CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Nepal, being a developing country, is carrying to embark upon the math of economic development by economic growth rate. Even though, the process of economic development depends upon various factors, however, economists are now convinced that capital formation and its proper utilization play a paramount role. The increased in capital has always been a short of prime mover in the process of material growth and the rate of capital formation has been the development the network of a well organized financial system of the country has great bearing in this regard.

However, the extent of development of any country is demonstrated by development of financial sector of the country. The financial sector of any country comprises of banks, co-operatives societies, insurance companies, finance companies, stock market, foreign exchange market, mutual fund, provided fund and derivative market etc. among them commercial banks are major media in the frameworks of every economy. They collect scattered savings and provides loan to the various sector according to the need of client. When bank provides loan new business and industries are established which helps in the development of the country. In this way whole infrastructure of National development direction of economy rate of progress is strengthen by banking system.

A bank is a financial institution as it engages itself in the financial activities. It is not a small co-operative or a finance company but large institution with adequate monetary resources which are mobilized to uplift economic status of the country as well as citizens and in consideration growth of itself. The history of banking is as old as civilization. In the ancient Roam and Greece. The practice of storing precious metals and coins at safe places and loaning out money for public and private purpose on interest was prevalent. In England, banking had its origin with the London gold smith who in the seventeenth century began to accept deposit from merchants and other for safe keeping of money and other valuables. As public enterprise, banking made its first appearance in Italy in 1157 AD when the “Bank of Venice” was founded.

Linguistic (the science of language) and etymology (the study of the original words) suggest and integrating story about the origin of the word “bank”. Both the world French word “Banque” and the Italian word “Banca” were used countries ago to mean a “bench” or “money changer table”. Banks are among the most important financial institutions whose principle operation are concerned with accumulation of a temporarily idle money with general public for the purpose of advancing it to others for expenditure. Thus, the word banking has been used to denote a certain kind of trading money. A bank is therefore a corporation that deals in credit i.e. accepts deposit from the public, withdrawing by cheques and advance loans of various sorts. So far the Nepal’s banking history is concern it had begun with establishment of Nepal bank ltd in 1937. At that time, this bank had authorizes capital of Rs. 10 million and paid up capital Rs. 842 thousands. Nepal bank ltd was the first commercial bank with 51 percent government equity and 49 percent owned by general public. There were tow other specialized financial institute. Later with the passage of time, doors of foreign investments were also opened and a concept of joint venture came into existence. Joint venture is a process of sharing risk and return from specific venturing. There has been substantial growth in the number of joint venture banks in Nepal since 1985. The basic reason behind this is the government’s liberal policy of allowing domestic commercial banks to enhance their efficiency and competitiveness through modernization, mechanization, mechanization via computerization and prompt customer service. The existence of foreign joint venture banks has presented in an environment of healthy competition among the existing commercial banks. The increased competition forces the existing banks to improve their quality an extent services by simplifying procedure and by training, motivating their own staff to respond to the new challenges.

The Nepalese financial sector is composing of banking sector and nonbanking sector. Banking sector comprises Nepal Rastra Bank (NRB) and commercial banks. The non-banking sector includes development banks, finance companies, micro-credit development banks, co-operative financial institutions, non-government organizations (NGOs) performing limited banking activities and other financial institutions such as insurance companies, employee's provident fund, citizen investment trust, postal saving offences and Nepal stock exchange. However, this bulletin contains information only on those financial institutions which are licensed by NRB till fiscal year2009/10.During the last two and half decades the number of financial institution has grown significantly. at the beginning of the 1980s there were only two commercial banks and development banks in the country. After the induction of economic linearization policy, particularly the financial sector liberalization, that impetus in the establishment of new bank and non bank financial institutions. . Till fiscal year 2009/10, 27 commercial banks [class ‘A’], 63 development banks [class ‘B’] 77 finance companies [class ‘C’], 15 micro finance development bank [class ‘D’] and 16 co-operatives (perform limited banking transaction) are provided license by Nepal Rastra Bank are in operation. Limited market opportunities and increasing market makers i.e. financial institutions create stiff competition in financial markets.

The essential functions of all banks and financial institution air to morrow deposit and lend it in different profitable sectors. Credit in finance is the tern used to denote transactions involving the transfer of money or other property in promise of repayment, usually at a fixed future data. Moreover, credit has its different forms, it can be divided into fund based and non fund based. The fund based credit can be further divided into cash credit, overdraft, demand and tern loans, bills purchased and discounted export, cash credit, project finance, consortium finance, loan syndication, bridge loan etc. and nowadays a concept of credit card is emerging in Nepal while it already has come in to use been into Europe, America and the developed city since long time before, similarly on fund based credit can be classified into documentary credit, guarantee and bill co-acceptance facility. Besides the lending function, mobilization of fund and have lesser by significant role in banks fund management. So any lending is not an end of financing operations most crucial part is the recovery of such invested in loans and Advance. The money mobilized in loan and advances is borrowed from public via deposits. Which are liabilities of the company? Interest from loan and advances is one of the main sources of income of banking scenario. If the banking company is not able to recover its loans and advances', the banking company cannot pay its liability as repayment of deposit, interest in deposit and shareholders expectation. It is regarded as a failure of the company. In the present context of Nepal, most of the investment made by different productive sectors covering nations as well as international market is in critical situation. calculated as a "Non performing investment", due to which large number of investors hesitate to invest in those sectors as result, it decrease the borrowing habits from banks and finance companies. In his reference, the banks and finance companies find hard to recover their loans from these companies or borrower, which nay hinders the transaction of all those financial institutions.

Furthermore, banks are facing competitive challenges to enhance earnings. No banker can survive for a long run with out proper understanding of economy of the country. Interest rates are in increasing trend in loan and in saving as well. There is high competition among the banks. Hence the bank should explore new loan and deposit scheme to attract the customer. Likewise, non performing credits the banks are increasing year by year. Because of political instability and insecurity, the concrete plans have not been implemented, default of the borrowers and direct impact on company's transactions by external environment, because of not clear scenario in economic and financial transaction. No guarantee in peace and security are the main reason. Due to NRB rules commercial banks has to keep certain percent of profit for provision on bad loan and non performing assets. Due to high provision banks are not able to get high profit since commercial banks are being established on the basis of commercial banks act. In this study three commercial banks considering namely, NABIL, Everest and Nepal SBI banks are taken.

1.1.1 Company Profile

1.1.1.1 Everest bank Ltd.(A joint Venture with Punjab national Bank, India)

"Everest Bank Ltd."(EBL) has been established with the objectives to the expending professionals banking service to various sections of society in the kingdom Nepal and thereby contributes in the economic development of country. The bank had come in to former operations from 18th October 1994 (1st Kartik, 2051 B.S.). EBL is a joint venture with Punjab National Bank (PNB), one of the largest commercial banks in India having over 3700 branches and more than 300 foreign correspondents around the globe. PNB has a century old tradition of successful banking and is known for its financial strengths and will laid down modern banking system and procedures. PNB is providing the tough management services to EBL under the technical services agreement signed between the two institutions. IBL, thus, has advantage of the banking expertise and financial strength of its partner. The bank has been conferred with 'Bank of the Year 2006, Nepal' by the banker, a publication of financial times, London. Moreover, the bank was bestowed with the 'NICCI Excellence award' by Nepal India chamber of commerce for its spectacular performance under finance sector. EBL operated with the objectives of providing full range of quality banking services to both the business community and the common man.

Present Capital Structure of EBL

Share Capital and Reserves	**(NP Rs. in million)**
Authorized Capital	750.00
Issued Capital	465.00
Paid up Capital	465.00

Share Holding Pattern	**Percent**
Nepalese Promoters	50
Punjab National Bank (Joint Venture partner)	20
General Public	30

The following activities and services are provided by EBL, including normal function:

- SWIFT transfer
- TT transfer
- LC transfer
- Deposit locker
- Drawing arrangement
- International trade and bank guarantee
- ATM

1.1.1.2 NABIL Bank Limited (A joint venture with National Arab Bank)

“NABIL Bank Ltd.” (NABIL) the first commercial bank was incorporated in 1984. Dubai Bank ltd. was the initial joint venture partner with fifty percent equity investment. The shares owned by Dubai Bank Limited (DBL) were transferred to Emirates Bank International Limited. Dubai sold its entire fifty percent equity holding to national bank limited. Bangladesh national bank limited, Bangladesh is managing the bank in accordance with the technical services agreement signed between it (NABIL) and the bank on June 1995. the present configuration consist of the fifty percent share capital of National Bank limited, Bangladesh and 10% of NIDC, 9.66% of Rastriya Bima Sansthan, 0.34% of Nepal Stock Exchanges and 30% of the Nepalese public. The bank has changed its name as NABIL Bank limited. Bank is fully equipped with modern technology, which includes ATM’s, credit cards, state-of-art world-renowned software from Infosys Technologies System, Bangalore, India and Internet Banking System and Tele-Banking System.

Present Capital Structure of NABIL

Share Capital and Reserve	**(NP Rs. in million)**
Authorize Capital	500.00
Issued Capital	491.65
Paid up Capital	491.65

Share Holding Pattern	**Percent**
National Bank Limited, Bangladesh	50
NIDC	10
Rastriya Bima Sansthan	9.66
Nepal Stock Exchange	0.34
General Public	30

The following activities and services are provided by NABIL, including normal functions:

- Tele Banking

- Credit card facilities
- SWIFT
- Deposit locker
- Western union money transfer
- ATM
- International trade and bank guarantee

1.1.1.3 SBI Bank Limited (A joint venture with State Bank of India)

SBI Bank is the first Indo Nepal joint venture in the financial sector. Sponsored by the three institutional promoters, namely, State Bank of India, Karmachari Sanchaya Kosh (Employee Provident Fund) and Agriculture Development Bank through a memorandum of understanding signed on 17th July 1992 the bank came into operation on 8th July 1993 within a period of less than one year. The bank received registration from registrar of Companies of Ministry of Industry, N.G. on 25th April 1993 and commenced its first board meeting on 25th May 1993. The bank receives certificate of commencement of business on the 30th June 1993. Moreover it received its license from NRB for all commercial banking transactions on the 6th July 1993. The bank had set up its corporate and banking office at Durbar Marg with computerizes operations. However, the space available at Durbarmarg was not adequate to facilitate its business. Later the corporate office was shifted to Kamalpokhari leaving Durbarmarg office as banking office. Now, this bank has its corporate office at Hattisar.

In terms of the Technical Services Agreement concluded between SBI and the NSBI, SBI provides management support to the bank through its 3 expatriate officers including Managing Director who is also the CEO of the Bank. A core management team viz. Central Management Committee (CENMAC) consisting of the Managing Director, Chief Operating Officer, Chief Financial Officer and Assistant General Manager (Credit) oversees the overall banking operations in the Bank. ADBL divested its stake in the Bank by selling its entire 5% promoter shares to SBI on 14th June.

Present Capital Structure of SBI

Share Capital and Reserves	**(NP Rs. in million)**
Authorize Capital	1000
Issued Capital	500
Paid up Capital	426.8759

Share Holders Pattern	**Percent**
State Bank of India	50
Employee Provident Fund	15
Agriculture Development Bank	5
General Public	30

The following services are offered by SBI

- Trade finance
- Remittance
- Export credit
- Bills purchase
- Credit by a way of term loans as well as working capital
- Tele banking service
- Retail finance (housing, education, vehicle etc.)
- SWIFT transfer facility, funds transfer
- Sale and purchase of Rs. and Dollars, travelers' cheque
- Letter of credit, bank guarantee
- Clearing collection
- 365days banking, ATM cards etc.

1.2 Statement of the Problems

Commercial banks are the important financial institutions in the economy. They are the vital medium for monitoring policy transmission. The stability and profitability of the commercial banks depend on the sound management of their assets and liabilities. But subsequent development in the commercial banks in quality hasn't been satisfactory. Banks are facing tough competition and the present situation of Nepal has made the investment insecure to the high extent. As a result, investment is a very clanging today. Banks are looking for secure and productive investment opportunities, which definitely are a tough job. Recovering in the vital part of disbursement of loans and advances. It is the recovery part, which is an essential requirement of earning for banking sectors that brings income and keep the companies fund moving. In the present context, due to unhealthy competition among the banks, the recovery of credit is going toward negative trends. Commercial banks are not properly utilizing their deposits because of lack of sound lending policy and investment opportunities. Due to less investment opportunities banks are reducing the interest rates on deposits and interest rates on deposits and increasing minimum balance for the deposits accounts. Such condition may cause the high liquid market and can impact the condition of the whole country negatively. Similarly the regulation formulated towards the banks is not sufficient itself to recover the perfect management as well as sustainable management system. Following are some major questions which identifies some of problem.

- Are there perfect portfolio investment opportunities?
- How effectively is the lending policy of selected sample bank is being followed?
- Have banks been successfully implement investment strategy to utilize available funds?
- Are the loans are well categorized and diversified?
- Are banks complying NRB directives?
- Does the lending efficiency of the commercial banks contribute in its total profitability?

1.3 Objectives of the Study

It is no doubt that the role of the commercial bank is significant in the development of the country. Banks help in the development of the country by providing credit to the necessary sectors. The main objective of the study is to analyze, examine and interpret the credit behavior/practice of NABIL, EBL, and SBI.

The specific objectives of the study are as follows:

- To examine the liquidity position, the impact of deposit in liquidity and its effect on credit behavior.
- To analyze the portfolio behavior of credit and measuring the ratio of credit and advance made in different sectors.
- To examine the credit performance in quality, efficiency and contribution of profitability.
- To measure the propensity of growth based on trend analysis.

1.4 Rational of the Study

Loan is core area of the commercial bank. It plays the significant impact on the commercial banks liquidity and portfolio. But the area of concern in banking industry is the total management of loan. Due to excessive amount of non-performing assets in two state owned commercial banks, there is the wide spread suspicious on the performance of the remaining commercial bank as well.

Nepal Government has just enacted the Debt recovery Act and approved the long waited regulation on debt recovery to speed up the financial reform in the financial sector, as the proposed study is focused on total aspect of credit behavior of commercial banks. It would provide cosmic information to speed up the process. This study will have importance to a certain groups of people or organization, which are:

- Lenders and borrowers, stockholders
- Management, policymaker and board of directors of banker
- Academician and researcher
- General interested public
- Nepal government for making plans and policies

1.5 Limitation of the Study

Commercial bank renders various services to its customers. One of the main services of the bank is to accept deposit and advance loans. This research is limited to the credit aspect mainly with the loans and advance as well as recovery status of its investment. This study is simply a partial requirement of master's of business studies program. These are also some limitation like inadequate coverage of concerned banks, time period taken, reliability of statistical tools and other variations, which narrowed the generalization. Some very prominent limitations of the study are listed below;

- The study covers a period of last five years data.
- The study is concentrated only three joint venture banks (NABIL, EBL and SBI) by random sampling
- The study basically focuses on credit aspects between the sample banks.
- Time constraint for the study may have some affect over the study.
- Limited statistical and financial tools are need for analysis. Hence, the pitfalls of Those tools may affect the outcome of the study.

1.6 Organization of the study

The study on the lending practices of NABIL, EBL and SBI has been divided into five chapter's viz. Introduction, Review of Literature, Research Methodology, Presentation and Analysis of Data and Summary, Conclusion & Recommendation.

Chapter I: Introduction

It includes general background of the study, historical perspective of banking industry, overview of sample banks, statements of the problem, objectives of the study, significance of the study and limitation of the study.

Chapter II: Review of Literature

In this chapter concepts and principles of lending are presented. Related books, journals, and past research works are reviewed.

Chapter III: Research Methodology

The third chapter briefly explains about the research methodology that has been used to evaluate the lending practices of the banks under consideration. This chapter consists of research design, sample and population, source of data and financial as well as statistical tools and techniques to evaluate the lending practices of NABIL, EBL and SBI.

Chapter IV: Data Presentation and Analysis

The data required for the study has been presented analyzed and interpreted by using various financial and statistical tools and techniques to present the result relating to the study in a very lucid manner under this chapter.

Chapter V: Summary, Conclusion and Recommendations

The fifth & final chapter deals with summary of the previous chapters. It also includes conclusions drawn up and recommendations made for the further improvement the area of the study.

CHAPTER - II

REVIEW OF LITERATURE

“Review of literature means reviewing research studies of other relevant preposition in the related area of the study so that all part studies, their conclusions and deficiencies may be know and further research can be concluded” (Pantta & Wolff, 1999:234).This chapter deals with the review of materials related with "credit management" the more detail and descriptive manner. It provides the basis for developing a comprehensive framework. In this chapter, the emphasis is given to the review of major related literature on the credit management and its analysis. This chapter is divided into two parts, which are as follows:

2.1 Conceptual Framework

2.1.1 Concept of Credit

Credit is the amount of money lent by the creditor (bank)to the borrower (Customers) either in the basis of security or without security.

"Some of the money lends by a bank, etc" 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.

The credit policy of a firm provides the framework to determine whether or not to extend credit and how much credit to extend. The credit decision of a bank has two broad dimensions: Credit Standards and Credit Analysis. A bank has to establish and use standards in making credit decision, develop appropriate sources of credit information and methods of credit analysis. Credit management strongly recommends analyzing and managing the credit risk. Credit risk is defined as the possibility that a borrower will fail to meet its obligations in accordance with the agreed terms and conditions. Credit risk is not restricted to lending activities only but includes off balance sheet and inter-bank exposures. The goal of 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 (or counter party risk) in various financial instruments other than land including acceptances; inter-bank transactions, trade financing, foreign exchange transactions and guarantees and the settlement of transactions. Credit risk is a major subject matter on BASEL-I Bank & Financial institutions have to maintain optimum level of capital considering a kind of credit risk they are exposed to, in order to save the interest of depositors. The concept has already been employed by NRE in Nepal. However NRB are in process of employing a concept of BASEL-II where the concern has been broadened by including factors like operational risk & market risk to determine optimum level of capital. Since it's hard to quantify operational risk& market risk, a major concern still for us is to control credit risk in Nepal's banking scenario.

Nepal Rastra Bank has been acting as the father figure of the commercial banks. NRB is the central supervisory authority that has every control over the running commercial bank. All the transactions commercial banks make are directed by the NRB. All the activities that commercial banks are authorized to do or restricted to do are listed out by the NRB. It is like the boundary of activities of commercial bank set by the NRB. There are NRB directives related with following areas, for commercial banks to confine them through their activities.

- Capital Structure
- Classification of Loans and provision for loan loss
- Per customer loan limits
- Collection of deposits
- About lending
- Consortium Financing
- Minimum liquidity requirement

- Interest rates etc.
- Financial resource in the form of deposits, loans etc.
- Credit information and Blacklisting
- Statistical Documentation
- Formation of Branches and offices
- About Shares
- Guidelines to be followed

Shrestha (2007) *"Fundamentals of Banking"*, the author has highlighted the concept and principles of good lending. In this book the author has said that lending is the fundamental function of commercial banks. The commercial banks fulfill the credit needs of various sectors of the economy as well as the investment on securities, whether it is government or non-government. The lending policies of commercial banks are based on the profit maximizing of the institution as well as the economic enhancement of the country. Out of their total income on an average 60 to 70% of income consists from lending activities which is called as exposure based income because banks are exposed to default risk. Moreover, the writer has mentioned that safety, liquidity, purpose, profitability, spread, security, national income and suitability etc. should be wisely considered by commercial banks for doing lending practices.

2.1.2 Types of Credit

Overdraft: It connotes the excess amount withdrawn over their deposits.

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

Term Credit: It refers to money lent in lump sup to the borrowers. It is principal form of medium term debt financing having maturities of 1 to 8 years.

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

Working Capital Credit

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

Priority or Deprived Sector Credit

Commercial banks are required to extend advance to the priority and deprive sector. 12% of the total credit must be towards priority sector including deprived sector. Rs 2 million for agriculture 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. 30000in generating income or employment. Institutional credit of Rural Development Bank.

Hire Purchase Financing (Installment Credit)

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

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

Housing Credit (Real estate Credit)

Now a day's financial institution also extend housing credit to their customers. It is of different types such as: residential building, commercial complex plotting land, construction of warehouse etc. It is given to those who have regular income or can earn revenue from housing project itself.

Project Credit

Project credit is granted to the customers as per project viability. The borrowers have to invest certain proportion to the project from their equity and the rest will be financed as project credit. "Construction 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 specific project" 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 credit working capital credit needed for project fall under it.

