not found significant difference at 0.01 levels of significance.

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

ANNEX-2

Secondary Data Analysis

NABIL BANK LIMITED

1. Correlation Coefficient

		Loans	Net Profit	Deposit	P. Loan	N.P. Loan
Loans	Pearson Correlation	1	.508	-.031	.768	-.862
	Sig. (2-tailed)	.	.382	.961	.129	.060
	N	5	5	5	5	5
Net Profit	Pearson Correlation	.508	1	-.584	.435	-.716
	Sig. (2-tailed)	.382	.	.302	.464	.174
	N	5	5	5	5	5
Deposit	Pearson Correlation	-.031	-.584	1	.323	.519
	Sig. (2-tailed)	.961	.302	.	.596	.370
	N	5	5	5	5	5
P. Loan	Pearson Correlation	.768	.435	.323	1	-.535
	Sig. (2-tailed)	.129	.464	.596	.	.353
	N	5	5	5	5	5
N.P. Loan	Pearson Correlation	-.862	-.716	.519	-.535	1
	Sig. (2-tailed)	.060	.174	.370	.353	.
	N	5	5	5	5	5

2. Regression Analysis1

Variables Entered/Removed (b)

Model	Variables Entered	Variables Removed	Method
1	Loans (a)	.	Enter

a. All requested variables entered.

b. Dependent Variable: Net Profit

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.508(a)	.258	.011	166891506.54138

a. Predictors: (Constant), Loans

ANOVA (b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	29098846883752690.000	1	29098846883752690.000	1.045	.382(a)
	Residual	83558324866953600.000	3	27852774955651220.000		

	Total	112657171750706300.000	4			

a. Predictors: (Constant), Loans
b. Dependent Variable: Net Profit

Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	133023501.363	183111667.685		.726	.520
	LOANS	.018	.017	.508	1.022	.382

a. Dependent Variable: Net Profit

3. Regression Analysis 2

Variables Entered/Removed (b)

Model	Variables Entered	Variables Removed	Method
1	N.P.Loan, P.Loan (a)	.	Enter

a. All requested variables entered.
b. Dependent Variable: Net Profit

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.719(a)	.517	.033	164999289.58986

a. Predictors: (Constant), N.P.Loan, P.Loan

ANOVA (b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	58207640620387600.000	2	29103820310193810.000	1.069	.483(a)
	Residual	54449531130318700.000	2	27224765565159360.000		
	Total	112657171750706300.000	4			

a. Predictors: (Constant), N.P.Loan, P.Loan
b. Dependent Variable: Net Profit

Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	617035433.552	1443804674.860		.427	.711
	P.Loan	.020	.159	.073	.126	.911
	N.P.Loan	-.988	.849	-.677	-1.164	.365

a. Dependent Variable: Net Profit

HBL (Himalayan Bank Limited)

1. Correlations

		Loans	Net Profit	Deposit	Performing	Non Performing
Loans	Pearson Correlation	1	.429	.944(*)	1.000(**)	.934(*)
	Sig. (2-tailed)	.	.471	.016	.000	.020
	N	5	5	5	5	5
Net Profit	Pearson Correlation	.429	1	.393	.444	.157
	Sig. (2-tailed)	.471	.	.512	.454	.801
	N	5	5	5	5	5
Deposit	Pearson Correlation	.944(*)	.393	1	.944(*)	.926(*)
	Sig. (2-tailed)	.016	.512	.	.016	.024
	N	5	5	5	5	5
Performing	Pearson Correlation	1.000(*)	.444	.944(*)	1	.927(*)
	Sig. (2-tailed)	.000	.454	.016	.	.024
	N	5	5	5	5	5
Non Performing	Pearson Correlation	.934(*)	.157	.926(*)	.927(*)	1
	Sig. (2-tailed)	.020	.801	.024	.024	.
	N	5	5	5	5	5

* Correlation is significant at the 0.05 levels (2-tailed).
** Correlation is significant at the 0.01 levels (2-tailed).

