PRESENT STATUS OF CREDIT MANAGEMENT OF NEPALESE COMMERCIAL BANKS

(With reference to HBL, NABIL, EBL & NIBL)

By

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RECOMMENDATION

This is to certify that the thesis

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Entitled:

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

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Dr.Shilu Manandhar Bajracharya	**Prof. Bisheshwor Man Shrestha**
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VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis

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And found the thesis to be the original work of the student and written according to the prescribed format. We recommended the thesis to be accepted as partial fulfillment of the requirement for the
Master's Degree of Business Studies (M.B.S.)

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Date: ....

DECLARATION

I hereby declare that the work reported in this thesis entitled "**Present Status of Credit Management of Nepalese Commercial Banks (With reference to Himalayan Bank Ltd., NABIL Bank Ltd., Everest Bank Ltd. and Investment Bank Ltd.)"** submitted to Shankar Dev Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master's Degree in Business Study (M.B.S) under the supervision of Dr. Shilu Manandhar Bajracharya of Shanker Dev Campus.

……………………………..

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ABBREVIATION

A.D.	: Anno Domine
ADB	: Agriculture Development Bank
B.S	: Bikram Sambat
CBs	: Commercial Banks
CD	: Credit-Deposit
Co.	: Company
CV	: Coefficient of Variation
EBL	: Everest Bank Limited
ed.	: Edition
EPS	: Earning Per Share
F/Y	: Fiscal Year
HBL	: Himalayan Bank Limited
i.e.	: That is
JVCBs	: Joint Venture Commercial Banks
Kath.	: Kathmandu
L/C	: Letter of credit
Ltd.	: Limited
Mgmt.	: Management
NABIL	: Nabil Bank Limited
NEPSE	: Nepal Stock Exchange

NGOs	: Non-Governmental Organisations
NIBL	: Nepal Investment Bank Limited
NIDC	: Nepal Industrial Development Corporation
No.	: Number
NPA	: Non-Performing Assets
NPL	: Non-Performing Loan
NRB	: Nepal Rastra Bank
P.	: Page
P.E.	: Probable Error
Pvt.	: Private
Rs.	: Rupees
S.D	: Standard Deviation
SEBO/N	: Security Board Nepal
T.U.	: Tribhuvan University
Vol.	: Volume

CHAPTER- I

INTRODUCTION

1.8 Background of the study

Nepal is a least developed and land locked country situated between the two biggest and highly populated countries India and China. Therefore, Nepal is known as a buffer state. Economically, Nepal is dominated by these countries financial and investing activities. Nepal is one of the very few countries in the world in terms of rich and unique cultural heritage, manifested in its architecture, temples, sculptures, monuments etc. Aside from this, it is also richly gifted with natural resources like vast forests, many perennial rivers and minerals.

Despite of the above natural resources and attributes, Nepal is still a developing country characterized by high population growth rate, low per capita income and low rate of capital formation. Nepal remained in self-imposed isolation for more than a century until it saw the dawn of democracy in 1951. The Nepalese economy relies heavily on short-term domestic debt and highly concession foreign aid loans of long maturity. Many reasons are there for the slow pace of development such as landlocked position, misuse of resources, absence of economic infrastructure, political instability, poor economic policy and institutional weaknesses. For this to overcome, the process of capital accumulation among other perquisites should be enhanced.

As most of the labor forces are unemployed, it is necessary to transform the huge labor force in to industrial sector. Only few percentage of total population is involved in industrial sector and service sector. The economic development of nation is on initial stage. Nepal has adopted mixed and liberal economic policy with the implicit objective to help the state and the private sector. For the economic growth and development, government has now initiated various economic policies such as industrial policy, foreign investment policy, privatization policy and trade and transit policy.

Due to difficulties and lack of infrastructure development of financial sector, the growths of financial sector are badly affected. Domestic crisis create huge problem in development of financial sector in Nepal. Besides that the concept of borderless country took rapid motion in these days. Liberalization, globalization as well as privatization are most common and essential part of investment and other activities in financial sector of Nepal. Prior to the restoration of democracy, when the government has not liberalized its economic policy, there are only few numbers of industries in Nepal. Especially after restoration of the democracy, the concept of the liberalization policies has been incorporated as directive principal and state policies. The open market concept creates several opportunities and threats. Rapid development in information-technology sector is also milestone for increasing investment activities. Thus, competitive environment was formed in national market as well as international market. The liberalization policy attracts foreign investor as well as national investor to invest financial sector and commercial sector, which help to raise the life standard of people.

Capital accumulation plays an important role in accelerating the economic growth of a nation, which in turn is determined among other, by saving and investment propensities. However, the capacity to save in developing countries is quite low with a relative higher marginal propensity of consumption. As a result, such countries are badly entrapped into the vicious circle of poverty. Therefore, the basic problem for the developing countries is in raising the level of saving and thus investments.

The banking sector is largely responsible for collecting household saving in terms of different types of deposit and regulating them in the society by lending different sectors of economy. The different sector has now reached to the most remote areas of the country and has experienced a good deal in the growth of the economy. By lending their resources in the small-scale industries under intensive banking program has enabled the banks to share in the economic growth of the economy.

Banking concept existed even in the ancient period when goldsmiths and the rich people used to issue the common people against the promised of safekeeping of their valuable items on the presentation of the receipt; the depositors would get bank their gold and valuables of the paying a small amount for safekeeping and saving.

Banking institutions are inevitable for the recourse mobilization and all round development of the country. It is necessary for economic development; it maintains economic confident of various segment and extend credit to the people. Bank and banking activities have prominent role in the development of our country. The pace of development of the country grew as bank and its activities gradually developed. The Nepalese financial sector is composed of banking sector and non-banking sector. Banking sector comprises Nepal Rastra Bank (NRB) commercial banks development banks, micro credit development banks, finance companies. Other financial institutions comprise of the insurance companies, employees provident fund, citizens investment trust, co-cooperative financial institutions, nongovernmental organizations (NGOs) performing the limited banking activities postal saving offices and Nepal stock exchange (NEPSE). Nepal bank Limited and Rastriya Banijya Bank were the only commercial banks operating over the last three decades in Nepal before the opening of foreign joint venture banks.

1.2 Origin of Bank in Nepal

The bank helps in uplifting the industry, agriculture and business in the country. It is said to be concerned with the economic development of the country. According to the history, it is found that people of our country have been involved in business and trade since long time back. Though the production of copper utensils had been started during the 7^{th} century, business relationship could not be established with India since India was involved in the production of copper utensil. However, the craft concerned with copper, wood and metal in our country did attract the Chinese and the Tibetan a lot, thus resulting in the establishment of business relationship with China and Tibet.
History relates that Nepal had its own coin since long time back. Since there was no system of having the dates of issuance of the coin it still remains a mystery in our country. However, it has been found that coins have been used in the times of the King

Mandev and King Gunakamadev. The history also states that King Gunakamadev had received loans from the public in the 8^{th} century to renovate "Kathmandu City". By the end of the 8^{th} century, it is said that the businessperson named Shankhadhar Shakha had paid back all the loans taken from the public and since then Nepal Sambat had stated in our country. This tells us that the system of lending money and paying back started long time back in our country.

After the issuance of coins, credit system started in our country. Merchant and big business-men started lending out money based on collateral provided by the creditors and charge them with higher interest rates.

Long back, around the 12^{th} century Sadssivade brought out silver coins that were called ' Daam'. Later on in the 14^{th} century, King Jayasthiti Malla divided the people into 64 castes according to their occupation, amongst which 'TANKADHARI' one is that dealt with the lending of money to the public. Since the main objective of the 'TANKADHARI' was to earn profit, they used to charge people at higher interest rate.
In order to protect people from higher interest rate, Prime Minister Ranadeep Singh established 'TEJARATH ADDA' in the 19^{th} century. The 'TEJARATH ADDA' was responsible for providing loans to the people working in the government offices based on the security and the public based on the collateral they deposited in the 'TEJARATH ADDA' was not to earn profit, it charged its creditors with a low interest rate of 5% per annum. It had no other sources besides the government so it limited in serving a certain area. Again, it was only subjected to lend but did not accept deposits, hence it cloud not be counted as a bank. However, it can be said that 'TEJARATH ADDA' was the main financial institution that led to the development of modern banking system into the country. As a basic need, cottage industries were started in the country thus establishing business relationship with India. When Chandra Shamsher became the Prime Minister of our country in 1980 B.S., a treaty was signed which stated that Nepal could establish business relationship with countries beyond India as well. This led to the need of modern banking system in the country. This led the

establishment of Nepal Bank Limited was established as the first modern bank in our country in B.S. 1994 Kartik 30th according to the Nepal Bank Act 1993. Thus, the year B.S. 1994 is said to be the Golden year for modern banking system in Nepal.

In this way, in 1944 AD, International monetary conference held in Brussels had formally recommended that each country should possesses a central bank of its own. Central bank will control and manages banking activities in the country. Moreover, there will be no direct control of government on it and will be an autonomous institution.

Nepal Rastra Bank as a central bank of Nepal has been established under “Nepal Rastra Bank Act 2012” on 14th Baisakh, 2013 BS to perform the function of the central banking in Nepal.

In 2016 BS, an industrial bank namely Nepal Industrial Development Corporation (NIDC) was established under NIDC act 2016.

Subsequently another fully state owned commercial bank “Rastriya Banijya Bank” was established on 10th Magh, 2022 BS under Rastriya Banijya Bank act 2021 which was the second commercial bank of Nepal.

In 2024 BS Agriculture Development Bank was established under Agricultural Development Bank act 2024 BS.

In 2042 BS, Nepal also adopted liberal free economic policy and allowed to establish Joint venture bank under collaboration with foreign bank as well as on private sector. Only after this, there came the hoard of the commercial banks widening vertically as well horizontally.

1.3 An Overview of Credit Management

Credit is the provision of resources (such as granting a loan) by one party to another party where hat second party does not reimburse the first party immediately, thereby generating a debt, and instead arranges either to p\repay or return those resources (or materials) of equal value at a later date. The fist party is called a Creditor, also known as a ‘Lender’, while the second party is called a Debtor, also known as a ‘Borrower’.
Any movement of financial capital is normally quite dependent on credit, which in turn is dependent on the reputation or creditworthiness of the entity who takes the responsibility for the funds.

The term credit is used similarly in commercial trade, known as “Trade Credit” refers to the approval for delayed payment for purchased goods. Sometimes, credit is not granted to a person who has financial instability or difficult. Companies frequently offer credit to their customers as per-the terms of a purchase agreement. Organizations that offer credit to their customers frequently employ a credit manager. Credit is denominated by a unit of account. Unlike money (by a strict definition), credit itself cannot act as a unit of account. However, many forms of credit are frequently referred to as money and are included in estimates of the money supply.

Credit is also traded in the market. The purest form is the credit default swap market, which is essentially a traded market in credit insurance. A credit default swap represents the price at which two parties exchange this risk-the protection “seller” takes the risk of default of the credit in returns for a payment, commonly denoted in basis (one basis point is 1/100 of a percent) of the notional amount to be referenced, while the protection “buyer” pays this premium and in the case of default of the underlying (a loan, bond or other receivable) delivers this receivable to the protection seller and receives from he seller the par amount (that is made whole). Borrowing money or money equivalent instrument through formal or informal lender is known as credit. Informal Lenders consists traditional type of borrowing (borrowing through Shahu, Mahajan etc) but formal sector consists legally valid procedures. Borrowing through Bank or Financial institution which is established by obeying the government legal framework is known as formal lenders. In this study, researcher will test the credit of formal lenders. In credit rendering process, Bank or Financial Institution follows various guidelines/credit policies, which are provided by NRB as the main directives along with their own credit policies that are made within the boundary o NRB guidelines. The credit policies, that are made within the boundary of NRB guidelines. The credit policy of the bank provides the framework to determine whether or not to extend credit and how much credit and how much credit to be extended. The credit policy decision of a bank has two broad dimensions; credit standard and credit analysis.

Credit Management strongly recommends analyzing and managing the credit risks. Credit risk is defined as he 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 inters banks exposures. The goal of he 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 source of credit risk, however other sources of credit risk exist throughout the activities of a bank, including in the banking book and in the trading book and both on and off balance sheet. Banks are increasingly facing credit risk in various financial instruments other than land including acceptances; inter-bank transactions, trade financing, foreign exchange transactions, guarantees and the settlement of transactions. In Nepalese market various types of loan can be found against gold and silver, loan against first class bank guarantee, loan against mortgage of government security, demand loan, margin lending, overdraft pledge loan hypothecation, auto-loan, personal loan, structure demand loan etc.

In this study credit test will be made on the following headings:

- Sector wise Loans and Advances of Commercial Banks.
- Security-wise Loans and Advances of Commercial Banks.
- Priority and Deprived Sector Loans of Commercial Banks.
- Commercial Banks Loans to Public Enterprises.

1.9 Profile of sample banks

1.9.1 Himalayan Bank Limited (HBL)

Himalayan Bank Limited (HBL) was incorporated in 1992 by a few distinguished business personalities of Nepal in partnership with Employees Provident Fund and Habib Bank Limited, one of the largest commercial bank of Pakistan. Banking operation commenced from January 1993. It is the first commercial bank of Nepal whose maximum shares are held by the Nepalese private sector. Besides commercial banking services, the bank also offers industrial and merchant banking services.
The bank has 27 branches in operation throughout the country. Some new branches are opening soon within & outside the Kathmandu valley.

Himalayan Bank Limited has always been committed to providing a quality services to its customers, with personal touch. All customers are treated with utmost courtesy as valued clients. The bank, wherever possible, offers tailor made facilities to its clients, based on the unique needs and requirements of different clients. To further extend the reliable and efficient services to its valued customers, Himalayan Bank Limited has adopted the latest banking technology. This has not only helped the bank to constantly improve its service level but has also prepared the bank for future adaptation to new technology. The bank already offers unique services such as SME Banking and Internet Banking to customers and will be introducing more services like these in the near future.

Capital Structure of Himalayan Bank Limited

Share Capital as at 2009/10	Amount is Rs.
Authorized Capital	3,00,00,00,000
Issued Capital	1,60,00,00,000
Paid Up Capital	1,60,00,00,000

1.9.2 Nepal Arab Bank Ltd. (NABIL)

Nepal Arab Bank Ltd. (NABIL), the first foreign joint venture commercial bank of Nepal, started operations in July 1984. Nepal Arab Bank Ltd. was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, the bank provides a full range of commercial banking services through its 19 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.
NABIL as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business.

Highly qualified and experienced team of NABIL bank manages day-to-day operations and risk management. Bank is fully equipped with modern technology, which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Banglore, India, Internet banking system and Tele-banking system. NABIL is providing full-fledged commercial banking services to its clients.

From its inception period in 1084 as the first joint venture bank, to commence operations in the Kingdom of Nepal, the bank have been a leader in terms of bringing the very best international standard banking practices, products and services to the kingdom. Today, mission of the bank is to be the “Bank of 1st Choice” to all of its stakeholders and customers. For the customers, it want to be the first choice in meeting all of the financial requirements, for shareholders, it want to be the investment of choice, for regulators, it want to be an example of a model bank, it want to be an outstanding corporate citizen in all the communities, it work in and finally, it want to be the first choice as an employer with whom to build a career. To achieve this mission, it has core set of values by which we live. The values are C.R.I.S.P., i.e. Customer Focused, Result Oriented, Innovative, Synergistic and Professional. They are committed to live our values everyday in everything we do, for it is, these values that make us uniquely NABIL bank.

NABIL is a full service bank providing an entire range of products and services, starting with deposit accounts in local and foreign currency, Visa and Master-Card denominated in rupees and dollars, Visa Electron Debit Cards, Personal Lending Products for Auto, Home and Personal loans, Trade Finance Products, Treasury Services and Corporate Financing. Main aim is to be able to meet customer's entire gamut of financial requirements that is why it prides in being "Your Bank at Your Service".

Capital Structure of Nabil Bank Limited

Share Capital as at 2009/10	Amount is Rs.
Authorized Capital	1,600,000,000
Issued Capital	1,44,91,24,000
Paid Up Capital	1,44,91,24,000

1.4.3 Everest Bank Limited (EBL)

Everest Bank Limited (EBL) started its operations in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer-friendly services through its Branch Network and over 250 correspondent banks across the globe. All the branches of the bank are connected through Anywhere Branch Banking System (ABBS), which enables customers to do all their transactions from any branches other than where they have their account. It has been providing its services through 35 Branches with in the country.

With an aim to help Nepalese citizens working abroad, the bank has entered into arrangements with banks and finance companies in different countries which enable quick remittance of funds by the Nepalese citizens in countries like UAE, Kuwait, Bahrain, Qatar, Saudi Arabia, Malaysia, Singapore and UK.

The bank has been focusing on expanding its operations outside Nepal and has identified some of the emerging economies which offer large business potential. Bank has also set up its representative offices at New Delhi (India) to support Nepalese citizen remitting money and advising banking related services.

Punjab National Bank (PNB), its joint venture partner (holding 20% equity in the bank) is the largest nationalized bank in India With its presence virtually in all the important centers at India, Punjab National Bank has offers a wide variety of banking services which include corporate and personal banking, industrial finance, agricultural finance, financing of trade and international banking. Among the clients of the Bank are Indian conglomerates, medium and small industrial units, exporters, non-resident Indians and multinational companies. The large presence and vast resource base have helped the Bank to build strong links with trade and industry.

Recognizing the value of offerings a complete range of services, it has pioneered in extending various customer friendly products such as Home Loan, Education Loan, EBL Flexi Loan, EBL Property Plus (Future Lease Rental), Home Equity Loan, Vehicle Loan, Loan Against Share, Loan Against Life Insurance Policy and Loan for Professionals.

EBL was one of the first bank to introduce Any Branch Banking System (ABBS) in Nepal. EBL has introduced Mobile Vehicle Banking system to serve the segment deprived of proper banking facilities through its Birtamod Branch, which is the first of its kind.

Capital Structure of Everest Bank Limited

Share Capital as at 2009/10	Amount is Rs.
Authorized Capital	1,25,00,00,000
Issued Capital	1,05,00,00,000
Paid Up Capital	1,03,04,67,300

1.4.4 Nepal Investment Bank Ltd. (NIBL)

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

With the decision of Credit Agrecole Indosuez to divert, a group of companies comprising of bankers, professionals, industrialists and businessmen, has acquired on April 2002 the 50% shareholding of credit Agrecole Indosuez in Nepal Indosuez Bank Ltd.

The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting, Nepal Rastra Bank and Company Register's office with the following shareholding structure.

A group of companies holding 50% of the capital

Rastriya Banijya Bank holding holding 15% of the chapital

Rastriya Beema Sansthan holding the same percentage.

The remaining 20% being held by the General Public (which means that NIBL is a Company listed on the Nepal Stock Exchange)

We believe that NIBL, which is managed by a team of experience bankers and professionals having proven track record, can offer you what you're looking for. We are sure that your choice of a bank will be guided among other things by its reliability and professionalism.

"Its vision is to be the most preferred provider of financial services in Nepal"

To be the leading Nepali bank, delivering world class service through the blending of state-of-the-art technology and visionary management in partnership with competent and committed staff, to achieve sound financial health with sustainable value addition to all our stakeholders. We are committed to do this mission while ensuring the highest levels of ethical standards, professional integrity, corporate governance and regulatory compliance.

Its core values tell it, its customers and the communities it serve, who it really is; what it is about; and the principles by which it pledge to conduct business. In essence, it believes that success can only be achieved by living its core values and principles.

Strategic Objectives

To develop a customer oriented service culture with special emphasis on customer care and convenience.

To increase its market share by following a disciplined growth strategy.

To leverage our technology platform and pen scalable systems to achieve cost-effective operation, efficient MIS, improved delivery capability and high service standards.

To develop innovative products and services that reduce its cost of funds.

To maintain a high quality assets portfolio to achieve strong and sustainable returns and to continuously build shareholders' value.

To explore new avenues for growth and profitability.

The current economic crisis which stemmed partly from reckless risk taking from major financial institution in the United States as well as corporate scandals such as Satyam Computer Services has once again underscored the need for good corporate governance.

At NIBL, it is firmly committed to the highest standards of governance. The Board of Directors ensures that the activities of the Bank are slways conducted with the highest standards and in the best interests of its stakeholders. The Board of Directors continues to ensure that the Bank conducts itself as a model corporate citizen by specifying corporate values for the Bank and stipulating a code of Conduct and Ethics for the employees to ensure that the employees maintain their dignity and integrity and build customer confidence.

The Bank has adopted good corporate governance practices prescribed by the Nepal Rastra Bank as well as other relevant statues such as Companies Act 2006 and Bank and Financial Institution Act 2006. It believe that the trust, confidence and goodwill respond on the bank by the stakeholders and clients is, inter alia, an acknowledgment of good corporate governance practices adopted by the Bank.

Capital Structure of Investment Bank Ltd.

Share Capital as at 2009	Amount is Rs.
Authorized Capital	4,00,00,00,000
Issued Capital	2,40,90,97,700
Paid Up Capital	2,40,90,97,700

1.10Statement of the Problem

Commercial banks in Nepal have been facing various challenges and problems. Some of them arising due to the economic condition of the country, some of them arising due to confused policy of government, some of them arising due to lack of efficient management & far sighted vision of Board of Directors and many of them arising due to default borrowers. After liberalization of economy, banking sector has various opportunities.

However, the financial institutions are increasing regularly which has created Liquidity problem in financial institutions. The banks and financial institutions are competing among themselves to advance credit to limited opportunity sectors. Banks and financial institutions are investing in house loan, hire purchase loan for safety purpose. Lack of good lending opportunities, banking is facing problems of over liquidity. Nowadays, banks have increasing number of deposits in fixed and saving accounts but have decreasing trend in lending behaviors. So, this has caused major problems in commercial banks. Nowadays, due to competition among banks, the interest rate charge for loan is in decreasing trend. Due to unhealthy competition among the banks, the recovery of the banks credit is going towards negative trends.

Non-performing credits of the banks are increasing year by year. To control such type of state, the regulatory body of the banks and financial institutions, NRB has renewed its directives of the credit loss provision. Therefore, it is necessary to analyze the 'credit management' or credit disbursement recovery provision for loss and write off of the credit. As the sample of commercial bank, Himalayan Bank Limited and Nepal Arab Bank Limited has been selected.

The research problems may be stated in the form of following questions:-

- Whether the sample banks have maximum or minimum liquidity?
- What is the volume of contribution made by sample banks in credit and advances?
- What is the deposit collection and utilization trend of sample banks?
- What is relationship of deposits, loan & advances and net profits of sample banks?

1.11Objectives of the study.

It is no doubt that the role of commercial banks is significant in development of the country. Banks help in development of the country by providing credit to the necessary sectors. Therefore, the main objective of this study is to find out the credit management position of Himalayan Bank Limited and Nepal Arab Bank Limited.

The specific objectives of the study are as follows:

- To analyze the volume of contribution made by sample banks in credit & advances.
- To analyze the deposit collection and utilization trend of sample banks
- To study the relationship of deposit, loan & advances and net profit of sample banks.
- To provide suitable and beneficial suggestions based on findings of this study.

1.7 Significance of the study:

At present the joint venture banks are gaining a wide popularity through their efficient management and professional services and playing an eminent role in the economy. Lending is one of the main functions of commercial banks where the whole banking business is rested upon. Study on joint venture commercial bank and especially their lending practices, carry a great significance to shareholders of the bank, to the professionals, to the stuents who wants to about lending practices of commercial banks. This study ads new ideas and findings about the concerned joint venture banks.

This study no doubt will have importance to various groups but in particular is directed to a certain groups of people/organizations, which are:

- Important to shareholders.
- Important to management bodies of he bank for evaluation of bank's performance.
- Important to "outsiders" who are mainly customers, finance agencies, stock exchanges etc.
- Important to the government bodies or the policy makers such as central bank.
- Interested outside parties such as investors, customers (depositors as well as credit takers), competitors, personnel of the banks, stockbrokers, dealers, market makers etc.

1.8 Limitations of the study :

To complete this research , we follow the different books, journals, articles and dissertations. Thus, reliability of the study is based on those things.