Consortium Credit

No single financial institution grant credit to the project due to borrower limit or other reason and two or more such institutions may consent to grant credit facility to the project of which is baptized as consortium credit. it reduces the risk of project amount them. Financiers ban k equal (or likely) change on the project's assets.

Credit Card and Revolving Lines or Credit

Banks are increasingly utilizing charge cards and revolving lines of credit to make unsecured consumer credit. Revolving credit line lowers the cost of making credit since operating and processing cost are reduced. Due to standardization, Centralized department process 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 of the customer at lower cost.

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

Off Balance Sheet Transaction

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

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

Bank Guarantee

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

Letter of Credit (L/C)

It is issued on behalf of the customer (buyer/importer) in favor of the exporter (seller) for the imp-ort of goods and service 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.

2.1.3 Consideration for Sound Lending and Investment

The major source of income and profit generation to each and every banks and financial institution is its loan investment in different sectors .If loan are not distributed properly and cautiously then it may be the main cause of the failure of the company .As prescribed by Hrikshikes Bhattacharya in his book "Banking strategy ,credit appraisal and lending decisions, a Risk-Return Framework," the important consideration which the finance company should review and analyze in briefly illustrated below.

Principle of Sound Lending

a. Safety

Every finance company must invest in those opportunities which is safe against Losses are risky. Collateral should be accepted which is not so depreciable and whose value holds constancy?

b. Security

Finance company should accept that kind of security which is commercial, durable, marketable and high market price. In those cases, "MAST" should be applied for the investment.

Where,

M = Marketability

A = Ascertain ability

S = Stability

T = Transferability

c. Profitability

A financial institution can maximize its volume of wealth through maximization of return on their investment and lending .So, they must invest their fund where they gain Maximum profit. The profit of these companies mainly depends on the interest rate, volume of loan, its time period and nature of investment in different securities.

d. Liquidity

People deposit money at these companies with confidence that they will be repaid their money when they need it. To maintain such confidence of the depositors, the company must keep this point in mind while investing its excess fund in different securities or at time of lending in different securities or at time of lending so that it can meet or short-term obligation when they become due for payment.

e. Purpose of Loan

Why does a customer need a loan? This is very important question for any banker. If borrowing misuses the loan granted by these companies they can never repay and company will passes heavy bad debts. Detailed information about the scheme of the project or activities should be examined before lending.

f. Diversification

“A financial institution should not lay all its eggs on the same basket.” In order to minimize risk, diversification on its investment on different sectors should be adopted which helps to sustain loss according to the law of average because if securities of a company deprived, there may be appreciation in the securities of other companies, so the loss can be recovered.

g. Legality

Illegal securities will bring out many problems for the investor. The financial companies must follow the rules and regulations as different directions issued by Nepal Rastra Bank and other concerning bodies while mobilizing is funds.

h. Tangibility

Though it may be considered that tangible property doesn't yield and income apart from direct satisfaction of possession of property, many times, intangible securities have lost their finance company should prefer tangible security to intangible one.

i. National Interest

Even if an advance satisfies all the aforesaid principals, it may still not be suitable. The lending program may run counter to national interest. Central Bank may have issued directives prohibiting finance companies to allow particular types of advices. (Bhattacharya, 998:156).

Major information for analyzing the potential of borrower for Lending

a. Payment record and credit information from concern field
b. Income level and its source
c. Residence (local or migrates)
d. Marital status (single, married, widowed or divorced)
e. Age factor
f. References
g. Reserves, assets and collateral

World is surrounded by certain risk associated with the related field of task. The risk is vital factor which can be seen in the field of lending and investing money by finance companies. It is true that “There is no return without risk.” But by using certain criteria they can minimize some portion of risk associated with it. with respect to this ,finance institution approach the loan request by analyzing five "Cs" of credit risk as illustrated by Hrishikes Bhattacharya.

a. Character of the applicant
b. Capacity of qualification and work experience
c. Capital of the proposed plan
d. Collateral for security and its safety ness
e. Conditions of credit environment and credit information

Additionally come external factor also directly and indirectly affect on loan granting decision. They can be political crisis, national and international economic condition, policy and practice, cultural practice etc (Bhattacharya, 1998:124).

Basic Requirement in a Borrower / Lending Documentation

Finance companies cannot lend money to just anyone blindfold. It should be confident regarding the trustworthiness and intentions of the probable beforehand. The borrower, on the other hand, should provide finance companies with all portioning documents that the company seeks to build confidence on borrower. There are some requirements that should be fulfilled by the client to stand him as a probable borrower .the basic requirement that the borrower should submit with loan proposal are as follows:

If applicant is an Individual

a. Applicant should be Nepali citizen. Citizenship certificate should be submitted.
b. Should have good knowledge about work they intend to commerce.
c. Normally the applicant should not have taken loan from any other institutions previously.
d. Applicant should present the job planning scheme with perfect business plan.
e. Personal information is also required.
f. Business and income tax registration certificate with renewal.
g. Quotation and personal guarantee with reference of well recognized personal.
h. Certificate of ownership.
i. Driving license if required.
j. Description of securities with full proof evidence.
k. Other documentation as per company rules whichever required

If the applicant is Partnership Firm

a. The firm should be registered in related department.
b. The firm should be registered in related department.
c. The person dealing with the borrowing of the firm should specify in the partnership contract.
d. Income Tax Registration certificate with renewal.
e. And other required and possible items from point A.

If the applicant is private limited company or public limited company

a. Company should be registered.
b. Working place, project place should be specified and all the assets should be in the name of company.
c. Audited Balance sheet, profit and loss account, and other required financial documents at least of one year should be presented.

d. If the work place or project place is leased the lease contract should be presented.
e. The authorized person should apply for the loan.
f. Loan amount applied must be within the limit of memorandum of the company or must be decided by the board.
g. Decision of the promoters.
h. Personal information of the main person is required.
i. Written personal guarantee of the proprietors is required.
j. Citizenship of promoters and proprietors is required.
k. And other required and possible documents from A and B should be presented.

1. Basic feature of Collateral

Collateral is the most important item for granting loan. Loan should be grant by analyzing details related to collateral. Generally in Nepalese practice land and building; gold silver and some classified document are accepted as safe and reliable collateral ,but there are some features which must be analyzed by finance companies, they are;

a. Market availability
b. Price stability
c. Durability
d. Storing facility
e. Transportation
f. Profitability

Guidelines of Assessing Risk

Risk is dependent upon the quality found in each "c" and the combination of these five "Cs". Assuming the same conditions prevail, the following guideline is generally suggested (Bhattacharya,1998:135).

Table 2.1

Guidelines of Assessing Risk

Applicant Characteristics	**Credit Risk**
Character +capacity	Very low
Character +capacity Without Capital	Low to Moderate
Character + capacity but insufficient capital	Low to moderate
Capacity + capital but impaired character	Moderate
Capacity + capital without character	High
Character + capital without capacity	High
Character + no capital + No capacity	Very high
Capital + No character + No capacity	Very high
Capital + No character + No capital	Fraudulent

Source: Bhattacharya, 1998

2.1.4 Objectives of Sound Credit Behavior

Considering the importance of lending to the individual bank and also to the society it serves it is imperative that the bank meticulously plus its credit operations. Second credit policy whose objectives are as follows is a foundation in this direction (Dhahal & Dhaha, 2002:115).

1. To have Performing Assets

Performing assets are those loans that repay principal and interest to bank from the cash flow it generates. Loans are risky assets though a bank invests most of it resources in granting loan and advances. If an individual bank has around 10% nonperforming assets/loans (NPAS), it sounds the death knell of that bank ceteris paribus (all other thing remain constant).The objectives of sound loan policy is to maintain the financial health of the bank which results in safety of depositors money and increase in the returns to the shareholders. Since the loan is a risk asset. There is inherent risk in every loan. However, the bank should not take risk above a certain degree irrespective of returns prospect.

2. To contribute to Economic Development

Sound credit policy is required to ensure that loans are given to the productive sector which contributes to the society in a number of ways cited above.

3. To give guidance to Lending Officials

A borrower should be assured that there will be no discrimination whether he deals with one officer or another and one branch or another .A sound credit policy is imperative to achieve a uniform standard procedure throughout the organization. In the absence of a sound credit policy it is likely that individual loan officers make judgment inconsistent from each other and also inconsistent with the organizational goal.

4. To establish standard for Control

Every policy requires periodic follow up to ensure its proper implementation. A sound policy helps to determine the variance between actual performance and practices and to take corrective actions. A sound policy is always flexible and works a guideline rather than as a strait jacket. However, if the deviation between the practice and policy is observed, proper education to lending offices or amendment of the policy becomes inevitable. These objectives can be summarized as the sound policies help commercial banks to maximize quality and quantity of investment and thereby achieve the own objectives of profit maximization. Formulation of sound policies and coordinates planned efforts pushes forward the forces of economic growth. Sound policy is also important to find the deviation between the practice and policy and establish a standard for control.

2.1.5 Essentials of Credit

According to ML Jhingan the following are the essential features of credit:

1. Trust and Confidence

Trust is the fundamental element of credit. The lender will lend his money or goods on the trust and confidence that the borrower or buyer will pay back the money or price in time.

2. Time Element

All credit transactions involve time element .Money is borrowed or goods are bought with a promise to repay the money or pay the price on some future date.

3. Transfer of Goods and Service

Credit involves transfer of goods and services buy the seller to the buyer on the pay back promise of the buyer on some future date.

4. Willingness and Ability

Credit depends on a person's willingness and ability to pay the borrowed money. In fact, credit of a person's depends on his character, capacity and capital. It is these three "Cs" on which a man's credit depends. A person who is honest and fair in his dealings possesses the capacity of making his business a success. Such a person can get credit easily.

5. Purpose of Credit

Banks and financial institutions give large amount of credit for productive purposes rather than for consumption purposes.

6. Security

Security in the form of property, gold, silver, bonds or shares is an important element for raising credit.

2.1.6 Defects of Credit

Credit creation or credit function is the demand of economy. It helps in the economic prosperity as it is economical, it increases productivity of capital, it encourages investment in the economy, and it helps in the expansion of internal and external trade of a country. Thus it is important for the overall economic development of country. But sometimes excess supply of credit may be harmful. Credit is a dangerous tool if it is not properly controlled and managed. The following are some of the defects of credit (Jhingan, 1997:155).

1. Too much and too little credit is Harmful

Too much and too little credit is harmful for the economy. Too much of credit leads to inflation, which causes direct and immediate damage to creditors and customers. On the developing country, too little of credit leads to deflation which brings down the level of output, employment and income.

2. Growth of Monopolies

Too much of credit leads to the concentration of capital and wealth in the hands of a few capitalists. This leads to growth of monopolies which exploit both consumers and workers.

3. Wastage of Resources

When banks create excessive credit, it may be used for productive and unproductive purposes. If too much of credit is used for production, it leads to over capitalization and over production and consequently to wastage of resources. Similarly if credit is given liberally for unproductive purposes it also leads to wastage of resources.

4. Cyclical Fluctuations

When there is an excess supply of credit, it leads to a boom. When it contracts, there is a slump. In a boom output, employment and income is increased which leads to over production. On the contrary, they decline during a depression thereby leading to under consumption. Such cyclical fluctuation brings about untold miseries to the people.

5. Extravagance

Easy availability of credit leads to extravagance on the part of people. People indulge in conspicuous consumption. They buy those goods which they do not need even. With borrowed money; they spend recklessly on luxury articles. The some is the case with businessmen and even governments who invert in unproductive enterprises and scheme.

7. Speculation and Uncertainty

Over issue of credit encourages speculation which leads to abnormal rise in prices? The rise in prices, in turn, brings an element of uncertainty into trade and business. Uncertainty hides economic progress.

8. Black Money

Excessive supply of credit encourages people to a mass money and wealth. For this they tend to adopt underhand means and exploit others. To become rich, they vat, taxes, conceal income and wealth and thus hoard black money.

9. Political Instability

Over issue of credit leading to hyper inflation leads to political instability and even the downfall of government.

2.1.7 Lending Procedures

According to Bhuwan Dahal and Sarita Dahal, lending procedures include loan approval and disbursement process (Dhahal & Dhahal, 2002:134).

Loan Approval Process

Loan is approved by approving authority only after being convinced that the loan will be repaid together with interest. There are many processes involved to approve the loan which has been appended below:

1. Application

A borrower is normally required to submit an application to the bank along with required documents: project proposal, historical financial statements and documents pertaining to company's legal existence.

2. Conducting the Interview

Though the documents submitted gives various information about the borrowers is of great importance. Normally, such as interview takes place at the bank premise.

3. The Credit Analysis

There is a practice of analyzing 5cs of credit by the financial institutions.

a. Character
b. Capacity
c. Condition
d. Collateral
e. Capital

4. Forecast and Risk Rating System

Based of the findings of historical analysis, and in light of present and foreseeable future environment, the analyst has to forecast impending major risks. The analyst should also highlight to what extent inherent risks will be mitigated and how unmitigated risks can be covered.

5. Return

The amount of loan has got inherent cost as it is obtained from either shareholder or depositor or creditor. The analysis should be made to calculate total return and compare whether it meets banks standard.

6. Liquidation

The analyst should ascertain bank's ability to recover loan in case of liquidation of the borrower. If liquidation analysis reveals insufficient security, additional security may be asked for.

7. Credit Worthiness and Debt Structure

If analyst finds the borrower creditworthiness and decides to extend loan, he should structure the debt facility to be extended.

Loan Disbursement Process in various lines of credit approved by the bank have been presented below:

Overdraft: Borrower can draw a cheque in current a/c up to the approved limit at any time as per the need.

Demand Loan: Loan is disbursed as when demanded by the borrower by debiting demand loan a/c and by normally crediting current a/c.

Short Term Loan: Full limit is disbursed as per schedule normally fixed in advance by debiting long term loan a/c.

Documentary Negotiation: Upon submission of the compliant documents, documents are negotiated and fund is credited to the borrower's a/c less margin, if any.

Bills Purchase: Banks purchase the bills drawn on other branches/banks and credit the proceeds to the borrower's a/c less commission and margin, if any.

Letter of Credit: A letter of credit is established on behalf of the customer in favor of the exporter/seller for the import of goods and service unto the approved limit since this is a contingent liability for the back, bank credit customer's account. Normally, a certain percent fund is taken from the customers and the customer's margin a/c is credited.

Guarantee: Guarantee is issued on the behalf of customer in favor of the other party uptown the approved limit. Since this is also a contingent liability, banks credit customers guarantee a/c normally a certain percent amount is taken from the customer and the customer's margin a/c is credited.

2.2 Review of Rules, Regulation and Directives of NRB Regarding

Credit Management of Commercial Banks

Various rules, regulation, acts and directives are reviewed while preparing the concept of this study. Different types of directives, which are issued for the commercial banks to manage credit in a proper way, obviously, these directives and actions towards the commercial banks by NRB are playing the great role for the comparative analysis of credit management of the commercial banks. NRB is the leader of the 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 other financial institutions. Various directives must have direct or indirect impact while making decisions to discuss those rules and regulations which are formulated by NRB in terms of investment and credit to priority sector, deprived sector, other institutions, single borrower limit, CRR, loan loss provision, capital adequacy ratio, interest spread, productive sector investment etc. A commercial bank is directly related to the fact that how much fund must be collected as paid up capital while being established at a certain place of the nation, how much fund to expand the branch and counters, how much flexible and helpful the NRB rules are important. But we discuss only those, which are related to investment function of commercial banks. Funds used by commercial banks for the purpose of advancing of loans are that of public. Commercial banks collect deposits from public and it is very same fund they use to make profit. Thus, to prevent this public fund being mis-utilized and to protect the savings of public, NRB has given directives to the commercial banks regarding investment of public fund along with the directives to perform all other jobs of commercial bank. Since loan and advances and leased assets is the first and the main sector of investment, to minimize the risk here, NRB has specifically given guidelines relevant to loan and advances and leased assets in NRB directives for commercial banks 2066 No. 2, 3, 12 & 15.

NRB Directives No. 2/066

Under this directive, using the authority of Nepal Rastra Bank Act 2058 section 79, NRB has given criteria for classification of loan and advances with accordance to calculation of loan loss provision. The main objective of doing this, as specified by NRB, is to minimize the risk of bankruptcy leading to endowment of public fund due to incautious investment in bad loan and advances.

As guidelines provided by the directives of NRB, licensed institution shall, as of end of Asoj, Poush, Chaitra and Ashad, preparation of statement of outstanding loan and advances classified on the basis of aging and submit the particulars as per the enclosed forms to Supervision Department of NRB within one month from the end of each quarter.

In the directives given by NRB, loan and advances are initially categorized as performing loan and non-performing loan. Pass loan and advances are defined as performing loan whereas Sub-standard, doubtful and loss loan fall under the categorization of non-performing loan. All loan and advances extended against gold and silver, fixed deposit receipts, credit card and against security of HMG securities and NRB bonds shall be included in "Pass" Category.

Loan cases like loan granted to the project which is not presently working or mis utilization of loan (not been used for the purpose originally intended) or blacklisted or whose borrower has run away or absconding and declared bankrupt or whose securities are inadequate are also treated as bad loan and classified as non-performing loan even if they are within the due dates. Purchased and discounted bills, credit and guarantee not realized within 90 days from the due date are also categorized as loss loan. Bills have only two classifications either Pass or Loss.

Licensed institutions may reschedule or restructure loans only upon submission of a written 'Plan of Action' by the borrower which is resurrecting on the following grounds,

- Evidence of existence of adequate loan documentation and securities.
- Licensed institutions are assured on possibility of recovery of restructured or rescheduled loan. Restructuring means process of changing the nature or conditions of loan/facility, adding or deleting of conditions and change in time limit. Rescheduling loan means extending repayment period/time of credit taken by the borrower.
- In addition of the written 'Plan of Action' for rescheduling or restructuring of loan as per clause (1), at least 25% of accrued interest outstanding on date of rescheduling or restructuring should have been collected. Renewal of loan by collecting all interest can be classified as Pass loan. Loan loss provisioning is 12.5% for restructured or rescheduled loans.

Loan Loss Provision

The loan loss provisioning on the outstanding loan and advances and bills purchases shall be provided on the basis of classification made as per this directive as follows

Classification of Loan	Loan Loss Provision
Pass	1 Percent
Substandard	25 Percent
Doubtful	50 Percent
Bad loans	100 Percent

Adjustment of loan loss provision is prohibited except under the following cases,

- The loan has been completely written off.
- In the event of repayment of installment or partial payments of loan, the loan loss provision has to be provided as per loan classification and write back the provisions related to amount of repaid loans.
- Where the installment of principal and interest of restructured or rescheduled loan is serviced regularly for two consecutive years, the loan loss provisioning may be adjusted. However the amount, adjusted by writing back loan loss provision cannot be used for distribution of dividend or issue bonus shares by showing in the profit.

NBA taken over by the banks should be provisioned for loss as 25%, 50%, 75% & 100% in years 1^{st}, 2^{nd}, 3^{rd} and 4^{th} respectively till it is sold off.

Actions will be taken in cases on non-compliances of the directives given by NRB under Section 100 of NRB Act, 2058.

NRB Directives 3/066

Single Borrower Obligator Limit

This directive was imposed by NRB to minimize the risk that can arise due to concentration of loans and advances to one customer.

a) Fixation of Limit on Credit and Facilities

(i) For “A”, “B” and “C” class licensed institution

Licensed institutions may extend to a single borrower or group related borrowers the amount of Fund based loan and advances up to 25% of the Core Capital Fund and Non-fund based off balance sheet facilities like L/C, Guarantees, acceptances, commitments up to 50% of its core capital fund. However, from the start of fiscal year 2067/68the single obligor limit for both fund and non-fund based items is only 25%.

b) Exemption in Limit of Credit and Facilities

The exposure limits per clause 1 above shall not be applicable in respect of the following: -

(i) Credits and facilities extended against own fixed deposit receipts, HMG securities, NRB Bonds as well as against unconditional guarantees issued by World Bank, Asian Development Bank and other International Finance Corporation including multilateral institutions and international rated banks.