2. Regression Analysis1

Variables Entered/Removed (b)

Model	Variables Entered	Variables Removed	Method
1	Loans (a)	.	Enter

a. All requested variables entered.
b. Dependent Variable: Net Profit

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.429(a)	.184	-.088	34275912.56805

a. Predictors: (Constant), LOANS

ANOVA (b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	794720202973961.000	1	794720202973961.000	.676	.471(a)
	Residual	3524514547118485.000	3	1174838182372828.000		
	Total	4319234750092446.000	4			

a. Predictors: (Constant), Loans
b. Dependent Variable: Net Profit

Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	163138097.880	91493902.084		1.783	.173
	LOANS	.008	.010	.429	.822	.471

a. Dependent Variable: Net Profit

3. Regression Analysis 2

Variables Entered/Removed (b)

Model	Variables Entered	Variables Removed	Method
1	Perfroming, Non Performing	.	Enter

a. All requested variables entered.
b. Dependent Variable: Net Profit

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.810(a)	.657	.313	27232052.48799

a. Predictors: (Constant), Non-Performing, Performing

ANOVA (b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2836065384675451.000	2	1418032692337725.000	1.912	.343(a)
	Residual	1483169365416995.000	2	741584682708497.000		
	Total	4319234750092447.000	4			

a. Predictors: (Constant), Non-Performing, Performing
b. Dependent Variable: Net Profit

Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	137948873.966	72049946.181		1.915	.196
	PEFROMIN	.039	.020	2.114	1.919	.195
	NONPERF	-.284	.174	-1.803	-1.636	.244

a Dependent Variable: NETPROFIT

Everest Bank Limited

1. Correlation Coefficient

		Loans	Net Profit	Deposit	N.P. Loan
Loans	Pearson Correlation	1	.938(*)	.999(**)	-.275
	Sig. (2-tailed)	.	.018	.000	.654
	N	5	5	5	5
Net Profit	Pearson Correlation	.938(*)	1	.927(*)	-.493
	Sig. (2-tailed)	.018	.	.023	.399
	N	5	5	5	5
Deposit	Pearson Correlation	.999(**)	.927(*)	1	-.251
	Sig. (2-tailed)	.000	.023	.	.683
	N	5	5	5	5
N.P. Loan	Pearson Correlation	-.275	-.493	-.251	1
	Sig. (2-tailed)	.654	.399	.683	.
	N	5	5	5	5

2. Regression Analysis1

Variables Entered/Removed (b)

Model	Variables Entered	Variables Removed	Method
1	Loans (a)	.	Enter

a. All requested variables entered.
b. Dependent Variable: Net Profit

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.938	0.8798	0.019	106821516.84637

a. Predictors: (Constant), Loans

ANOVA (b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	24416179778839391.000	1	2441617977839391.000	1.849	0.211
	Residual	7619560926499800.000	3	2539853642166603.000		
	Total	10061178904339190.000	4			

a. Predictors: (Constant), Loans
b. Dependent Variable: Net Profit

Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	47972154.19	38128779.409		1.258	.297
	LOANS	-.995	1.014	-.493	-.980	.399

a. Dependent Variable: Net Profit

3. Regression Analysis 2

Variables Entered/Removed (b)

Model	Variables Entered	Variables Removed	Method
1	N.P.Loan, P.Loan (a)	.	Enter

a. All requested variables entered.
b. Dependent Variable: Net Profit

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.986	0.972	0.0887	16833281.65705

a. Predictors: (Constant), N.P.Loan, P.Loan

ANOVA (b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9777819532993660.000	3	3259273177664556.000	11.502	0.213
	Residual	283359371345527.300	1	283359371345527.300		
	Total	10061178904339190.000	4			

a. Predictors: (Constant), N.P.Loan, P.Loan
b. Dependent Variable: Net Profit

Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	12813286.051	30907034.764		.415	.750
	P.Loan	-.185	.174	-7.282	-1.063	.480
	N.P.Loan	.220	.185	8.197	1.189	.445