This study will not examine the credit management of al listed commercial banks due to lack of time, the study will see only the credit management of 5 commercial banks-Himalayan Bank Limited, NABIL Bank Limited, Everest Bank Limited & Nepal Investment Bank Limited which listed in NEPSE. This study will cover only the past six years period since 2003/04 to 2008/09 (latest 6-year data). To prepare this report, secondary date are collected from annual general meeting (AGM)'s reports of the listed banks and trading reports of NEPSE. Primary information is collected from respective office and related persons. It may not cover the whole qualitative and quantitative analysis of the commercial banks because of time and resource constraints.

The research study has some limitations. The main limitations of the study are as follows:-

- Though, there has been in operation of 26 commercial banks in Nepal, only 5 commercial banks are take for the proposed study.
- This study concentrates only on credit management of selected commercial banks.
- The secondary data will be used for presentation and interpretation. Only a 6-years data will be considered.
- This study is only a case study; hence the conclusion drawn from the study does not ensure wide applicability in all types of enterprise running in different situations.
- Major portion of analysis and interpretation have been done on the basis of available secondary data and information. Thus. reliability of the study is based on trueness of collected data and information.
- In this study, only selected financial and statistical tools as well as techniques are used.

1.9 Organization of the Study:

The whole study is divided into five different chapters. They are:

Chapter I is the introduction chapter. It includes background of the study, profile of the study, statement of the problems, objectives of the study, significance of the study, limitations of the study and chapter plan of the study.

Chapter II deals with review of literatures, which includes conceptual/theoretical review and review of related studies.

Chapter III is research methodology which includes research design, population and sample, sources of data, date collection techniques and data analysis tools.

Chapter IV deals with the various analysis and interpretation of data like analysis of deposits, loan & advances and profits of sample banks, financial and statistical analysis and analysis of primary data. It also shows major findings of the study.

Chapter V includes summary and conclusion of the study. It also deals with recommendations suggested.

The list of bibliography and annexes are given at the last for reference.

CHAPTER-II

LITERATURE REVIEW

The review of literature is a crucial aspect because it denotes planning of the study. The main purpose of literature review is to find out what works have been done in the area of research phenomena under study and what has not been done in the field of research study being undertaken. For review study, the researcher uses different books, reports, journals and research studies published by various institutions, unpublished dissertations submitted by master level students have been reviewed. This part is divided into three headings:

- Conceptual review
- Review of different studies
- Research gap

2.1 Conceptual Review

2.1.1 History and evolution of banking

A bank is an institution, which collects money from those who have it spare or who are moving it out of their income and lends this out to those who required it. According to Indian banking company act 1949, "Banking means accepting for the purpose of lenders and investment of, deposit from the public, repayable on demand or otherwise and withdraw by cheques, draft, order or otherwise."

When the word 'Ban' is used, it is meant for commercial bank. Actually, word of bank was originated from Germany though some people think it to be of French and Italic origin. Before 1460, there was no such word as "banking."

However, in the temple of Babylon, the practices of safeguarding and saving flourished as early as 2000 B.C. Chanakya in his 'Arthashastra' written in about 300 B.C. mentioning about the existence of powerful guilds of merchant's bankers received deposits, advance loans and hundies (letter of transfer).

Ancestors of bank are as follows:

Merchant

Goldsmith

Money Lenders

The origin of the "Bank" is linked to:

Latin word "Bancus"

Italian word "Banco" meaning a bench

French word "Banque"

In the history of banking development, the bank of Casa de San Giorgio was established in 1148 in Genoa. The establishment of the first modern banking institution called "The Bank of Venice" in 1157 AD with a view of financing the monarch in wars was a landmark in the history of Banking. Subsequently, the establishment of "The bank of England" in 1694 AD as the first central bank contributed a great deal to the history of banking. Many countries quickly followed England and established a central bank of their own. But as the central bank is endowed with special rights and authorities, it lacked a direct interaction with the mass. Consequently, soon after, every country felt a pressing need of commercial bank. As a result, modern bank started to take rapid speed in forming & functioning from 17th century.

History apart, it was the "Merchant Bank" who first evolved the system by trading in commodities than money. They used to do their trading activities by remitting the money from one place to another. For this, they used "Hundies." In India such merchant bankers were known as "Seths." The next stage in the growth of banking was goldsmith. His business was to take special precautions against theft of gold & jewelry. An honest goldsmith was also trusted with bullions money and ornaments by merchants in neighborhoods. He started charging for action as custodians of these valuables. As an evidence for receiving valuables he issued a receipt, which in turn became like a cheque as a mode of exchange.

The next stage was the money lenders. He started advancing the coins on loan by charging interest. He started to keep some reserve as a security. In this way the money lenders, goldsmith become a banker who started performing the two functions of modern banking that of accepting deposits and advancing loans.

ORIGIN OF MODERN BANK

1157 AD	Establishment of bank of Venice
1401 AD	Establishment of bank of Barcelona
1407 AD	Establishment of bank of Genoa
1603 AD	Establishment of bank of Amsterdam
1619 AD	Establishment of bank of Haimberg
1694 AD	Establishment of bank of England
1770 AD	Establishment of the bank of Hidustan
1934 AD	Establishment of Nepal Bank Ltd.
1957 AD	Establishment of Nepal Rastra Bank

ORIGIN OF BANK IN NEPAL

Pre-modern banking system is found during the reign of Rana Priminister Ranoddip Singh in 1880 AD. Towards the end of 14th century, Tank Dhari means money lender, were the owner of monitory transaction during the period of Ranoddip Singh established Tejarath. In 1938, state financial institute, which supply credit or loan against security.

Establishment of banking system in Nepal as follows:

14th Century	Introduction of "Tankdhari"
1938 BS	Establishment of "Tejarath Adda"
1994 BS	Establishment of Nepal Bank Ltd.
2013 BS	Establishment of Nepal Rastra Bank
2013 BS	Establishment of Industrial Development Centre
2016 BS	Conversion of Industrial Development Centre into Industrial Development Corporation.
2022 BS	Establishment of Rastriya Banijya Bank
2024 BS	Establishment of Agriculture Development Bank
2041 BS	Nepal Arab Bank Ltd.
2042 BS	Indosuez Bank Limited (Nepal Investment Bank Ltd.)
2043 BS	Nepal Grindlays Bank Limited (Standard Chartered Bank)
2049 BS	Himalayan Bank Ltd.

2.1.2 Meaning of Commercial Bank

Before defining the term commercial bank, let us define the meaning of bank and commercial. According to definition of H.L., a banker or bank is a person or company carrying on the business of receiving money and collecting drafts, for customers subject to the obligation of honoring cheques drawn upon them from time to time by the customers to the extent of the amount available on their customer (*Shekher & Shekher, 1999).*

Commerce is the financial transaction related to selling and buying activities of goods and services. Therefore, commercial banks are those banks, which words from commercial viewpoint. They perform all kinds of banking functions as accepting deposits, advancing credits, credit creations and agency functions. They provide short-term credit, medium term credits and long-term credit to trade and industry. They also operate off balance sheet functions such as issuing guarantee, bonds, letter of credit etc.

Commercial bank acts as an intermediately; accepting deposits and providing credits to the needy area. The main source of the commercial bank is current deposit, so they give ore importance to the liquidity of investment and as such they specialize in satisfying the short-term credit needs of business other than the long-tem. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short-term needs of trade and industry such as working capital financing. They cannot finance in fixed assets. They grant credit in the form of cash credits and overdrafts. Apart from financing, they also render services like collection of bills and cheques, safe keeping of valuables, financial advising, etc to their customers (*Vaidhya, 1999).*

Commercial banks are organized as a joint stock company system, primarily for the purpose of earning profit. They can be either of the branch banking types as we see in most of countries, with a large network branches like in Nepal or of the unit banking type, as we see in the United States where a bank's operations are confined to a single office or to a few branches within a strictly limited area *(Shekher & Shekhar, 1999)*

The commercial banks are those banks that pool together the savings of community and arrange for their productive use. They activate the idle money to the different productive areas. They supply the financial need of modern business by various means. Most of the banks in the world are found established with a view to finance and help in developing trade, industry and commerce. In fact, commercial banks can be defined according to the function they perform. Commercial banks can accept deposits and also provide loan primarily to business firms thereby facilitating the transfer of funds in the economy.

2.1.3 Functions of Commercial Bank

Commercial banks can be defined from the function it performs. Generally, all commercial banks perform following functions:

2.1.3.1 Accepting Deposits:

The main objective of the commercial bank is to collect the deposit. Commercial banks accept the deposit from the public who has surplus funds. Therefore, accepting deposit by banks is the oldest function. A bank accepts deposits in the form of saving, current and fixed deposit.

2.1.3.2 Advancing Loans:

The second major function of commercial bank is providing loan to the needy person. Bank advances the loan against the security to the customer. Advancing loan is also known as the function of the deposit mobilization because bank gives loan to the people from the deposit that it collects from the public. There is various methods of advancing loans, e.g. overdrafts, cash credit, direct loans, discounting bills of exchange, etc.

2.1.3.3 Agency services:

Agency services are those services, which are provided by the banks on benefit of its customer. A commercial bank undertakes the payment of subscription, insurance premium, rent etc and collection of cheques, bills, salaries, pensions, dividends, interest, etc on behalf of the customer. The bank charges the service cost to do these functions to its customers. The commercial banks also arrange the remit money from one place to another by means of cheques, drafts, wire transfer, etc.

2.1.3.3 Credit Creation:

Credit creation is one of the most important functions of the commercial banks. In order to earn profits, they accept deposits and advance loans by keeping a small cash reserve ratio for day-to-day transaction as prescribed by the central bank. When a bank advances a loan, it opens an account to draw money by cheque according to his need, by granting a loan, the banks create credit or deposit.

2.1.3.4 General utility services:

The commercial banks perform certain utility function to its customer. Following are the general utility services provided by the commercial banks:

- Safe keeping of valuables.
- Assist in foreign trade.
- Making venture capital loan.
- Investment banking and merchant banking service.
- Security brokerage service.

2.1.4 Commercial Bank in Nepal

The history of commercial bank in Nepal starts from the establishment of Nepal Bank Limited on 1994 B.S. It is the first bank in Nepal and prior to this, there was no such organized banking system in the country.

As the time passed, Nepal Rastra Bank was established on 2013 B.S. and Rastriya Banijya Bank was established on 20022 B.S. in order to play a major role not only in domestic banking services but also in the foreign trade. After the establishment of these banks, there was progress in the banking industry in Nepal. Today, Nepal can take legitimate pride in the remarkable growth and progress in the banking industry. Nepal has opened its door to foreign commercial banks to operate in the kingdom almost a decade back.

Till 2063 B.S., there are several commercial as well as development banks has been working smoothly in Nepal. They are as follows:

LIST OF COMMERCIAL BANKS

S.N.	Name
1.	Nepal Bank Limited
2.	Rastriya Banijya Bank
3.	Agriculture Development Bank
4.	Nepal Arab Bank Ltd.
5.	Nepal Investment Bank Ltd.
6.	Standard Chartered Bank Nepal Limited
7.	Himalayan Bank Limited
8.	Nepal SBI Bank Limited
9.	Nepal Bangladesh Bank Ltd.
10.	Everest Bank Limited
11.	Bank of Kathmandu Limited
12.	Nepal Credit & Commerce Bank Limited
13.	Lumbini Bank Limited
14.	Nepal Industrial & Commercial Bank Limited
15.	Machhapurchchhre Bank Ltd.
16.	Kumari Bank Limited
17.	Laxmi Bank Limited
18.	Siddhartha Bank Limited
19.	Global Bank Limited
20.	Citizens Bank Int'l Limited
21.	Prime Commercial Bank Limited
22.	Bank Of Asia Nepal Limited
23.	Sunrise Bank Limited
24.	Development Credit Bank Limited
25.	NMB Bank Limited
26.	KIST Bank Limited
27.	Janata Bank Limited

28.	Commerze & Trust Bank Limited
29.	Megha Bank Limited
30.	Civil Bank Limited
31.	Century Bank Limited

Sourch: www.nrb.org.np

2.1.5 Concept of Credit:

Credit administration involves the creation and management of risk assets. The process of lending takes into consideration about the people and system required for the evaluation and approval of loan requests, negotiation of terms, documentation, disbursement, administration of outstanding loans and workouts, knowledge of the process and awareness of its strength and weaknesses are important in setting objectives and goals for lending activities and for allocating available funds to various lending functions such as commercial, installment and mortgage portfolios *(Johnsnon, 1940:132)*

Book named "Banking Management" says that in banking sector or transaction, an unavoidable-ness of loan management and its methodology is regarded very important. Under this management, many subject matters are considered and thought. For example, there are subject maters like the policy of loan flow, he documents of loan flow, loan administration, audit of loan, renewal of loan, the condition of loan flow, the provision of security, the provision of the payment of capital and its interest and other such procedures. This management plays a great role in healthy competitive activities *(Bhandari, 2003: 170)*

It is very important to be reminded that most of the bank failures in the world are due to shrinkage in the value of loan and advances. Hence, risk of non-payment of loan is known as credit risk or default risk *(Dahal, 2002: 114)*

Portfolio management helps to minimize or manage the credit risks by spreading over the risk to various portfolios. This method of managing credit risk is guided by the saying do not put all the eggs in a single basket *(Bhandari, 2004: 300)*
Credit is a amount of money lent by the creditor (bank) to the borrower (customers) either on the basis of security or without security. Sum of the money lent by a bank is the credit *(Oxford advanced learners Dictionary, 1992: 279)*

Credit and advances is an important item on the asset side of the balance sheet of a commercial bank. Bank earns interest on credits and advances, which is one of the major sources of income for banks. Bank prepares credit portfolio, otherwise it will not only add bad debts but also affect profitability adversely *(Varshney and Swaroop, 1994: 6).*

Credit is financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for an obligation of repay on specified date on demand.
Banks generally grants credit on four ways: *(Chhabra, and Taneja, 1991: 4)*

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

The basic purpose of a commercial bank is to maximize the shareholders' wealth by accepting deposits and granting loans in the society. In order to give maximum return to shareholders, the bank is required to invest most of its fund in loans and advances, risky assets. Consequently, a clear and sound loan credit policy is a must for the safety of depositors fund and adequate return to shareholders. Credit policy can be defined as the decision made in advance about the management of credit.

Credit is the vital and the most important activity in the bank, next only to deposit mobilization. It is the activity that generates the main income stream for the bank. The activity should therefore be pursued with the utmost professionalism conservation and circumspection. Banks should develop and implement policies and procedures to ensure that the credit portfolio is adequately diversified given the bank's target markets and overall credit strategy. In particular, such mixes as well as set exposure limits on single counter parties and groups of connected counters parties, particular industries or economic sectors, geographic regions and specific products. Banks should ensure that their own internal exposure limits imply set by the banking supervisors. Credit policies establish the framework for lending and guide the credit granting activities of the bank.

2.1.6 Types of Credit

2.1.6.1 Overdraft

It denotes excess amount withdrawn over their deposits.

2.1.6.2 Cash Credit

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

2.1.6.3 Direct Credit

2.1.6.3.1 Term credit

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

The bank credit with maturities exceeding 1 year is called term credits. The firm agrees to pay interest based on the bank's prime rate and to repay principal in the regular installments. Special patterns of principal payments over time can be negotiated to meet the firm's special needs *(Richard, 1996: 80)*

2.1.6.3.2 Working capital credit.

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

2.1.6.3.3 Priority or deprived sector credit.

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

- Advance to poor/downtrodden/weak/deprived people up to Rs.30,000 for generating income or employment.
- Institutional credit to rural development bank.
- Credits to NGOs those are permitted to carryout banking transactions for lending up to Rs. 30,000.

2.1.6.3.4 Hire purchase financing (Installment credit)

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

2.1.6.3.5 Housing credit (Real estate credit)

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

2.1.6.3.6 Project credit

Project credit is granted to the customers as per project viability. The borrowers have to invest certain proportion to the project from their equity and the rest will be financed as project credit. Construction credits are short-term credits made to developers for the purpose of completing proposed projects. Maturities on construction credits range from 12 months to as long as 4 to 5 years, depending on the size of the specified project *(Johnson, 1940: 242).* The basic guiding principle involved in disbursement policy is to advance funds corresponding to the completion stage of the project. Hence, what percent of the credit will be disbursed at which stage of completion must be spelled in disbursement policy. Term of credit needed for project fall under it.

2.1.6.3.7 Consortium credit:

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

2.1.6.3.8 Credit cards and revolving lines of credit

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

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

2.1.6.3.9 Off-balance sheet transaction

In fact, bank guarantee and letter of credit refer to off balance sheet transaction of financial institution. It is also known as contingent liability. Contingent liability pinpoints the liability, which may or may not arise during the happening of certain event. Footnotes are kept as reference to them instead of recording in the books of accounts. It is non-funded based remunerative facilities but more risky than the funded until adequate collateral are not taken. Lets its two varieties be described separately.

2.1.6.3.10 Bank guarantee

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

2.1.6.3.11 Letter of credit (L/C)

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

2.1.6.3.12 Discounting of bills.

It is the main function of commercial banks. Discounting of bill means made payment of bills, which are issued by commercial banks as well as central bank, NRB, before their expiration date or matured time. Therefore, payment should be less than total amount because of their uncertainty.

2.1.7 Objectives of credit policy

The credit policy should be carefully established, properly communicated to the lending officers and implemented effectively by the lending officers. The basic objective of credit policy is to maintain effective credit management and control over it. Moreover, it is specified as follows:

a) To have a good assets

Loans are the risky assets though a bank invests the most of its resources in granting loans and advances. The increasing of non-performing loan causes the non-existence of banks. It is the very quality of assets that led bankruptcy of many banks in South East Asia. The objective of sound loan policy is to protect depositors' interest and maximize returns to the shareholder by striking a balance between liquidity and profitability.

b) To contribute to economic development

A sound credit policy is required to ensure that the loans are given to the productive sector, which contributes to capital formulation and employment generation.

c) To give guidance to lending officials

A borrower should be assured that there would be no discrimination whether he deals with one officer or another. A sound credit policy is imperative to achieve a uniform standard procedure throughout the organization.

d) To establish a standard for control

Every policy requires periodic follow-up to ensure its proper implementation. A sound credit policy helps to determine the variance between actual performance and practices and to take corrective actions. A sound policy is always flexible and works as a guideline. If the variation between the practice and policy is observed, proper education to lending officer or amendment of the policy will become inevitable.

2.1.8 Principle of credit policy

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

a) **Principle of safety fund: B**anks should look the fact that is there any unproductive or speculative venture or dishonest behavior of the borrower.

b) **Principle of liquidity:** Liquidity refers to pay on hands on cash when it needed without having to sell long-term assets at loss in unfavorable market *(American Institute of Banking, 1972: 149).* A banker has to ensure that money will come in as on demand or as per agreed terms of repayment.

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

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

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

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

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

2.1.9 Key characteristics of credit policy

Every policy has its own characteristics. The credit policy has the following characteristics:

a) Approved by top management

The credit policy is always prepared by the top management of an institution and is approved by the board of directors. It may be revised time to time.

b) Practical and manageable

The credit policy, prepared by the bank is not for theoretical rather it is for practical and manageable to apply.

c) Flexibility

Rigid credit policy is not practical. It has to be flexible according to the demand of customer.

d) Compliance

Credit policy is compliance with NRB policy as well as economic, political condition of the country.

2.1.10 System and procedures of credit policy

A sound credit policy interact all the areas of credit effectively that ultimately helps to operate the organization successfully. Basically, a bank has to follow the following system and procedures in credit policy.

a) Credit origination

Banks must operate within a sound and well-defined criteria for new credit as well as the expansion of existing credits. The credits should be extended within the target markets and lending strategy of the institution. Before allowing a credit facility, the banks must make an assessment of risk profile of the customer transaction. This may include:

i. Credit assessment of the borrower's industry, and macro economic factors.

ii. The purpose of credit and source of repayment.

iii. The track record/repayment history of borrower.

iv. Assess/evaluate the repayment capacity of he borrower.

v. The proposed terms and conditions and covenants.

vi. Adequacy and enforceability of collaterals.

vii. Approved form appropriate authority.

In case of new relationships, consideration should be given to the integrity and repute of the borrowers or counter party as well as its legal capacity to assume the liability. Prior to entering into any new credit relationship, the bank must become familiar with the borrower or counter party and be confident that they are dealing with individual or organization of sound repute and cordite worthiness. However, a bank must not grant credit simply on the basis of the fact that the borrower is perceived to be highly reputable, i.e. name lending should be discouraged.

While structuring credit facilities institutions should appraise the amount and timing of the cash flows as well as the financial position of the borrower and intended purpose of the funds. It is utmost important that due consideration should be given to the risk reward trade-off in grading a credit facility and credit should be priced to cover all embedded costs. Relevant terms and conditions should be laid down to protect the institution's interest.

Institutions have to make sure that the credit is used for the purpose it was borrowed. Where the obligor has utilized funds for purposed not shown in the original proposal, institutions should take steps to determine the implications on creditworthiness. In case of corporate loans where borrower own group of companies such diligence becomes more important. Institutions should classify such connected companies and conduct credit assessment on consolidated/group basis.

In loan syndication, generally the lead institution does most of the credit assessment and analysis. While such information is important, institutions should not over rely on that. All syndicate participants should perform their own independent analysis.

Institution should not over rely on collaterals/covenant. Although the importance of collaterals held against loan is beyond any doubt, yet these should be considered as a buffer providing protection in case of default, primary focus should be on obligor's debt servicing ability and reputation in the market.

b) Limit setting

An important element of credit risk management is to establish exposure limits for single obligors and group of connected obligors. Institutions are expected to develop their own limit structure while remaining within the exposure limits set by the central bank (i.e. Nepal Rastra Bank). The size of the limits should be based on the credit strength of the obligor, genuine requirement of credit, economic conditions and the institution's risk tolerance. Appropriate limits should be set for respective products and activities. Institutions may establish limits for a specific industry, economic sector or geographic regions to avoid concentration risk.

Sometimes, the obligor may want to share its facility limits with its related companies. Institutions should review such arrangements and impose necessary limits if the transactions are frequent and significant.

Credit limits should be reviewed regularly at least annually or more frequently if obligor's credit quality deteriorates. All requests of increase in credit limits should be substantiated.

c) Credit administration

Ongoing administration of the credit portfolio is an essential part of the credit process. Credit administration function is basically a back office activity that support and control extension and maintenance of credit. A typical credit administration unit performs following function:

i) **Documentation:** It is the responsibility of credit administration to ensure completeness of documentation (loan agreements, guarantees, transfer of title of collaterals etc) in accordance with approved terms and conditions. Outstanding documents should be tracked and followed up to ensure execution and receipt.

ii) Credit disbursement: The credit administration function should ensure that the loan application has proper approval before entering facility limits into computer systems. Disbursement should be affected only after completion of covenants and receipt of collateral holdings. In case of exceptions necessary approval should be obtained from competent authorities.

iii) Credit monitoring: After the loan is approved and drawn down allowed, the loan should be continuously watched over. These include keeping track of borrowers' compliance with credit terms, identifying early signs of irregularity, conduction periodic valuation of collateral and monitoring timely repayments.

iv) Loan repayment: The obligors should be communicated ahead of time as and when the principal/markup installment becomes due. Any exceptions such as non-payment or late payment should be tagged and communicated to the management. Proper records and updates should also be made after receipt.

v) Maintenance of credit files: Institutions should devise procedural guidelines and standards for maintenance of credit files. The credit files not only include all correspondence with the borrower but should also contain sufficient information necessary to assess financial health of the borrower and its repayment performance. It need not mention that information should be filed in organized way so that external / internal auditors or NRB inspector could review it easily.

vi) Collateral and security documents: Institution should ensure that all security documents are kept in a fireproof safe under dual control. Registers for documents should be maintained to keep track of their movement. Procedures should also be established to tack and review relevant insurance coverage for certain facilities/collateral. Physical checks on security documents should be conducted on a regular basis.