(ii) Loan and advances and facilities provided by “A” class licensed institutions to Nepal Oil Corporation and Nepal Food Corporation for the purpose of import of specified merchandise as LP gas, Petrol, Diesel, Kerosene and food items respectively.

c) Related parties are to be considered as a group

d) Submission of Return on Related Customers

e) Treatment as Separate Group

For the purpose of drawing limits in granting loans and advances, lease financing and giving other services, customers with personal relations are categorized in to a single group under the following conditions: -

i. In case one company has acquired 25% or more shares of another company then those both companies are considered as a single group.

ii. In case a director of a company is a shareholder of another company or his/her relative; spouse, son, daughter in law, unmarried daughter, adopted son, adopted unmarried daughter, parents, step mother and younger dependent siblings residing under the same roof or the companies who’s 25% or more share are owned by above mentioned relatives individually or jointly.

iii. In case the firms, companies are legally connected in a group or members of such groups;

iv. If relatives mentioned in point (b) do not, individually or jointly own 25% or more shares of a company but hold the following positions: -

a. Chairperson of BOD

b. Managing Director of the company

(v) In case one customer or company has given cross guarantee to another customer or company.

f) Provision of Cent Percent to Minimize Concentrated Risk

In case the company has mobilized funds in loans and advances more than authorized, company has to make provisions of exceeding amount by 100%.

g) Provision Relating to Sectored Credit

Under the directive no. 3, using the authority of Nepal Rastra Bank act NRB has given criteria for classifying loan and advances under different sectors and sub-sectors and also determined the amount of loan commercial banks are authorized to disburse under the given sectors and sub-sectors. The main objective of doing this, as specified by NRB, is to minimize the risk and to make sure the distribution of loan and advances into various sectors of economy.

Commercial Banks can sanction loan under following sectors as described in **NRB**

Directive No. 3

1. Hire Purchase Loan
2. Housing Loan
3. Lease Financing
4. Term Loan – Medium and Long Term only
   4.1 Agriculture and agro-based business
   4.2 Industry
   4.3 Business

4.4 Education

4.5 Health

4.6 Tourism

4.7 Hydro-power

4.8 Others

5. Fund Based Merchant Banking Activities
   5.1 Venture Capital
   5.2 Bridge Financing
   5.3 Other merchant banking transaction
6. Non-Fund Merchant Banking Activities
   6.1 Corporate counseling
   6.2 Project counseling
   6.3 Issue management
   6.4 Share underwriting
   6.5 Portfolio management

An additional provision has to be made at the end of Poush and Ashad every fiscal year if the limit on sector or sub-sector wise loan amount is violated. Provision should be made of 25 percent of the exceeded loan amount.

NRB Directive 12/066

The major clauses defined in this directive, forwarded as per the NRB Act 2058, Section 88 and NRB Credit Information Regulation 2059 regarding the credit information and blacklisting, are as under;

a) Details regarding Customer/Loanee to be sent to Centre

Licensed institutions should send the details of loan sanctioned amounting to Rs. 25 Lac or above within 15 days of month past as per Form No. 1 to the center and should send the details as per Form No. 2 on quarterly basis till the loan is not paid.

b) Ask for Credit Information Compulsorily

Licensed institutions should compulsorily ask for credit information before providing new loan/renew of loan/restructuring or rescheduling the loan amounting to Rs. 10 Lac or above.

c) Process of Blacklisting

Licensed Institutions should compulsorily recommend for black listing of related parties to the center if the conditions provisioned in the directives is satisfied. The center might blacklist the party within 15 days after proper verification if licensed institutions recommend for blacklisting.

d) Licensed Institutions are banned to provide loan to Blacklisted Loanee

Licensed Institutions are banned to provide any new loan/facility, additional loan/facility, renew of loan/facility, remaining installments of loan sanctioned on installment basis and even accepting the guarantee to the blacklisted person, firm, companies or organized institutions.

e) Conditions for Blacklisting

Loanee having loan of Rs.25 Lac or above from licensed institutions or any individual should be blacklisted if any or all of the following conditions;

- If the repayment date of installment of principle or interest of loan crosses one year. But, the BOD of the concerned institution may add the tenure of maximum 3 months considering the situation.
- If the mis-utilization of loan and facility is proved.
- If it is proved that the material proved as security is mis-utilized.
- If the loanee is out of contact.
- If the loanee is declared insolvent as per the law.
- If the file is cased against loanee in the court.

- If deceive of amount by using fraud cheque, draft, foreign currency, credit/debit cards, bills etc. or if the court proves guilty for subject of attempting to deceive.
- If any individual, firm, company or organized institutions are proved to be involved in crime of financial transactions.
- The condition of not paying off the loan within the time frame mentioned in loan agreement by any individual, firm, company or organized institutions and in condition of punishment for recovery as per section 57 of Financial Institution Act 2063.
- In the condition of writing off the loan by the licensed institutions.
- Issue of non-cashable cheque or lack of sufficient balance in account.

e) Provision of Withdrawing Name from Blacklist

- Payment of Principle and Interest of matured loan.
- If the Board of Directors of concerned licensed institution prolong the maturity period of loan deeming suitable and rescheduling or restructuring the loan within the realm of directive of this bank.
- In condition of approval from BOD of concerned licensed institutions regarding acceptance of credit liability by other person, firm, company or organized institutions and in such condition the accepting person, firm, company or organized institutions is given the tenure of maximum 1 year and is blacklisted if the loan is not repaid or is not made regular within that period, the new person, firm, company or organized institutions should also be blacklisted.

NRB Directive 15/066

NRB has stated this directive no 15 regarding the interest rates, with the objective of creating a healthy competition between interests paid on deposits and interest gained form loans.

a) Fixation of Interest Rates

“A”, “B” and “C” class institutions are free to fix interest rates for both deposits and lending including the fixation of types of interest and procedures.

b) Prohibition for Fixing Flat Rate of Interest

Licensed institutions other than “D” class cannot fix flat interest rates on loans and advances.

c) Interest Rates to be Approved

Licensed institutions shall implement the interest rates for deposits and lending, procedure for calculation of interest, penal interest, commission and service charges only after approval. The institutions cannot vary (upward or downward) interest rate for deposits in excess of 0.5 percent over the published.

d) Submission of Return on Interest Rates

The licensed institutions shall compulsorily submit particulars of interest rates of deposits and lending to Banks and Financial Institutions Regulation Department Nepal Rastra Bank within 7 days of each quarter ending. Further, the licensed institutions shall submit the whole arrangements and procedures relating to interest rates as per the clause 3 above at the time of initial implementation and changes made there within 7 days.

e) Interest Rates to be Published

The national level “A”, “B”, and “C” class financial institutions shall publish the particulars as per clause 4 above at times of each amendment made in the interest rates on deposits and lending on National Daily Newspapers. However, it should be published on quarterly basis whether it is changed or not. Regional/District Level institutions shall publish the particulars in the Regional/ District level Newspapers. “D” class institutions may publish the interest rates putting the information on its notice board.

f) Recognition of Interest Income

The interest accruals on loan and advances shall be recognized as income on cash basis. Interest accrued shall be recognized in the year of cash realization.

g) Action for Non-Compliance

If the licensed institutions found not complying with the directives relating to branches/offices action may be initiated under the Nepal Rastra Bank Act, 2058.

2.3 Review from Nepalese Context

In Nepalese context, here are some independent studies which related to the present study .study materials related to this topic are presented in the following ways:

a. Review of relevant studies from report and articles
b. Review from unpublished thesis

In the first section, effort has been made to examine and review of some relates articles and reports published in different journals, magazines, newspaper and books while in second section, and unpublished thesis works conducted by various students have been received.

2.3.1 Review from Reports and Articles

Pradhan (2053) "*The Importance of Loan Information Centre and It's Activities"* published in NRB annual publication says that the loan information centre was established to fulfil the necessity of a company working in relation to information related to loan. in his article Deposits mobilization its problem and prospects" has expressed that "deposit is the life blood of any financial institution i.e. commercial banks, financial companies and co-operative or non government organization." In consideration of ten commercial banks, nearly three dozens of finance companies, the latest figure produce a strong feeling that a serious review must be made on problems and prospects of deposit sector .Beside few joint venture banks, other organizations rely heavily on the business deposits receiving and credit disbursement. In the light of this, Pradhan has pointed out following problems of deposits mobilization in Nepalese perspective.

1. Due to lack of education, most of Nepalese people do not go for saving in institutional manner, however they are very much se saving as from cash and ornament. Their reluctance to deal with institutions system are governed by their lower level of understanding about financial organization, process requirement, office hour withdrawals system, availability of depositing facilities and so on.
2. Due to the lesser office hour of banking system people prefer for holding the cash in the personal possession.
3. Unavailability of the institutional services in the rural area.
4. No more mobilization and improvement of the employment of deposits in the loan sectors.

Pradhan has not only pointed out the problems but also suggested for the prosperity of deposit mobilization.

They are given as:
By adding service hours system will definitely be sand appropriate step. If deposit mobilizations materialize by providing sufficient institutions service in rural area, the generated fund can be used somewhere else by the bank which can be taken as major achievement. NRB could be endorsing this deposit collection by continuing to subsidize overhead cost for little longer period .A full scale of field office system could be taken back and made manpower strength deputed to cut down overhead cost. NRB also organize training program to develop skilled manpower. By spreading co-operative to the rural areas, mini banking services are to be launched. Last Pradhan mentioned, deposit mobilization carried out effectively is in the interest of depositors, society, financial sector and the nation. Lower level of deposit rising allows squeezed level of loan delivery leaving more room to informal sectors. That is why higher priority to deposit mobilization has all the relevance (Pradhan, 2053:24).

Bhattarai (1998) is trying to indicate the problems of bank bad debt and non performing assets. According to him, "If a bank cannot recover its loan lending, banks cash flow will be badly affected. Similarly it can affect the close relationship between depositors. "Why does loan become defaulter”? This study finds out the causes that makes loan default. “When the due date is over the loans become default. But why do the due dates be over? Generally increase in interest rates; decreases in economic activities cause decrease in the capacity of debtor and sometimes the debtor knowingly do not pay back the loan. Other than these reasons in the context of Nepal lack of credit policy, lack of information about the loan holder (three "s" capacity, character, and capital), unhealthy competition and small market area, causes loan defaults. Default loan increases the resources mobilization cost and reduces the profit earning capacity of a bank. Therefore increases in default loans are the indicator of problematic situations to the bank.

Neupane (2000), in an article, *“Challenges of Non-Performing Loan Management in Nepal”*, She has mentioned the causes of increasing trend of non-performing loan. She identifies the major causes such as poor loan analysis, guarantee oriented loan system, depreciation of valued assets, misuse of loan, lack of regular supervision of loan. Default risk is one kind of investment risk of nonpayment of loan at the fixed future date. In Nepalese context, when interest rate is increased it causes the decreases in economic activities as well as capacity of borrower. Sometimes debtors knowingly do not pay back the loan, and invest the loan in unproductive sector. Such kind of activities occurs continuously, if there is lack of sound credit policy, improper credit analysis, lack of information about loan holders and lack of regular supervision. So banks should formulate and implement sound credit policy. Loan approval and disbursement process should be conducted in better way. Proper credit analysis and regular supervision can control the credit risk. Another article entitled “lending operation of commercial banks of Nepal and its impact on GDP.”

Shrestha (2052) in her articles, *“Lending Operation of Commercial Banks of Nepal and its Impact on GDP”* has presented with the objectives to make an analysis of contribution of commercial banks’ lending to the GDP of Nepal. She has set hypothesis that there has been positive impact of lending of commercial banks to the GDP. In research methodology, she has considered GDP as the dependent variable and various sectors of lending Viz. agriculture, industrial, commercial service bank gives loan to various

sectors. This is necessary for long term survival of the bank. Even if any sector is doing very well, the bank does not put its total money in that sector. If the bank concentrates its lending only in one sector, failure of the sector may cause bankruptcy of the bank.
Loan mix is components of established credit policy. It is a kind of strategy in credit management for banks to be success. In context of Nepal, there are different sectors in economy such as priority sector, deprived sector, productive sector, government sector etc. So, there should be diversification in investment of every commercial bank. Making investment or lending to various sectors is necessary for the long term survival of banks (Dhahal & Dhahal, 2002:116).

Bhatta, (47th anniversary), In this article *"Financial Policies to Prevent Financial Crisis"*, Nepal Rastra Bank Samachar, the author has suggested that the financial markets have become an exciting, challenging and ever changing sector in the recent years. The emergence of global financial institutions as a result of increased economic liberalization has raised a host of questions for financial planners and policy makers. The growth of financial markets has caused complexities in the management and if they are not managed and addressed properly with appropriate policies, then the result is the financial crisis. The financial crisis, which took place in Chile in 1992, Mexico in 1994, South Asian countries 1997, Russian Federation in 1998, Ecuador and Brazil in 1999 and Argentina in the late 2001 were the result of an abrupt growth in the size of financial markets posing serious challenges to their management.

According to the author of the article, the financial crisis in most of the markets, particularly in emerging market, undergo several stages. The, initial stage is deterioration' in financial and non-balance sheets and which promotes the second stage that is currency crisis. Due to the currency crises the financial institutions lack capacity of investment which will in third stage makes further determination of financial and non- financial balance sheets. This stage is the one that caused the economy to full- fledged financial crisis with its devastating consequences.

NRB Economic Report (2007/08) is also reviewed about loan and advances and non-performing loan:

It is stated in 9.10 Loans and advances of commercial banks occupied a major share in the total assets. The share of loans and advances in total assets declined to 76.5 present in the review year from 81.0 present in the previous year. Loans and advances of commercial banks increased by 23.5 percent in the review year compared to a growth of 15.9 present in the previous year on account of an increasing private sector credit off-take in the review year.

In 9.11 it is mentioned that ‘‘of the credit aggregates, the credit to the private sector has occupied a major share. Such credit stood at 41.0 percent of GDP and 61.3 percent of total assets and liabilities of commercial banks as at mid-July 2008. Compared to a growth of 17.1 percent in the previous year, private sector credit grew by 26.9 percent in the review year amounting to Rs. 336.8 billion as at mid-July 2008 owing to a higher credit demand in the private sector.’’

In 9.12, it is stated that the total holding of government securities by commercial banks reached Rs. 72.1billion as at mid-July 2008 from Rs. 65.9 billion in mid-July 2007, with a growth of 9.5percent in the review year compared to a growth of 11.9 percent in the previous year. Similarly, commercial banks' claims on non-financial government enterprises increased by 10.4 percent in the review year compared to a growth of 12.2 percent in the previous year. The claims registered a lower growth on account of a partial loan repayment by Nepal Oil Corporation, National Trading Ltd, Nepal Food Corporation and Nepal Airlines Corporation to the banking sector.

In 9.13 Claims on financial institutions increased by Rs. 1.3 billion in the review year compared to an increase of Rs. 381.8 million in the previous year on account of substantial growth of claims on non-government financial institutions. An increase of short-investment to development banks and finance companies by commercial banks contributed to the increase in the claims on financial institutions in the review year.

In 9.14 of the report it is mentioned that ‘‘Liquid funds of commercial banks soared by 21.7 percent in the review year compared to a growth of 5.0 percent in the previous year.

A rise in foreign assets of commercial banks owing to an elevated level of remittance inflows and capital expansion contributed to the higher growth of liquid funds of commercial banks in the review year.’’

2.3.2 Review from Unpublished Thesis

During this study, several thesis studies out by the previous students have been studied. Among them some of them are studied which are relevant for this study. They are presented as follows:

Khadka (1998) has conducted *“A Study on Investment Policy of NABIL Bank Ltd. with Comparison to Other Joint Venture Banks of Nepal"* with the objective of:

- To evaluate the liquidity, asset management efficiency and profitability positions n relation to fund mobilization of NABIL Bank Ltd. In comparison to other joint venture Banks.
- To discuss fund mobilization and investment policy of NABIL Bank Ltd. In respect to its fee-based off-balance sheet transactions in comparison to other JVBS
- To find out the relationship between deposits and total investment, deposit and loan and advances, and net profit and outside assets of NABIL Bank Ltd. In comparison to other JVBS.

The study was conducted through secondary data and research findings of this study are as follows:

- The liquidity position of NABIL Bank Ltd. is comparatively worse than that of other JVBAS.
- NABIL Bank Ltd. is comparatively less successful in on-balane sheet operation as well as off- balance sheet operations than that of other JVBS.
- Profitability position of NABIL Bank Ltd. is comparatively not better than that of other JVBS. The mean ratio of return on loan and advances of NABIL Bank Ltd. has been found slightly lower than that of other JVBS and the return has been found less homogeneous than that of other JVBS similarly, the mean ratio of total interest earned to total outside assets of NABIL Bank Ltd. has been found slightly lower than that of other JVBS,

- Though NABIL Bank Ltd. seems to be more successful to increase its sources of funds as well as mobilization of it by increasing loan and advances and total investment, it seems to be failure to maintain its high growth rate of profit in comparison to that to other JVBS (i.e. Nepal Grindlays Bank Ltd. and Nepal Indosuez Bank Ltd.)
- There is significant relationship between deposit and loan and advances as well as outside assets and net profit but not between deposit and total investment in case of both NABIL Bank Ltd. and other JVS. (Khadka, 1998:29)

Parajuli (2004) has conducted thesis entitled with *"Credit Management of Commercial Banks in the context of Financial Sector Reform Program"* with the following objectives:

- To find out the relevancy of the financial sector reform programmed.
- To measure the comparative output of credit management in joint venture bank and government bank
- To examine the level of non-performing loan investments that exists within the banking industry.

The major findings of the study are as follow:

- Concept of financial reform emerged since 1980's with the economic liberalization; HMG/N NRB published the economic and monitory policy to support such reform. As the result of these policies, various joint venture banks, established in the private sector. Moreover, under the structural adjustment program of the IMF, the financial sector was further liberalized in 1987. The focus of NRB was placed on indirect monetary control. It has been revealed that there has never been any clear and specific credit policy There were almost similar procedures and policies while granting the credit but the differences in updating them. In fact the bank is running its business without having any define direction, expect to follow the directives issued by the Rastra Bank from time to time in some specific matters.
- The non-performing credit is low of private commercial banks because they focus mainly on credit in the urban areas and big business houses. Such trend of private

banks will not help in providing the banking service in t the remote areas and minority people.

- As recommended given by Parajuli that NRB should tight the supervision and inspection activity towards the commercial banks and financial institution can be avoided. However, NRB should regulate all the deposit accepting financial institutions under the supervision and regulatory activity so that general people can feel the security of their deposit and to make the FSRP relevant.

Tuladhar (2000) in his thesis " *A Study on Investment Policy of Nepal Grindlays Banks Ltd in Comparison to Other Joint Venture Banks of Nepal"* has said that the basic objective of his study is to highlight the various aspects of the investment policy which are - to study the fund mobilization and investment policy with respect to fee based off-balance sheet transaction and fund based on-balance sheet, to evaluate the growth ratio of loan and advances and total investment with respective growth rate of total deposit and net profit, to evaluate the trends of deposit utilization towards total investment and loan & advances and its projection for next five years. He found the profitability position of NGBL is higher than NABIL and HBL. NGBL maintained successful liquidity position than others because of uncertain efficient return depositor may withdraw at high portion and invest in newly opened organization. The NGBL is providing less loan and advances in comparison to its deposits than other two banks and still it has largest profit. Its earning consistency is sound than the other two banks. The volume of growth of loan and advances is highest of HBL. He has concluded that joint venture banks are discouraged at lower level depositor and interested in higher level of clients as paramount customers. He recommended following a liberal lending policy so that more percentage of deposits can be invested in to different profitable sectors as well as loan and advances. Investment and loan & advances are significant factor that affects the bank profitability.

Further to his study, he has focused to invest more percentage of deposit for NGBL, it might not be appropriate because liquidity is given high preference and importance in banking operation. When depositors demand money back, bank must return them to maintain its creditability. Bank needs to maximize its wealth, goodwill, no. of branches so as to collect more scattered deposit of people and invest in the sectors which will give high return and is more potential for investment.

In the study he has done empirical study of customers view regarding adopted investment policy of concerned joint venture banks and distributed to one hundred customers at the bank to collect primary data for the analysis. He has used secondary data, reports, financial and statistical tools for the data analysis.

Khadka (2002) in her thesis on *" A Comparative Study on Investment Policy of Commercial Banks"* in which she has taken NABIL, SCBNL and NIBL banks as commercial banks and taken as average industry to compare with NBL. The specific objective of her study are to evaluate the liquidity, asset management efficiency and profitability position of NBL in comparison to other commercial banks and to find out the relationship between deposits and total investment, deposit and loan & advances and net profit and outside assets. She has found out that there is not much difference between the mean ratio of loan and advances to current assets of NBL and other commercial banks. The mean ratio of NBL is slightly higher than that of other commercial banks. However, NBL’s ratios are found to be less uniform in comparison to other banks. It shows that the liquidity position of NBL is comparatively better than that of other banks. In contrast, the rations of NBL are found to be less consistent than that of other commercial banks.