a. Dependent Variable: Net Profit

ANNEX-3

Questionnaire used for Primary Data Analysis

Please read the following statements and circle at the appropriate alternative number that comes closest to your opinion		Strongly disagree	Disagree	Slightly disagree	Slightly agree	Agree	Strongly agree
1	Banking sector has high discretionary power in providing loans	1	2	3	4	5	6
2	Limited number of Banks are the source of banking loans	1	2	3	4	5	6
3	There is lack of free and fair competition among bankers	1	2	3	4	5	6
4	Customers have much bargaining power for banking loan interest	1	2	3	4	5	6
5	Promoters cannot get loan from their own banks in Nepal	1	2	3	4	5	6
6	It is very hard to find attractive customers' project in Nepal	1	2	3	4	5	6
7	Customers have interest groups that can make pressure to banks	1	2	3	4	5	6
8	Very similar schemes of commercial banks created competition	1	2	3	4	5	6
9	There are many substitutes of banking loans in today's context	1	2	3	4	5	6
10	Alternative services are available in banking loans	1	2	3	4	5	6
11	One scheme can substitute another scheme in bank lending sector	1	2	3	4	5	6
12	Its very hard to start open new banks due to heavy investment	1	2	3	4	5	6
13	Registration is also very complex to enter in Banking business	1	2	3	4	5	6
14	Nepalese banks utilized high capacity that is a barrier for newcomer	1	2	3	4	5	6
15	Most of the banks have their unique business that no others have	1	2	3	4	5	6
16	Top level management is skilled or experienced	1	2	3	4	5	6
17	Top level management encourages employee participation	1	2	3	4	5	6
18	Management is successful to understand customers	1	2	3	4	5	6
19	Bank management have good relationship with supplier	1	2	3	4	5	6
20	Management is successful in credit management	1	2	3	4	5	6
21	Top level management is satisfied with credit administration	1	2	3	4	5	6
22	Bank management is able to success to improve credit	1	2	3	4	5	6

	worthiness						

Details of respondents

1. Gender: Female/Male
2. Major Profession
3. Positions or Responsibility:
4. Professional experience (in year)
5. Age (in year)

ANNEX-4

Primary Data Analysis

Frequency Distribution Table

		Gender of respondents	Major profession or department of respondents	Position or responsibility of respondents	Professional experience of respondents	Age of respondents	Name of banks
N	Valid	51	51	51	51	51	51
	Missing	0	0	0	0	0	0

Gender of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	33	64.7	64.7	64.7
	Female	18	35.3	35.3	100.0
	Total	51	100.0	100.0	

Major profession or department of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Customer Service	8	15.7	15.7	15.7
	Credit	10	19.6	19.6	35.3
	Trade, Finance and planning	14	27.5	27.5	62.7
	Marketing	2	3.9	3.9	66.7
	HRM	11	21.6	21.6	88.2
	Treasury	6	11.8	11.8	100.0
	Total	51	100.0	100.0	

Position or responsibility of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Assistant level	8	15.7	15.7	15.7
	Officer level	21	41.2	41.2	56.9
	Manager level	22	43.1	43.1	100.0
	Total	51	100.0	100.0	

Professional experience of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-9 year	42	82.4	82.4	82.4
	10-19 year	9	17.6	17.6	100.0
	Total	51	100.0	100.0	

Age of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20-29 year	14	27.5	27.5	27.5
	30-39 year	34	66.7	66.7	94.1
	40 & above year	3	5.9	5.9	100.0
	Total	51	100.0	100.0	

Descriptive Statistics INDUSTRY ENVIRONMENT

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Banking sector has high discretionary power in providing loans	51	4.00	6.00	4.8824	.47527
Limited number of banks are the source of banking loans	51	4.00	6.00	4.6667	.55377
There is lack of free and fair competition among bankers	51	4.00	5.00	4.3137	.46862
Customers have much bargaining power for banking loan interest	51	3.00	5.00	4.3137	.50952
Promoters can not gent loan from their own bank in Nepal	51	4.00	6.00	5.2745	.49309
It is very hard to find attractive customer's project in Nepal	51	4.00	6.00	5.0980	.64047
Customers have interest groups that can make pressure to loans	51	3.00	5.00	4.1569	.46358
Very similar schemes of commercial banks created competition	51	3.00	5.00	4.3137	.50952
There are many substitute of banking loan in today's context	51	3.00	5.00	4.1569	.54305
Alternative services are available in banking loans	51	2.00	5.00	4.3333	.68313
One scheme can substitute another scheme in bank lending sector	51	3.00	6.00	4.3725	.66214
It is very hard to start open new banks due to heavy investment	51	3.00	6.00	5.0392	.63121
Registration is also very complex to enter in banking business	51	3.00	6.00	4.8824	.76543
Nepalese banks utilized high capacity that is barrier for newcomer	51	2.00	6.00	3.4118	1.18620
Most of the banks have their unique business that no others have	51	2.00	5.00	3.3333	1.01325
Valid N (listwise)	51				