2.1.11 Credit monitoring and control

Credit risk monitoring refers to incessant monitoring of individual credits inclusive of off-balance sheet exposures to obligors as well as overall credit portfolio of the bank. Banks need to enunciate a system that enables them to monitor quality of the credit portfolio of day-to-day basis and take remedial measures as and when any deterioration occurs. Such a system would enable a bank to ascertain whether loans are being serviced as per facility terms, the adequacy of provisions, the overall risk profile is within limits established by management could fine tune or reassess its credit strategy/policy accordingly before encountering any major setback. The banks credit policy should explicitly provide procedural guideline relating to credit risk monitoring. At the minimum it should lay down procedure relating to:

i. The roles and responsibilities of individuals responsible for credit risk monitoring.
ii. The assessment procedures and analysis techniques (for individual loans & overall portfolio)

iii. The frequency of monitoring

iv. The periodic examination of collaterals and loan covenants.

v. The frequency of site visits.

vi. The identification of any deterioration in loan.

a) Financial position and business condition

The most important aspect about an obligor is its financial health, as it would determine its repayment capacity. Consequently institutions need carefully watch financial standing of obligor. The key financial performance indicators on profitability, equity, leverage and liquidity should be analyzed. While making such analysis due consideration should be given to business/industry risk, borrowers' position within the industry and external factors such as economic condition, government policies, and regulations. For companies whose financial position is dependent on key management personnel and / or shareholders, for example, in small and medium enterprises, institutions would need to pay particular attention to the assessment of the capability and capacity of the management / shareholders.

b) Conduct of accounts

In case of existing obligor the operation in the account would give a fair idea about the quality of credit facility. Institutions should monitor the obligor's account activity, repayment history and instances of excesses over credit limits. For trade financing, institutions should monitor the cases of repeat extensions of due dates for trust receipts and bills.

c) Loan covenants

The obligor's ability to adhere to negative pledges and financial covenants stated in the loan agreement should be assessed and any breach detected should be addressed promptly.

d) Collateral valuation

Since the value of collateral could deteriorate resulting in unsecured lending, banks need to reassess value of collaterals in periodic basic. The frequency of such valuation is very subjective and depends upon nature of collaterals. For instance loan granted against share need revaluation on almost daily basis whereas if there is mortgage of a residential property the revaluation may not be necessary as frequently. In case of credit facilities secured against inventory or goods at the obligor's premises, appropriate inspection should be conducted to verify the existence the valuation of the collateral.

External rating and Market Price of securities purchased as a form of lending or long-term investment should be monitored for any deterioration in credit rating of the issuer, as well as large decline in market price. Adverse changes should trigger additional effort to review the creditworthiness.

2.1.12 Managing credit problems

The institution should establish a system that helps to identify problem loan ahead of time when there may be more options available for remedial measures. Once the loan is identified as problem, it should be managed under a dedicated remedial process.

A bank's credit risk policies clearly set out how the bank will manage problem credits. Banks differ on the methods and organization they use to manage problem credits. Responsibility for such credits may be assigned to the originations business function, a specialized workout section or a combination of the two, depending upon the size and nature of the credit and the reason for its problems. When a bank has significant credit-related problems, it is important to segregate the workout function from the credit origination function. The additional resources, expertise and more concentrated focus of a specialized workout section normally improve collection results.

A problem loan management process encompass following basic elements:

a) Negotiation and follow-up

Proactive effort should be taken in dealing with obligors to implement remedial plans, by maintaining frequent contact and internal records of follow-up actions. Often rigorous efforts made at an early stage prevent institutions form litigations and loan loses.

b) Workout remedial strategies

Sometimes appropriate remedial strategies such as restructuring of loan facility, enhancement in credit limit or reduction in interest rates help improve obligor's repayment capacity. However it depends upon business condition, the nature of problems being faced and most importantly obligor's commitment and willingness to repay the loan. While such remedial strategies often bring up positive results, institutions need to exercise great caution in adopting such measures and ensure that such a policy must not encourage obligors to default intentionally. The institution's interest should be the primary consideration in case of such workout plans it needs not mention here that competent authority, before their implementation, should approve such workout plan.

c) Review of collateral and security document

Institutions have to ascertain the loan recoverable amount by updating the vlues of available collateral with formal valuation. Security documents should also be reviewed to ensure the completeness and enforceability of contracts and collateral guarantee.

d) Status report and review

Problem of credit should be subject to to more frequent review and monitoring. The review should update the status and development of the loan accounts and progress of the remedial plans. Progress made on problems loan should be reported to the senior management.

2.1.13 Lending criteria

While screening a credit application, 5Cs to be first considered supported by documents.

2.1.13.1. Character

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

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

2.1.13.2. Capacity

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

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

2.1.13.3. Capital

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

2.1.134. Collateral

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

2.1.13.5. Conditions

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

2.1.14 Project appraisal

Before providing credit to the customer, bank makes analysis of project from various aspects and angles. It will help the bank to see whether project is really suitable to invest. The purpose of project appraisal is to achieve the guarantee of reasonable return from the project. Project appraisal answers the following questions:

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

Generally, the project appraisal involves the investigation from the following

- Financial aspect
- Economic aspect
- Management/Organizational aspect
- Legal aspect

Directives issued by NRB for the commercial bank (Related to credit aspect only)

a) Credit classifications and provisioning

Classification	Provisions
1. Pass Credit	1%

2. Sub Standard Credit	25%
3. Doubtful Credit	50%
4. Bad Debt	100%

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

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

The credit loss provision for performing credit is termed as general credit loss provision whereas the credit loss provision for non-performing credit is termed as specific credit loss provision.

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

b) Limits of Credit and Advances in a Particular Sector:

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

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

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

2.1.15 Steps of lending process

Commercial bank issue loans but before issuing loans, they follow some steps of lending process. Bank has certain process for providing loans. When an individual or organization needs capital for doing certain works, then they search for loans and bank is the only one reliable and economic source of loan and advances. So, bank imposes following process for providing loans.

a) Loan application

When a person need loan then he/she ask the loan procedure in the bank. If all the process and information is reasonable, then he/she makes loan application. It is also called loan proposal. For big business loan, it is appropriate to talk with loan officer. Loan officer can also contact to big account holder possessing business organization and ask it they are in need of loan. In developed country's bank, themselves search for probable debtors. Banks make report of economic activities and when they found god customers they contact with them and ask for loan necessity.

b) Loan interview

Second process involves the loan interview of applicants who apply for the loan. This interview helps to find out the loan applicant's nature, i.e. habit, obedient. Bank also collects information about the purpose.

2.1.16 Need of credit policy in commercial bank

In bank fund management, he cost of handling is, of course, as important as the availability of funding. Competition, deregulation, economic conditions and increased sophistication in money management on the part of retail and wholesale depositors have increased the cost of bank fund tremendously.

Making an unsecured loan involves taking a risk and losses on some loans are to be expected. Commercial banks are increasingly facing credit risk (or counter party risk) in various financial instruments other than loans, including acceptances, financial futures, swaps, bonds, equities, options, and in the settlement of transactions. Thus, the need of credit policy is the most, as the banks should always try to mitigate the risk related to the loan provided. Steps that banks can take to limit loan losses include obtaining sufficient information on loans and borrowers as well as establishing an internal system of loan review in addition to the loan reviews of regulatory agencies. Banks can also affect or offset credit risk in their loan portfolios by watching the business cycle, varying loan rates against the degree of risk and recognizing risk in loan concentration. Although specific credit risk policy and practices may differ among banks depending upon the nature and complexity of their credit activities, a comprehensive credit risk management program should address the following areas:

i) Establishing an appropriate credit risk environment,

ii) Operating under a sound credit granting process,

iii) Maintaining an appropriate credit administration, measurement and monitoring process.

iv) Ensuring adequate controls over credit risk.

Credit risk is a factor in all loans, but to varying degrees. Bank should recognize this variability by matching loan rates to risk. A bank that charges the same rates for many types of loan is not receiving adequate compensation for its riskier loans. In comparison a loan's total yield to its risk, a bank also should consider any supporting deposit balances required in conjunction with the loan and may also want to consider other profitability generated from the customer's relationship with banks *(Basel Committee Consultative Paper, 1999).*

2.1.17 Types of credit policy in selected banks

There is a single combined credit policy as a whole and to have better control over the risk assets of the bank, the credit policy is sub divided into:

i) Business banking

Large and small-scale industries (i.e. large business houses & small houses) run by the individual come under business banking. The credit policies in this section are:

a) Corporate customer credit policy

b) Small business loan policy

ii) Consumer banking

The loan provided to personal interest and benefits comes under consumer banking. The credit policies in this section are:

a) Home Loan Policy

b) Auto Loan Policy

c) Travel Loan Policy

d) Education Loan Policy

2.2.1 Review of Relevant NRB Directives

NRB is the leader of money market. It is the chief of all the banks operating in the country. It supervises, regulates and controls the functions of commercial banks and others financial institution. NRB has issued various directives to supervise and control commercial banks.

Need of NRB Directives

Nepal Rastra Bank Act, 2002 granted the central bank full independence in the pursuit of its mandate. It is the duty if independent central bank to be transparent and to communicate. Nepal Rastra Bank's Act 2002 mentioned its rele at preamble "whereas it is expedient to establish Nepal Rastra Bank to function as the central bank to formulate necessary monetary and foreign exchange policies, to maintain the stability of price, to consolidate balance of payment for sustainable development of the economy of the kingdom of Nepal, and to develop a secure, healthy and efficient system of payment, to appropriately regulate, inspect and supervise in order to maintain the stability and healthy development of banking and financial system, and for the enhancement of public credibility towards the entire banking and financial system of country".

To fulfill the theme that mentioned on its preamble of Act, 2002 the Act, 2002 chapter 2 section 4 defined the objective of Nepal Rastra Bank. Objective (d) and (e) are related to manage bank and financial system, which are as follows:

- To regulate, inspect supervise and monitor the banking and system.
- To promote the entire banking and financial system of the kingdom of Nepal and to enhance its public credibility.

To fulfill objective as a central bank Nepal Rastra Bank issue various directives. Banking business is changing day by day not only from the external element but

also within the bank. It is also observed from different element of the society that banking in Nepal is not being operated in such a manner to deserve sufficient public confidence. It is also not operated with due consideration of its long-term financial health. This environment in banking business is not only the challenge to the individual bank but also a big challenge to banking and financial as a whole and more to the central bank of the country. In order to safeguard from future damage on the banking sector and to have a healthy competition with the banking sector, new directive on code of ethics may help a lot this banking industry.
Some of the relevant directives are as follows:

Directive No. 1: "Regulation to maintain minimum capital fund by the commercial bank as per NRB Directive"

Fund required on the basic of weighted risk assets

S.N	**Time Table**	**Core Capital in percent**	**Capital Fund percent**
1.	F/Y 2058/2059	4.5	9
2.	F/Y 2059/2060	5	10
3.	F/Y 2060/2061 onwards	6	12

Directive No. 2

"Loan classification and loan loss provision"

Loan should be classified into four categories.

Pass

Loans and advances whose principle amount are past due and past due for period up to three months should be included in this category. These are classified and as performing loans.

Sub-Standard

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

Doubtful

All loans and advance that are due for a period of six month to one year should be including on this category.

Loss

Loans and advance, which are due for a period of more than one year as well as advance, which have least possibility of even partial of even partial recovery in future should be included in this category.

Loan and advance under the currently existing arrangement are classified on the basic of time table. Which are as follows.

For FY 2001/2002

Pass: Loans not past due and past due up to three months.

Sub-Standards: Loans and advances past due for a period of three months to one year.

Doubtful: Loans and advances past due for a period of one year to three years.

Loss: Loans and advance past due for period of over three year.

For F/Y 2002/2003

Pass: Loans not past due up to three months.

Sub-Standard: Loans and advance past due for period of three months to one year.

Doubtful: Loans and advance past due for a period of over one year.

Loss: Loans and advance past due for a period of over three year.

For F/Y 2003/2004

Pass: Loans not due and past due up to three months.

Sub-Standard: Loans and advance past due for a period of three months to nine months.

Doubtful: Loans and advance past due for a period of over nine months to two years.

Loss: Loans and advance past due for a period of over two years.

For F/Y 2004/2005 onwards

Pass: Loans not past due and past due up to three months.

Sub-Standard: Loans and advances past due for a period of over three months to six months.

Doubtful: Loans and advance past due for a period of over six months to one year.

Loans should be classified as loss in the following cases.

No securities or securities not as per contract.

Borrower has been declared bankrupt.

In the case of borrower not found.

Purchased or discounted bills are not repayable within 90 days from the due date.

Loans amount has not been used for taken purpose.

Blacklisted borrowers

Loan loss provision

The loan loss provision on the basis of outstanding loans and advances and bills purchased classified as per this Directives. This is as follows:

Classification of Loans	Loan Loss Provision
Pass	1.0%
Sub-Standard	25.00%
Doubtful	50%
Loss	100%

Bank can reschedule and restructuring loan if non-performing loan receiving submit the External/internal reasons. Insured priority sector credit and deprived
sector credit will have to be provisioned at 25% of the provision percentage to loan loss.

Directive no. 3

"Provision for single obligor limit. As per NRB Directives, bank should classified into fund based loan (overdraft, trust receipt, term loan etc) and non-fund loan (Letter of credit Guarantees, commitments etc). The NRB has brought following limit"

Table

Loans and Advances	P.C. (2001/2002)	P.C.(2002/2003) onwards
Fund Based	40% of core capital	25% of core capital
Non-fund Based	75% of core capital	50 of core capital

Bank should not maintain above limit, when loan provided under guarantees of fixed receipts. Bank deposits, government securities, NRB debentures and a+ rated national and international banks.

Banks need to be provision additional capital charge less than six months, in case banks provide loans and advances out of limit. Change in regulation/policy taking place in the future.

2.2 Review of Related Studies

No more researches were conducted in similar field in Nepalese context. Some previous researches were conducted in financial performance of commercial banks. Many other researches were conducted to assess the investment analysis, lending practices, credit practices and credit and credit policy of commercial banks. However, many international researches were conducted in similar field; few researches were conducted to assess the credit management and its casual linkage on profitability situation.

The effort has been made in this present section to examine and review the some related articles published sin different economic journals, bulletins, magazines and newspapers. Besides, it has also been described the findings of previous researches (i.e. both national and international), conducted in similar areas.

2.2.1 Review of Articles

Due to slowdown in the world economy and deteriorating law and order situation of the country, many sectors of the economy has already sick. When any sector of economy caught cold, bank started 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, the portfolio management means to invest funds in various schemes of mutual funds like deposits, shares and debenture for the investor with surplus income. Therefore, portfolio management becomes very important both for an individual as well as institutional investors. Large investors would like to select the best mix of investment assets.

In the article "Efficiency indicators of commercial bank: A comparative analysis" saying that indicators of the bank may be viewed on the basis of amount allocated for loan loss provisioning against loan and investment.

In the article "Placing RBB and NBL, under management contracts: Rational and opposition" agreed that the disappointing performance of these two banks has become serious concern to al the stakeholders. Further he mentions that they are having with huge level of NPA, which could be termed as the as the darkest sides of their operational inefficiency and undisciplined financial behavior

In the article entitled " Non performing assets: A need for rationalization", has attempted to provide connect with 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 operated 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 NPA 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 non-obliged by the loan taker. The more time it has elapsed the worse condition of asset is being perceived and such assets are treated accordingly. As per chhettri'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 NPA.

He further said that is serious implication of NPA on financial institution. He further added that the liability of credit institution dies not limit to the amount declared as NPA but extent to extra amount that required for provisioning depends upon the level of NPA and their quality. As per his view, rising level of NPA 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, NPA can be reduced.

Finally, he concluded that financial institutions are the best with the burden of mounting level of NPA in developing countries. Such assets are income flow of the financial institution while claiming additional resources in the form of provisioning thereby hindering gainful investment. Rising level of NPA 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.

In the article "NPA: some suggestions to tackle them" found saying that unless the growth NPA is kept in control, it has the potential to cause systematic crisis. He has mentioned that a dream of globalization led to huge investment, which unfortunately could not be utilized properly due to hesitant liberalization policies. Large corporate misused the credits and delayed payments and contributed indirectly for enhancing NPA ratio. He further argues that lack of vision in appraisal of proposal while loan sanctioning, reviewing or enhancing credit limits, absence of risk management policy of financing, concentration of credit in few group of parties and sector, lack of coordination among various financiers, lack of initiatives to take timely action against willful defaulters, indecision on existing out of bad loans for fear of investigating agencies like special police, public accounts committee of the parliament have also contributed in whatsoever measures to the worsening situation of NPA front. He further pointed out that most crucial reason for the increase in the NPA is the shabby and defaulter friendly

legal system. Suggesting the remedy of NPA he adds that administrative system should be strengthened, legal reforms should be made and assets reconstruction company should be formed.

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 clears 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 missing the loans among others, the creditor can be blacklisted *(Kathmandu Post, 2003:9)*

In the 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 are common acres of the most banks, which increased size of non-performing assets (NPA)? To resolve the problem of the losses or likely losses of this nature facing the industry, NRB as the central bank, amended several old directives and issued many new circulars in the recent years *(Ghimire,2003:22)*

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 the old system remained in force from 1991 to 2001, which was probably the most volatile decade of the business operation of the county. He has indicated that loan loss provisioning as a percentage of total credit of April 1, 2001 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 loan loss provision 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 conclusion, 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 and harmonized reform, NRB should continue to be supportive, proactive and also participative to take opinions of bankers for a

2.2.2 Review of Journals

In the article of New 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. 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, no matter how attractive it would be enter into their mind. It has created business 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 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 from 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 e lucrative market. They can ignore them only at their peril, especially y 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 world 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 estate 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 can get easy access to capital.

The ordinance relating to banks and financial institution 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 have 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 matter of debate among the various finance experts that the ordinance having 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.

In an article published in New Business Age, entitled "Growth in Major Commercial Banks" has compared between the first six month of the fiscal year 2002-03 and 2003-04, which shows that there has been noticeable increase in credit outflow by the commercial banks except of Nepal Bank Limited (NBL) and

Rastriya Banijya Bank Limited (RBBL). There has been increasing 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 in recovery of the huge non-performing assets (NPA).

However, he pointed out that no matter what the size of NPA is and the circumstances are, each bank has to collect the deposit in in order to creat a lending and to invest in the new ventures. Except RBB, all banks have increment in deposit collection (*Subedi, 2004:19).*

A decrease in CD ration (the percentage of the deposit mobilization over the credit) signifies the presence of high liquidity and comparatively lower fund mobilization and vise versa. enough liquidity and idle funds will result in lower profits. HBl has the highest growth, i.e.18.47% of growth in CD ration over the last year. Similarly, NABIL,Everest Bank Limited (EBL) and Nepal SBI Bank Limited SBI have recorded growth rates of 6.28%, 11.83%, and 7.45% respectively in their CD ratio. However, this ratio of 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 Limited (NCCBL) was 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 Limited (NIBL), growth in loan loss provision (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% and 0%) and credit (increased by 3.70% and 26.78%), again signifying good results from 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, maintains NABIL’s reserve growth is very good, i.e.1400% on the retained earnings and 67.86% on other reserves.

Similarly, all other banks have except NCCBL 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, EBL has made the significant growth of 181.25% in profit as compared to the previous year. Similarly standard Chartered Bank Nepal Limited (SCBNL). NABIL, HBL, BOK, EBL, NIBL, NSBIBL, NICBL, and NCCBL have the growth percentage of 7.72%, 6.33%, 43.73%, 29.83%, 61.80%, 62.76%, 29.76%, 37.89% and 4.03% respectively.

Government of Nepal has promulgated ordinance to replace several existing laws related to the banks and financial institutions like Commercial Bank Act 2031, Finance Act 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 that mentions 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.

2.2.3 Review from Unpublished Thesis

Study connected by Ramesh Parajuli (2062/63) on “*Credit management of commercial bank's* in the context of financial sector reform program” - is based on three years data of 2057/058, 2058/059, 2059/060. Mr. Parajuli's study has relation with this study. This study has emphasized on importance of credit related reform program in financial sector. The main objective of this study is to find out the relevancy of the financial sector reform program. A study of Nepal SBI Bank Ltd, Investment Bank Ltd and Nepal Bank Ltd has outlined his major findings as follows;

Liquidity position of all the sample banks is quite near about to the standard of
1:2. Among the three sample banks, NIBL and SBI have low volume of non - performing assets with respect to the total assets, whereas on an average in NABIL. NABIL has bad profitability position and two banks (NIBL and SBI) have quite considerable profit. The trend of deposit utilization in NIBL and SBI bank is quite strong but poor in NABIL. There are not significant shortcomings regarding the provision for loan in NIBL. But there is low provision for sub standard loan in SBI bank and NABIL is not being able to maintain the preferred provision apart from for pass loan.

He has recommended that the financial sector reform program should be continued, the appropriate policies and more focus should be given to improve the credit management of NABIL. He has also recommended that the NABIL should properly mobilize the deposit to the profit generating sector and should focus on the quality of loan than volume of loan.

Mr. Iha (2002) conducted a study; “Lending practices- A study of NABIL,
SCBNL and HBL” of period from 1997 to 2001 has outlined his major findings as
follows:
SCBL'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. So he has recommended SCBNL to give extra priority on productive and priority sector loan. He has recommended SCBL, NABIL and HBL to follow the NRB directives strictly. The ratio of total income to total expenses of NABIL and HBL is below than SCBL and below the combined mean of three banks. This ratio trends to be unfavorable due to the comparatively higher operating cost of these banks also. The productivity of the expenses in SCBL is significantly higher than NABIL and HBL. He has recommended

these banks to improve their operational efficiency and increases the productivity of expenses made. He has also recommended lowering gap in interest charged and interest offered. Lowering gap results in high volume and advances and helps in increasing sustainable lending practices.

Mr. Dhugana (2002) conducted a study “A comparative study on investment policy of Nepal Bangladesh bank limited other joint venture banks” concluded that NBBL has not good deposit collection it has not made enough cash and negligible amount of investment in government securities. NBBL has highest loan and advances to total deposit ratio, loan and advances to total working fund ratio, lowest loan loss ratio and higher investment on share and debenture to total working fund ratio. NBBL has followed stable policy. NBBL is not in better position on regarding off-balance transaction. NBBL is able to manage its assets regarding its on balance transaction. Lending position, investment position and net profit position of NBBL is not better in compare to HBL. But it has better position in comparison to NSBL. He has suggested increasing the liquidity of NBBL, to invest in government securities instead of keeping idle fund. He has also suggested providing project oriented approach. He has suggested NBBL for developing effective portfolio management. He has also suggested developing innovative approach for bank marketing upgrades the banking facility, liberal lending policy and effective cost management cost.

Mr. Satish Raj Regmi (2062/63), in his thesis entitled “credit practices of joint venture banks with reference to Nepal SBI bank Ltd and Nepal Bangladesh Bank Ltd” has emphasized to analyze the credit practices of concerned joint venture commercial banks. This study is based on five years data 1988-2060/61 of concerned banks .He has found that liquidity position of both banks is satisfactory, on the basis of asset management ratio; NBBL is in better position than NSBL. He has also found that, in credit portfolio, both banks have invested more in private sector than other sector. Further he has found that, NBBL has better lending efficiency than that of NSBL. Deposit mobilization per branch ratio and credit mobilization per branch ratio of

NSBL is higher than NBBL. At last, he has found that the profitability position of NBBL is better than that of NSBL. He has recommended that the NBBL should give focus on it liquidity position. Both banks should follow the NRB directives which help them to reduce credit risk. He has also recommended that the both bank should adopt sound credit collection policy and the marketing strategies should be innovative.

Research Gap

Financial scenario and effectiveness of the banks has been changed in due period of time because of increase of number of financial institution in Nepalese

economy. And it is observed that it is essential to study effectiveness of loan management of commercial banks taking samples of four banks: Himalayan Bank Ltd., Nabil Bank Ltd., Everest Bank Ltd. and Nepal Investment Bank Ltd. to support in fulfilling research gap. The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make study meaningful and purposive. There has been lots of article published on the field of investment policy, Loan & advances of commercial banks. There are various research available on investment analysis and policy of commercial banks, impact and implementation of Nepal Rastra Bank guideline to commercial banks but there are not sufficient researches available on credit management aspect of commercial banks. In addition to this, no one has done study on "Present status of credit management of commercial bank" with reference to Himalayan Bank Ltd., Nabil Bank Ltd., Everest Bank Ltd. & Nepal Investment Bank Ltd. Therefore, the research attempts to study in this area. To know the credit management of these four bank will probably be the first study in this subject matter. So, this study will be fruitful to those interested person, parties, scholars, professor, students, businessmen and Government for academically as well as policy perspective.