Shrestha (2002) entitled *"A Comparative Study on Investment Practices of Joint Venture Commercial Banks with special reference to Nabil Bank Ltd, Standard Chartered Bank Nepal Limited and Nepal SBI Bank Limited”*, has compared the investment policy adopted by Nabil, SBI and SCBNL with each other. The specific objective of his study are to evaluate the liquidity management, asset management efficiency, profitability, risk position and investment practices of Nabil, SBI and SCBNL, to project the deposit and investment trends of the sample organization.

He has figured out the problem, conclusion and recommendation as follows:

Commercial Banks are more emphasized to be making loan on short term basis against movable merchandise. Commercial Banks have a lot of deposits but very little Investment opportunity. They are even discouraging people by very low interest rate and minimum threshold balance.

Commercial Banks invest their funds in limited areas to achieve higher amount of profit. This is regarded as a very risky step, which may lead to lose in profit as well as principle. The credit extended by Commercial Banks to agriculture and industrial sector is not satisfactory to meet the growing need of the principle.

He has concluded that since the liquidity position on Nabil and SCBNL have not found satisfactory, it is, therefore, suggested them to improve cash and bank balance to meet current obligation. SCBNL's loans and advances to total deposit ratio is lower at all, it is recommended to follow liberal Lending policy for enhancement of fund mobilization. It is recommended to NSBI Bank that it has to enhance off balance sheet transactions, diversifying their investments, open new branches, play merchant banking role and invest their risky assets and shareholder's fund to gain higher profit margin.Nabil and SCBNL are recommended to increase cash and balance to meet current obligations and loan demand.

Bist (2004), entitled *"NRB Directives Implementation and Impact on Selected Commercial Bank in Nepal"* analysed whether the sample banks have been41 following the NRB directives related to commercial banks and its impact on their operation.

The major objectives of the study were:

- To examine whether the banks have been following the directives provided by NRB
- To analyse the impact to the changes in the NRB Directives on the performance of the commercial banks
- To inspect whether NRB has been regularly monitoring the activities of commercial banks.

The study concluded that some directives of NRB should be revised which would help to bring prosperity not only to the shareholders but also to the depositors, the employees and the economy of the country as a whole. It also suggested that commercial banks have to come up with a stronger internal audit department to make sure that the directives are properly implemented. Banks need to give priority in Human Resource Development to monitor and collect already disbursed loans. Also, NRB should be more practical while issuing the directives which should not be issued to meet the international standard only but they need to be applicable in the context of Nepal as well.

Shahi (2005),entitled *"Lending Operation and Practice of Joint Venture Banks in Nepal"*, has examined the lending operation and practice of joint venture banks.

The main objectives of the research were:

- To determine the liquidity position
- To measure the banks' lending strength
- To analyse the portfolio behaviour of lending and measuring the ratio and volume of loans and advances made in agriculture, priority and productive sector.

This research has concluded that the high volume of liquidity shows the high degree of lending strength. The situation has been prevailing in all of the banks taken into consideration for the study. The lack of reliable lending opportunities and fear of losing the principal in rural sector has been keeping the sample banks to less orient towards the lending functions. Hence, the government should take appropriate actions to initiate these banks to attract to flow credit in rural economy.

Maharjan (2006) entitled *"Loan Management of Nepalese Commercial Banks"* in which he examined the loan management of the commercial banks in Nepal.

The main objectives of the study were:

- To determine how far the banks are investing in the priority sector and the deprived sector.

- To determine the trend of the deposit and the loan
- To determine the loan loss provision made by banks

The researcher concluded that loan and advances are the profitable assets for the banks and it is very risky too. Due to this reason, the loans and advances should be effectively managed and controlled. The study suggested that the banks should follow the NRB directives strictly for effectiveness and better financial status of the banks.

Shah (2008) in his thesis on *"Credit Management Of Nepalese Joint Venture Commercial Banks (With Reference to NABIL, SBI, HBL, EBL and BOK Banks)"* major findings of the study, this researches have been able to draw following certain conclusion: From analysis, it is found that the liquidity position of NSBI is better than that of others but HBL and NABIL have low liquidity position. It shows NSBI 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 BOK has better position than that of others. It has high total assets to total liabilities ratio, 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, investment to loan and advances and investment. In conclusion, it can be said that BOK is able to manage its assets to compete in this competitive banking business and NSBI and EBL are also able to manage its assets in comparison of NABIL and EBL. On the basis of activity ratio, it has been concluded that HBL has been made greater loan loss provision, but EBL is felling sage from loan loss than others. Similarly, BOK 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 so, it will causes great losses. It can also conclude that NABIL is successful in collecting the fund in cheapest possible price but

SBI has been paying high interest against total deposit and total working fund and EBL has been paying high interest against total expenses. In credit portfolio, SBI has made more investment in priority, deprived and government sector and EBL has made more investment in private sector. In the area of privatization, all these banks have shown good performance but this should increase in the coming future. But the investment made by these banks in priority and deprived sector is below the minimum requirements stipulated by NRB directives. In conclusion, it can be said that NABIL and HBL should try to mobilize its fund in these sector. 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 SBI has not better profitability position. On the basis of growth ratio, in conclusion it can be said that EBL is successful to maintain the economic and financial position in better way as it has better growth ratio of deposit and loan and advances but NABIL has not been seen better in terms of growth ratio. HBL has higher mean ratio of deposit mobilization and credit mobilization per branch. From the analysis of primary data, it is found that BoK has given comparatively more instant service and HBL has been found more informative. Similarly, NABIL and BoK have provided more facilities to their customers than that of others.60% of EBL and 50% of NABIL and SBI have not taking loan from these banks. Most of the respondents have selected the bank for better and instant service. So, it can be concluded that JVBs should try to give better and instant service to their clients. They should encourage their client to take loan if bank is unable to float its deposit then there might be problem in sustaining in long run. From staff's point of view, it is found that JVBs do not want to take any kind of risk related investment .HBL has provided comparatively more facilities to their staffs and it is also found that most of the JVBs have been facing credit related problem and the main credit related problem is non repayment of credit in time boy customer.

2.4 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 related to credit behavior rendered by joint venture commercial banks and also there are various researches conducted on investment analysis, policy, impact and implementation of NRB guideline and credit management of commercial banks but there are few research conducted on lending aspect of commercial banks. (With reference to NABIL, EBL and NSBI).However, most of them were found not so relevant with the topic and fail to depict real picture of lending aspect. Therefore, this research study attempts to cover a lending aspect of the selected banks and try to explore as many facts as possible.

Most important point to remember about lending policy is that every financial measure should be compared across time and across over same line of companies to be meaningful. Prior research has been conducted on the basis of traditional lending practices. The value of the approach was quantitative relations. The world is becoming more dynamic and subject to rapid changes. This research will be based upon the modern approaches to lending practices; which includes comparable group approach and consideration of economic and strategic factors where feasible. Thus, the research will be an interest to a wide range of its stakeholders and other government regulatory interests. This may be the first effort to performance evaluation of top four commercial banks with sufficient time frame in a systematic manner.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

This Chapter deals with the research design, nature and sources of data and data collection procedure, tools and techniques of analysis. Research methodology is the base for the study or it is a way toward the achievement of the stated objective of the study. Research methodology is the plan, structure and strategy of investigation conceived to answer the research question or test the research hypothesis (Wolff & Panta, 1999:243). Research methodology refers to the various methods of practices applied by the researcher in the entire aspect of the study. Research methodology adopted in this chapter is the set of various instrumental approaches used in achieving the predetermined objectives as stated in the earlier chapter. It counts on the resources and techniques available and to the extent of their reliability and validity in this research. The research methodology adopted in this chapter follows some limited but crucial steps aimed to achieve the objective of research. The main objective of this study is to make the comparative analysis of credit behavior of different joint venture commercial banks. In order to reach and accomplish the objectives of the study, different activities are carried out and different stages are crossed during the study period. For this purpose, the chapter aims to present and reflect the methods and techniques those are carried out and followed during the study period. The research methodology adapted for the present study is mentioned in thesis chapter which deals with research design, population and samples, nature and sources of data, procedure of data collection, processing and tabulation procedure and methodology.

3.2 Rationale of the Selection of the Study

Commercial banks are the principal agents of money market, which in turn, is the major instrument of the financial system. Thus commercial banks and their lending transaction obviously affect the national economy. Moreover, lending and borrowing transaction that takes place through the commercial banks influence the daily livings of each nation and at the same time from the government side, a great concern should be taken as the misleading by the commercial banks can violate the total economic system. Commercial bank's financial management system can contribute the economic growth too because these banks are the major variable of financial market. In this way, the relationship between the government financial policy and the commercial banks might be considered as a keen subject to study.

3.3 Research Design

The nature of this study is purely a financial research studying and analyzing the financial condition of entire period of study of sample bank regarding credit behavior management. Research design is a plan, structure and strategy of investigation on conceived, so as to obtain answer to research questions and to control variances (Kothari, 1993:39). Decision regarding what, where, when, how much, by what means concerning an enquiry or a research study constitute a research design. The purposed study will be carried out successfully by collection information regarding the behavior or attitude of the banks through personal interviews and written sources as well. Moreover, the study will be conducted in the light of central banks rules and regulations in the light of central banks rules and regulations that abide the commercial banks. This study follows the descriptive and analytical research design.

3.4 Population and Sample

A population in most studies 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 sample and the method of choosing this sub group is done by sampling. The sampling allows to researcher more time to make an intensive study of a research problem. The total commercial banks shall constitute the population of the data and three commercial banks are taken as the sample of the study. There are twenty seven commercial banks operating in Nepal till this date but for the purpose of the study, all twenty seven CBS can't be taken because of the time and resource constraint. So, among these CBs, only three CBs are selected as a sample.

Sample Banks:

- Everest Bank Limited
- NABIL Bank Limited
- Nepal SBI Limited

3.5 Nature and Sources of Data

In order to achieve the objectives of the study, secondary data collection procedure has been adapted.

Secondary Data

The secondary sources of data are the information received from reports, books, newspaper, journals etc. The major sources of secondary data are as follows:

- Annual report of NABIL, EBL and SBI.
- Bulletin and reports of concerned bank.
- Related URL.
- Materials published in Newspapers and Magazines.
- Other related journals, periodicals, books and booklets.
- Website of concerned banks.

3.6 Data Collection and Processing Techniques

Even this study is based on secondary data, adequate effort and time is given to get these essential materials, Annual reports of concerned banks, annual report of SEBO are obtained from respective offices. To some extent opinion survey or informal interview and questionnaire are conducted to obtain more information prove the reliability of the different published data. Various published data cannot be used in their original form due to poor data base. Thus for analysis purpose further these data need to be verified and simplified. Available data, information and figures are rechecked and tabulated in the analytical manner with supporting interpretations.

3.7 Data Period Covered

This study is based on only five year data of each joint venture bank i.e. from 2004/05 to 2008/09.

3.8 Methods of Data Analysis

Presentation and Analysis of the collected data is the core part of research work. The collected raw data are first presented in systematic manner in tabular form and are then analyzed by applying different financial and statistical tools to achieve the research objectives. Besides some charts and tables have been presented to analyze and interpret the findings of the study.

3.8.1 Financial Tools

Various financial tools and statistical tools used are as follows:

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 Statements of any business or industrial concerned especially to take output and Credit decisions. Ratio analysis is used to compare firm's financial performances and status that of the other firm's or to it overtime. Even though there are many ratios to analyze and interpret the financial statement those ratios that are related to the investment operation of the bank have been covered in this study.

Ratio Analysis

The relationship between two accounting figure, expressed mathematically, is known as financial ratio (or simply as ratio). A ratio is simply one number expressed in terms of another and as such it expresses the quantitative relationship between any two numbers. Ratio can be expressed in terms of percentage, proportion and as a coefficient. “The technique of ratio analysis is a part of the whole process of analysis of financial statement of any business of industrial concern especially to take output and credit decisions – Through this technique, a comparative study can be made between different statistics concerning varied facets of a business unit. Just as blood pressure, pulse and temperatures are the measures of the health of an individual, so does ratio analysis measure the economics of financial health of a business concern. Thus, the technique of ratio analysis is of a considerable significance in studying the financial stability, liquidity, profitability and the quality of the management of the business and industrial concerns" (Kothari, 1994:1-264).

As far as we are concerned about the financial ratio, a ratio between two relevant figures, which provide a certain relation, and have negative or positive correlation between them will only be studies. Since comparing two incomparable figures and their ratios give no idea and judgment on analysis and its remains as an absurd figure only. This section has been divided into following sub-sections.

3.8.1.1 Assets/Liability Management Ratios

Asset/Liability Management Ratio measures the proportion of various assets and liabilities in Balance Sheet. The Proper management of assets and liabilities ensures its effective utilization. The banking business converts the liability into assets by way of is lending and Investment functions. Assets and Liabilities management ratio measures its efficiency in multiplying various liabilities in performing assets. The following are the various ratios relating to Assets Liability management, used to determine the Lending Strength of the subjected finance companies.

i. Investment to Loans and Advances and Investment Ratio
ii. Loans and Advances and investment to Total Deposit Ratio
iii. Loans and Advances to Shareholder's Equity Ratio

3.8.1.2 Activity Ratio

Activity ratio measures the performance efficiency of an organization from various angles of its operations. These ratios indicate the efficiency of activity an enterprise to utilize available funds, particularly short-term funds. The following ratios are used in this study to determine the efficiency, quality and the contribution of Loans and Advances in the total profitability.

i. Loan Loss provision to Total Loan and Advances Ratio.
ii. Non-Performing Loans to Total Loan and Advances Ratio.
iii. Interest Income from Loans and Advances to Total Income Ratio.
iv. Interest Suspense to Total Interest Income from Loans and Advances Ratio.
v. Loans and Advances to Total Deposit Ratio.
vi. Interest Income to Interest Expense Ratio.

3.8.1.3 Profitability Ratio

Profit is the difference between the revenues and the expenditures over a period. Profit is the main element that makes an organization to survive. The profit, in other hand, measures the management ability regarding how well they have utilized their funds to generate surplus. The given ratios are used to determine the efficiency of the lending, its quality and contribution on total profitability.

i. Net Profit to Shareholder's Equity Ratio.
ii. Earnings Per Share (EPS).

3.8.1.4 Credit and Advances Portfolio

In this section management of credit of concerned banks to various Sectors of economy and various types of borrowers is analyzed. In this section, the ratio of credit to various sectors to total volume of credit is measured. The ratio measures that how efficiently bank has been contributed the credit and advances to various sectors. The following ratios are calculated under this section:

i. Priority sector credit to total credit ratio
ii. Deprived sector credit to total credit ratio
iii. Private sector credit to total credit ratio
iv. Credit to government enterprises.

Statistical Tools

Statistical Methods are the mathematical technique used to facilitate the analysis and interpretation of numerical data secured form groups of individuals or groups of observations from a single individual. The figures provide detailed description and tabulate as well as analyze data without subjectivity, but only objectivity. The results can be presented in brief and precise language and complex and complicated problems can be studied in very simple way. It becomes possible to convert abstract problems into, figures and complex data in the form of tables. The various statistical tools used in this study to analyze the collected data are as follows: -

3.8.1.5 Standard Deviation (S.D.)

The measurement of the scatters of the mass of figure in a series about an average is known as dispersion. The standard deviation measures the absolute dispersion. The greater the amount of dispersion, greater will be the standard deviation. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series. In this study, standard deviation of different ratio is calculated. It is denoted by'∃'.

S.D. = $\sqrt{\frac{\Sigma x^2}{n} - \left(\frac{\Sigma x}{n}\right)^2}$

3.8.1.6 Coefficient of Variation (C.V.)

The coefficient of variance measures the ratio of the standard deviation to the mean expressed in percent. It is calculated as under: -

$$\text{C.V.} = \frac{\sigma}{\bar{X}} \times 100$$

Where,

∃= Standard Deviation

$\bar{X}$ = Mean Value of Variances

Coefficient of variance is also useful in comparing the amount of variation in data groups with different mean. It is the relative measure of dispersion. A distribution with smaller coefficient is said to be more homogeneous than the other. On other hand, a series with greater coefficient of variance is said to be more variable of heterogeneous than the other (Gupta, 2000: 416).

3.8.1.7 Correlation of Coefficient

The coefficient of correlation measure the degree of relationship between two sets of sigma. There is various method of finding out coefficient of correlation but Karl Pearson’s method is applied in the study. The result of correlation coefficient is always between -1 and +1. It is indicated by r. When r is +1, it means there is perfect relationship between two variables and vice-versa. When r = 0, it means there is no relationship between two variables. The compute formula is mentioned below:

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

3.8.1.8 Coefficient of Determination

It is simply the zooming of correlation coefficient. It also measures the degree of relationship between the two variables. When the correlation coefficient comes in very small denomination then coefficient of determination helps to understand it more precisely by zooming it. It is denoted by r^2.

3.8.1.9 Probable Error

Probable error of the correlation coefficient is denoted by P.E. It is used for the testing the reliability of the calculated value of r. P.E. is defined by: -

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

Where,

P.E. (r) = Probable error of correlation coefficient

r = Correlation coefficient

n = Number of observation.

3.8.1.10 Trend Line/ Regression Analysis

The literal meaning of the word "regression" is stepping or returning back to the average value. The term was first developed by Francis Galton in 1877. Regression is the statistical tool with the help of which we can estimate or predict the unknown value of one variable from the known value of any other variable. Assuming that the two variables are closely related, we can estimate the value of one variable from the value of another.

The variable whose value is given is called "independent variable" and the variable whose value is to be predicted is called "dependent variable".

The regression equation of y on x is expressed as;

$$Y_c = a + B_x$$

Where,

Y_c = Value of y computed from the relationship for a given X.

"a" and "b" are constants and also known as the parameters of the line. The parameter "a" determines the distance of the line directly above or below the origin, while parameter "b" determines the slope of the line i.e. the change in y with per unit change in x. X is an independent variable and Y is dependent variable.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

This Chapter deals with the presentation and analysis of the data collection from various sources. The main objective of this chapter is to evaluate and analyze the main financial performances, which are mainly related to credit management of the selected banks. The basic objective of analyzing the financial performance and interpretation is to highlight the lending strength of the commercial banks. Lending Strength is that important aspect of any banks, which, if not kept in track while performing the functions, can lead to very critical situation. This, in fact, shows the situation of commercial banks in terms of investments in loans and advances. Whether the company is lending in accordance with the deposits it is collecting and the investments made by the shareholders or not should be analyzed regularly. Any idle deposit is loss to the company. Here, under this topic, an attempt is made to analyze the lending strength of the commercial banks under study in relative terms as well as absolute terms.

4.1 Measuring the Lending Strength in Relative Terms

The lending strength of commercial banks under study is measured in relative terms in this section. The relationship between various assets and liabilities of the balance sheet has been established to show the relative strength of lending strength of each commercial bank comparatively.

4.1.1 Investment to Loans and Advances Ratio

This ratio measures the contribution made by investment in total amount of Loans and Advances and Investments. The proportion between investment and loans and advances depicts the management attitude towards risky assets and safety assets. This also measures the risk that the company is taking in its investment. The high ratio indicates the mobilization of funds in safe area and vice versa. However, safety does not provide with satisfactory return, as is said, “No risk no gain”. Thus, a compromising ratio between risk and profit should be maintained.