Descriptive Statistics MANAGEMENT QUALITY

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Top level management is skilled or experienced	51	3.00	6.00	4.8235	.55519
Top level management encourages employee participation	51	4.00	6.00	4.9020	.50020
Management is successful to understand customers	51	4.00	6.00	4.5882	.57189
Bank management have good relationship with supplier	51	4.00	6.00	4.4902	.67446
Management is successful in credit management	51	4.00	5.00	4.3333	.47610
Top level management is satisfied with credit administration	51	4.00	5.00	4.6863	.46862
Bank management is able to success to improve credit worthiness	51	4.00	6.00	4.7451	.48345
Valid N (list wise)	51				

Analysis of Variance (ANOVA)

		Sum of Squares	df	Mean Square	F	Sig.
Banking sector has high discretionary power in providing loans	Between Groups	1.831	1	1.831	9.482	**.003**
	Within Groups	9.463	49	.193		
	Total	11.294	50			
Limited number of banks are the source of banking loans	Between Groups	1.259	1	1.259	4.384	***.041***
	Within Groups	14.074	49	.287		
	Total	15.333	50			
There is lack of free and fair competition among bankers	Between Groups	.480	1	.480	2.242	.141
	Within Groups	10.500	49	.214		
	Total	10.980	50			
Customers have much bargaining power for banking loan interest	Between Groups	.480	1	.480	1.883	.176
	Within Groups	12.500	49	.255		
	Total	12.980	50			
Promoters can not gent loan from their own bank in Nepal	Between Groups	1.532	1	1.532	7.065	***.011***
	Within Groups	10.625	49	.217		
	Total	12.157	50			
It is very hard to find attractive customer's project in Nepal	Between Groups	1.047	1	1.047	2.636	.111
	Within Groups	19.463	49	.397		
	Total	20.510	50			
Customers have interest groups that can make pressure to loans	Between Groups	.393	1	.393	1.861	.179
	Within Groups	10.352	49	.211		
	Total	10.745	50			

Very similar schemes of commercial banks created competition	Between Groups	.017	1	.017	.066	.799
	Within Groups	12.963	49	.265		
	Total	12.980	50			
There are many substiturte of banking loan in today's context	Between Groups	.120	1	.120	.402	.529
	Within Groups	14.625	49	.298		
	Total	14.745	50			
Alternative services are available in banking loans	Between Groups	1.968	1	1.968	4.512	***.039***
	Within Groups	21.366	49	.436		
	Total	23.333	50			
One scheme can substitute another scheme in bank lending sector	Between Groups	.088	1	.088	.198	.658
	Within Groups	21.833	49	.446		
	Total	21.922	50			
It is very hard to start open new banks due to heavy investment	Between Groups	1.297	1	1.297	3.411	.071
	Within Groups	18.625	49	.380		
	Total	19.922	50			
Registration is also very complex to enter in banking business	Between Groups	.053	1	.053	.089	.766
	Within Groups	29.241	49	.597		
	Total	29.294	50			
Nepalese banks utilized high capacity that is barrier for newcomer	Between Groups	17.987	1	17.987	16.831	**.000**
	Within Groups	52.366	49	1.069		
	Total	70.353	50			
Most of the banks have their unique business that no others have	Between Groups	13.301	1	13.301	17.137	**.000**
	Within Groups	38.032	49	.776		
	Total	51.333	50			
Top level management is skilled or experienced	Between Groups	.004	1	.004	.014	.907
	Within Groups	15.407	49	.314		
	Total	15.412	50			
Top level management encourages employee participation	Between Groups	.436	1	.436	1.768	.190
	Within Groups	12.074	49	.246		
	Total	12.510	50			
Management is successful to understand customers	Between Groups	.098	1	.098	.296	.589
	Within Groups	16.255	49	.332		
	Total	16.353	50			
Bank management have good relationship with supplier	Between Groups	2.157	1	2.157	5.134	***.028***
	Within Groups	20.588	49	.420		
	Total	22.745	50			
Management is successful in credit management	Between Groups	.000	1	.000	.000	1.000
	Within Groups	11.333	49	.231		
	Total	11.333	50			
Top level management is satisfied with credit administration	Between Groups	.184	1	.184	.836	.365
	Within Groups	10.796	49	.220		
	Total	10.980	50			

Bank management is able to success to improve credit worthiness	Between Groups	.353	1	.353	1.526	.223
	Within Groups	11.333	49	.231		
	Total	11.686	50			

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
ENVIRONM	Between Groups	1.470	1	1.470	59.599	.000
	Within Groups	1.208	49	.025		
	Total	2.678	50			
QUALITY	Between Groups	.172	1	.172	5.735	.020
	Within Groups	1.471	49	.030		
	Total	1.643	50			