CHAPTER -III

RESEARCH METHODOLOGY

This chapter is related to research methodology in this study. Research methodology is a systematic way to solve the research problem. In other words research methodology describes the methods processes applied in the entire aspect of the study. 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. This chapter includes the research design, population & sample.

3.1 Research design

Research design serves as a framework for the study, guiding the research instruments to be utilized, and sample plan to be followed. In other word research design describes the general plan for collecting, analyzing and evaluating data. Research design is planned structure and strategy of investigation conceived to obtain answer to research objective through analysis of data. The study is only based on secondary data. So the descriptive & analytical research design have been used.

3.2 Data collection techniques

The researcher has used only one type of data collection technique. i.e secondary data collection.

Secondary data

Secondary data are those collected by the researcher on the concerned topic, which are not original in nature or are originally collected for some other purposes. The main sources of secondary data were: statistical publication of Nepal Rastra Bank, websites, annual reports of sample banks, different journals and business magazines etc.

In some cases primary data are also taken as personal interview, face to face and telephone interview but the study is mainly based on secondary data. So, major sources of secondary data for this study are as follows:

- Annual reports of the banks

- Published and unpublished bulletins, report of Nepal Stock Exchange
- Previous studies and reports
- Unpublished official records
- "Banking and Financial Statistics" report of Nepal Rastra Bank Magazines
- Journals and other published and unpublished related documents and reports for Central Library of T.U. and Library of Nepal Rastra Bank
- Various internet Websites
- Other published materials etc.

3.3 Data collection procedure

As the study will also based on primary data, information will be collected developing a scheduled questionnaire and distributing these to employees of the banks and clients. Question of both, open-end and close-end will be included in questionnaire. Besides this, junior employees and clients are also being observed and responses have been drawn from them about relevant questionnaires.

3.4 Population and Sample

A population in most studies usually consists of large group because of its large size. It is fairly difficult to collect detailed information from each member of population rather than collecting information from each member, a sub-group is chosen which is believed to be representative of population. This sub-group is called a sample and sampling does the method of choosing this sub-group. The sampling allows the researches more time to make an intensive study of a research problem. The total commercial banks shall constitute the population of data and four banks under the study constitute the sample for. So among the 31 commercial banks in the banking industry, Himalayan Bank Ltd., NABIL Bank Ltd., Everest Bank Ltd. and Investment Bank Ltd. is taken as sample for the study. Similarly, financial statements of those banks for 5 years from the F/Y 2062/63 to 2066/67 (2005/06 to 2009/10) have been taken as samples for the same purpose.

3.5 Methods of data analysis

Mainly financial methods are applied for the purpose of this study. Appropriate statistical tools are also used. Among them correlation analysis regarded as major one is used for this research.

To make the study more specific and reliable, the researcher uses two types of tool for analysis:

i) Financial Tools and ii) Statistical Tools.

3.5.1 Financial Tools

For the sake of analysis, various financial tools were used. The basic tools used were ratio analysis. Besides it, total deposit, total investment and total income analysis have been used.

Ratio Analysis

Ration analysis is a powerful and the most widely used tool of financial analysis. A ration defined as "The indicated quotient of two mathematical expression" and as the relationship between two or more things (*Webster's New Collection Dictionary, 1975:958)*

A ration is a figure or a percentage representing the comparison of one-dollar amount with some other dollar amount as a base (*Roy, 1974:97).* Ratio analysis is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. In financial analysis a ratio is used as an index or yardstick for evaluating the financial position and performance of a firm. Ration helps to minimize the large quantities of financial data and to make qualitative judgment about the firm's financial performance *(Pandey, 1979:97)*

A large number of ratios can be generated from the components of profit and loss account and balance sheet. They are sound reasons for selecting different kinds of ratios for different types of situations. For this study, ratios are categorized into the following major beadings:

A. Liquidity ratio

Liquidity refers to the ability of a firm to meet its short-term or current obligations. So liquidity ratios are used to measure the ability of a firm to meet its short-term obligations and from them the present cash solvency as well as ability to remain solvent in the event of adversities of the same can be examined *(Van Horne, 1999:693)*

Inadequate liquidity can lead to unexpected cash short falls that must be covered at inordinate costs, thus reducing profitability. In the worst case, inadequate liquidity can lead to the liquidity insolvency of the institution. One the other hand, excessive liquidity can lead to low asset yields and contribute to poor earnings performance *(Scott, 1992:140)*

To find out the ability of bank to meet their short-term obligations, which are likely to mature in the short period, these ratios are calculated. The following ratios are developed under the liquidity ratios to identify the liquidity position.

i) Current Ratio

Current ratio indicates the ability of bank to meet its current obligation it measures the relationship between current assets and current liabilities. 2:1 ration is the standard ratio, which is expressed as:

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

Current assets are those assets which can be converted into cash within a year and so it includes cash and bank balance, investment in treasury bills, bills purchased and discounted, customer acceptances liabilities, prepaid expensed, bill for collection, likewise current liabilities denotes current account deposits, saving account deposits, margin deposits, bills payable, call deposits, bank overdraft, inter- bank reconciliation account, provisions, customer's acceptance liabilities etc.

ii) Cash & bank balance to total deposit ratio

Cash & bank balance are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositors. Both higher and lower ratios are not desirable. The reason is that if bank maintains higher ratio of cash, it has to pay interest on deposits and some earnings may be lost. In contrast, if a bank maintains low ratio of cash, may fail to make payment for the demands of depositors. So, sufficient and appropriate cash reserve should be maintained properly. This ratio shows the ability of banks' immediate funds to cover the deposits and vice versa. It can be calculated by dividing 'cash & bank balance' by deposits. This ratio can be calculated using the following formula.

$$\text{cash \& } \textit{bank balance to total deposit ratio} = \frac{\text{cash \& } \textit{bank balance}}{\text{Total deposit}}$$

iii. Cash & Bank balance to current deposit ratio

Cash & bank balance are most liquid current assets. This ratio measures the percentage of most liquid fund with the current deposit. Higher ratio indicates the bank's sound ability to meet the daily cash requirement of their customer's deposit. If bank maintain low ratio, bank may not able to make the payment of against cheques. So bank has to maintain cash & bank balance to current ratio properly. This ratio is computed to disclose the soundness of company to pay total calls made of current deposits. It can be expressed as:

$$\text{cash \& } \textit{bank balance to current deposit ratio} = \frac{\text{cash \& } \textit{bank balance}}{\text{Current deposit}}$$

iv) Cash & Bank Balance to Interest Sensitive Deposit Ratio

saving deposit is deposited by public in a bank with an objective of increasing their wealth, interest rate plays important role in the flow of interest sensitive deposit. Fixed and current deposits are not interest sensitive. Fixed deposits have a fixed term to maturity and current deposits are not sensitive toward interest rate. The ratio of cash & bank balance to interest sensitive deposits measure the banks' ability to meet its sudden outflow of interest sensitive deposits due to the change in interest rate.

$$\text{cash \& } \textit{bank balance to interest sensitivedeposit ratio} = \frac{\text{cash \& } \textit{bank balance}}{\text{Saving Deposit}}$$

B. Activity/Efficiency Ratio

It is also known as turnover or efficiency ratio or assets management ratio; measures how efficiently the firm employs the assets. Turnover means, how many number of times the assets flow through a firm's operations and into sales *(Kulkarni, 1994: 138)* . Greater rate of turnover or conversion indicates more efficiency of a firm in managing and utilizing its assets, being other things equal. Various ratios are examined under this heading.

i) Loan & Advances to Total Deposit Ratio

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

$$\text{Loan } \& \textit{ advances to total deposit ratio} = \frac{\text{Loan } \& \textit{ advances}}{\text{Total Deposit}}$$

Loan and advances includes short-term loan and advances, overdrafts, cash credit, local and foreign bills purchased and discounted.

ii) Loan & Advances to Total Assets Ratio

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

$$\text{Loan } \& \textit{ advances to total assets ratio} = \frac{\text{Loan } \& \textit{ advances}}{\text{Total assets}}$$

iii) Total Investment to Total Deposit Ratio

A commercial bank may mobilize its deposit by investing its fund in different securities issued by government and other financial and non-financial companies. Effort has been made to measure the extent to which the banks are successful in mobilizing the total deposit on investment. A high ratio is the indicator of high success to mobilize the banking fund as investment and vice-versa.

$$\text{Total investment to total deposit ratio} = \frac{\text{Total investment}}{\text{Total Deposit}}$$

C. Leverage Ratio

The use of finance is refers by financial leverage. When a firm borrows money, it promise to make series of fixed payments, which create financial leverage *(Brealy and Myers, 1991:677).* These ratios are also called solvency ratio or capital structure ratio. These ratios indicate mix of funds provided by owners and lenders. As a general rule, there should be an appropriate mix of debt and owner's equity in financing the firm's assets. To judge the long-term financial position of the firm, leverage ratios are calculated. This ratio highlights the long-term financial health, debt servicing capacity and strength and weaknesses of the firm. Following ratios are included under leverage ratios.

i) Debt to Equity Ratio

Debt to equity ratio measures the relative proportion of outsiders and owner's funds employed in the total capitalization. Here, debt includes the amount of fixed deposits and credits of the bank and equity includes paid up capital, reserve and surplus and undistributed profit. The formula used to determine the ratio is:

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

ii) Total Debt to Total Asset Ratio

It examines the relationship between borrowed funds (i.e. total debt) and total assets. It shows the relative extent to which the firm is using borrowed money. A lower ratio is preferable since it reduces the distress of the creditors by using more amount of equity on total assets. It is computed as:

$$\text{Total Debt to Total asset ratio} = \frac{\text{Total Debt}}{\text{Total Asset}}$$

D. Profitability Ratios

Profit is the difference between revenues and expenses over a period of time. A company should earn profit to survive and to grow over a long period of time. So profits are essential, but profit earning is not the ultimate aim of company and it should never be earned at the cost of employees, customer and society.

Profitability ratios are the indicators of degree of managerial success in achieving firm's overall goals *(Pradhan, 1996: 41).* It shows the overall efficiency of the business concern. The following ratios are calculated under the profitability ratios:

i) Interest Income to Interest Expenses Ratios

Interest income to interest expense ratio measure the gap between interest rates offered and interest rate charged. NRB has restricted the gap between the interest taken in loan, advances and interest offered in deposits. The credit creation power of commercial banks has high impact on this ratio.

$$\text{Interest Income to interest expenses ratio} = \frac{\text{Interest Income}}{\text{Interest Expenses}}$$

ii) Return on Loan & Advances Ratio

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

$$\text{Return on Loan \& } \mathit{Advances\ ratio} = \frac{\text{Net profit}}{\text{Loan } \mathit{and\ Advances}}$$

iii) Net Profit/loss to Total Assets Ratio

The ratio is useful to measure how well management uses all the assets in the business to generate an operating surplus. Higher ratio indicates the higher efficiency in utilization of total assets and vice-versa. The ratio is low due to low profit. In other words, it is low utilization of bank assets and over use of higher interest bearing amount of debt and vice-versa. In this study, net profit/loss to total assets ratio is examined to measure the profitability of all the financial resources in bank-assets and is calculated by applying the following formula:

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

iv) Interest Income to total loan & advance ratio

It tells the income as interest from total loan & advances. It is useful to know the fact that whether the loan has given good return or not. We can increase interest income by taking good issuing and recovery credit policy. High return shows the soundness of credit policy. It is calculated by using the following formula:

$$\text{Interest Income to total Loan \& } Advances\ \ ratio = \frac{\text{Interest Income}}{\text{Total Loan } and\ Advances}$$

v) Earning Per Share (EPS)

EPS is one of the most widely quoted statistics when there is a discussion of a company's performance or share value. It is the profit after tax figure that is divided by the number of common shares to calculate the value of earnings per share. This figure tells us what profit the common shareholders for every share held have earned. A company can decide whether to increase or reduce the number of shares on issue. This decision will automatically affect the earnings per share. The profits available to the ordinary shareholders are represented by net profit after taxes and preference dividend. Symbolic expression of EPS is given below.

$$\text{EPS} = \frac{\text{Net Profit after tax}}{\text{No.of common stock outstanding}}$$

D. Lending Efficiency Ratio

The efficiency of a firm depends to a large extent on the efficiency with which its assets are managed and utilized. This ratio is concerned with measuring the efficiency of bank. This ratio also shows the utility of available fund. The following are the various type of lending efficiency ratios:

i) Non-performing loan to total loan & advances ratio

NRB has directed all the commercial banks create loan loss provision against the doubtful and bad debts. But both of our concerned banks have not provided data on non-performing loan in balance sheet and profit and loss account.

$$\text{Non} - \text{performing loan to total Loan \& } \textit{Advances ratio}$$
$$= \frac{\text{Non} - \text{performing loan}}{\text{Total Loan } \textit{and Advances}}$$

ii) Loan loss provision to total loan & advances ratio

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

$$\text{Loan Loss Provision to total Loan \& } \textit{Advances ratio}$$
$$= \frac{\text{Loan Loss Provision}}{\text{Total Loan } \textit{and Advances}}$$

Limitation of Ratio Analysis

Ratio analysis is suffered from some inherent limitations that are direct inherited from financial statements. Some of the most common weakness of ratio analysis is as follows:

- Financial statement records past transactions. They are, thus an index of what happened in the past. They do not show the current position of the business. Evidently ratio analysis is also primarily concerned with analyzing the past, which may or may not be relevant today. It is thus a sort of 'POST-MORTEM' analysis rather than a guide for decision-making.
- In the context of persistent price level changes, intra firm trends analysis losses much of its operational significance.
- The differences in the definitions of items in the balance sheet and the

- income statement make the interpretation of ratios difficult.
- Sometimes ratio analysis may suffer from what is known as fallacy of misplaced concreteness (*Shingh*, *1993:101*).

Although, various limitations of ratio analysis and doubt may arise about the valid measure of the financial performance but they are used widely to measure the financial performance of the firm.

3.5.2 Statistical Tools

For supporting the study, statistical tool such as mean, standard deviation, coefficient to variation, correlation, trend analysis and diagrammatic cumpictorial tools have been used under it.

i) Arithmetic Mean ($\bar{X}$)

Average is statistical constants, which enable us to comprehend in a single effort of the whole. It represents the entire data by a single value. It provides that gist and gives the bird's eye view of the huge mass of unwieldy numerical data. It is calculated as:

Arithmetic Mean($\bar{X}$) = $\frac{\sum X}{N}$

ii) Standard Deviation (S.D)

The standard deviation is the square root of mean squared deviations from the arithmetic mean and is denoted by S.D. or σ *(Shrestha, 1991: 43).* It is used as absolute measure of dispersion or variability. It is calculated as:

$$\sigma = \sqrt{\frac{(x-\bar{x})^2}{N}}$$

Wherer,

σ = Standard Deviation (S.D)

iii) Coefficient of Variation (C.V)

The co-efficient of variation (C.V) is the relative measure based on the standard deviation and is defined as the ratio of the standard deviation to the mean expressed in percentage *(Shrestha, 1991: 45).* It is independent of units. Hence, it is a suitable measure for comparing variability of two series with same or different units. A series with smaller C.V. is said to be less variable or more consistent or more homogeneous or more uniform or more stable than the others and vice-versa. It is calculated as:

$$C.V = \frac{\sigma}{\bar{X}}$$

Wherer,

σ = Standard Deviation

$\bar{x}$= Mean

iv) Correlation Coefficient (r)

Correlation coefficient is the important tool to analyze the degree of relationship between two or more variables. It is used to describe the degree to which one variable in the linearly related to other variables. It refers the closeness of the relationship between two or more variables. In other words, it is an analysis of covariance between two or more variables.

It is the statistical measure of the relationship, if any, between series of numbers representing data of any kind, from returns to test scores. If two series move in the same direction, they are positively correlated; if the series move in opposite direction, they are negatively correlated.

The degree of correlation is measured by the correlation coefficient, which ranges from +1 for perfectly correlated series to -1 for perfectly negatively correlated series. Symbolically, correlation coefficient can be expressed as follows:

$$\text{Correlation (r)} = \frac{N \quad XY \; Z \quad X \mid \quad Y}{\sqrt{N \quad X2 \; Z(\quad X)2} \; \sqrt{N \quad Y2 \; Z(\quad Y)2}}$$

v) Probable Error (P.E)

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

P.E=$0.6745\left(\frac{1-r^2}{\sqrt{N}}\right)$

Where,

r= Correlation coefficient

N= Number of pairs of observations

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

Here, the researcher has been calculating the correlation coefficient between total deposits and total loan & advances as well as total loan & advances and net profit of Himalayan Bank Ltd., NABIL Bank Ltd., Everest Bank Ltd. and Investment Bank Ltd. to know the relationship of these variable. The relationship result helps the management for policy formulation in the coming days.

3.6 Limitation of the Research Methodology

To carry out the research work, various financial and statistical tools are used.

Similarly, descriptive as well as analytical analysis of credit management has been carried out however these tools and techniques have some limitations.

For research purpose, five-year date are used in analyzing the financial and statistical tools, which may mislead the research work, as it is not sufficient to make projection for future regarding the performance for the bank. As far as the financial tools concerned, only ratio has been carried out to know the performance of the bank however there are various financial tools to measure the financial performance of the bank. With regard to statistical tools, the researcher carried out different statistical tools to make the result more concise but it may not be the valid measurement. Similarly, the instrument used for primary data analysis is not a valid measurement. Although, there were certain limitations during the research works, it is not so crucial that it can weaken the basic findings of the study.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

Previous chapters provided the concepts, bases, inputs and framework of this study. In this chapter, comparative analysis and interpretation of related commercial banks has been done by using research methodology as mentioned in the previous chapter. This chapter is the heart of the whole study. The basis objective of this chapter is to present and analyze the collected data. To fulfill the objectives of the study, tabulation have been presented from the collected information and financial statement of CBs, and on the basis of these table and relevant ratios of each bank are computed and analyses.

This section involves interpretation and analysis of secondary data. Using secondary data to analyze credit management of CBs, required variables are calculated using financial as well as statistical tools as follows:

4.1 Financial Analysis

Financial tools basically help to analyze the financial strength and weakness of a firm. Ratio analysis is a part of the whole process of analysis of financial statement of CBs. Ratio analysis is used to compare firm's financial performances and status that of the other firm's or to it overtime.

4.1.1 Liquidity Ratio

Satisfactory liquidity position is one of the distinguishing characteristics of a sound banking system. As a critical factor of evaluation liquidity is the ability of bank to satisfy the credit needs of the community, to meet demand for deposits and deposits substitutes to oblige maturing obligation on time without loss to these bank and without unfavorable impact on longer projections of profitability. High liquidity ratio shows the financial strength of the firm. Liquidity position of sample CBs is analyzed by using the following relevant liquidity ratios:

4.1.1.1 Current Ratio

The calculation of current ratio is based on a simple composition between current assets and current liabilities .It measures short term solvency and the strength of firm, so it is often called liquidity solvency ratio of working capital ratio. It is important to note the very high ratio of current assets to current liabilities may be indication of stock management practices, as it might signal excessive inventories for the current requirements and poor credit mgmt in terms of overextended account receivable.

Figure 4.1

Current Ratio

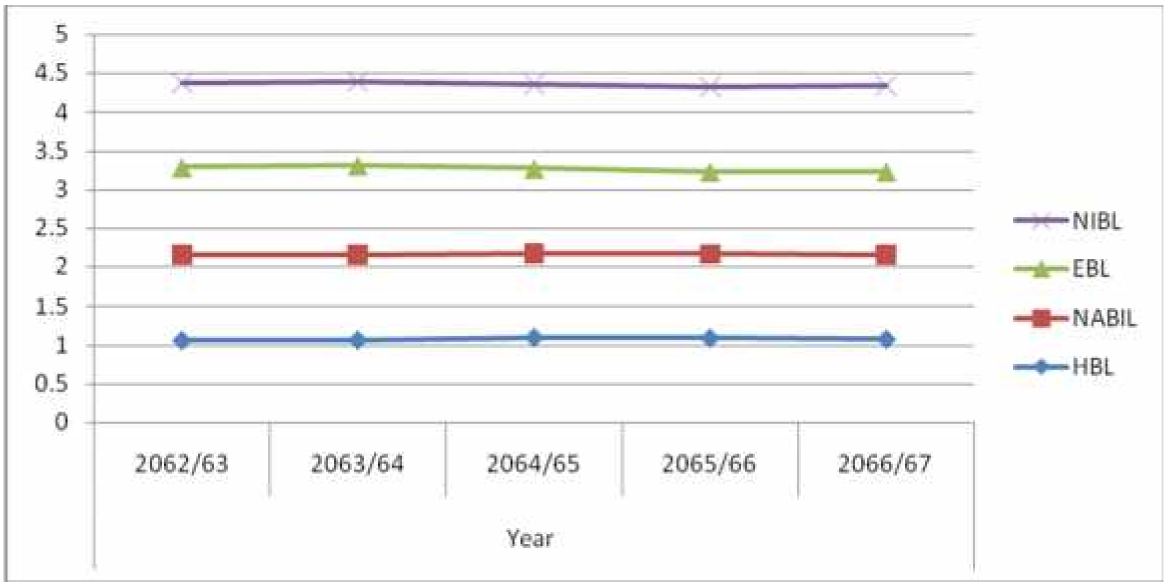

Table 4.1

Current Ratios

Bank	Year					Mean	S.D	C.V
	2062/63	**2063/64**	**2064/65**	**2065/66**	**2066/67**			
HBL	1.058	1.063	1.096	1.087	1.073	1.075	0.966	0.898
NABIL	1.093	1.088	1.072	1.072	1.076	1.08	0.963	0.892
EBL	1.131	1.155	1.099	1.066	1.077	1.106	0.984	0.89
NIBL	1.097	1.085	1.09	1.101	1.112	1.097	0.981	0.894

Source : Appendix 1

The above table shows the liquidity position of four banks in terms of current assets to current liability ratio. The highest ratio of EBL is 1.155 and lowest ratio is 1.066. NABIL has highest current ratio in F/Y 2062/63, i.e 1.093 and lowest ratio in year 2064/65 i.e. 1.072. Similarly the highest ratio of HBL is 1.096 and lowest ratio is 1.058. likewise highest ratio of NIBL is 1.112 and lowest ratio is 1.085. The analysis shows that current ratio of sample banks are in fluctuating trend. NIBL has its current ratio in increasing trend except in year 2063/64.

If we measure the performance of these banks, based on mean performance, NABIL and HBL is weak than other two CBs. The mean current ratio of NABIL and HBL is 1.08 and 1.075 respectively. Similarly the mean current ratio of EBL and NIBL are 1.106 and 1.097 respectively. So we can say EBL has maintained good liquids assets in comparison with NABIL and HBL and NIBL it indicates that they are capable to pay their current obligations. The standard deviation of EBL and NIBL is 0.984 and 0.981 respectively which is higher than other banks. The coefficient of variation between the current ratio of NIBL and HBL is 0.894 and 0.898 respectively which is higher than other two banks. Thus it can prove that current ratio of NIBL and HBL is less consistent than EBL and NABIL.

Thus, in conclusion, the table indicates that the ratios of sample five banks are below than normal standard 2:1. Generally, the standard current ratio should be 2:1 but these banks are not being able to maintain the appropriate standard

4.1.1.2. Cash & Bank Balance to Total Deposit Ratios

This ratio measures the ability of a bank's to meet unexpected demand made by the depositor's i.e. Current account holders, saving account holder, margin holder and others. This ratio indicates the ability of bank's immediate funds to cover their current margin, calls and other saving deposits. A high ratio represents the greater ability to cover their deposits and vice versa. Too high ratio of cash and bank balance to total deposits may be unsuitable and harmful because it affects their profitability position. Too low ratio is unfavorable as capital will be tied up and opportunity cost will be higher.