Table 4.1
Investment to Loans and Advances Ratio

F/Y	NABIL	EBL	NSBI	Total	Mean	S.D.	C.V.
2004/05	0.3898	0.2695	0.3869	1.0462	0.348733	0.056039	0.160693
2005/06	0.4653	0.4144	0.4561	1.3358	0.445267	0.022147	0.049738
2006/07	0.5625	0.3539	0.2642	1.1806	0.393533	0.124964	0.317542
2007/08	0.4568	0.2686	0.2423	0.9677	0.322567	0.095523	0.296133
2008/09	0.3867	0.2431	0.851	1.4808	0.4936	0.259431	0.525589
Total	2.2611	1.5495	2.2005				
Mean	0.3867	0.2431	0.851				
S.D.	0.0641	0.0643	0.22				
C.V.	0.1658	0.2644	0.2585				

(Source: Annex- I)

Figure 4.1

Investment to Loans & Advances

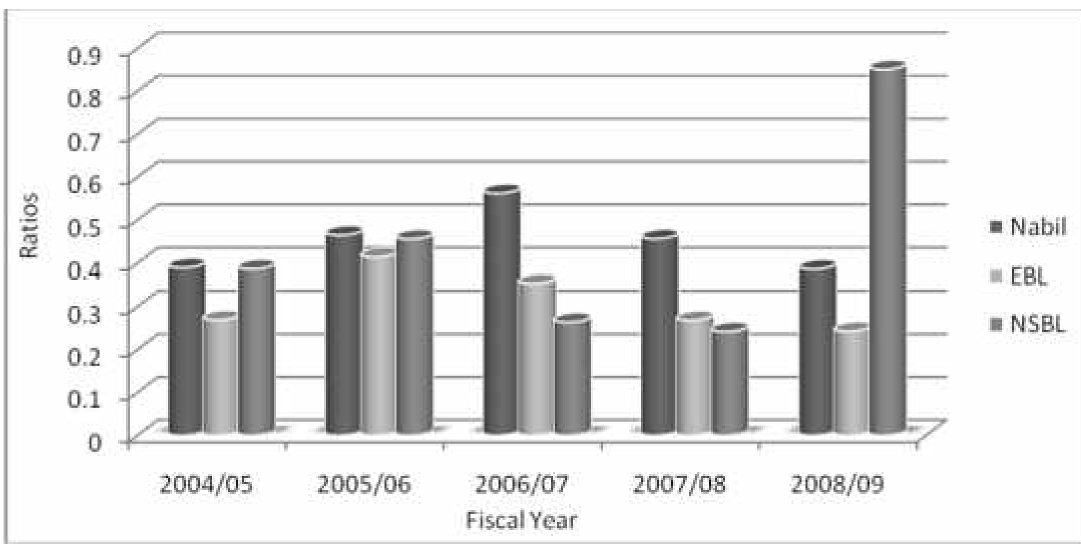


Table and figure 4.1 shows the ratios of investment to Loans and Advances. The ratios are ranged from 0.24 of NSBI and EBL to 0.86 in different fiscal years. On the contrary, EBL has the least ratio throughout the study period keeping aside the least ratio 0.24in the fiscal year 2008/09. Analyzing the 5-year data of all the five commercial banks, it is noted that no single bank has a steady increase in the ratio throughout the period. The trend of ratios of other banks is increasing in the beginning and declined thereafter. The ratio of NABIL is equal at 0.39 in 2004/05 and 2008/09 while for NSBI it is more than double between the very periods.

The combined mean ratio of all three commercial bank is 0.49. Similarly, the mean ratios of NABIL, EBL and NSBI are 0.39, 0.24 and 0.85 respectively. Only the NSBI have registered the higher mean ratio than that of Combined Mean. This infers that NSBI have the lowest degree of investment in risky assets. And similarly, EBL has the lowest ratio meaning that it has high amount of investment in risky assets.

The C.V. of EBL is highest of all sample banks figuring at 0.2644 i.e. 26.44% which reveal that there is high variability in the ratios of EBL. Similarly, NABIL has the lowest C.V. of 0.1658 i.e. 16.58% whereas the C.V. of NSBI is 25.85%. Furthermore, when we look at the C.V. of the years, the highest C.V. of 52.55% was marked in the year 2008/09 and lowest i.e. 4.97% in the year 2005/06. Therefore, in the year 2008/09, there is high variability in the ratios of Investment to Loan and Advances.

4.1.2 Loans and Advances and Investment to Total Deposit Ratio

Loans and Advances and Investments are the major area of fund mobilization. This is the major area where the funds collected as deposits are channelized. The first part, Loans and Advances is more crucial and also bears more risk than Investments but also gives the higher return. Whereas, the second half, Investments has lesser risk and gives lower return in compare to Loans and Advances. Loans and Advances and Investment to Total Deposits ratio indicate the firm's fund mobilizing power in gross. Total deposits collected, against giving interest to the customers, is the total amount available for investments. Loans and Advances and Investment are the major areas where the companies can mobilize the funds with some returns. Any idle deposits mean loss to the company. Thus, this ratio measures how well the deposits have been mobilized. In other words, we can say that this ratio measures what part of deposits are generating income for the company to give out interest to the deposits and also make profit.

Table 4.2

Investment and Loans & Advance to Total Deposit

F/Y	Banks			Total	Mean	S.D	C.V.
	NABIL	EBL	NSBI				
2004/05	1.043	0.993	1.08	3.116	1.03866667	0.03498889	0.03368635
2005/06	1.006	1.039	1.091	3.136	1.04533333	0.02706782	0.02589396
2006/07	1.065	1.048	1.112	3.225	1.075	0.0754424	0.07017898
2007/08	0.993	0.997	1.155	3.145	1.04833333	0.05850546	0.05580807
2008/09	1.04	0.913	1.034	2.987	0.99566667	0.20000576	0.20087622
Total	5.147	4.99	5.4704				
Mean	1.04	0.913	1.0336				
S.D.	0.0262	0.0478	0.0396				
C.V.	0.0252	0.0524	0.0383				

(Source: Annex- I)

Figure 4.2

Investment and Loans & Advance to Total Deposit

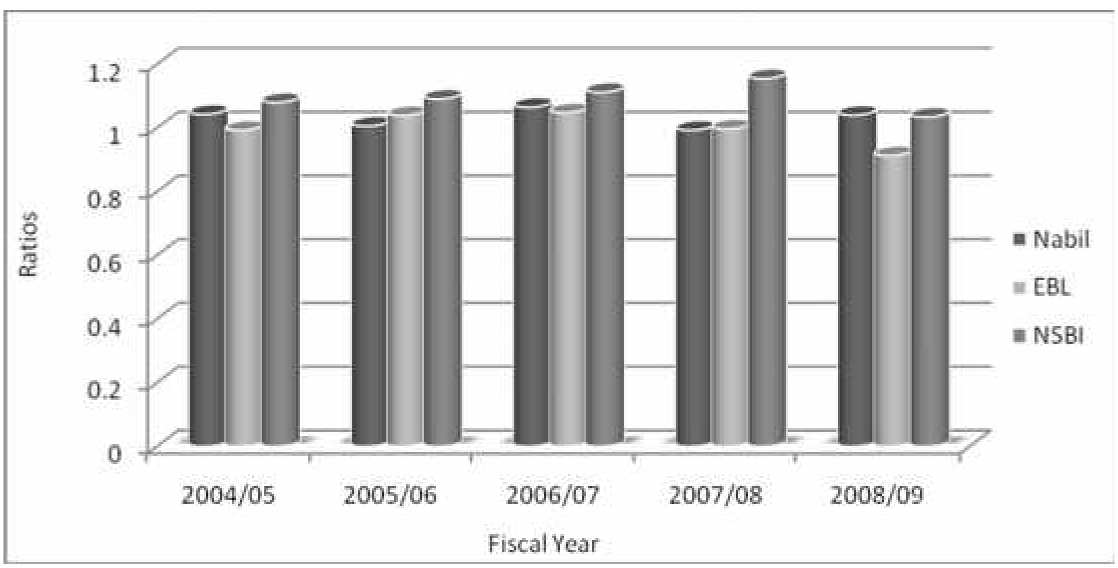


Table and figure 4.2 above shows the ratio of Loans and Advances and Investments to Total Deposits. This means the portion of deposit being mobilized to generate income. The ratios range from 0.91 of EBL in 2008/09 to 1.15 of NSBI in 2007/08. NSBI has the highest ratios throughout the period followed by NABIL and EBL.

NABIL and EBL has highest ratio of 1.07 and 1.05 in 2006/07, whereas NSBI has highest ratio of 1.15 in the year 2007/08. EBL has the lowest ratio throughout the study period. The ratios of NSBI inclined gradually from 1.08 in 2004/05 to 1.16 in 2007/08 which in the final year has declined to 1.03. None of the companies showed a steady increasing trend of the ratios. All the banks have a slight ups and down in the ratios in across the period of five years.

The Combined Mean ratio of all the three commercial bank is 0.99. The mean ratios of NABIL, EBL, and NSBI are 1.04, 0.91, and 1.03 respectively. Taking combined mean as standard measurement, NABIL has the highest mean ratio. This shows that NABIL has been doing best in mobilizing the funds collected in an income-generating sector. And since the ratio is above 1, it refers that none of the deposit is idle meaning that the accumulated funds are well utilized.

The C.V. of EBL is highest with 5.24% which reveal that there is high variability in the ratios of EBL. Similarly, the lowest value of C.V. is of NSBIat3.83% which indicates that NSBI has more consistent performance in fund mobilization. In addition, having looked at the C.V. on yearly basis, highest C.V. was realized in the year 2007/08 which stood at 6.21%. It means, taking all the sample banks, consistent fund mobilization was realized in fiscal year 2007/08.

4.1.3 Loans and Advances to Shareholder's Equity Ratio

Shareholders equity consist of Share capital, Share premium, Reserves fund, Retained earnings etc. The ratio between Loans and Advances to Shareholders Equity shows how far the Shareholder's Equity has been able to generate assets to multiply its wealth. Shareholder's Equity is the investment made by shareholders in the company and Loans and Advances mean mobilization of that invested funds in profit generating sector. Thus, this ratio measures size of the business and their success in converting liability into assets

Table 4.3

Loans and Advance to SHE

F/Y	Banks			Total	Mean	S.D	C.V.
	NABIL	**EBL**	**NSBI**				
2004/05	6.604	10.264	9.781	26.649	8.883	1.62351532	0.18276656
2005/06	7.082	10.527	8.389	25.998	8.666	1.41998897	0.16385749
2006/07	7.731	12.942	8.652	29.325	9.775	2.27075274	0.23230207
2007/08	8.928	9.8043	9.01	27.7423	9.24743333	0.39518465	0.04273452
2008/09	8.945	11.104	9.116	29.165	9.72166667	0.97994705	0.10080031
Total	39.29	54.64	44.95				
Mean	8.945	11.104	9.116				
S.D	0.9505	1.091	0.4727				
C.V.	0.1063	0.0983	0.0519				

(Source: Annex- I)

Figure 4.3

Loans and Advance to SHE

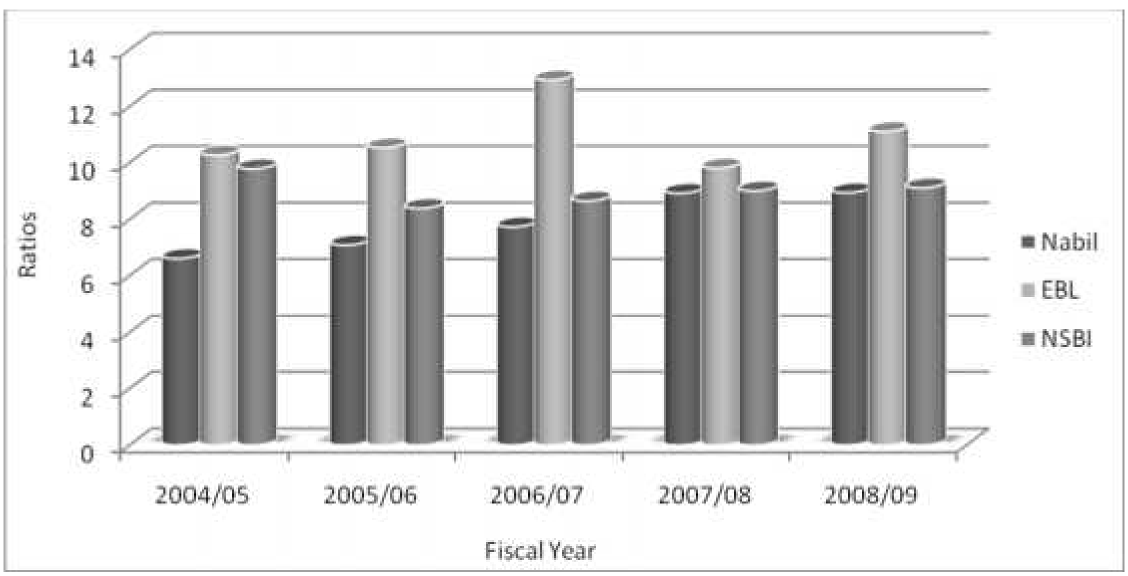


Table 4.3 shows the ratios of Loans and Advances to Shareholder's Equity. The ratios range from 6.6 of NABIL in 2004/05 to 12.94 of EBL in 2006/07. The ratio of merely the NABIL is in increasing trend whereas the ratios of rest three banks are fluctuating. This fluctuation is probably due to increase in the shareholder's equity of the companies in different years.

The Combined Mean ratio of all the commercial bank is 9.72. The mean ratios of NABIL, EBL and NSBI are 8.95, 11.10 & 9.12 respectively. EBL has the highest mean ratio whereas NABIL has the lowest.

The C.V. of NABIL is highest of 10.63% which reveal that there is high variability in the ratios of NABIL. Similarly, the lowest value of C.V. is of NSBI whose value is 5.19%. Similarly, when we look at the C.V. of the years, in the year 2006/07 is of the highest C.V. of 22% and lowest in the year 2007/08 of 7.02%. Therefore, in the year 2006/07, there is high variability in the ratios of Loan and Advances to Shareholder's equity.

4.2 Measuring the Lending Strength in Absolute Terms

In this topic, the various variables in their absolute values are measured individually. The value of individual variables enables to measure the gross contribution of respective commercial bank in those aspects. The ratio analysis merely describes the ratio between the two variables but does not tell about the absolute value of those variables. Thus, in this section, some of the important individual variables in their absolute value of Mean and Standard Deviation are examined. Simultaneously, to measure the relative measure of variability of data, the Coefficient of Variation is also measured.

4.2.1 Loans and Advances

One of the dominant functions of commercial bank is to create credit from its borrowed fund. By doing so it is converting its liability into assets. The high volume of Loans and Advances is indicator of good performance in credit sector. In other words, the volume of Loans and Advances is taken as one crucial element for measuring the performance of any commercial banks.

Table 4.4

Loans & Advances

(In Millions)

F/Y	Banks			Total	Mean	S.D	C.V.
	NABIL	EBL	NSBI				
2004/05	10946.7	7900.09	6739.35	25586.1	8528.71333	1774.22734	0.2080299
2005/06	13278.8	10136.3	8241.46	31656.6	10552.1867	2077.40541	0.19686966
2006/07	15903	14082.7	10065.1	40050.8	13350.2667	2438.93598	0.18268818
2007/08	21759.5	18836.4	12746.2	53342.1	17780.7	3754.62125	0.21116274
2008/09	27999	24469.6	15612.1	68080.7	22693.5667	5210.537	0.22960415
Total	89887	75425.1	53404.2				
Mean	27999	24469.6	15612.1				
S.D	6173.29	5987.67	3176.42				
C.V.	0.2205	0.2447	0.1621				

(Source: Annex- I)

Table 4.4 shows Mean, Standard Deviation and Coefficient of Variance of all commercial banks under study. The mean Loans and Advances of NABIL is highest of all at Rs.27999 million and NSBI has the least mean loan & advance of Rs.15612.10 million. The Standard Deviation of NSBI is lowest i.e. 3176.42. Thus, the performance of NSBI is more consistent with regards to providing loans and advances in comparison to other commercial banks. Whereas coefficient of variance is highest of EBL i.e. 24.47% and the lowest is of NSBI which is 16.21%.

Figure 4.4

Loans & Advances

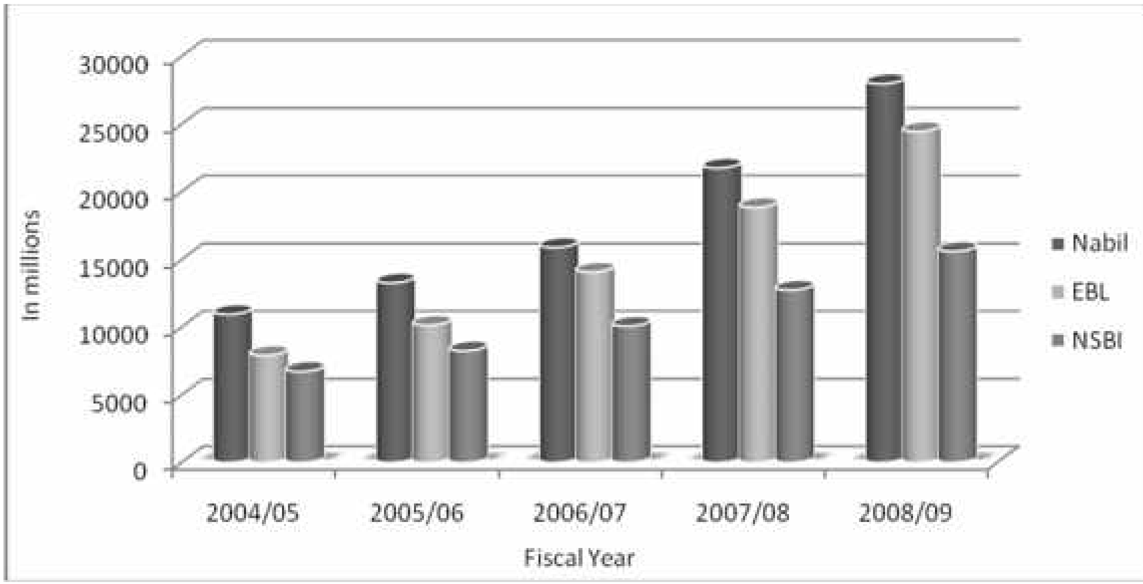


Figure 4.4 graphically presents the Loans and Advances of all three commercial banks throughout the study period. As shown in the graph all banks have increasing trend of loan and advance with 27999 million as the highest amount registered of NABIL in the fiscal year 2008/09. The least Loans and Advances disbursed is 6739.35 million by NSBI in 2004/05. However, there is an overall increasing trend in loans and advances. Starting from the year 2004/05, when the companies have come to end of the year 2008/09 they all have made high growth in their loans and advances. The loan & advance of NABIL, EBL & NSBI was grow by 155.78%, 89.72% and 131.66% respectively in between the period of five fiscal years. It is seen that the highest growth is shown by EBL.

The C.V. of EBL is highest of 24.47% which reveal that there is high variability in the ratios of EBL. Similarly, the lowest value of C.V. is of NSBI whose value is 16.21%. Similarly, having looked at the C.V. on the yearly basis, in the year 2008/09 is of the highest C.V. of 22.96% and lowest in the year 2006/07 of 18.26%. Therefore, in the year 2008/09, there is high variability in the ratios of Loan and Advances.

4.2.2 Non- Performing Loan

Non-performing loan is one of the growing problems of the loan granting institution in Nepal. Due to unfair intention of the borrower and the frequently arising political and economic crises, non-performing loan has become major drawback of financial sector since a couple of years.

Non-Performing Loan consists of Loans and Advances except for good loans. It is that part of Loans and Advances that should be looked upon carefully for the timely recollection of the repayments. According to NRB directive no. 2, Sub-standard, doubtful and bad loans are categorized under Non- performing Loans are, in fact, very crucial problem to commercial banks. NRB has directed all commercial banks to make provisioning of 25%, 50% and 100% respectively for substandard, doubtful and bad loan. They not only require extra effort for collection of repayments but as according to the NRB directions for Loan Loss Provision, they also create large amount of Loan Loss Provision cutting down the profits and making the amount idle.

Table 4.5

Non-Performing Loans

(Rs. in million)

F/Y	Banks			Total	Mean	S.D	C.V.
	NABIL	EBL	NSBI				
2004/05	144.5	128.81	441	714.31	238.103333	143.612527	0.60315211
2005/06	182.6	129.23	505.3	817.13	272.376667	166.136588	0.60995161
2006/07	178.3	113.18	458.8	750.28	250.093333	149.953344	0.59958953
2007/08	161.1	127.31	488.4	776.81	258.936667	162.840427	0.6288813
2008/09	224.8	117.99	316	658.79	219.596667	80.9209327	0.368498
Total	891.3	616.52	2209.5				
Mean	224.8	117.99	316				
S.D	26.9	6.51	66.81				
C.V.	0.1197	0.0552	0.2114				

(Source: Annex- I)

Table and figure 4.5 shows the Non-Performing Loan situation of all three commercial banks under study. Mean, Standard Deviation and Coefficient of Variance of all sample commercial banks are depicted in Table 4.5. The Mean Non-Performing Loan of NSBI is highest of all and the lowest of that is of NSBI. The highest Standard Deviation of Non-Performing Loan is that of NSBI at 66.81 and lowest is that of EBL at 6.51. This means EBL is performing well regarding the management of Non-Performing Loans. Standard deviation of NSBI is very high; this might call for problems in future if not controlled in time.