Figure 4.2

Cash & Bank Balance to Total Deposit Ratio

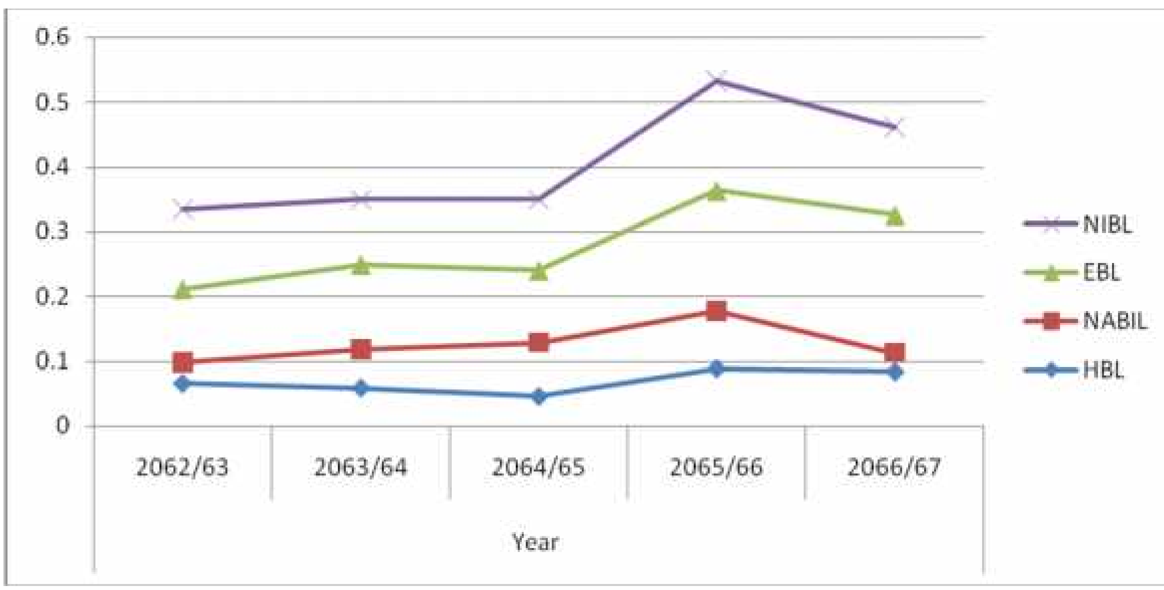

Table 4.2

Cash & Bank Balance to Total Deposit Ratio

Bank	Year					Mean	S.D	C.V
	2062/63	2063/64	2064/65	2065/66	2066/67			
HBL	0.065	0.058	0.045	0.088	0.083	0.068	0.063	0.934
NABIL	0.033	0.06	0.084	0.09	0.03	0.059	0.064	1.074
EBL	0.113	0.131	0.111	0.185	0.212	0.15	0.148	0.986

NIBL	0.123	0.1	0.109	0.17	0.136	0.128	0.118	0.923

Source : Appendix 2

Above table shows that, the ratio of HBL, NIBL, EBL and NIBL, is in fluctuating trend. A higher ratio would affect the bank's profitability and its financial performance as a large part of the funds remains idle. Thus the bank should maintain an appropriate ratio. However, there is no standard ratio in this aspect. In case of EBL, the ratio of F/Y 2066/67 is 0.211 which represent the large portion of cash and bank balance to total deposits over this study period. EBL has lowest ratio i.e. 0.111 in 2064/65. NABIL has highest ratio i.e. 0.09 and lowest ratio i.e. 0.033. Similarly, the highest ratio of HBL is 0.088 and lowest ratio is 0.045. The highest ratio of NIBL is 0.17 and lowest ratio is 0.010. The higher ratio of HBL is less than EBL, NIBL and NABIL.

If we measure the performance of these banks on based of the mean, EBL and NIBLhave higher average than other bank. So these banks have ability to meet unexpected demand made by depositors.

The coefficient of variation between cash and bank balance to total deposit ratio of NABIL is 1.074 which is comparatively higher than other banks. Similarly, CV of HBL, EBL and NIBL is 0.934, 0.986 and 0.923 respectively. Thus cash and bank balance to total deposit ratio of HBL is less consistent than other banks.

4.1.1.3. Cash & Bank Balance to Current Deposit Ratio

Cash and bank balance to current deposit ratios measures the ability in playing that to current deposits. . Current depositors must be paid whenever they demand their deposits. In the present study, cash and bank balance represents total of local currency, foreign currencies, cheques in hand and various bank balances in local as well as foreign banks. This ratio measures the percentage most liquid fund with the current assets. High ratio indicates the bank's sound ability to meet the daily cash requirement of their customer deposit. Low ratio is also dangerous. If bank maintain low ratio, bank may not able to make the payment against cheques. So bank has to maintain cash and bank balance to current assets ratio properly.

Figure 4.3

Cash & Bank Balance to Current Deposit Ratio

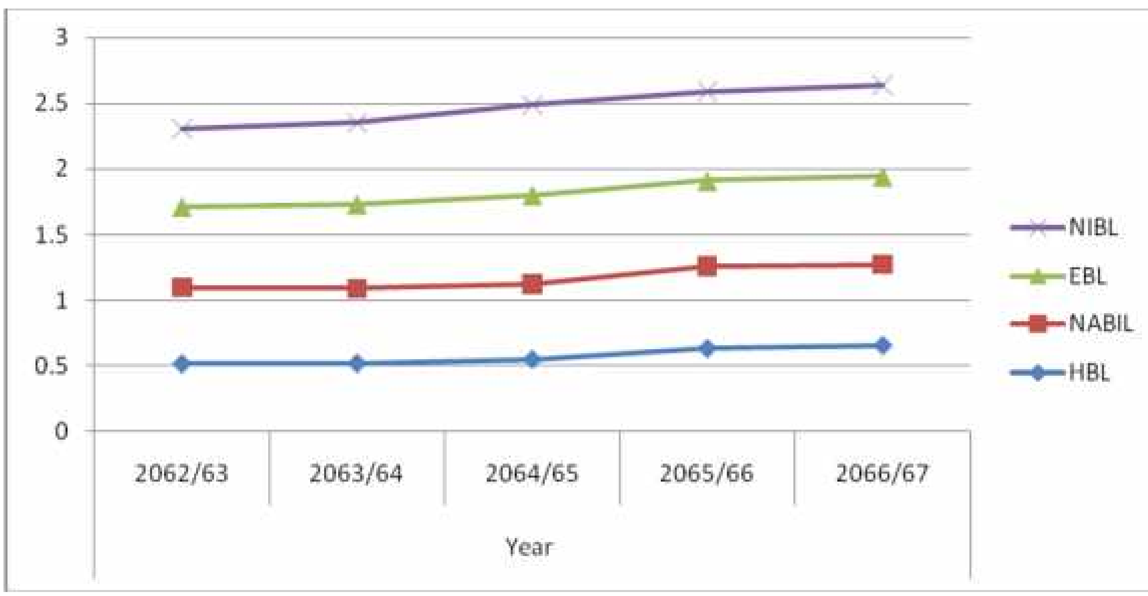

Table 4.3

Cash & Bank Balance to Current Deposit Ratio

Bank	Year					Mean	S.D	C.V
	2062/63	2063/64	2064/65	2065/66	2066/67			

HBL	0.311	0.295	0.224	0.785	0.824	0.488	0.541	1.109
NABIL	0.192	0.372	0.466	0.564	0.162	0.351	0.381	1.084
EBL	1.161	1.222	0.931	1.186	1.657	1.231	1.142	0.927
NIBL	1.178	0.959	1.002	1.766	1.418	1.265	1.188	0.94

Source : Appendix 3

Cash & Bank Balance to Current Deposit Ratios of sample banks are almost in same trend. However, there is no standard ratio in this aspect. In case of EBL, the ratio of F/Y 2065/66 is 1.766 which represent the large portion of cash and bank balance to current deposits over this study period. EBL has lowest ratio i.e. 0.931 in 2064/65. NABIL has highest ratio i.e. 0.564 and lowest ratio i.e. 0.162. Similarly, the highest ratio of HBL is 0.824 and lowest ratio is 0.224. The highest ratio of NIBL is 1.766 and lowest ratio is 0.959. The higher ratio of HBL is less than EBL, NIBL and NABIL.

If we measure the performance of these banks on based of the mean, NIBL and EBLhave higher average than other bank. So these banks have ability to meet unexpected demand made by depositors.

The coefficient of variation between cash and bank balance to current deposit ratio of HBL is 1.109 which is comparatively higher than other banks. Similarly, CV of NABIL, EBL and NIBL 1.084, 0.927 and 0.94 respectively. Thus cash and bank balance to current deposit ratio of NIBL is less consistent than other banks.

4.1.1.4. Cash & Bank Balance to Interest Sensitive Ratio

Saving deposit is interest sensitive deposit ratio. The ratio of cash and bank balance to interest sensitive deposit ratio measures the bank ability to meet its sudden outflow of saving deposits due to the change in interest rate. Cash and bank balance to interest sensitive deposit ratio of four banks are presented below in this table:

Figure 4.4

Cash & Bank Balance to Interest Sensitive Ratio

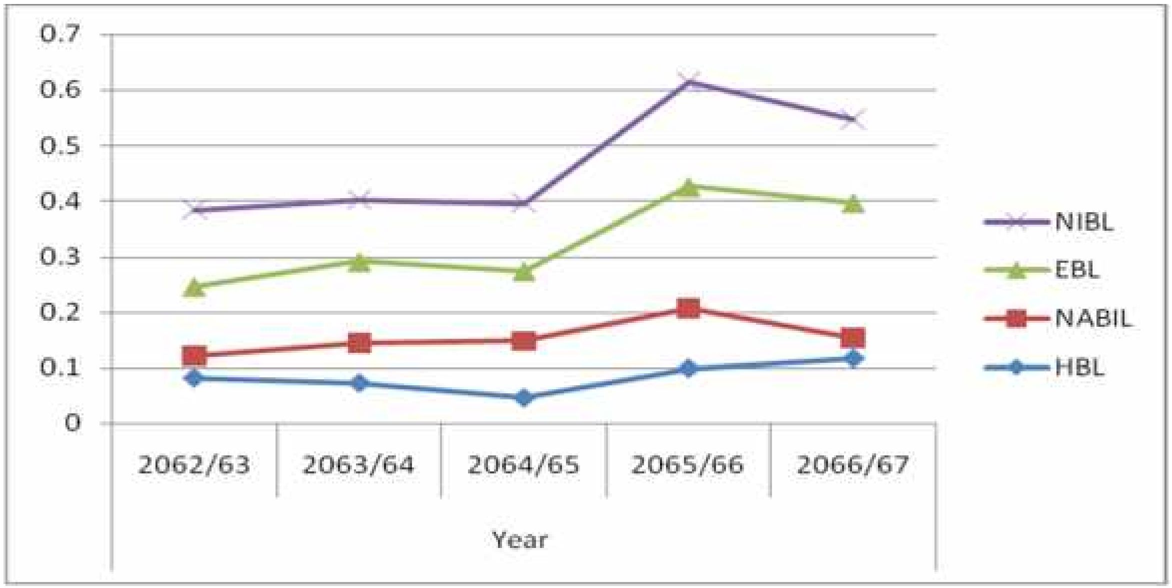

Table 4.4

Cash & Bank Balance to Interest Sensitive Ratio

Bank	Year					Mean	S.D	C.V
	2062/63	2063/64	2064/65	2065/66	2066/67			
HBL	0.082	0.073	0.046	0.099	0.117	0.083	0.079	0.943
NABIL	0.039	0.071	0.102	0.108	0.037	0.071	0.077	1.076
EBL	0.125	0.147	0.126	0.219	0.243	0.172	0.171	0.996
NIBL	0.138	0.111	0.122	0.188	0.15	0.142	0.13	0.92

Source : Appendix 4

Above table shows EBL has highest cash and bank balance to interest sensitive deposit ratio in comparison of other three banks. It has highest ratio i.e. 0.243 in the year 2066/67 and lowest ratio i.e. 0.125 in F/Y 2062/63. The highest ratio of NABIL is

0.108 which is lower than the ratio of EBL and it has lowest ratio i.e. 0.037 in F/Y 2066/67. The highest ratio of NIBL & HBL is 0.188 and 0.117 respectively. The low volume of saving deposits in the deposit mixture of EBL has caused its ratio to be higher. High volume of saving deposit in deposit mixture of HBL and NABIL has caused its ratio to be lower and HBL and NABIL have low volume of saving deposit than EBL and NIBL.The mean ratio of EBL is 0.049 which is greater than others.

The coefficient of variation between cash and bank balances to interest sensitive deposit ratio is 1.076 in terms of NABIL which is higher than that of others. Similarly CV of HBL, EBL and NIBL is 0.943, 0.996 and 0.92 respectively. It can be said that EBL ratios have less consistency than of other banks. Ratios of NABIL and HBL have consistency than EBL and NIBL.

4.1.2. Asset Management Ratio

This ratio measures the efficiency of commercial bank in its fund mobilization. A commercial bank must be able to manage its assets properly to earn high profit, maintaining the appropriate level of liquidity. Assets management ratio measures the efficiency of bank to manage its assets in profitable way satisfactorily. Help of the following ratios have analyzed asset management ability of HBl, NABIL, EBL & NIBL.

4.1.2.1. Loan & Advances to Total Deposit Ratio

This ratio measures to the extent that bank is successful to manage its total deposit on loan & advances for the purpose of income generation or not. A high ratio indicates better mobilization of collected deposit and vice-versa. But it should be noted that too high ratio might not be better from liquidity point of view.

Figure : 4.5

Loan & Advances to Total Deposit Ratio

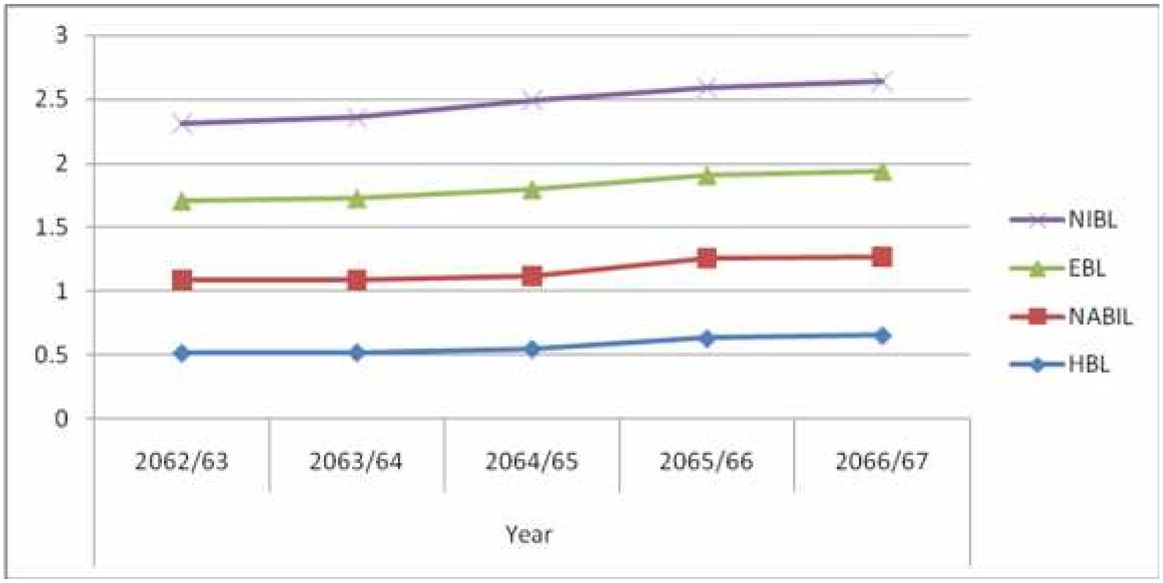

Table 4.5

Loan & Advance to Total Deposit Ratio

Bank	Year					Mean	S.D	C.V
	2062/63	2063/64	2064/65	2065/66	2066/67			
HBL	0.5527	0.5657	0.6123	0.7149	0.7439	0.638	0.594	0.932
NABIL	0.6863	0.6813	0.6818	0.7387	0.6953	0.697	0.626	0.898
EBL	0.7344	0.7744	0.7856	0.7343	0.7624	0.758	0.684	0.902
NIBL	0.6963	0.7256	0.7991	0.7886	0.8174	0.765	0.701	0.916

Source : Annual Report of Sample Banks

The above table shows that the loan and advances total deposit ratio of HBL,NIBL, EBL & NIBL has almost increasing trend.

The highest & lowest ratios of HBl, NABIL, EBL and NIBL are 0.7439, 0.7387, 0.7856 & 0.8174 and then 0.5527, 0.6813, 0.7344 & 0.6963 respectively. In average, NABIL and HBL has maintained lower mean ratio in comparison n to other two banks and their mean ratios are 0.134 and 0.149 respectively. NIBl seems to be strong to mobilize its total deposits as loan and advances as it has highest mean ratio i.e. 0.163. It reflects that EBL is better than other banks.

Similarly, the coefficient of variation between the ratios of NABIL is lower (i.e. 0.898) than others, it shows the ratio is more consistent than others. The ratio of HBL is less consistent as it has higher coefficient of variation. CV of EBL and NIBL is 0.902 and 0.916 respectively, it means the ratio of these banks is more consistent than NABIL and HBL.

From above analysis, it can be concluded that EBL & NIBL has lower position to mobilize its total deposit as loan and advances in comparison and NABIL has greater efficiency to utilize the funds. Other banks are also successful to mobilize its fund after NABIL.

4.1.2.2. Total Investment to Total Deposit Ratio

A commercial banks may mobilize its deposit by investing its fund in different securities issued government and other financial and non financial companies .Effort has been made to measure the extent to which the banks are successful in mobilizing the total deposit on investment .A high ratio is the indicator of high success to mobilize the banking fund as investment and vice versa.

Table 4.6

Total Investment to Total Deposit Ratio

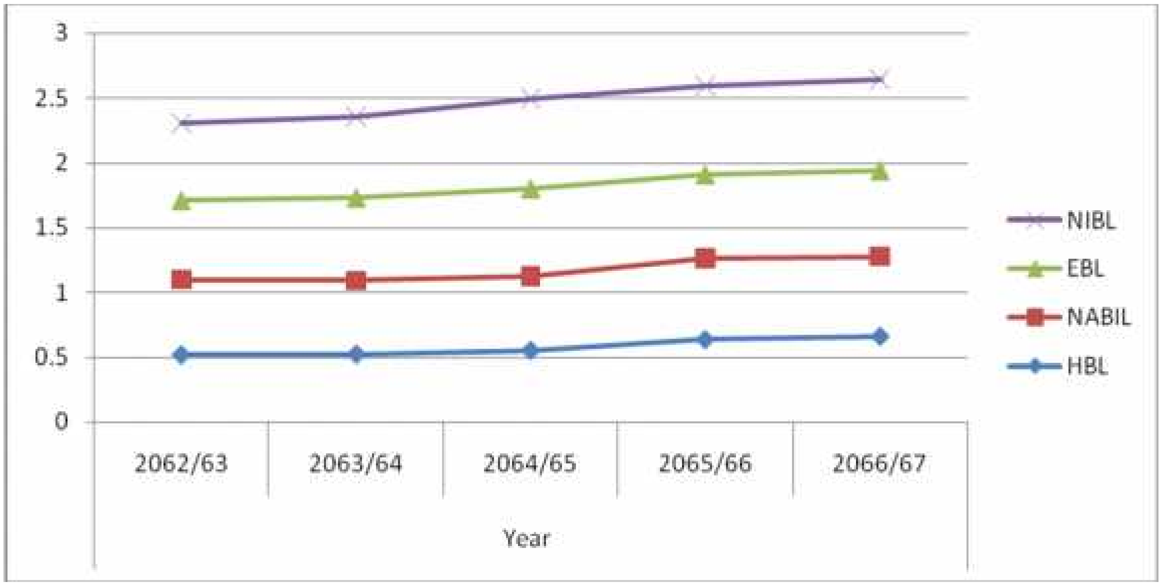

Table 4.6

Total Investment to Total Deposit Ratio

Bank	Year					Mean	S.D	C.V
	2062/63	**2063/64**	**2064/65**	**2065/66**	**2066/67**			
HBL	0.411	0.393	0.419	0.251	0.225	0.34	0.3	0.882
NABIL	0.319	0.383	0.311	0.29	0.295	0.32	0.288	0.901
EBL	0.337	0.307	0.24	0.211	0.155	0.25	0.214	0.854
NIBL	0.406	0.358	0.287	0.222	0.234	0.301	0.255	0.847

Source : Appendix 5

The above table shows the ratio of HBL NABIL, EBL and NIBL has decreasing trend .EBL has increasing trend of ratio till the F/Y 2063/64 and then decreasing trend. HBL has constant ratio from 2062/63 to 2064/65. After that period the ratio is decreased. The mean ratio of investment to total deposit of NIBL and HBL shows their capacity to mobilize on total investment, mean ratios of NABIL and NIBL are 0.059 and 0.047 respectively. Above table shows EBL has lowest mean ratio and the ratio is 0.031

Similarly, the coefficient of variation in the ratios of NIBL & EBL are 0.847 and 0.854 respectively, it shows the ratios have more consistency than other. The coefficient of variation of NABIL is highest I.e. 0.901, which shows less consistency So, from above analysis, we can say that NIBL and EBL are more successful in utilizing its resources on investment than that of others. They invests larger amount of total deposits in investment.

4.1.2.3. Loan & Advances to Total Assets Ratio

Loan & advances of any commercial bank represent the major represent the major portion in the volume of total working find. This ratio measures the volume of loan & advances in the structure of total assets. High degree of this ratio indicates better mobilization of funds as loan & advance and vice-versa.

Figure 4.7

Loan & Advance to Total Asset Ratio

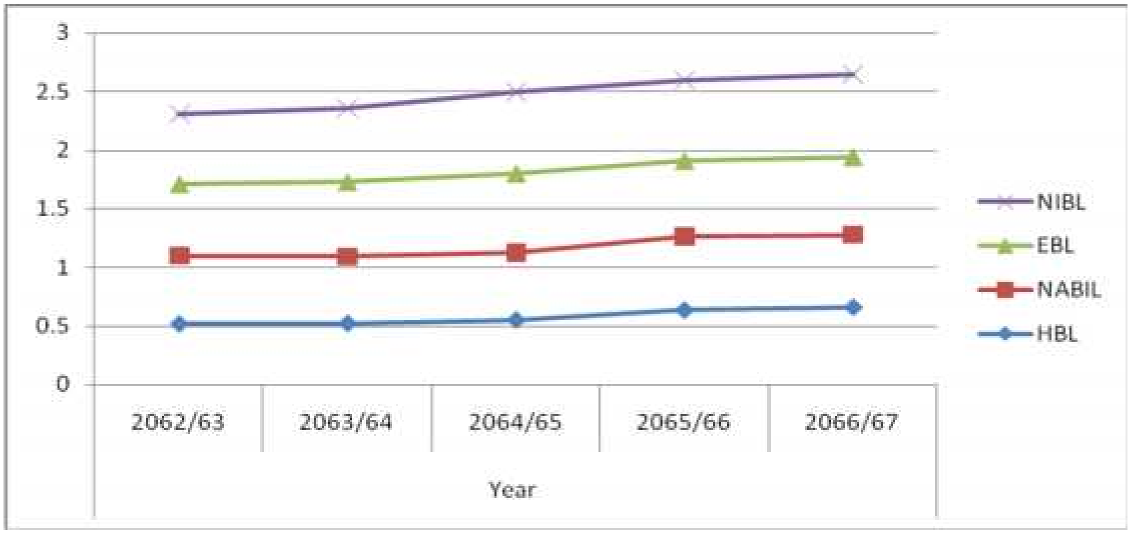

Table 4.7

Loan & Advance to Total Asset Ratio

Bank	**Year**					**Mean**	**S.D**	**C.V**
	2062/63	**2063/64**	**2064/65**	**2065/66**	**2066/67**			
HBL	0.515	0.519	0.548	0.631	0.655	0.574	0.529	0.923
NABIL	0.579	0.57	0.575	0.629	0.619	0.594	0.536	0.901
EBL	0.614	0.638	0.675	0.647	0.666	0.648	0.588	0.907
NIBL	0.599	0.627	0.694	0.684	0.704	0.662	0.607	0.917

Source : Appendix 6

Above table shows the ratios of Sample bank have increasing trend trend. On the basis of mean ratio of loan and advances to total working fund, it can be said that NIBL has highest mean ratio i.e. 0.662, it shows NIBL has satisfactory mobilize its working fund as loan and advances than other. NABIL and HBL have maintained nearly equal ratio and the ratios are 0.594 and 0.574 respectively.

The coefficient of variance HBL, NABIL EBL and NIBL are almost equal i.e. 0.923, 0.901, 0.907 and 0.917 respectively which shows consistency in comparison to each others. The coefficient of variance of NIBL i.e. 0.901 is more consistent.

4.1.3 Leverage Ratio:

The use of finance is refers by financial leverage. When a firm borrows money, it promises to make series of fixed payments, which create financial leverage *(Brealy and Myers, 1991:677).* These ratios are also called solvency ratio or capital structure ratio. These ratios indicate mix of funds provided by owners and lenders. As a general rule, there should be an appropriate mix of debt and owner's equity in financing the firm's assets. To judge the long-term financial position of the firm, leverage ratios are calculated. This ratio highlights the long-term financial health, debt servicing capacity and strength and weaknesses of the firm. Following ratios are included under leverage ratios.

4.1.3.1. Debt to Equity Ratio

Debt to equity ratio measures the relative proportion of outsiders and owner's funds employed in the total capitalization. Here, debt includes the amount of fixed deposits and credits of the bank and equity includes paid up capital, reserve and surplus and undistributed profit.

Figure 4.8

Debt to Equity Ratio

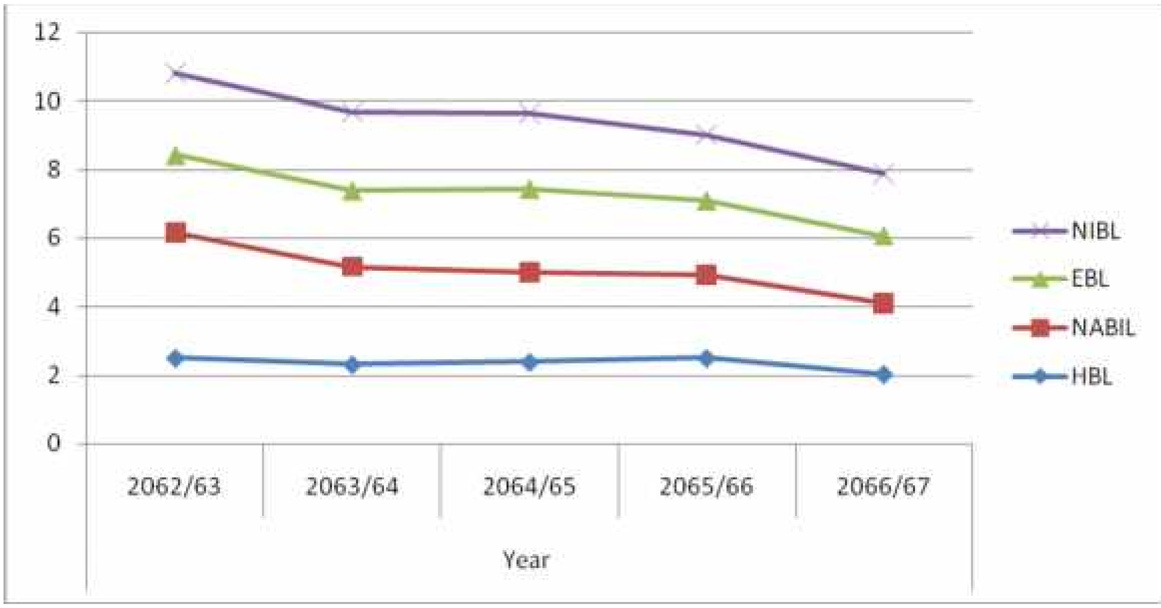

Table 4.8

Debt to Equity Ratio

Bank	**Year**					**Mean**	**S.D**	**C.V**
	2062/63	**2063/64**	**2064/65**	**2065/66**	**2066/67**			
HBL	0.466	0.444	0.849	0.411	0.25	0.484	0.48	0.991
NABIL	0	0	0.348	0.207	0.148	0.141	0.203	1.441
EBL	0.579	0.579	0.361	0.291	0.234	0.409	0.356	0.871
NIBL	0.931	0.998	0.872	0.436	0.436	0.735	0.66	0.898

Source : Appendix 7

Above table shows the debt to equity ratio of HBL, NABIL, EBL and NIBL. NIBL bank has highest debt to equity than other banks. It means there is more proportion of debt in capital structure. The highest ratio is of NIBL in the F/Y 2063/64 i.e.0.998 and lowest ratio of this bank is 0.436 in F/Y 2065/66 and 2066/67. This bank is decreasing the proportion of debt from the F/Y 2065/66. NABIL has lowest ratio among the sample banks. This means this bank is using less proportion of debt. In F/Y 2062/63 and 2063/34, this bank has not used any debt except fixed deposit.

The mean ratio of HBL, NABIL, EBL and NIBL are 0.484, 0.141, 0.409 and 0.735. NIBL has highest mean ratio i.e.0.735. and NABIL has lowest mean ratio I.e. 0.141. this implies that NABIL bank used more debt in study period and NABIL used less debt.

The C.V. of HBL, NABIL, EBL and NIBL are 0.991, 1.441, 0.871 and 0.898. there is more inconsistency in using the debt by NABIL due to highest C.V. and less consistency of using debt EBL.

4.1.3.2. Debt to Total Asset Ratio

It examines the relationship between borrowed funds (i.e. total debt) and total assets. It shows the relative extent to which the firm is using borrowed money. A lower ratio is preferable since it reduces the distress of the creditors by using more amount of equity on total assets. It is computed as:

Figure 4.9

Debt to Total Asset Ratio

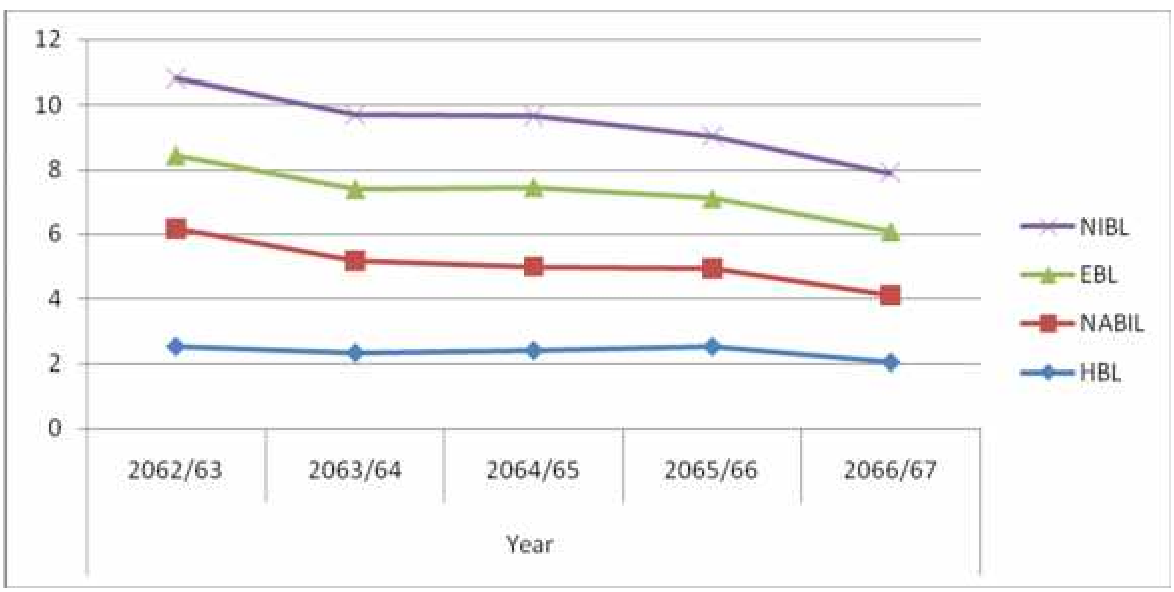

Table 4.9

Debt to Total Asset Ratio

Bank	Year					Mean	S.D	C.V
	2062/63	2063/64	2064/65	2065/66	2066/67			
HBL	0.012	0.01	0.023	0.013	0.012	0.014	0.014	0.982
NABIL	0	0	0.006	0.007	0.006	0.004	0.005	1.37
EBL	0.019	0.014	0.011	0.008	0.007	0.012	0.01	0.832
NIBL	0.026	0.029	0.027	0.02	0.018	0.024	0.021	0.893

Source : Appendix 8

The above table depicted the debt to total asset ratio of HBL, NABIL, EBL and NIBL over 5 year period from F/Y 2062/63 to 2066/67. The lowest ratio is 0 of NABIL bank & the highest ratio is 0.029 of NIBL. The mean ratio of HBL, NABIL, EBL and NIBL are .0014, 0.004, 0.012 and 0.024 respectively. NABIL has lowest mean ratio which means it is using asset taking less debt. The highest mean ratio is 0.024 of NIBL which is using more debt.

C.V. of NABIL is highest which shows that there is inconsistency in using fund than other bank. The lowest C.V. is 0.004 of NABIL which shows consistency in using debt which is better than other bank.

4.1.4. Profitability Ratio

Interest income to interest expense ratio measure the gap between interest rates offered and interest rate charged. NRB has restricted the gap between the interest taken in loan, advances and interest offered in deposits. The credit creation power of commercial banks has high impact on this ratio.

4.1.4.1. Interest Income to Interest Expenses Ratio

This ratio measures the gap between interest rate offered and interest rate charged. The credit creation power of commercial banks has high impact on this ratio.

Figure 4.10

Interest Income to Interest Expenses Ratio

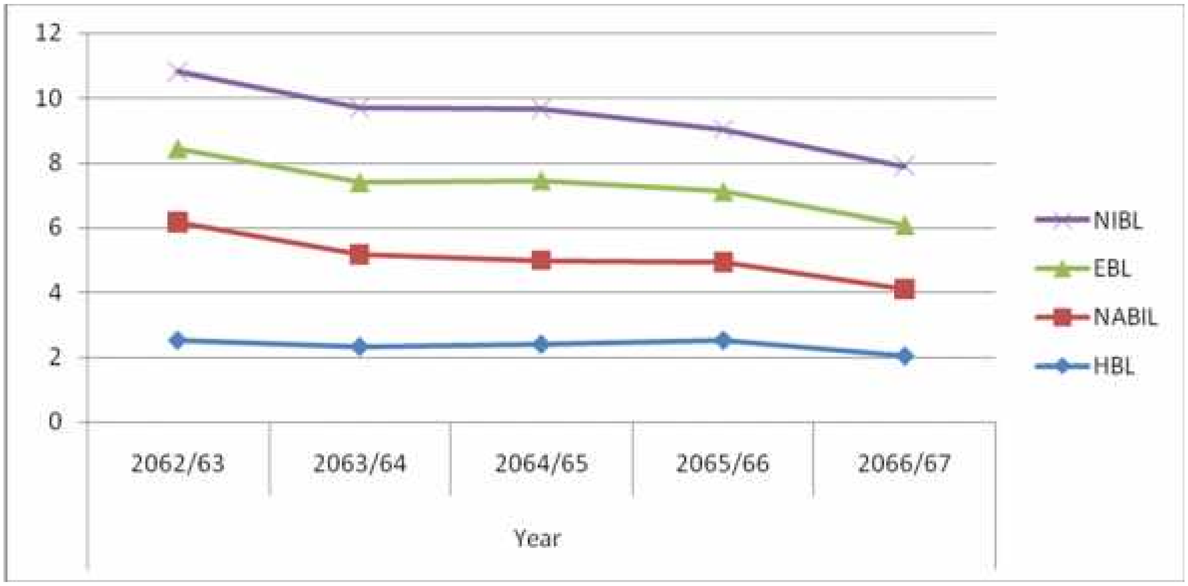

Table 4.10

Interest Income to Interest Expenses Ratio

Bank	Year					Mean	S.D	C.V
	2062/63	2063/64	2064/65	2065/66	2066/67			
HBL	2.507	2.314	2.384	2.506	2.027	2.348	2.071	0.882
NABIL	3.668	2.857	2.609	2.427	2.065	2.725	2.281	0.837
EBL	2.251	2.213	2.448	2.159	1.973	2.209	1.972	0.893
NIBL	2.389	2.312	2.212	1.937	1.822	2.134	1.864	0.873

Source : Appendix 9

Above table shows that NABIL has highest mean ratio and the ratio is 0.413 but NIBL has lowest mean ratio i.e. 2.134 in comparison. The highest cost of deposit mix of NIBL has caused the gap between interest income and interest expenses to be least. The mean ratio of EBL i.e. 2.209 also shows better position than that of HBL and NIBL and the mean ratios of HBL is 2.348.

It can be concluded that ratio of NIBL during the study period, has been seen more consistent than that of other banks because of its lower CV and the CV is 0.837. the ratio of EBL has been seen less consistent because of its higher CV and the CV is

0.893. The coefficient of variation between the ratio of HBL and NIBL are 0.882 and 0.873 respectively.

From above analysis, it can be said that NABIL and EBL have charging high interest rate to borrowers and offering low interest rate to the depositors in comparison to the other two banks.

4.1.4.2. Return of Loan & Advance Ratio

This ratio measures the earning capacity of commercial banks through its fund mobilization as loan and advances. Higher ratio indicates greater success to mobilize fund as loan and advances and vice versa.

Figure 4.11

Return on Loan & Advance Ratio

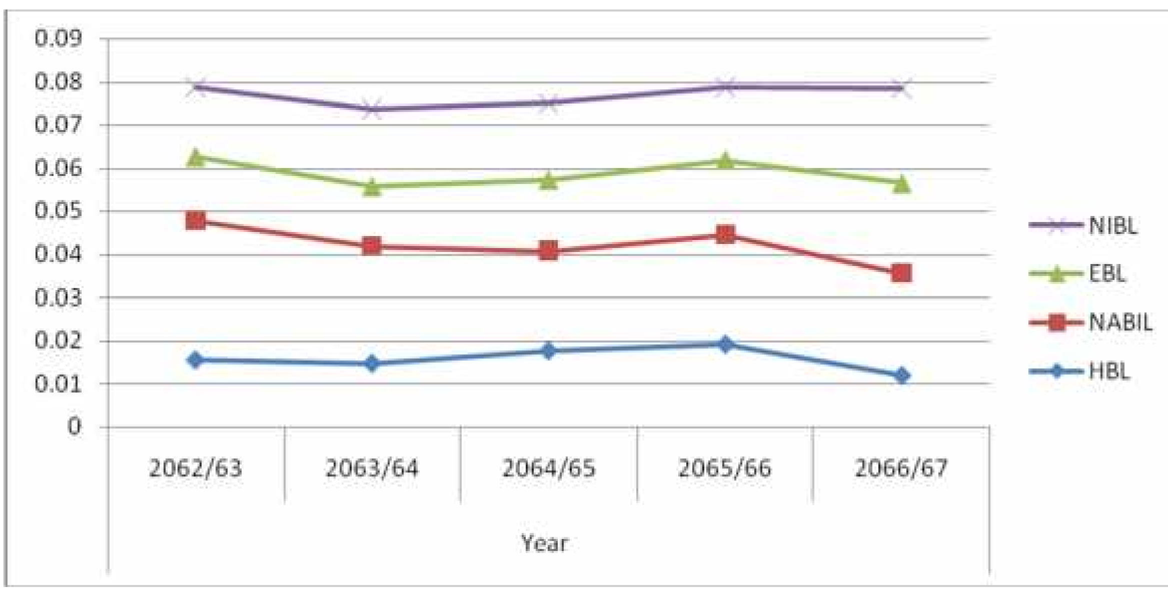

Table 4.11

Return on Loan & Advance Ratio

Bank	Year					Mean	S.D	C.V
	2062/63	**2063/64**	**2064/65**	**2065/66**	**2066/67**			
HBL	0.0312	0.0289	0.0326	0.0304	0.0182	0.028	0.025	0.89
NABIL	0.0524	0.0462	0.0396	0.0402	0.0347	0.043	0.036	0.854
EBL	0.0234	0.021	0.024	0.0261	0.0295	0.025	0.023	0.914
NIBL	0.0266	0.0282	0.0283	0.0245	0.0309	0.028	0.025	0.906

Source : Annual Report of sample banks.

The above table shows that the return on loan & advance ratios of HBL, NABIL, EBL and NIBL are in fluctuating trend. From F/Y 2062/63 to 2064/65, the ratio of NIBL is increasing & then decreased in the year 2065/66 after that again increased. In case of NABIL, there is opposite condition in comparison to NIBl. The ratio of EBL at first decreased & then started to increase. The ratio of HBL, first decreased and increased and then decreased.

NABIL has highest mean ratio of 0.043. EBL & HBL has equal mean ratio of 0.028. So we can say that NABIL is string to mobilize fund and it causes better earning capacity and HBL and NIBl has also better earning capacity than HBL. HBL has lowest mean ratio of 0.004and lowest mean ratio indicates lower success to mobilize fund as loan and advances.

The ratios of HBL has been seen less consistent because they have higher CV than other i.e. 7.685 .The ratio of EBL has been seen more consistent as it has lower CV of .The CV of NABIL and NIBL are 5.972 are 4.323 respectively.
From above analysis, it can be said that EBL have higher earning capacity through fund mobilization as loan and advances than others and lower mean ratio of HBL indicates lower success to mobilize fund as loan and advances.

4.1.4.3. Net Profit/Loss to Total Asset Ratio

The ratio is useful to measure how well management uses all the assets in the business to generate an operating surplus. Higher ratio indicates the higher efficiency in utilization of total assets and vice-versa. The ratio is low due to low profit. In other words, it is low utilization of bank assets and over use of higher interest bearing amount of debt and vice-versa. In this study, net profit/loss to total assets ratio is examined to measure the profitability of all the financial resources in bank-assets.

Figure 4.12

Net Profit/Loss toTotal Asset Ratio

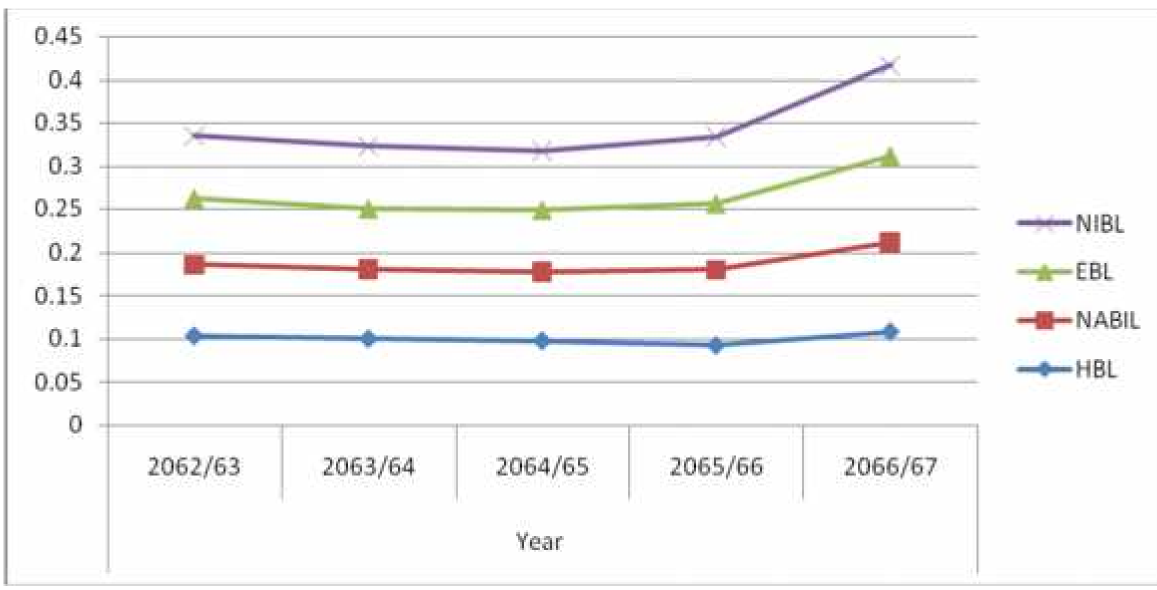

Table 4.12

Net Profit Loss to Total Asset Ratio

Bank	Year					Mean	S.D	C.V
	2062/63	2063/64	2064/65	2065/66	2066/67			
HBL	0.0155	0.0147	0.0176	0.0191	0.0119	0.016	0.014	0.912
NABIL	0.0323	0.0272	0.0232	0.0255	0.0237	0.026	0.022	0.852
EBL	0.0149	0.0138	0.0165	0.0173	0.0209	0.017	0.016	0.93

NIBL	0.0161	0.0197	0.0177	0.0168	0.0219	0.018	0.017	0.929

Source : Annual Report of Sample Banks

Above table depicted the net profit/loss to total asset ratio of HBL, NABIL, EBL and NIBL, over 5 year period from 2062/63 to 2066/67. The mean ratios of HBL, NABIL, EBL and NIBL are 0.016, 0.026, 0.017 and 0.018 respectively. Return on total asset of HBL, NABIL, EBL and NIBL bank is in fluctuating trend. NABIL has highest ratio in F/Y 2062/63 i.e. 0.0323. EBL has lowest ration in F/Y 2063/64. From this analysis that NABIL has highest earning capacity & the EBL has lowest earning capacity.

C.V. of HBL, NABIL, EBL and NIBL are 0.912, 0.852, 0.93 and 0.929 respectively. EBL has highest C.V. it means there is more inconsistency in earning capacity of EBL. Lowest C.V. .852 of NABIL bank. It means there is consistency in earning capacity of EBL.

4.1.4.4. Interest Income to Total Loan & Advance Ratio

It tells the income as interest from total loan & advances. It is useful to know the fact that whether the loan has given good return or not. We can increase interest income by taking good issuing and recovery credit policy. High return shows the soundness of credit policy.

Figure 4.13

Interest Income to Total Loan &Advances Ratio

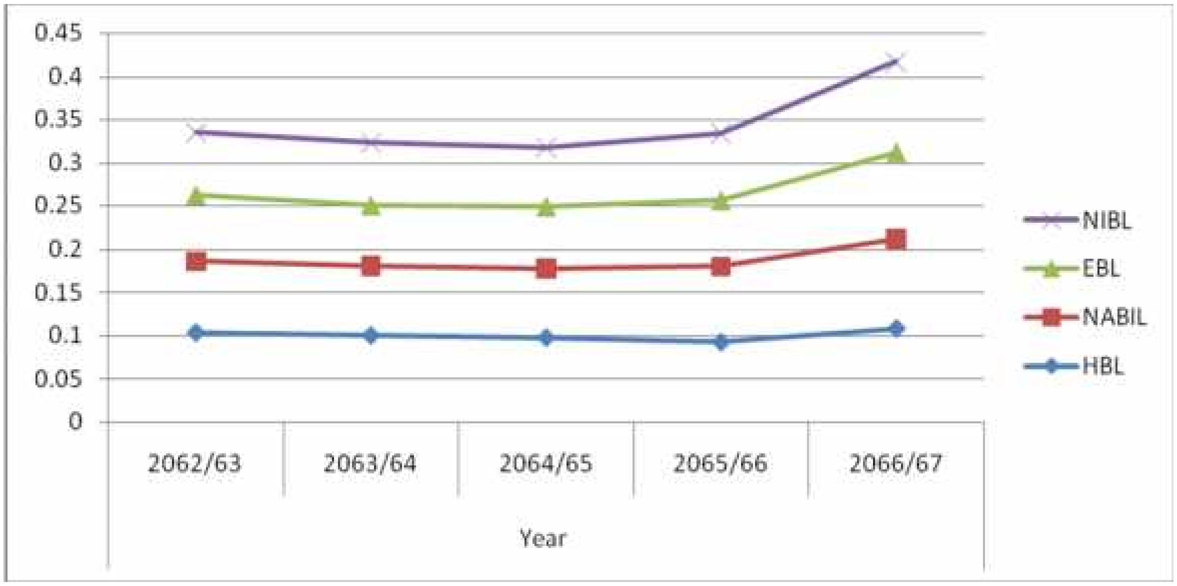

Table 4.13

Interest Income to Total Loan & Advances Ratio

Bank	**Year**					**Mean**	**S.D**	**C.V**
	2062/63	**2063/64**	**2064/65**	**2065/66**	**2066/67**			
HBL	0.1032	0.0998	0.0973	0.0918	0.1081	0.1	0.089	0.889
NABIL	0.0829	0.0814	0.0804	0.0882	0.1041	0.087	0.08	0.911
EBL	0.076	0.0687	0.0706	0.0757	0.0995	0.078	0.071	0.912
NIBL	0.0732	0.0733	0.0693	0.0789	0.1051	0.08	0.074	0.927

Source : Annual Report of sample Banks

Above table shows the interest income to total loan and advance ratio of sample banks. The ratio of HBL is decreasing up to the F/Y 2065/66 and then increased in F/Y 2066/67. The ratio of NABIL bank is decreasing from F/Y 2062/63 to 2064/65 and then start increasing. The Ratio of EBL decrease in F/Y 2062/63 and 2063/64 and increased. The ratio of NIBL is in fluctuating trend. The mean ratio of HBl is highest & the mean ratio of EBL is lowest.