The highest Coefficient of Variation is of NSBI with 21.14% which reveal that there is high variability in the ratios of NSBI and the lowest is that of EBL with 5.52%.Similarly, when we look at the C.V. of the years, in the year 2007/08 is of the highest C.V. of 62.88% and lowest in the year 2008/09 of 36.85%. Therefore, in the year 2008/09 there is high variability in the ratios of Non-Performing Loans.

Figure 4.5

Non-Performing Loans

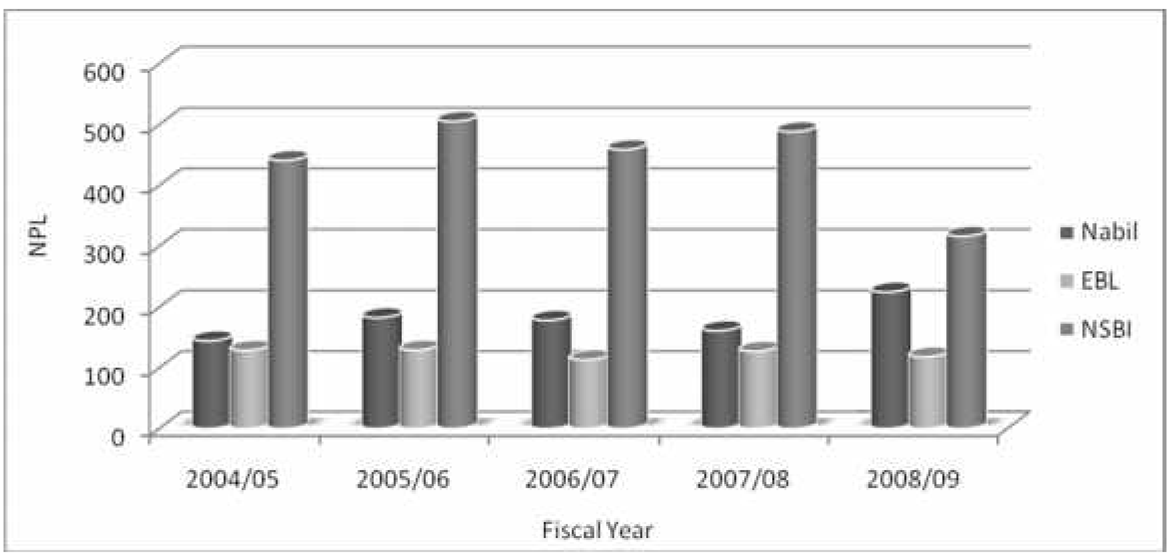


Table and Figure 4.5 above reveals at a glance the Non-Performing Loans of all three commercial banks in the period of 5 years in million rupees. The maximum Non-Performing Loan registered is of NSBI in 2005/06. The second highest is that of again NSBI in the following year 2006/07which marked 458 million around. However NSBI have managed to cut down its Non-Performing Loan in the year 2008/09. By contrast, NABIL have been able to control the non-performing loan throughout the period which is a positive sign. The fluctuation trend may not be much of a problem now, but can lead to a serious situation in the future. On the other hand, final year amount of Non-performing loan of EBL and NSBI are declined than that of previous year showing bright side in collection of non-performing loans.

4.2.3 Interest Income from Loans and Advances

Interest Income from Loans and Advances is one of the main sources of income of commercial banks. This is only a sub sectional part of Profit and Loss Account but is the most voluminous thus very crucial. This presents the pure income from the funds mobilized for Loans and Advances only.

Table 4.6

Interest Income from Loans and Advances

(Rs. in million*)*

F/Y	Banks			Total	Mean	S.D	C.V.
	NABIL	EBL	NSBI				
2004/05	831.83	633.62	520.43	1985.88	661.96	128.698243	0.19441997
2005/06	986.23	770.83	608.32	2365.38	788.46	154.783946	0.19631173
2006/07	1167.3	967.18	705.63	2840.11	946.703333	189.031334	0.19967325
2007/08	1496.2	1329.7	860.19	3686.09	1228.69667	269.29344	0.21916999
2008/09	2182.7	1852.1	1179.6	5214.4	1738.13333	417.367706	0.2401241
Total	6664.26	5553.43	3874.17				
Mean	1332.85	1110.69	774.83				
S.D	479.06	438.49	231.67				
C.V.	0.3594	0.3948	0.299				

(Source: Annex- I)

Table 4.6 shows the Mean, Standard Deviation and Coefficient of Variance of Interest Income from Loans and Advances of all commercial banks under study. The highest Mean register of Interest Income from Loans and Advances is 1332.85ofNABIL and the lowest is that of NSBI at 774.83. At a glance, it can be said that NABIL is the most income making Bank among the three. While considering the Standard Deviation, which is registered highest of NABIL at 479.06, it can be said that the interest income from loan and advance of NABIL is not steady. It means, NABIL does not have a regular collection of Interest Income form Loans and Advances. NSBI has the least Mean and least Standard Deviation, which means the least deviation from mean, result of much steady and regular collection of interest from Loan and Advances. The Mean of NABIL, EBL & NSBI are 1332.85, 1110.69 and 774.83 respectively and their respective Standard Deviations are 479.06, 438.49 and 231.67. NABIL has pretty much large volume of Mean 1332.85 Similarly, much lesser Standard Deviation is of NSBI at 231.67. The highest Coefficient of Variance 39.48% of EBL and the least is that of NSBI with 29.9%.

Figure 4.6

Interest Income from Loans and Advances

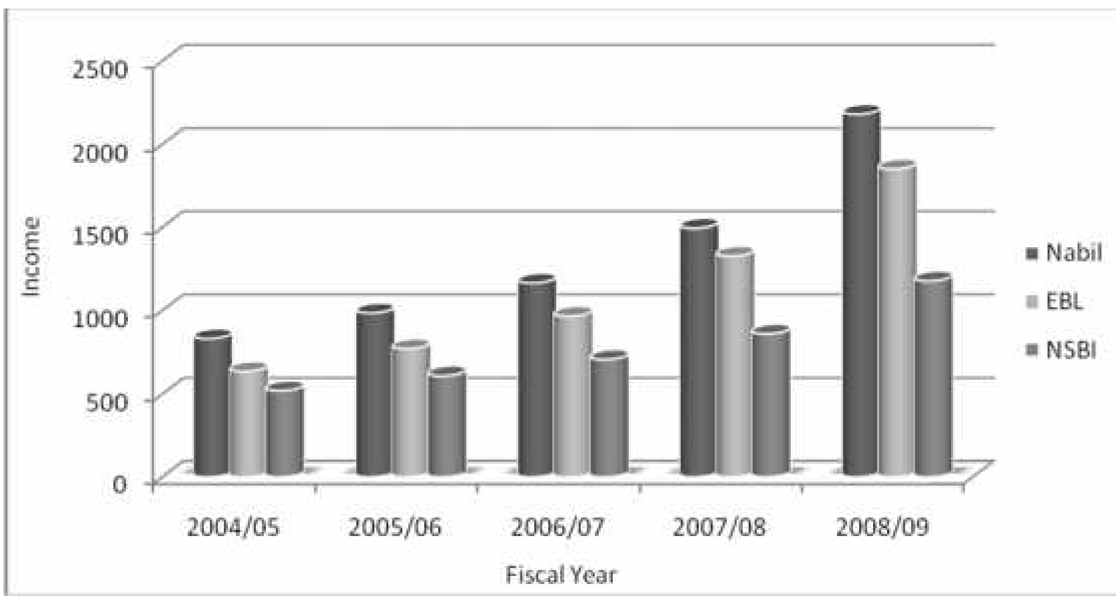


Figure 4.6 has the graphical presentation of Interest Income from Loans and Advances. The highest interest income of the study period is that of NABIL amounting around 2200 million in the last year 2008/09. The interest income of the NABIL & EBL is climbing in increasing trend throughout the study period. On the other hand, interest income of NSBI is inclined nominally in the first two year which remained almost the same in 2006/07 and then gradually rises up and crosses 1000 million in the final fiscal year.

4.2.4 Loan Loss Provision

Loan Loss Provision shows the figure that is the summation of provision made against all types of loans as per the NRB directives. The NRB directives directs to make the provision of 1%, 25%, 50% and 100% for Pass loans, sub-standard loans, doubtful loans, and loss loans provision presented in the Profit & Loss Account and definitely, decreases the profit of the company. The more the Loan Loss Provision, it suggests two definite things, more of total loan and or more of loss loan. Since, according to the NRB directives, 1% provision is to be provided for all good loans too, it does acquire a huge portion of the total Loan Loss Provision. Thus, just by looking at mere Loan Loss Provision it cannot be said if the company has all good loans or voluminous bad loans.

Table 4.7

Loan Loss Provision

(Rs in million)

F/Y	Banks			Total	Mean	S.D	C.V.
	NABIL	EBL	NSBI				
2004/05	360.57	281.42	525.47	1167.46	389.153333	101.662369	0.26123988
2005/06	356.24	334.95	614.72	1305.91	435.303333	127.164123	0.29212761
2006/07	357.25	418.6	604.6	1380.45	460.15	105.167509	0.22855049
2007/08	394.41	497.35	632.52	1524.28	508.093333	97.5043843	0.19190251
2008/09	409.08	584.88	480.3	1474.26	491.42	72.1994958	0.14692014
Total	1877.55	2117.2	2857.61				
Mean	375.51	423.44	571.52				
S.D.	21.96	109.13	58.52				
C.V.	0.0585	0.2577	0.1024				

(Source: Annex I)

Table 4.7 presents the Loan Loss Provision of the three commercial banks under study. The above table shows that NSBI has the highest Mean of 571.52, meaning it has allocated the highest amount in provision for Loan Loss in comparison to other commercial bank under study. Similarly, NABIL has the least of Mean of 375.51 and at the same time it also has the least Standard Deviation of 21.96 whereas EBL has highest

SD of 109.13 Thus, EBL is most likely to have highest volume to risky assets and NABIL the lowest.

Figure 4.7

Loan Loss Provision

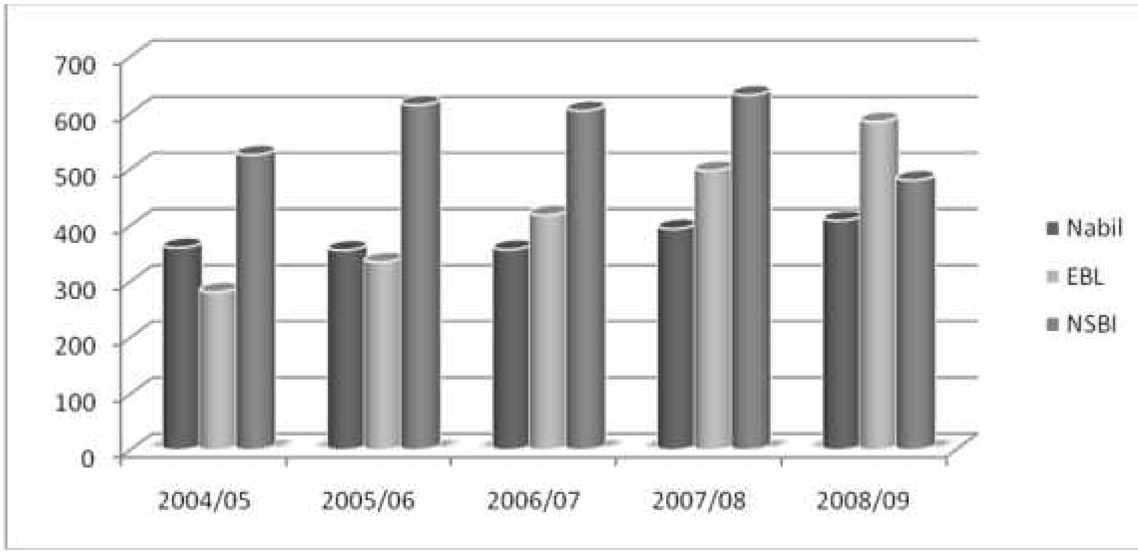


Figure 4.7 shows the graphical presentation of Loan Loss Provision of the three commercial banks under study. EBL has the least Loan Loss Provision in the first year of study period of Rs.221.42 million but from the third year NABIL has the least provision till the final year of the study period than other The graph clearly shows that the loan loss provision is highest of all of NSBI in the fiscal year 2007/08 figuring at 632.52 million. This might be because the non-performing loan of NSBI in this period was also in a huge amount. NABIL has maintained almost the consistent loan loss provisioning throughout the five years.

4.2.5 Net Profit

This Net Profit is the Net profit before Appropriation. Bonus for employees and taxes are deducted and retained earnings of previous year is also adjusted in the Net Profit for the study. Besides all the elements that count and questioned, the volume of Net Profit is the main factor that measures the success of the firm in every aspect.

Table 4.8

Net Profit

(Rs in million)

F/Y	Banks			Total	Mean	S.D	C.V.
	NABIL	EBL	NSBI				
2004/05	158.64	168.21	57.39	384.24	128.08	50.137832	0.39145715
2005/06	635.26	237.29	117	989.55	329.85	221.470648	0.67142837
2006/07	673.96	296.41	254.91	1225.28	408.426667	188.523254	0.4615841
2007/08	746.47	451.22	247.77	1445.46	481.82	204.739986	0.42493044
2008/09	1031.05	638.73	316.37	1986.15	662.05	292.23249	0.44140547
Total	3245.38	1791.86	993.44				
Mean	649.08	358.37	198.69				
S.D.	281.68	168.45	95.98				
C.V.	0.434	0.4701	0.483				

(Source: Annex-I)

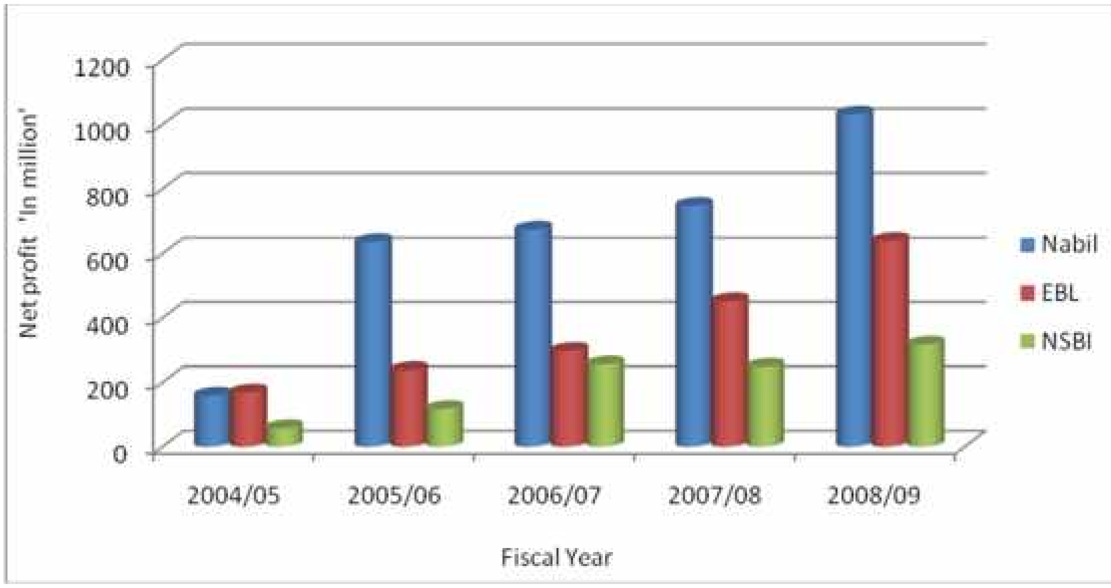
Table 4.8 shows that NSBI has the lowest Mean during the study period. It has the Mean of 198.69 with variability of 48.30%, whereas NABIL has the highest Mean of 649.08 with variability of 43.40%. The Mean Net Profits of EBL is 358.37 and their Standard Deviation is 168.45.Under this analysis it can be said that NABIL has the best performance.

The C.V. of NSBI is highest of 48.30% which reveal that there is high variability in the ratios of NSBI. Similarly, the lowest value of C.V. is of NABIL whose value is 43.4%. Similarly, when we look at the C.V. of the years, in the year 2005/06 is of the highest C.V. of 67.14% and lowest in the year 2004/05 of 39.14%. Therefore, in the year 2005/06, there is high variability in the ratios of Net Profit.

Figure 4.8

Net

Profit



The graphical presentation of Net Profits of all three commercial bank is shown in Figure 4.8 This figure shows that all the banks are able to increase their net profit throughout the year. In the fiscal year 2008/09 NABIL has highest Net Profit than other banks however from the year 2005/06 till final year of 2008/09 NABIL has achieved the highest Net profit than other bank. NSBI being the bank to have low Net Profit than other bank in the five years period, has very low Net Profit in the year 2004/05 however it has increased its net profit then after. None of the bank had bear loss. The net profit of all three banks is in increasing trend it indicated that all the banks are maximizing their shareholders wealth.

4.3 Analyzing the Lending Efficiency and its contribution in Total Profitability

In this section, the lending efficiency in terms of its quality and turnover is measured. For this purpose, the relationship of different variables of Balance Sheet and Profit & Loss Account is established.

4.3.1 Loan Loss Provision to Total Loans and Advances Ratio

The ratio of Loan Loss Provision to Total Loans and Advances describes the quality of assets that the commercial banks need to categorize its Loans and Advances into pass, substandard, doubtful and loss loans and to make the provisions of 1%, 25%, 50% and 100% respectively as Loan Loss Provision, in fact, is the cushion against future contingency created by the default of the borrowers. The lower ratio signifies the good quality of assets in the total volume of Loans and Advances. Similarly, the higher ratio signifies relatively more risky assets in the volume of Loans and Advances and also shows possibility of increment of Non-Performing Loans in future.

Table 4.9

Loan Loss Provision to Total Loans and Advance

Fiscal Year	NABIL	EBL	NSBI
2004/05	0.033	0.036	0.078
2005/06	0.027	0.033	0.075
2006/07	0.023	0.03	0.06
2007/08	0.018	0.026	0.05
2008/09	0.015	0.024	0.031
Total	0.12	0.15	0.29
Mean	0.02	0.03	0.06
Combined Mean	**0.0366**		

(Source: Annex- I)

The tabulated figures of table 4.9 show the Loan Loss Provision to Total Loans and Advances ratio of all three commercial banks during the specified study period. The least ratio registered is that of EBL in the years 2008/09 which is only 0.02. Comparing their mean ratios, NSBI has the highest amongst all, calculated as 0.06. The combined mean ratio of all three commercial bank is 0.0366 and the mean ratio of NSBI is higher than the combined mean. NSBI has always been provisioning higher than the combined mean except in the final year 2008/09. Provision of NABIL and EBL has never crossed the combined mean. The overall trend of ratio of all banks has been decreasing continuously.

From the year 2004/05 to 2008/09, the ratio of NABIL has decreased by 54.54%, the ratio of EBL has decreased by 33.33% and NSBI have increased by 60.25%. Generally, decrease in this ratio suggests the decrease in the Non-Performing Loans, which is a positive sign of effectiveness in the credit policy of the company.

4.3.2 Non-Performing Loans to Total Loan and Advances Ratio

As the directives given to the commercial banks, substandard, doubtful and bad loans are categorized under Non-Performing loans. Increase in Non-Performing Loans increases Loan Loss Provision and Interest Suspense too, which ultimately results in profit deduction. The banking sector is severely affected by the NPL (Non-Performing Loans) problem. It is estimated that the NPL of the Nepalese banking system is around 16 percent. Therefore, there is no doubt that it has a serious implication on economic performance of the country.

Table 4.10

NPL to Total Loans & Advance

Fiscal Year	**Banks**		
	NABIL	**EBL**	**NSBI**
2004/05	0.013	0.016	0.0654
2005/06	0.014	0.013	0.0613
2006/07	0.011	0.008	0.0456
2007/08	0.007	0.007	0.0383
2008/09	0.008	0.005	0.0202
Total	0.053	0.049	0.178
Mean	0.0106	0.0098	0.0356
Combined Mean	**0.018**		

(Source: Annex - I)

Table 4.10 exhibits that the combined mean of Non-Performing Loans to Total Loans and Advances of three commercial banks under study is 0.018 That is to say, in the total volume of Loans and Advances the Non-Performing Loans represents 1.8%. Similarly, NABIL and EBL have their NPL to Loan and Advance ratio of 1.06% and 0.98%respectively. Furthermore NSBI have their Non-Performing Loans as 3.56% . This shows that NSBI have their Non-Performing Loans higher than that of industrial average of the banks which shows inefficiency of NSBI in loan lending and recovery. NABIL and EBL has ratio lower than the combined mean ratio. EBL has lowest ratio of 0.98% which shows the efficiency of credit polity of the bank. However, there is no similarity in the ratio of NPL between three banks.