From the above analysis the C.V. of NIBL is highest it means there is greater inconsistency in interest earning of NIBL than other banks. C.V. of HBL is lowest which shows that there is consistency in interest earning than other banks.

4.1.4.5. Earning Per Share (EPS)

EPS is one of the most widely quoted statistics when there is a discussion of a company's performance or share value. It is the profit after tax figure that is divided by the number of common shares to calculate the value of earnings per share. This figure tells us what profit the common shareholders for every shareholder have earned. A company can decide whether to increase or reduce the number of shares on issue. This decision will automatically affect the earnings per share. The profits available to the ordinary shareholders are represented by net profit after taxes and preference dividend.

Figure 4.14

Earning Per Share

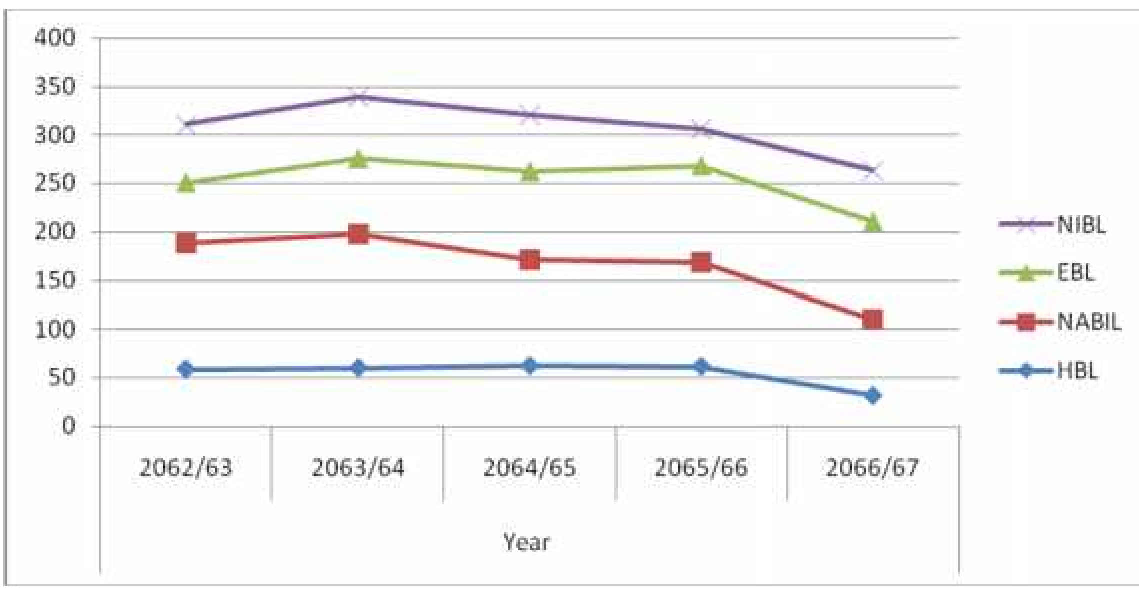

Table 4.14

Earning Per Share (EPS)

Bank	Year	Mean	S.D	C.V

	2062/63	2063/64	2064/65	2065/66	2066/67			
HBL	59.24	60.66	62.74	61.9	31.8	55.268	49.949	0.904
NABIL	129.21	137.08	108.31	106.76	78.61	111.994	98.383	0.878
EBL	62.78	78.42	91.82	99.99	100.16	86.634	83.88	0.968
NIBL	59.35	62.57	57.87	37.42	52.55	53.952	47.864	0.887

Source : Annual Report of sample banks.

In the above table, there is fluctuating trend in EPS of sample banks. NABIL has highest EPS in the F/Y 2063/64 i.e. 137.08 and lowest EPS in the F/Y 2066/67 i.e. 78.61. HBl has lowest EPS in in the F/Y 2066/67 i.e. 31.8. The mean ratio of NABIL bank is highest i.e.111.994 which indicates that the share holders of this have earning more than other banks. The mean ratio of NIBL is lowest i.e. 53.952.

C.V. of HBL, NABIL, EBL and NIBIL are .904, .878, .968 & .887 respectively. HBL has highest C.V. that means the EPS of HBL is inconsistent. NABIL has lowest C.V. which means the EPS of this bank is consistent than other banks.

4.1.5 Lending Efficiency Ratio

The efficiency of a firm depends to a large extent on the efficiency with which its assets are managed and utilized. This ratio is concerned with measuring the efficiency of bank. This ratio also shows the utility of available fund. The following are the various type of lending efficiency ratios:

4.1.5.1. Non-Performing Loan to Total Loan & Advances Ratio

NRB has directed all the commercial banks create loan loss provision against the doubtful and bad debts. But both of our concerned banks have not provided data on non-performing loan in balance sheet and profit and loss account.

Figure 4.15

Non-Performing Loan to Total Loan & Advances

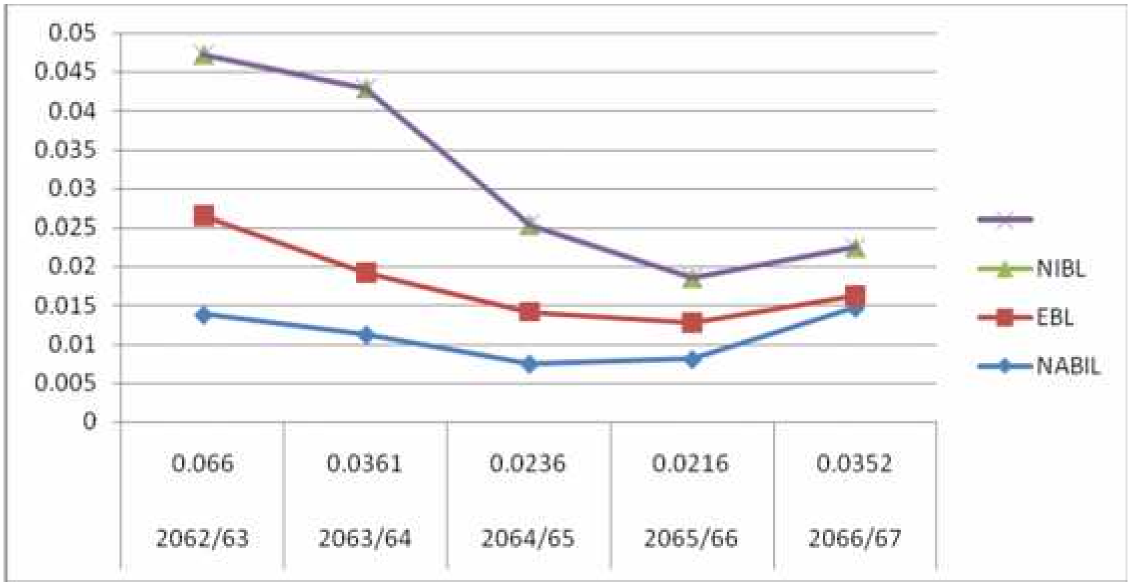

Table 4.15

Non-Performing Loan to Total Loan & Advances Ratio

Bank	**Year**					**Mean**	**S.D**	**C.V**
	2062/63	**2063/64**	**2064/65**	**2065/66**	**2066/67**			
HBL	0.066	0.0361	0.0236	0.0216	0.0352	0.037	0.03	0.816
NABIL	0.0138	0.0112	0.0074	0.008	0.0147	0.011	0.01	0.878
EBL	0.0127	0.008	0.0068	0.0048	0.0016	0.007	0.006	0.862
NIBL	0.0207	0.0237	0.0112	0.0058	0.0062	0.014	0.013	0.942

Source : Annual Report of sample banks.

Above table shows, that the ratio of all sample banks have decreasing trend during study period except in F/Y2066/67. The highest mean ratio of HBL i.e. 0.037 shows increased volume of non-performing loan. EBL has lower mean ratio i.e. 0.007 and it shows better performance than other and the mean ratio of NABIL and NIBL is 0.011, 0.014 which is also good in comparison.

Observing the coefficient of variation of the ratio, we can conclude that ratio of HBL during the study period has been more consistent. NIBL, NABIL and EBL shows less consistency because of its higher CV and their CV are 0.942, 0.878 and 0.862 respectively.

The analysis shows that HBL has bad performance in case of non-performing loan. NIBL also has great amount of non-performing loan if non-performing loan will increased that effect in overall banking business. So, HBL and NIBL should increase their provision amount and it will decreases profit.

4.1.5.2. Loan loss provision to total loan & advances ratio

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

Figure 4.16

Loan Loss Provision to Total Loan & Advances Ratio

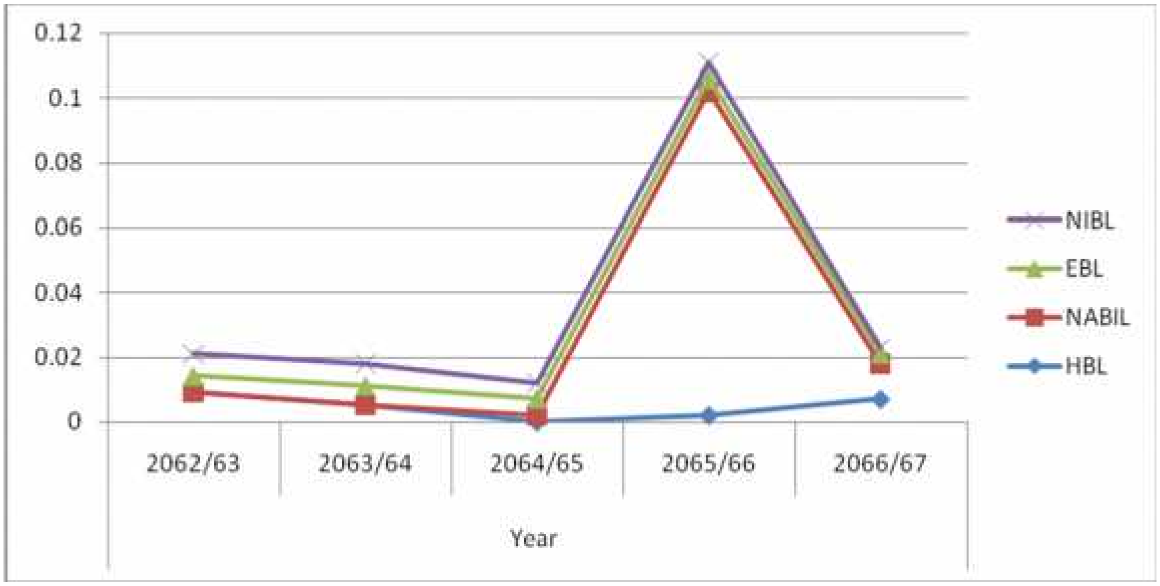

Table 4.16

Loan Loss Provision to Total Loan & Advances Ratio

Bank	**Year**					**Mean**	**S.D**	**C.V**
	2062/63	**2063/64**	**2064/65**	**2065/66**	**2066/67**			
HBL	0.009	0.005	0	0.002	0.007	0.005	0.004	0.959
NABIL	0	0	0.002	0.1	0.011	0.023	0.046	2.041
EBL	0.005	0.006	0.005	0.004	0.003	0.005	0.004	0.902
NIBL	0.007	0.007	0.005	0.005	0.002	0.005	0.005	0.886

Source : Appendix 10

The above table shows the loan loss provision to total loan & advances ratio of HBl, NABIL, EBL & NIBL. HBL, EBL & NIBl has lowest mean Ratio which are also equal to each other i.e 0.005. It indicates that there are good quality of assets in total volume of loan & advances. NABIL has highest mean ratio i.e..023 which implies that the quality of asset in volume of loan & advances is less good than other three banks.

4.2 Statistical Tools

Under this section, correlation analysis, trend analysis and hypothesis test have been used for the different variables.

4.2.1 Coefficient of Correlation Analysis

Under this topic, Karl Pearson's coefficient of correlation measures the relationship between variables and denoted by r. Coefficient of correlation analysis is that statistical tool which can be used to describe the degree to which one variable is linearly related to another. It is commonly used to measure the linear association of two variables. The result of coefficient of correlation is always between + 1 to -1 when r = +1, it means there is perfect relationship between two variables and vice versa. When r = 0, it means there is no relationship between two set of figures. Under this topic it is tried to find out relationship between total deposit and loan advances, total income and loan and advance.

4.2.1.1. Coefficient of Correlation between Total Deposit and Loan and Advances

Total deposit is independent variable and loan and advances is dependent variable. The coefficient of correlation between them measures the degree of relationship between these two variables. The main objective of computing r between these two variables is to justify whether deposits are significantly used as loan and advances in a proper way or not.

Table 4.17

Correlation between Total Deposit and Loan & advances

Bank	Correlation (r)	Coefficient of Determination	PE Ratio	6*PE Ratio
HBL	0.19	0.0361	0.29	1.74
NABIL	0.3	0.09	0.27	1.64
EBL	0.27	0.0729	0.28	1.67
NIBL	0.45	0.2025	0.24	1.44

Source : Appendix 11-14

The above table shows that the coefficient of correlation n between total deposit and loan and advances of HBL,NABIL, EBL and NIBL are 0.19, 0.3, 0.27 and 0.45 respectively. Since the correlation coefficient of these banks are higher than 6* PE ratio, the values of r of these banks are significant and these value also shows the positive relationship between total deposit and loan and advances. Here, the value of coefficient of determination (r2) of HBL,NABIL, EBL and NIBL are 0.0361, 0.09, 0.0729 and 0.2025 respectively which implies that respective percentage of variation in loan and advances due to the variation in the total deposit.

4.2.1.2. Coefficient of Correlation between Total Loan and Advances and Net profit

Loan and advances is independent variable and total income is dependent variable. The correlation between total income and loan and advances measures the relationship between these two variables. The relationship between these two variables describes the degree of relationship. The value of r explains whether percentage change in loan and advance contribute to increase the some percentage of income.

Table

Correlation between Loan & advances and Net Income

Bank	**Correlation (r)**	**Coefficient of Determination**	**PE Ratio**	**6*PE Ratio**
HBL	0.002	0.999996	0.3	1.807
NABIL	0.0084	0.999929	0.3	1.807
EBL	0.0092	0.99915	0.3	1.807

NIBL	0.0131	0.7975	0.24	1.441

Source : Appendix 15-18

The above table shows that the correlation coefficient between total income and loan and advances of HBL, NABIL, EBL and NIBL are 0.002, 0.0084, 0.0092 and 0.0131 respectively, it means positive relationship between these variables .As comparing these r values with 6* PE r, it can be said that there is no significant relationship between total income and loan and advances .The values of 6*PE ratio is greater than r values or this value is less than 6* PE r so it can be said that there is no significant relationship between these variables.

Here, the coefficient of determination (r2) of HBL, NABIL, EBL and NIBL are 0.999996, 0.999929, 0.99915 and 0.797 5respectively which implies that respective percentage of variation in Net Income due to variation in the total loan and advances.

4.5 Major Findings of the Study

From the analysis of primary data and secondary data major findings of the study can be analyzed as follows

Liquidity ratio

All five banks are not being able to maintain the appropriate standard of current ratio i.e. 2:1.It is the indication of unsatisfactory liquidity position. But comparatively EBL is found in better position than other banks as it has higher current ratio, cash and bank balance to total deposit ratio, cash and bank balance to interest sensitive ratio, cash and bank balance to interest sensitive ratio.

The mean ratios of HBL and NABIL shows low liquidity position and it also indicates that these banks have not ability to satisfy the credit needs of the community, to meet demand for deposits, to oblige maturing obligation on time without unfavorable impact on longer projections on profitability in comparison . Similarly, EBL and NIBL are in average in comparison. As satisfactory liquidity position is one of the distinguishing characteristics of sound banking system, EBL has sound banking system than other banks.

Assets management ratio

Among the five sample commercial banks, NIBL has better efficiency to manage its assets in profitable manner. It is found that the mean ratios of loan and advances to total assets, loan and advances to total deposit of NIBL are higher than others but NABIL and HBL have lower mean ratio. The higher mean ratio of NIBL indicates that it is better in mobilization of fund as loan and advances.

Lower mean ratios of NABIL and HBL shows that they have not better efficiency to manage its assets in profitable manner. The mean ratios of EBL are in average in comparison.

In case of total deposit to total investment ratio, HBL is better as it has higher mean ratio than others. It indicates that this bank have better capacity of mobilizing total deposit on investment .But EBL has been seen interested in investing its fund in different securities as it has lower mean ratio of total investment to total deposit . The NABIL and NIBL are in average position in comparison.

Profitability ratio

Profitability is the best indicator of overall efficiency of any organization. NABIL shows better performance regarding profitability ratio. The mean ratio of interest income to interest expenses of NABIL is higher than that of others but the mean ratio of NIBL is lower than that of others. HBL and EBL have higher mean ratio than NIBL but lower than NABIL. So it can be said they have average profitability position in comparison.

NABIL has highest and EBL has lowest mean ratio of return on loan and advances. HBL and NIBL are in average .So it is found that NABIL has better position; it has better profitability of funds invested in banks assets. NABIL has been seen able to mobilize their assets and also able in better utilization of resources of owners and HBL & NIBL has but better position regarding profitability ratio.

Among the various measurement of profitability ratios net profit/loss to total asset ratio reflects the relative measure of profitability. NABIL has better performance regarding their ratio, but HBL has not better position in comparison and NIBL and EBL has been seen in average. It is also found that NABIL has been seen able in better utilization of assets.

The mean ratio of HBL bank is highest & the mean ratio of NIBL is lowest. HBL has better interest income in comparison to other banks. NIBL has not better income & the NABIL & EBL has average interest income in the study period.

EPS of NABIL bank is highest which means earning to the share holder is better than other banks. NIBL has lowest EPS. The EPS of HBL is also not better but more than NIBL. The EPS of EBL is average.

Lending Efficiency Ratio

The mean ratio of non-performing loan to total loan and advances of HBL is higher and of EBL is lower than that of others. NABIL and NIBL have also lower mean ratio of non-performing loan to total assets than HBL but have higher mean ratio than EBL. So it is found that HBL has high percentage of non recovery loan which causes decrease in profit but EBL has low percentage of non recovery loan.

Greater loan loss provision is made in income statement if high loan loss is expected. This will lead to low profit and possible losses that produce low profit to shareholders but strengthen and stabilize financial position of the bank. The mean ratio of loan loss provision to total loan and advances of NABIL is higher than that of others and the mean ratio of loan loss provision to total loan and advances of EBL& HBL is lower. So it is found that NABIL has high expectation of loan loss and greater loan loss provision has been made but EBL & HBL has been seen safe from loan loss.

Co-efficient of correlation analysis

The degree of relationship between total deposit and loan and advances of HBL, EBL, NABIL and NIBL are positive but not perfectively correlated because of the 'r' values of these banks are less than 6*PE ratio.

The degree of relationship between total income and loan and advances of HBL, NABIL, EBL and NIBL are significant because Karl Pearson's coefficient of correlation value of these banks are positive but less than 6* PE ratio. There are positive relationship between these banks due to positive 'r' but not perfectively correlated.

CHAPTER- V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is a complete conclusive and suggestive package which contains summary, conclusion of the findings and actionable plans i.e. suggestion for further improvement. This would be meaningful to the commercial banks in credit management. Summary gives the brief introduction to all the chapters of the study and shows the actual facts of the present situation under the topic of the study. Conclusion of the findings is based on the consequences of the analysis of the relevant data by using financial as well as statistical tools. The recommendations are presented in term of suggestion, which are prepared on the basis of findings and conclusion.

5.1 Summary

The development and expansion of financial institution is essential for economic growth of the country. CBs are such financial institutions which collect funds from depositors and mobilize its fund as loan and advances according to the need of client .A term credit plays a vital role in the economy. Better management of the credit is essential to make high return for every CBs. CBs want to maximize return and minimize credit risk. Credit management strongly recommends analyzing and managing the credit risk. When borrower will fail to meet its obligation in accordance with the agreed terms and conditions, then credit risk problem is arises. So, to minimize such risk, all CBs should have to establish and use standards in making credit decisions. Loans are risky assets though a bank invests most of its resources in granting loan and advances. The loan provided by CBs in different sector contributes to the society and whole economy, because credit function is the demand of economy but sometimes credit becomes dangerous tool if it is not properly managed and controlled. Too much and too little credit is harmful. Too much credit leads to inflation which causes direct and immediate damage to creditors and customers and too little credit lead to deflation which brings down the level of output, employment and income. So, the directives stipulated by NRB for CBs become essential to manage credit in proper way and playing great role of the comparative analysis of credit management of CBs.

The researcher has identified the research problem of four CBs .The objectives which are determined on the basis of research problem. In order to carry out this study, secondary sources of data have been used. The analysis is performed with the help of financial and statistical tools. The presentation and analysis of data providers the clear picture in terms of financial strength and weakness of these CBs. The analysis is associated with comparison and interpretation. Various financial ratios of four commercial banks are analyzed such as liquidity ratio, assets management ratio, Leverage ratio, profitability ratio and Lending efficiency ratio. Under statistical analysis, some relevant statistical tools such as standard Deviation, Covariance and coefficient of correlation analysis has been used. It is helpful to analyze the credit contribution on total profitability. The data which are used in this study, obtained from the annual reports of concerned commercial banks, SEBON, NRB and different journals and newspaper. The present study has been undertaken to examine and evaluate the financial performance of five CBs .The financial statement of five years i.e. 2005/06 to 2009/10 (2062/63 to 2066/67) has been examined for the purpose of the study. The analysis and interpretation of data has been done by applying the wide variety of methodology as stated in Chapter Three.

Major findings are derived in earlier chapter. All four banks are not being able to maintain the appropriate standard of current ratio. From analysis it is found that HBL and NABIL have not ability to satisfy the credit needs of the community, EBL is found in slightly better position and NIBL is found in average position. NIBL has better efficiency to manage its assets in profitable manner but NABIL and HBL have not better efficiency to manage its assets in profitable manner. EBL is found average efficiency to manage asset as profitable manner. Similarly, NABIL has high expectation of loan loss so greater loan loss provision has been made but EBL has been seen safe from loan loss. NABIL has high and EBL has low percentage of non recovery loan. Similarly, NABIL shows better performance regarding profitability ratio. NIBL has not better position regarding profitability ratio.

5.2 Conclusion

From the above analysis and findings of the study, the researcher has been able to draw following certain conclusion:

From the analysis, it is found that the liquidity position of EBL is better than that of others but HBL and NABIL have low liquidity position. It shows EBL has made enough cash and bank balance and it can pay liabilities to its depositors and it has ability to satisfy credit needs of community but from the profit making point of view, holding higher level of amount is also not good for any bank and holding low level of amount creates negative impact on the goodwill and reputation of the bank. So, all these banks should try to maintain their liquidity position as standard. On the basis of assets management ratio, it has been concluded that NIBL has better position than that of others. It has high loan and advances to total assets ratio and loan and advances to total deposit ratio. The mean ratios of NABIL and HBL show their weakness in assets management but they have high ratio of totals investment to total deposit. In conclusion, it can be said that NIBl is able to manage its assets to compete in this competitive banking business and EBL is also able to manage its assets in comparison of NABIL and HBL.

On the basis of profitability ratio, it has been concluded that the profitability position of NABIL is comparatively better than that of others. NABIL is able to charge high interest rate but it has low rate of interest offered in deposit. So it can conclude that NABIL has better profitability of funds invested in banks assets and has been seen able to mobilize its assets and able to utilize of resources of owners but NIBL has not better profitability position.

On the basis of lending efficiency ratio, it has been concluded that NABIL has been made greater loan loss provision, but EBL is felling sage from loan loss than others. Similarly, HBL has high percentage of non-performing loan and EBL has low percentage of it. So these banks should try to adopt sound credit collection policy which helps to control loan loss and decreases non performing loan. If they do not do so, it will causes great losses.

5.3 Recommendations

Based on the analysis and the findings of the study, the following recommendations are suggested to improve present financial performance of four banks.

In commercial banks the liquidity position affects external and internal facts such as the prevailing interest rate, supply and demand position of loans, central banks requirement and the growth position of financial market .In this study it has been seen that all four banks are not able to maintain the appropriate standard of current ratio but comparatively EBL has better liquidity position but NABIL and HBL have unsatisfactory liquidity position. So, these banks are recommended to increase cash and bank balance to satisfy the credit needs of community. They are also suggested to keep the reasonable amount of liquidity to maintain their short term solvency.

In practice, the CBs are urban based, serve quite, a few elite, and affluent, big customers and heavily depended on fee based activities. To meet social responsibilities it is recommended to these banks should promote and mobilize the funds in rural areas. In this study it is found that the commercial banks are hesitated to invest in rural areas because of the reason of risk but it is very important to invest and to mobilize its fund in rural areas to eliminate poverty and to develop economy.

All commercial banks should have greater efficiency to utilize funds provided by outsiders .Depositors money has mainly tied up in loans. The largest amount of the bank in the assets side is loan and advances. Negligence in administering these assets could be the main cause of a liquidity crisis in the bank. The study has been reveals that NIBL's loan and advances to total deposit ratios are higher than other banks. So, other three banks are strongly recommended to follow liberal lending policy and invest more and more amount of total deposit in loan and advances.

Increase in loan loss provision decreases the profit result. If high loan loss is expected, greater loan loss provision is made in income statement and this will lead to low profit and possible losses .If loan are not distributed properly and cautiously then it may be main cause of the failure of the banks. From this study it is found that NABIL has high expectation of loan loss so it has been made greater loan loss provision and the non performing loan to total loan and advances of HBL is higher than those others. So these banks are recommended to adopt sound credit collection policy. It helps them to decrease loan loss provision and non performing loan. So these banks must be careful in strengthen credit collection policy.

The main focus of commercial banks in to be enough profit. The management of the firm is interested in operating efficiently of the firm's profitability ratios but commercial banks should be careful in increasing profit in a real sense to maintain the confidence of shareholders, depositors and its customer's .Comparatively, NABIL has been able to utilize resources of owners. The profitability position of NABIL and EBL is better than that of others .So, banks are recommended to utilize its risky assets and shareholders fund to gain high profit margin.

The development of competition reduces the non fund based income along with shore in credit market for traditional areas of lending. So these banks are recommended to innovate with new areas of lending and also more to rural sector in search of new lending area.

Strictly followed NRB directives, helps to reduce credit risk arising from borrowers‟ defaulter, lack of proper credit appraisal, defaulter by black listed borrowers and professional defaulters. Government has established credit information beuro which will provide suggestion to commercial banks. So these banks are recommended to follow NRB directives.

Looking at the current trend of banking business these banks must be very much careful on formulating marketing strategy to serve its customer. All the CBs are following almost same marketing strategy. The marketing strategy should be innovative that would attract and retain the customer. So these banks are recommended to develop an innovative approach to bank marketing for its well being and sustainability in the market.

Operating income level of these banks does not seem satisfactory. So these banks should increase their operations and efficiency by mobilizing their resources in profit generating sector. By using modern technology, computer network experts and well trained personnel, these banks should control operating expenses

All commercial banks should try to give better and instant service to their customer. From analysis, it is shown less that 50% are selected these banks for instant service so to increase the number of customer and their satisfaction level, banks are recommended to concentrate about their service quality.

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APPENDIX

Appendix 1
Analysis of Current Ratio (Rs. In milion)

Particular	Bank	Year				
		2062/63	**2063/64**	**2064/65**	**2065/66**	**2066/67**
Current Assets	**HBL**	28254.223	32288.346	35104.369	37723.166	40600.869
	NABIL	21466.216	26454.447	35928.326	42341.712	50458.031
	EBL	15621.75	21039.816	26412.614	35997.525	40383.478
	NIBL	20785.598	26596.591	37625.617	51559.022	55769.728
Current Liabilities	**HBL**	26709.054	30375.688	32028.637	34714.154	37827.361
	NABIL	19633.207	24308.372	33513.469	39492.699	46911.044
	EBL	13818.25	18213.03	24025.728	33783.601	37482.424
	NIBL	18946.126	24521.257	34530.564	46819.238	50170.184
Ratios	**HBL**	1.058	1.063	1.096	1.087	1.073
	NABIL	1.093	1.088	1.072	1.072	1.076
	EBL	1.131	1.155	1.099	1.066	1.077
	NIBL	1.097	1.085	1.090	1.101	1.112

Appendix 2

Analysis of Cash & bank Balance to Total Deposit Ratio (Rs. In Milion)

Particular	Banks	Year				
		2062/63	2063/64	2064/65	2065/66	2066/67
Cash & Bank Bal.	HBL	1717.322	1753.341	1448.142	3048.523	3119.014
	NABIL	630.238	1399.825	2671.141	3372.512	1400.097
	EBL	1552.967	2391.420	2667.971	6164.371	7818.815
	NIBL	2336.521	2441.514	3754.941	7918.003	6815.889
Deposits	HBL	26490.851	30048.417	31842.345	34681.345	37611.202
	NABIL	19347.999	23342.285	31915.047	37348.255	46410.006
	EBL	13802.444	18186.250	23976.298	33322.946	36932.310
	NIBL	18927.305	24488.855	34451.726	46698.100	50094.725
Ratios	HBL	0.065	0.058	0.045	0.088	0.083
	NABIL	0.033	0.060	0.084	0.090	0.030
	EBL	0.113	0.131	0.111	0.185	0.212
	NIBL	0.123	0.100	0.109	0.170	0.136

Appendix 3

Analysis of Cash & Bank Balance to Current Deposit Ratio (Rs.in million)

Particular	Banks	Year				
		2062/63	2063/64	2064/65	2065/66	2066/67
Cash & Bank Bal.	HBL	1717.352	1757.341	1214.025	3048.52	3866.47
	NABIL	630.238	1399.825	2671.141	3372.512	1400.097
	EBL	1552.967	2391.42	2667.971	6164.371	7818.815
	NIBL	2336.521	2441.514	3754.941	7918.003	6815.889
Current Deposits	HBL	5516.182	5964.608	5429.402	3884.36	4692.496
	NABIL	3276.385	3758.107	5727.554	5978.868	8620.898
	EBL	1337.578	1956.84	2865.612	5196.631	4719.191
	NIBL	1984.144	2546.691	3745.732	4484.56	4805.294
Ratios	HBL	0.311	0.295	0.224	0.785	0.824
	NABIL	0.192	0.372	0.466	0.564	0.162
	EBL	1.161	1.222	0.931	1.186	1.657
	NIBL	1.178	0.959	1.002	1.766	1.418

Appendix 4

Analysis of Cash & Bank Balance to Interest Sensitive Ratio (Rs.in million)

Particular	Banks	Year				
		2062/63	2063/64	2064/65	2065/66	2066/67
Cash & Bank Bal.	HBL	1717.352	1757.341	1214.025	3048.52	3866.47
	NABIL	630.238	1399.825	2671.141	3372.512	1400.097
	EBL	1552.967	2391.42	2667.971	6164.371	7818.815
	NIBL	2336.521	2441.514	3754.941	7918.003	6815.889
Saving Deposit	HBL	20974.609	24083.811	26413.386	30797.946	32918.705
	NABIL	16071.013	19584.177	26187.493	31369.387	37789.802
	EBL	12464.866	16229.413	21110.686	28126.315	32213.118
	NIBL	16943.161	21942.163	30705.994	42213.539	45289.43
Ratios	HBL	0.082	0.073	0.046	0.099	0.117
	NABIL	0.039	0.071	0.102	0.108	0.037
	EBL	0.125	0.147	0.126	0.219	0.243
	NIBL	0.138	0.111	0.122	0.188	0.150

Appendix 5

Analysis of Total Investment to Total Deposit Ratio (Rs.in million)

Particular	Banks	Year				
		2062/63	2063/64	2064/65	2065/66	2066/67
Total Investment	HBL	10889.031	11822.984	13340.176	8710.69	8444.91
	NABIL	6178.533	8945.31	9939.771	10826.379	13670.916
	EBL	4200.515	4984.314	5059.557	5948.48	5008.307
	NIBL	5602.868	6505.679	6874.023	7399.811	8635.53
Total Deposit	HBL	26490.851	30048.417	31842.789	34682.306	37611.202
	NABIL	19347.999	23342.285	31915.047	37348.255	46410.006
	EBL	12464.866	16229.413	21110.686	28126.315	32213.118
	NIBL	13802.444	18186.25	23976.298	33322.946	36932.31
Ratios	HBL	0.411	0.393	0.419	0.251	0.225
	NABIL	0.319	0.383	0.311	0.290	0.295
	EBL	0.337	0.307	0.240	0.211	0.155
	NIBL	0.406	0.358	0.287	0.222	0.234

Appendix 6

Analysis of Loan & Advance to Total Asset Ratio (Rs.in million)

Particular	Banks	Year				
		2062/63	2063/64	2064/65	2065/66	2066/67
Loan &	HBL	15761.977	17793.724	20179.995	24793.155	27980.628

Advances	NABIL	12922.543	15545.778	21365.053	27589.933	32268.873
	EBL	9801.307	13664.081	18339.085	23884.673	27556.356
	NIBL	12776.208	17286.427	26996.652	36241.206	40318.308
Total Assets	HBL	30579.808	34314.868	36858.006	39320.322	42717.124
	NABIL	22329.971	27253.393	37132.759	43867.397	52150.237
	EBL	15959.284	21432.574	27149.342	36916.848	41382.76
	NIBL	21330.137	27590.844	38873.306	53010.863	57305.413
Ratios	HBL	0.515	0.519	0.548	0.631	0.655
	NABIL	0.579	0.570	0.575	0.629	0.619
	EBL	0.614	0.638	0.675	0.647	0.666
	NIBL	0.599	0.627	0.694	0.684	0.704

Appendix 7
Analysis of Debt to Equity Ratio (Rs.in million)

Particular	Banks	Year				
		2062/63	2063/64	2064/65	2065/66	2066/67
Debt	HBL	360	360	860	500	500
	NABIL	0	0	240	300	300
	EBL	300	300	300	300	300
	NIBL	550	800	1050	1050	1050
Equity	HBL	772.2	810.81	1013.512	1216.215	2000
	NABIL	491.654	491.654	689.216	1448.62	2028.773
	EBL	518	518	831.4	1030.467	1279.607
	NIBL	590.586	801.352	1203.915	2407.068	2409.097
Ratios	HBL	0.466	0.444	0.849	0.411	0.250
	NABIL	0.000	0.000	0.348	0.207	0.148
	EBL	0.579	0.579	0.361	0.291	0.234
	NIBL	0.931	0.998	0.872	0.436	0.436

Appendix 8
Analysis of Debt to Total Asset Ratio (Rs. In million)

Particular	Banks	Year				
		2062/63	2063/64	2064/65	2065/66	2066/67
Debt	HBL	360	360	860	500	500
	NABIL	0	0	240	300	300
	EBL	300	300	300	300	300
	NIBL	550	800	1050	1050	1050
Total	HBL	30579.808	34314.868	36858.006	39320.322	42717.124

Assets	NABIL	22329.971	27253.393	37132.759	43867.397	52150.237
	EBL	15959.284	21432.574	27149.342	36916.848	41382.76
	NIBL	21330.137	27590.844	38873.306	53010.863	57305.413
Ratios	HBL	0.012	0.010	0.023	0.013	0.012
	NABIL	0.000	0.000	0.006	0.007	0.006
	EBL	0.019	0.014	0.011	0.008	0.007
	NIBL	0.026	0.029	0.027	0.020	0.018

Appendix 9

Analysis of Interest Income to Interest Expenses Ratio (Rs. In million)

Particular	Banks	Year				
		2062/63	2063/64	2064/65	2065/66	2066/67
Interest Income	HBL	1626.473	1775.582	1963.647	2342.198	3148.605
	NABIL	1309.998	1587.858	1978.696	2798.486	4047.725
	EBL	903.411	1144.408	1548.657	2186.814	3102.451
	NIBL	1172.742	1584.987	2194.275	3267.941	4653.521
Interest Expenses	HBL	648.841	767.411	823.744	934.778	1553.53
	NABIL	357.161	555.71	758.436	1153.28	1960.107
	EBL	401.397	517.166	632.609	1012.874	1572.79
	NIBL	490.946	685.53	992.158	1686.973	2553.847
Ratios	HBL	2.507	2.314	2.384	2.506	2.027
	NABIL	3.668	2.857	2.609	2.427	2.065
	EBL	2.251	2.213	2.448	2.159	1.973
	NIBL	2.389	2.312	2.212	1.937	1.822

Appendix 10

Analysis of Loan Loss Provision to Total Loan & Advances Ratio (Rs.in million)

Particular	Banks	Year				
		2062/63	2063/64	2064/65	2065/66	2066/67
Loan loss Provision	HBL	143.813	83.839	0	59.237	189.646
	NABIL	3.102	3.208	48.262	24.0866	355.829
	EBL	53.527	84.452	97.74	93.084	77.01
	NIBL	84.426	128.817	130.214	165.851	93.056
loan & Advances	HBL	15761.977	17793.724	20179.995	24793.155	27980.628
	NABIL	12922.543	15545.778	21365.053	27589.933	32268.873
	EBL	9801.307	13664.081	18339.085	23884.673	27556.356
	NIBL	12776.208	17286.427	26996.652	36241.206	40318.308

Ratios	**HBL**	0.009	0.005	0.000	0.002	0.007
	NABIL	0.000	0.000	0.002	0.001	0.011
	EBL	0.005	0.006	0.005	0.004	0.003
	NIBL	0.007	0.007	0.005	0.005	0.002

Appendix 11

Correlation Coefficient between Total Deposit and Loan & Advances of HBL

Year	X	Y	X2	Y2	XY
2062/63	26.49	15.761	701.720	248.409	417.509
2063/64	30.048	17.793	902.882	316.591	534.644
2064/65	31.842	20.179	1013.913	407.192	642.540
2065/66	34.682	24.793	1202.841	614.693	859.871
2066/67	37.611	27.98	1414.587	782.880	1052.356
N=5	**160.673**	**106.506**	**5235.944**	**2369.765**	**3506.919**

Where,
X= Total Deposit
Y= Total Loan & Advances
Total = Summation of the value from F/Y 2062/63 to 2066/67

∑X= 160.673 ∑Y= 106.506 ∑X2= 5235.944 ∑Y2= 2369.765 ∑XY= 3506.919

Correlation (r) =

$$\frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2}\sqrt{N\sum Y^2 - (\sum Y)^2}}$$

(r) = 421.958 / 2253.791
(r) = 0.19

P.E= $0.6745\left(\frac{1-r^2}{\sqrt{N}}\right)$

P.E= 0.29

Appendix 12

Correlation Coefficient between Total Deposit and Loan & Advances of NABILS

Year	X	Y	X2	Y2	XY
2062/63	19.347	12.922	374.306	166.978	250.002

2063/64	23.342	15.545	544.849	241.647	362.851
2064/65	31.915	21.365	1018.567	456.463	681.864
2065/66	37.348	27.589	1394.873	761.153	1030.394
2066/67	46.41	32.268	2153.888	1041.224	1497.558
N=5	**158.362**	**109.689**	**5486.484**	**2667.465**	**3822.669**

Where,
X= Total Deposit
Y= Total Loan & Advances
Total = Summation of the value from F/Y 2062/63 to 2066/67

∑X= 158.362   ∑Y= 109.689   ∑X2= 5486.484   ∑Y2= 266.465   ∑XY= 3822.669

Correlation (r) =
$$\frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2}\sqrt{N\sum Y^2 - (\sum Y)^2}}$$

(r) = 1742.776 / 5732.085
(r) = 0.3

P.E= $0.6745\left(\frac{1-r^2}{\sqrt{N}}\right)$

P.E= 0.27

Appendix 13

Correlation Coefficient between Total Deposit and Loan & Advances of EBL

Year	X	Y	X2	Y2	XY
2062/63	13.802	9.801	190.495	96.060	135.273
2063/64	18.186	13.664	330.731	186.705	248.494
2064/65	23.976	18.339	574.849	336.319	439.696
2065/66	33.322	23.884	1110.356	570.445	795.863
2066/67	36.932	27.556	1363.973	759.333	1017.698
N=5	**126.218**	**93.244**	**3570.403**	**1948.862**	**2637.024**

Where,
X= Total Deposit
Y= Total Loan & Advances

Total ═ Summation of the value from F/Y 2062/63 to 2066/67

∑X═ 126.218	∑Y═ 93.244	∑X2═ 3570.403	∑Y2═ 1948.862	∑XY═ 2637.024

Correlation (r) = $\dfrac{N \quad XY \, Z \quad X \,|\, \quad Y}{\sqrt{N \quad X2 \, Z(\quad X)2} \;\; \sqrt{N \quad Y2 \, Z(\quad Y)2}}$

(r) = 1416.047 / 5178.287

(r) = 0.27

P.E= $0.6745\left(\frac{1-r^2}{\sqrt{N}}\right)$

P.E= 0.28

Appendix 14

Correlation Coefficient between Total Deposit and Loan & Advances of NIBL

Year	X	Y	X2	Y2	XY
2062/63	18.927	12.776	358.231	163.226	241.811
2063/64	24.488	17.286	599.662	298.806	423.300
2064/65	34.451	26.996	1186.871	728.784	930.039
2065/66	46.698	36.241	2180.703	1313.410	1692.382
2066/67	50.094	40.318	2509.409	1625.541	2019.690
N=5	**174.658**	**133.617**	**6834.877**	**4129.767**	**5307.222**

Where,

X═ Total Deposit

Y═ Total Loan & Advances

Total ═ Summation of the value from F/Y 2062/63 to 2066/67

∑X═ 174.658	∑Y═ 133.617	∑X2═ 6834.877	∑Y2═ 4129.767	∑XY═ 5307.222

Correlation (r) = $\dfrac{N \quad XY \, Z \quad X \,|\, \quad Y}{\sqrt{N \quad X2 \, Z(\quad X)2} \;\; \sqrt{N \quad Y2 \, Z(\quad Y)2}}$

(r) = 3198.833 / 7156.340

(r) = 0.45

P.E= $0.6745\left(\frac{1-r^2}{\sqrt{N}}\right)$

P.E= 0.24

Appendix 15

Correlation Coefficient between Loan & Advances and Net Income of HBL

Year	X	Y	X2	Y2	XY
2062/63	15.761	0.4574	248.409	0.209	7.209
2063/64	17.793	0.4918	316.591	0.242	8.751
2064/65	20.179	0.6358	407.192	0.404	12.830
2065/66	24.793	0.7528	614.693	0.567	18.664
2066/67	27.98	0.5087	782.880	0.259	14.233
N=5	**106.506**	**2.8465**	**2369.765**	**1.681**	**61.687**

Where,
X= Loan & Advances
Y= Net Income
Total = Summation of the value from F/Y 2062/63 to 2066/67

∑X= 106.506 ∑Y= 2.8465 ∑X2= 2369.765 ∑Y2= 1.681 ∑XY= 61.687

Correlation (r) = $\frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2}\sqrt{N\sum Y^2 - (\sum Y)^2}}$

(r) = 5.266 / 2655.785
(r) = 0.002

P.E= $0.6745\left(\frac{1-r^2}{\sqrt{N}}\right)$

P.E= 0.3

Appendix 16

Correlation Coefficient between Loan & Advances and Net Income of NABIL

Year	**X**	**Y**	**X2**	**Y2**	**XY**
2062/63	12.922	0.6352	166.978	0.403	8.208
2063/64	15.545	0.6739	241.647	0.454	10.476
2064/65	21.365	0.7464	456.463	0.557	15.947
2065/66	27.589	1.031	761.153	1.063	28.444
2066/67	32.268	1.139	1041.224	1.297	36.753
N=5	**109.689**	**4.2255**	**2667.465**	**3.775**	**99.828**

Where,

X═ Loan & Advances

Y═ Net Income

Total ═ Summation of the value from F/Y 2062/63 to 2066/67

∑X═ 109.689 ∑Y═ 4.2255 ∑X2═ 2667.468 ∑Y2═ 3.775 ∑XY═ 99.828

Correlation (r) =

$$\frac{N \quad XY Z \quad X \mid \quad Y}{\sqrt{N \quad X2\,Z(\quad X)2}\;\sqrt{N \quad Y2\,Z(\quad Y)2}}$$

(r) = .35.650 / 4369.059

(r) = 0.002

P.E= $0.6745\left(\frac{1-r^2}{\sqrt{N}}\right)$

P.E= 0.3

Appendix 17

Correlation Coefficient between Loan & Advances and Net Income of EBL

Year	**X**	**Y**	**X2**	**Y2**	**XY**
2062/63	9.801	0.2372	96.060	0.056	2.325
2063/64	13.664	0.2964	186.705	0.088	4.050
2064/65	18.339	0.4512	336.319	0.204	8.275
2065/66	23.884	0.6387	570.445	0.408	15.255
2066/67	27.556	0.8317	759.333	0.692	22.918

N=5	**93.244**	**2.4552**	**1948.862**	**1.447**	**52.822**

Where,
X═ Loan & Advances
Y═ Net Income
Total ═ Summation of the value from F/Y 2062/63 to 2066/67

∑X═ 93.244 ∑Y═ 2.4552 ∑X2═ 1948.862 ∑Y2═ 1.447 ∑XY═ 52.822

Correlation (r) = $\frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2}\sqrt{N\sum Y^2 - (\sum Y)^2}}$

(r) = 35.179 / 3828.125
(r) = 0.0092

P.E= $0.6745\left(\frac{1-r^2}{\sqrt{N}}\right)$

P.E= 0.3

Appendix 18
Correlation Coefficient between Loan & Advances and Net Income of NIBL

Year	X	Y	X2	Y2	XY
2062/63	12.776	0.3505	163.226	0.123	4.478
2063/64	17.286	0.5013	298.806	0.251	8.665
2064/65	26.996	0.6967	728.784	0.485	18.808
2065/66	36.241	0.9006	1313.410	0.811	32.639
2066/67	40.318	1.2659	1625.541	1.603	51.039
N=5	**133.617**	**3.715**	**4129.767**	**3.273**	**115.629**

Where,
X═ Loan & Advances
Y═ Net Income
Total ═ Summation of the value from F/Y 2062/63 to 2066/67

∑X═ 133.617 ∑Y═ 3.715 ∑X2═ 4129.767 ∑Y2═ 3.273 ∑XY═ 115.629

Correlation (r) = $\dfrac{N \quad XY\,Z \quad X \mid \quad Y}{\sqrt{N \quad X2\,Z(\quad X)2}\;\sqrt{N \quad Y2\,Z(\quad Y)2}}$

(r) = 81.757 / 6246.487

(r) = 0.0131

P.E= $0.6745\left(\frac{1-r^2}{\sqrt{N}}\right)$

P.E= 0.24