4.3.3 Interest Income from Loans and Advances to Total Income Ratio

Needless to say, income is the most vital part of any business. Besides, in the companies dealing in lending business interest income occupies a greater portion of the Total income. This ratio, interest income from loans and advances to Total Income, measures the volume of interest from Loan and Advances in Total Income. This ratio also helps to measure performance of the commercial banks on the grounds of its lending policy. The high ratio indicates the high contribution in profits is made by the lending practices than in other risk free investments and vice versa.

Table 4.11

Interest Income from Loans and Advance to Total Income

Fiscal Year	Banks		
	NABIL	EBL	NSBI
2004/05	0.243	0.738	0.724
2005/06	0.396	0.723	0.761
2006/07	0.561	0.702	0.746
2007/08	0.858	0.719	0.787
2008/09	1.445	0.722	0.712
Total	3.503	3.604	3.73
Mean	0.7006	0.7208	0.746
Combined Mean	**0.7225**		

(Source: Annex - I)

In above table 4.11, the combined mean ratio of all three commercial bank is 0.7225. This is indicative of the fact that interest income from Loans and Advances contributes 72.25% in the total income. These ratios of all sample banks except NABIL have their ratios higher than the combined mean ratio. This clears the fact that, except for NABIL, interest income form Loans and Advances have much higher contribution in the Total

Income and thus profit of the bank. This also clarifies that the banks are pretty much aggressive in investment and have invested their funds comparatively much less in risk free investments which bear much lesser return than risky investments.

4.3.4 Interest Suspense to Total Interest Income from Loans and Advances Ratio

Interest Suspense refers to that portion of interest, which is due but not collected. NRB directives do not allow commercial banks to book three months due unpaid interest as income. Thus, increase in the Interest Suspense decreases the profit of the company. Such interest is shown in liability side of Balance Sheet under the heading "Other Liabilities and Provisions." This ratio of Interest Suspense to Total Interest Income from Loans and Advances measures the composition of due but uncollected interest in the total interest income from Loans and Advances. The high degree of this ratio refers to the poor interest turnover and vice versa. Thus, this ratio also helps to analyze the capability of the company in collecting the repayments of the Loans and Advances.

Table 4.12

Interest Suspense to Interest Income

Fiscal Year	**Banks**		
	NABIL	**EBL**	**NSBI**
2004/05	NIL	0.0075	NIL
2005/06	0.0083	0.0079	NIL
2006/07	0.0071	0.0059	0.046
2007/08	0.0059	0.0049	0.04
2008/09	0.0054	0.0034	0.019
Total	0.0267	0.0296	0.0722
Mean	0.00534	0.00592	0.01444
Combined Mean	**0.0085**		

(Source: Annex- I)

Table 4.12 shows the ratio of Interest Suspense to the Interest Income from Loans and Advances. The combined mean ratio is 0.0085. The mean ratio of NABIL is lowest of all at 0.53%. And that of EBL is slightly higher than that of NABIL i.e. 0.59%, whereas NSBI has the maximum ratio throughout the study period. The mean ratio of NSBI is 0.0144, that is to say, NSBI has to maintain Interest Suspense of almost 1.44%% of

Interest Income from Loans and Advances is canceled out by Interest Suspense and its profit is decreased. NSBI has the second highest ratio amongst all. Thus, these banks have to put on some extra efforts on collection of repayments of loans to secure their position form futures hazards.

4.3.5 Loans and Advances to Total Deposit Ratio

Deposits are those funds that the commercial banks collects from different individuals, institutions and investors that has to be given back after certain time period with some interest. Whereas, Loans and Advances is that mobilized part of deposit amount that brings back additional income as interest from the borrowers. Thus, Deposits are liabilities which when converted to assets are called Loans and Advances. Deposits which remain idle in company, is loss to the company. Company can make profits only when deposits, which take away interest of certain rate, are mobilized by giving away loans and advances, which bring back interest at higher rates.

Table 4.13

Loans and Advance to Total Deposit

Fiscal Year	Banks		
	NABIL	EBL	NSBI
2004/05	0.7505	0.7824	0.7787
2005/06	0.6863	0.7344	0.7491
2006/07	0.6813	0.7744	0.8794
2007/08	0.6818	0.7856	0.9293
2008/09	0.7497	0.7343	0.5584
Total	3.5496	3.8111	3.8949
Mean	0.70992	0.76222	0.77898
Combined Mean	**0.750**		

(Source: Annex- I)

Table 4.13 shows the ratios of Loans and Advances to Total Deposits of all three commercial banks under study. The combined mean is 0.750. The minimum ratio is of NABIL and EBL as 70.99%, and 76.22% respectively. Whereas NSBI seems to be doing the best according to this ratio of 77.89 meaning its investment in Loans and

Advances are more than the total deposits collected. Commercial banks can afford to invest in Loans and Advances more than they collect Deposits because they also have Shareholder's Equity to be invested apart from the deposits alone. NABIL has the lowest of this ratio of 70.99%. The cause behind its lowest ratio is that this bank has divided its funds from deposits to investment in larger ratio than other banks use to do.

4.3.6 Interest Income to Interest Expenses Ratio

The ratio of interest income to Interest Expenses measured the gap between interest rates offered and interest rate charged. The spread between the interest income and interest expenses is the main foundation for the profit of the bank. NRB had restrictions on the interest rate spread of the commercial banks. The interest offered and the interest charged should not be more than 5 percent. The commercial banks are free to fix interest rate on deposit and loans. Interest rate on all types of deposit and loans should be published in the local newspapers and communicated to NRB quarterly and immediately when revised. Deviation of 0.5 percent from the published rate is allowed on all types of loans and deposit. However with the new Financial Ordinance 2061 it has again empowered NRB to intervene in rate fixation but it does not specify the conditions that would oblige NRB to do so.

Table 4.14

Interest Income to Interest Expenses

Fiscal Year	**Banks**		
	NABIL	**EBL**	**NSBI**
2004/05	3.4156	2.1151	2.0138
2005/06	2.7613	0.8532	1.8171
2006/07	2.1005	1.8701	1.7116
2007/08	1.9728	2.1019	1.8909
2008/09	1.8926	1.8286	1.4303
Total	12.1428	8.7689	8.8637
Mean	2.42856	1.75378	1.77274
Combined Mean	1.9850		

(Source: Annex- I)

Table 4.14 above, shows the ratio of Interest Income to Interest Expenses of commercial banks under study with the combined mean 1.9850, which indicates that a rupee of expense in deposits generates 1.985 rupees of interest income and interest expenses. NABIL has the highest ratio of 3.41 in the year 2004/05 and it is the year NABIL had succeeded to increase profits. EBL has the least mean ratio. The least ratio of EBL is result of its heavy investment in risk free assets than in Loans and Advances, which generates lower interest income.

4.3.7 Net Profit to Shareholder's Equity Ratio

This Net Profit to Shareholder's Equity ratio measures the amount of profit that a rupee of shareholders' fund has received. The Net Profit here is the Net Profit before Appropriation. The high ratio is the high return to shareholders and vice versa.

Table 4.15

Net Profit to SHE

Fiscal Year	**Banks**		
	NABIL	**EBL**	**NSBI**
2004/05	0.0957	0.2186	0.0833
2005/06	0.3388	0.2465	0.1191
2006/07	0.3276	0.2724	0.2191
2007/08	0.3063	0.2349	0.1751
2008/09	0.3294	0.2899	0.1847
Total	1.3978	1.2623	0.7813
Mean	0.27956	0.25246	0.15626
Combined Mean	**0.2294**		

(Source: Annex- I)

The above table 4.15 shows the ratio of Net Profit to the Shareholder's Equity of all the sample commercial bank. NABIL has the highest mean ratio of 0.2795. EBL is second with mean ratio 0.25246. NSBI has the least mean ratio of 0.1562 which is also less than the combined mean. Therefore, the shareholders of NABIL have earned more from their invested fund followed by EBL, and NSBI.

4.3.8 Earning Per Share (EPS)

EPS refers to Net Profit divided by the total number of shares outstanding. The amount of EPS measures the efficiency of a firm in relative terms. This figure is the indicative of the overall good or bad performance of an organization. How far an organization if able to use its resources to generate profit is determined by the profit it has earned. Thus, EPS determines the market value of a share, determine the attitude of outsiders.

Table 4.16

Earnings per Share

Fiscal Year	Banks		
	NABIL	**EBL**	**NSBI**
2004/05	105.4879	534.0364	13.2881
2005/06	129.2091	62.7754	18.2748
2006/07	137.08	78.4152	39.3501
2007/08	108.3069	91.8231	28.3319
2008/09	106.7622	99.9862	36.1765
Total	586.8461	867.0363	135.4214
Mean	117.36922	173.40726	27.08428
Combined Mean	**105.95**		

(Source: Annex- I)

Table 4.16 shows that EPS of NABIL is the highest throughout the years except in first year of study. In the first year EBL has the highest EPS of 534.03 which was slumped down dramatically to 62.77 in the next year and raises gradually then after. EBL has the highest mean of 173.40, while the combined mean is 105.95 The lowest EPS mean is that of NSBI at27.08. NABIL has the second highest EPS mean with 58.49. EPS of NABIL seems good as it do not have high variation over the years though the EPS is declining in last two years. NABIL and EBL have EPS higher than the industrial average (combined mean) of 105.95 whereas NSBI have lower EPS than that of industrial average. It precisely reflects that the shareholders of NABIL and EBL are earning more from their investment than that of NSBI.

4.4 Analysis of Portfolio Behavior of Loan and Advances

In this section, the portfolio management of credit of concerned banks to various sectors of economy and various types of borrowers is analyzed. In this section, the ratio of credit to various sectors to total volume of credit is measured.

4. 4.1 Priority Sector Credit to Total Credit

Commercial banks have various options to mobilize their funds; credit to priority sector is one of them. The banks extended credit to priority sector up to the limit specified by NRB .The concerned banks have invested certain position of their total credit outstanding to the priority sectors.

Table 4.17

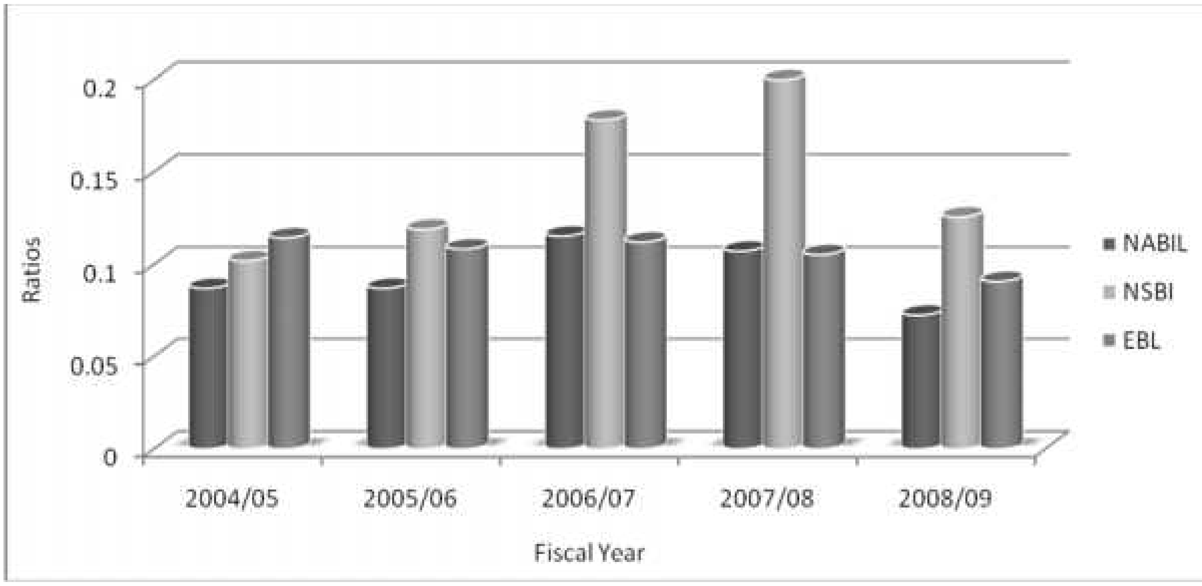
Bank/Year	2004/05	2005/06	2006/07	2007/08	2008/09	Mean
NABIL	0.0871	0.0871	0.1155	0.1073	0.0725	0.093`
NSBI	0.102	0.1191	0.1783	0.2	0.1256	0.1450
EBL	0.1145	0.1085	0.1122	0.1054	0.0908	0.1082

Source: Annex - I

The above table shows NABIL has decreasing trend of priority sector credit to total credit ratio from 2004-2009. NSBI has decreasing trend of ratio till 2007/08. EBL have fluctuating trend of ratio. The tabulated value represents less than 12 percent of the credit of these commercial banks have been directed to this sector. Only NSBI has granted more than 12 percent of its total credit and advances. NSBI has highest mean of 0.1450 and NABIL has lowest mean ratio of 0.093. The mean ratio Of NABIL and EBL are 0.093 and 0.1082 respectively. The combined mean ratio of all those bank's 0.1145. NRB imposed penalty in case of non compliance of 12 percent criteria but the combined mean ratio i.e. 0.1145 represents the mean performance of these banks in below the minimum requirement stipulated by NRB directives. . The performance of NABIL and EBL is far below than that of NSBI. The ratios are presented in bar diagram below;

Figure 4.9

Priority Sectors Credit to Total Credit



4.4.2 Deprived Sector Credit to Total Credit Ratio

This Ratio indicates the direct investment made by commercial bank to income generating sector from the total credit portfolio.

Table 4.18

Deprived Sector Credit to Total Credit Ratio

(Rs. in million)

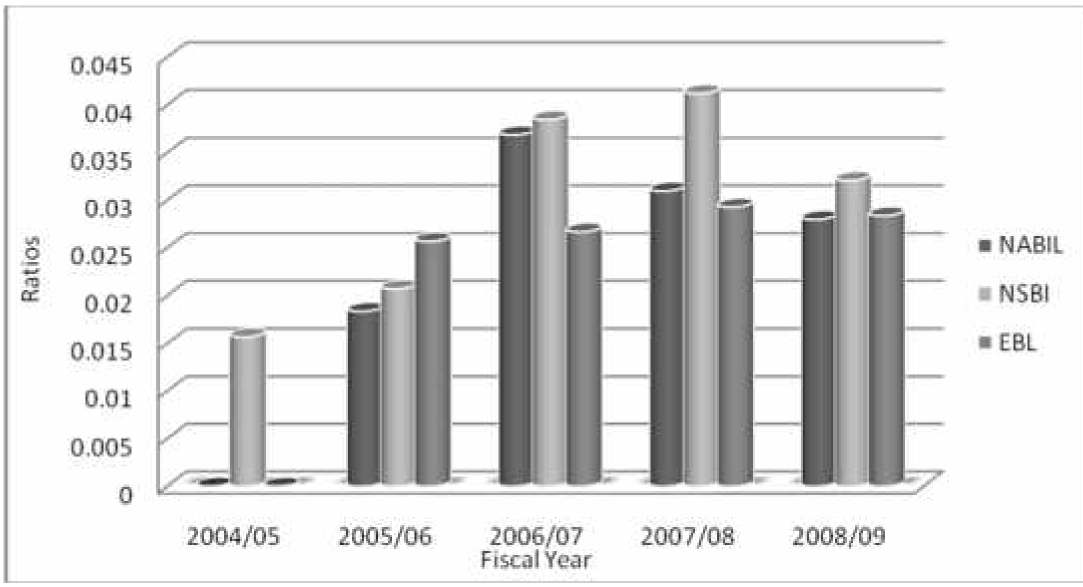
Bank/Year	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	Combined Mean
NABIL	0	0.0184	0.0369	0.031	0.028	0.0232	0.025
NSBI	0.0157	0.0207	0.0385	0.0412	0.0321	0.0296	
EBL	0	0.0257	0.0267	0.0293	0.0284	0.0220	

(Source: Annex – I)

The above table shows the increasing trend of deprived sector credit to total credit ratio of NSBI from 2004/05 to 2008/09 and ratio is decreased at 2008/09. NABIL has increasing trend from 2005/06 to 2007/08 but NABIL has fluctuating trend. The mean ratio of NSBI is higher than other two banks i.e.0.02965 whereas the NABIL and EBL has 0.0232 and 0.0220 respectively which represents the average performance of these banks is below the minimum requirements stipulated b NRB directives and the provision directed to commercial banks is to require extend credit to the deprived sector as 0.25-3 percent of total credit. The ratios are presented in bar diagram as follows:

Figure 4.10

Deprived Sector Credit to Total Credit Ratio



4.4.3 Private Sector Credit to Total Credit Ratio

Commercial banks earn profit by mobilization of deposit through outside's assets and credit is one of the important tools to increase profit. Private sector lending is very much profitable if loan takes is trust worthy and it is very risky also. Most banks likes to advances the credit to private sector it is very much important to learn how the banks are mobilizing their fund.

Table No. 4.19

Private Sector Credit to Total Credit Ratio

(Rs in million)

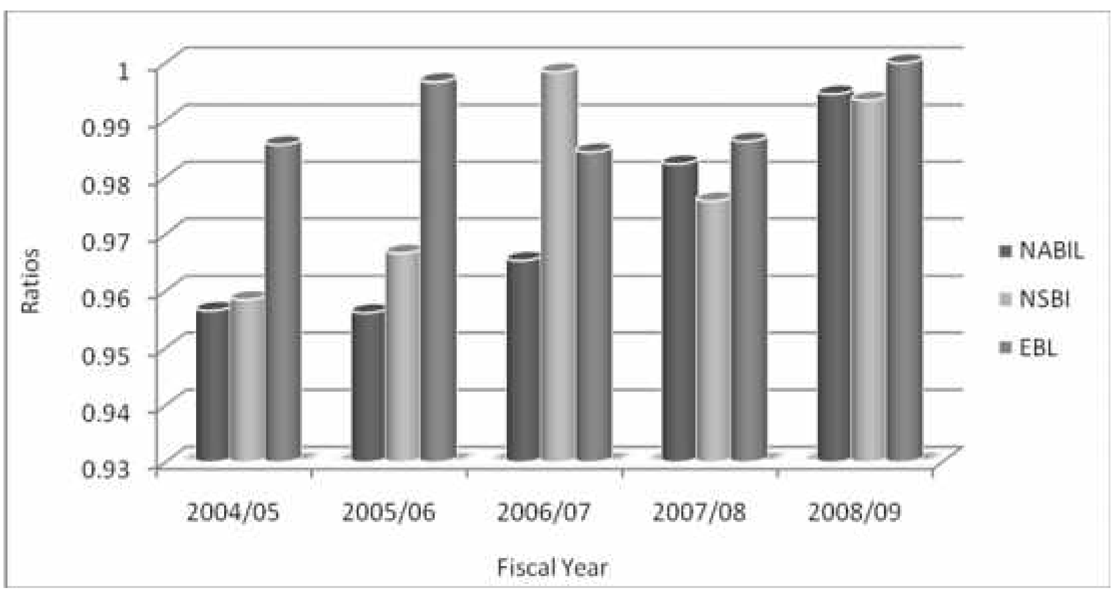
Bank/year	2004/05	2005/06	2006/07	2007/08	2008/09	Mean
NABIL	0.9566	0.9562	0.9654	0.9823	0.9946	0.971
NSBI	0.9585	0.9667	0.9984	0.9758	0.9935	0.9765
EBL	0.9857	0.9967	0.9844	0.9863	1	0.9906

Source: Annex- I

The above table explains, that the proportion of credit and advances granted to private sector in significant increase of all three banks. The mean ratio ranges from 0.97, to 0.9906.The ratio explains about the fluctuating trend in all banks. The mean ratio of EBL, SBI and NABIL are 0.9906, 0.765 and 0.971 respectively. The mean ratio of EBL is highest among the three banks. It can be said that EBL has higher private sector credit to total credit ratio than other banks because of lending and investing opportunity in private sector. Though the performance of all banks is good and the continuous effort to increase the private sector participant in development activities and the trend toward the globalization of economy may cause this ratio to increase in future. So, the ratio in aggregate explains the private sectors importance in banking business and all of these banks. Therefore, the lending activities of these banks are highly depended upon the private economy and its development. In the area of privatization, this ratio is good in the case of all banks but this should increase in the coming future. The ratios are presented in bar diagram as follows:

Figure 4.11

Private Sector Credit to Total Credit Ratio



4.4.4 Credit to Government Enterprises

Commercial banks have various options to mobilize their funds. Credit to government enterprises is one of them. To earn high profit, most of commercial banks avoid extending credit on this area but concerned banks have invested certain portion of their total credit outstanding to the government enterprises.

Table 4.20

Credit to Government Enterprises

(Rs. in million)

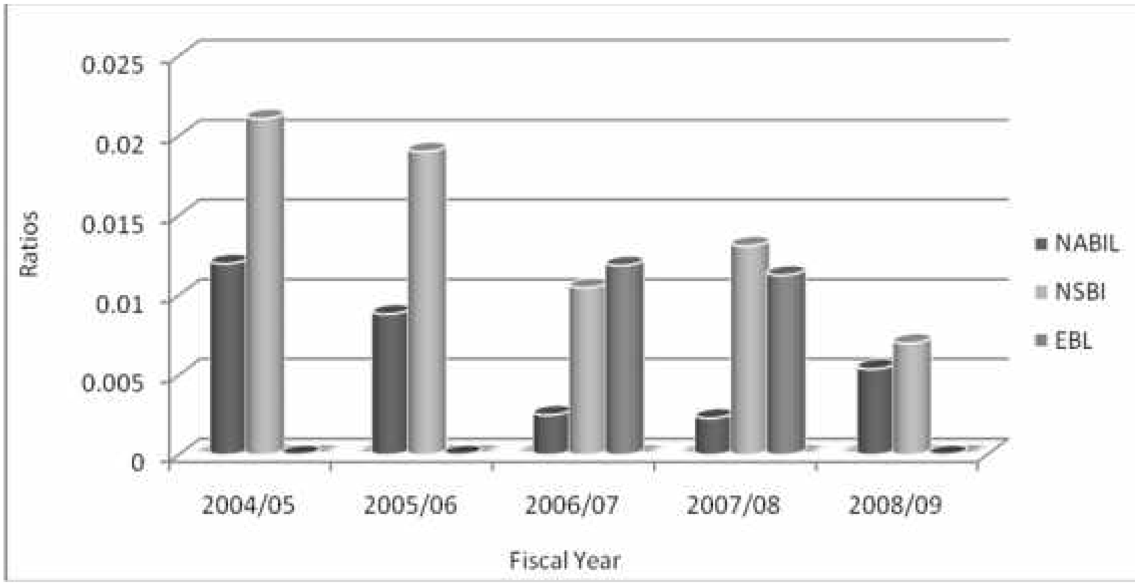
Bank/Year	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**Mean**	**Combined Mean**
NABIL	0.012	0.00883	0.00251	0.00231	0.0054	0.00621	0.76%
NSBI	0.0211	0.01902	0.01049	0.01312	0.00699	0.01196	
EBL	-	-	0.01188	0.01128	-	0.00463	

(Source Annex – I)

Above table shows that all three concerned banks have decreasing trend of credit to government enterprises. It means that the dependency of lending in private is increasing in the commercial banks. This may have due to lending and investing Opportunity in private sector. Lending in government enterprises is less than that of private sector. The mean ratio of SBI is highest than other two banks i.e. 0.01196>0.006214>0.004633.The overall combined mean shows that 0.76 % of the total credit of these commercial banks have been contributed to the government enterprises. The ratios are presented in bar diagram below;

Figure 4.12

Credit to Government Enterprises



4.2.4.5 Sectors Classification of Credit (NABIL)

Table 4.21

Sector Classification of Credit (NABIL)

(Rs. in million)

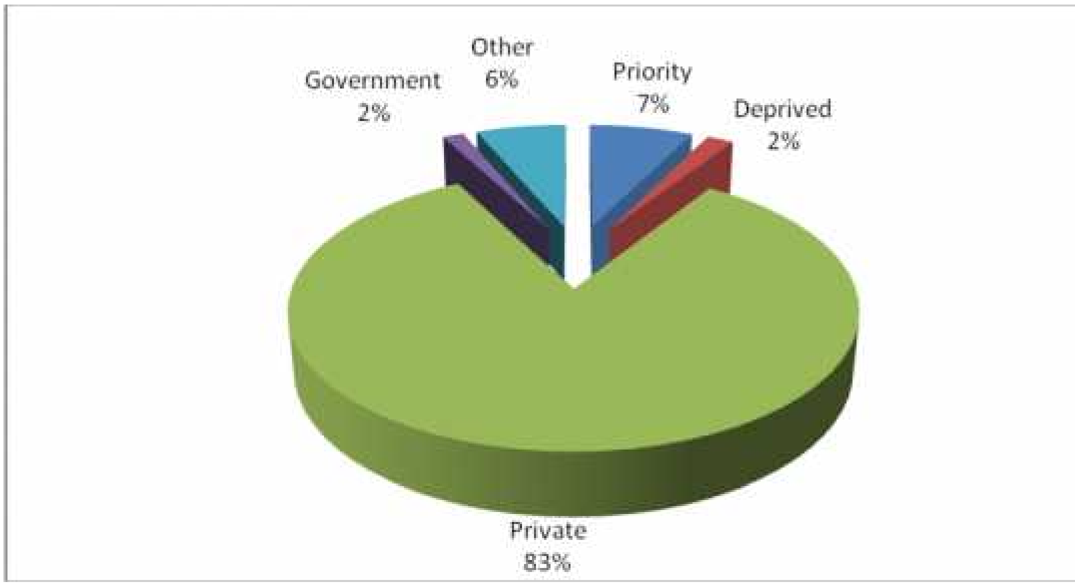
Sector/Year	2004/05	2005/06	2006/07	2007/08	2008/09	mean
Priority	7.85	7.91	9.12	8.33	6	7.84
Deprived	-	1.67	2.99	2.57	2.33	1.9
Private	87.4	89.5	81.19	81.64	82.5	83.65
Government	1.1	0.79	2.11	1.92	4.49	1.48
Other	3.65	4.1	6.57	7.26	8.86	6.35
Total	100	100	100	100	100	100

(Sources: Annex –I)

The above table shows the percentage of priority sector credit, deprived sector credit private as well as government enterprises and other sector credit of NABIL. The mean ratios of priority sector credit and deprived sector credit are 7.345 and 1.9% respectively. It indicates that the mean performance of NABIL is below the minimum requirements stipulated (12% and 3%) by NRB directives whereas the portion of other credit for all five years in more than 3.65% and the trend is increasing. Since this trend of other sector has high degree of consistency, the increase of decrease in sector has just of ff set each other in all five years. However the credit for private sector can be considered as satisfactory. Sector classification of credit of NABIL is presented in pie chart as follows:

Figure 4.13

Sectorwise Classification of NABIL



4.4.6 Sector Classification of Credit (EBL)

Table 4.22

Sector Classification of Credit (EBL)

(Rs. in million)

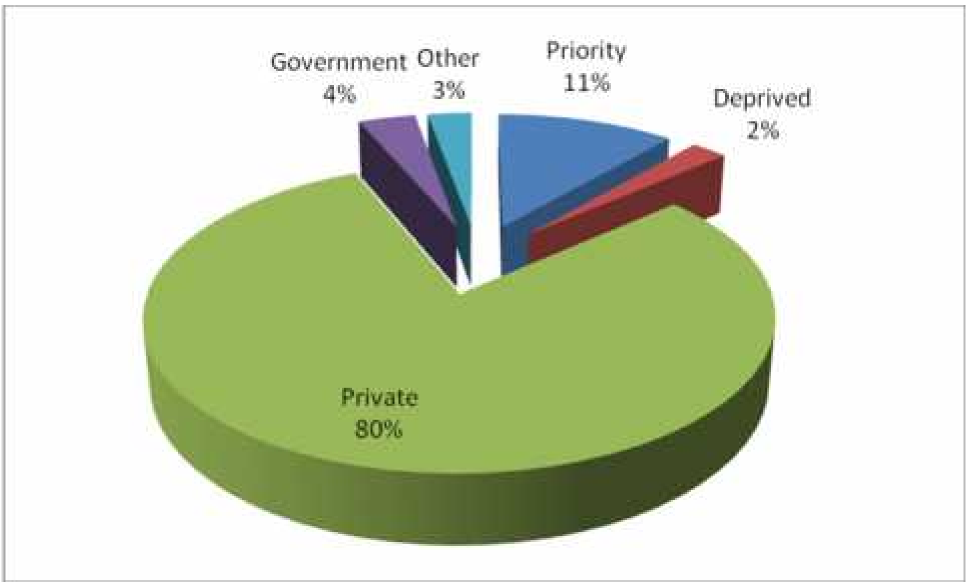
Sector/Year	2004/05	2005/06	2006/07	2007/08	2008/09	mean
Priority	7.62	15.97	9.21	8.5	7.55	9.77
Deprived	-	2.23	2.19	2.37	2.36	1.83
Private	65.72	87	83.19	82.97	83.11	80.4
Government	-	-	1	0.95	-	0.39
Other	4.46	1.36	4.4	5.19	6.96	4.474

(Sources: Annex – I)

The above table shows the percentage of priority sector, deprived sector, private sector, government sector and other sector credit of EBL. The mean of priority and deprived sector credit are 9.77% and 1.83% respectively. It indicates that the mean performance of EBL is below the minimum requirements stipulated (12% and 3%) by NRB directives. Similarly, the mean of private sector, government sector and other sector credit are 80.4%.0.39% and 4.475 respectively. The percentage of sector classification of credit of EBL is presented in pie chart below;

Figure 4.14

Sectorwise Classification of Credit of EBL



4.4.7 Sector Classification of Credit (NSBI)

Table 4.23

Sector Classification of Credit (NSBI)

(Rs. in million)

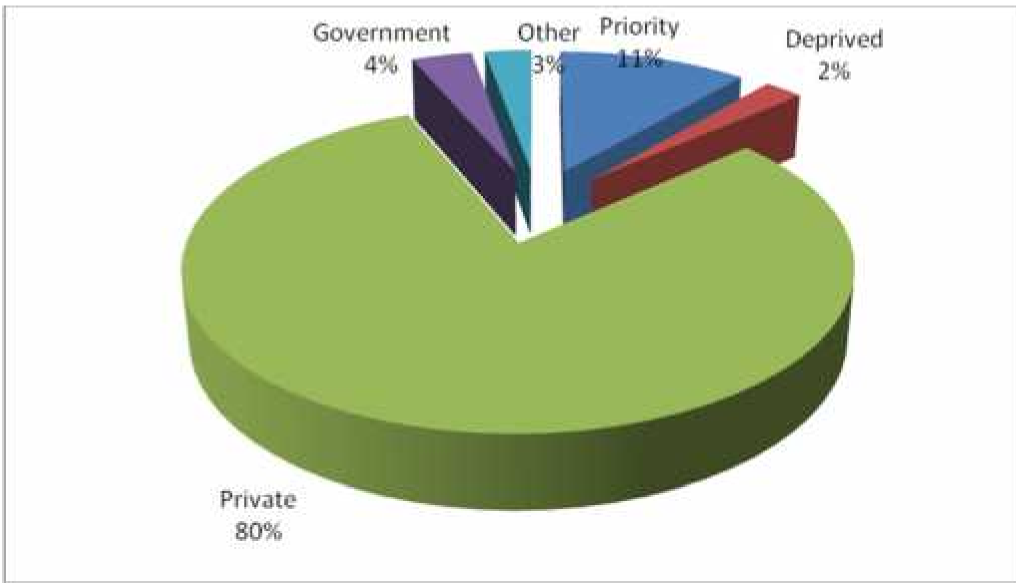
Sector/Year	2004/05	2005/06	2006/07	2007/08	2008/09	mean
Priority	9.126	9.98	13.87	15.2	10.65	11.76
Deprived	1.4	1.47	2.99	3.13	2.72	2.396
Private	55.6	86.57	82	79.76	84.26	83.64
Government	1.89	1.7	8.7	1.07	5.5	3.772
Other	1.96	-	2.51	8.25	1.82	2.908

(Source: Annex – I)

The above table shows that the mean of priority sector credit and deprived sector credit are 11.765% and 2.396% respectively. It indicates that the mean performance of NSBI for priority and deprived sector is nearly equal to the minimum requirements stipulates (12% and 3%) by NRB directives.   Sectors classifications of credit of SBI are presented in pie charter below:

Figure 4.15

Sectorwise Classification of NSBI



4.5 Correlation Analysis

In this section of presentation and analysis, relation between variables of Balance Sheet and Profit & Loss Account are analyzed. For this, Correlation Coefficient (r) and Probable Error (P.Er) are calculated. And for the purpose of analyzing the significance and reliability of Correlation Coefficient, 6 times of Probable Error is also calculated. If the value of Correlation Coefficient is greater than 6 times the value of Probable Error, the Correlation Coefficient is deemed as significant and reliable.

4.5.1 Correlation between Deposits and Loans and Advances

The correlation between Deposits and Loans and Advances describes the degree of relationship between these two items. Deposit is independent variable and loans and advance is dependent variable. The main objectives of computing between two variables are to find out whether deposits are significantly used as loan and advances in a proper manner or not. What is the impact on Loans and Advances with a unit increase in Deposit is measured here.

Table 4.24

r, P.Er. And 6 x P.Er. between Deposits and Loans and Advances

Banks	r	r^2	P. Er.	6 x P. Er.	Remarks
NABIL	0.99	0.98	0.0089	0.0537	Significant
EBL	0.997	0.994	0.0027	0.0161	Significant
NSBI	0.99	0.98	0.0603	0.3619	Significant

(Source: Annex - II)

The above table 4.24 shows the relation between Deposits and Loans and Advances, which seem to have high degree of positive relation. All the commercial banks have almost 1 Correlation Coefficient. The value of 'r' is nearest of all banks, NABIL and NSBI i.e. 0.99. In case of NABIL, EBL and NSBI, a percentage increase in Deposit is likely to bring the same percentage of change in the value of Loans and Advances. To be more specific, there is highest probability of this happening in NABIL and EBL. Besides, the value of 'r' in all banks is more than six times the P.E., which concludes that the correlation between Deposits and Loans and Advances is certain and significant in all three commercial banks.

Since the calculated value of 'r' of the entire bank is greater than 6 x P.E., the relationship between Deposits and Loan and Advances is significant.

4.5.2 Correlation between Shareholder's Equity and Loans and Advances

The correlation between Shareholder's Equity and Loans and Advances shows the degree of impact of increase in Loans and Advances by change in Shareholder's Equity. Here, loans & advance is independent variable and shareholders' equity is dependent variable.

Table 4.25

r, P.Er. And 6 x P.Er. between SHE and Loans and Advances

Banks	r	r^2	P. Er.	6 x P. Er.	Remarks
NABIL	0.986	0.97	0.0042	0.0253	Significant
EBL	0.97	0.94	0.009	0.0543	Significant

NSBI	0.99	0.98	0.00603	0.03619	Significant

(Source: Annex -II)

Table 4.25 explains the degree of correlation between Shareholder's Equity and Loans and Advances in different banks under study. All the banks have positive high degree of correlation depicting every increase in Shareholder's Equity increased Loans and Advances, which also showed well mobilization of funds collected. The analysis of 6 times $P.E_s$ says that the correlation of all banks is significant.

4.5.3 Correlation between Investments and Loans and Advances

This correlation measures the degree of relationship between investments and Loans and Advances. This measure of correlation explains whether the banks have a rigid policy to maintain a consistent relationship between two assets or other factors such as seasonal opportunities, economic demand, NRB directives etc. have impact on the volume of these two variables. The volume of investment does not have any impact on Loans and Advances as most of the bank has first priority on Loans and Advances to Investments. Theoretically, increase or decrease in the volume of Loans and Advances directly reduces or increases the level of idle funds and this idleness of funds increases the investments. Thus, it is expected to have negative correlation in between these two variables.

Table 4.26

r, P.Er. And 6 x P.Er. between Investment and Loans and Advances

Banks	r	r^2	P. Er.	6 x P. Er.	Remarks
NABIL	0.94	0.88	0.0362	0.2172	Significant
EBL	0.87	0.76	0.0724	0.4344	Significant
NSBI	0.78	0.61	0.1176	0.7059	Significant

(Source: Annex- II)

Table 4.26 shows the Correlation Coefficient between investments and Loans and Advances of all three commercial banks under study. NABIL and EBL have a high degree of positive correlation of 0.94 and 0.87 respectively. Similarly, NSBI also have positive correlation of 0.78. This means these three banks have maintained a steady ratio between investments and loans and advances. Besides analyzing the correlation, glancing upon the 6 times of P.Er it can be said that correlations registered in above Table 4.19are much reliable and significant.

The calculated value or ‘r’ of NABIL, EBL and NSBI is higher than 6 x P.E. therefore relationship between Investment and Loan and Advances is significant.

4.5.4 Correlation between Total Income and Loans and Advances

The degree of relation of Total Income and Loans and Advances is measured by the correlation of these two variables. The value of ‘r’, here shows whether change in Loans and Advances changes the volume of Total income i.e. is to say whether Loans and Advances contribute to increase the income of the company or not.

Table 4.27

r, P.Er. And 6 x P.Er. between Total Income and Loans and Advances

Banks	**r**	**r^2**	**P. Er.**	**6 x P. Er.**	**Remarks**
NABIL	-0.91	0.83	0.0513	0.3077	Significant
EBL	0.995	0.99	0.0030	0.0181	Significant
NSBI	0.96	0.92	0.0241	0.1448	Significant

(Source: Annex- II)

Table 4.27 shows the correlation between Total Income and Loans and Advances of the commercial banks taken as sample. EBL has the highest degree of positive relation with 0.995 as the value of ‘r’. After EBL and NSBI have the high degree positive correlation. On the other hand, NABIL has negative correlation of 0.91, between Total Income and Loans and Advances. However, ignoring the negative sign “r” is greater than 6*P.Er. which probably shows that it is able to generate all income from the loans and Advances it had invested. In case of other two commercial banks, Total Income is increasing in almost more than half or equal percentage with Loans and Advances. The deviation of percentage change is due to unpaid installments of Loans and Advances. Except for NABIL the value of ‘r’ is very reliable and significant since it is greater than 6 times of P.Er.

The calculated value of ‘r’ of NABIL is lower than 6 x P.E. So it reveals that the relationship between Total Income and Loan and Advances is insignificant. On the contrary, the calculated value or ‘r’ of EBL and NSBI is higher than 6 x P.E. so the relationship between Total Income and Loan and Advances is significant.

4.5.5 Correlation between Interest Suspense and Interest Income

Interest Suspense is earned but uncollected interest. This correlation measures the relationship between interest suspense and interest income. Interest income which is due and uncollected for 3 months is transferred to interest Suspense and thus, interest income is reduced.

Table 4.28

r, P.Er. And 6 x P.Er. between Interest Suspense and Loans and Advances

Banks	r	r^2	P. Er.	6 x P. Er.	Remarks
NABIL	0.80	0.64	0.1086	0.6516	Significant
EBL	0.68	0.46	0.1629	0.9773	Insignificant
NSBI	0.65	0.42	0.1750	1.0497	Insignificant

(Source: Annex- II)

Table 4.28 shows that for all the sample commercial banks there’s positive relation between Interest Suspense and Interest Income. NABIL has the highest degree of correlation whereas NSBI has the least correlation. The value of ‘r’ of NABIL is greater than that of is 6 times P.Er, the relation is significant. And since EBL, and NSBI have lowest value than 6 times of P.Er. their correlations are not significant and reliable.

The calculated value of ‘r’ of only NABIL is greater than 6 x P.E. so it reveals that the relationship between Interest Suspense and Interest Income is significant. On the contrary, the calculated value or ‘r’ of other two banks is less than 6 x P.E. so the relationship between Interest Suspense and Interest Income is insignificant.

4.5.6 Correlation between Loan Loss Provision and Loans & Advances

The correlation between Loan Loss Provision and Loans and Advances measures the relation between Loan Loss Provision and Loans and Advances. In fact, Loan Loss

Provision is the product of Loans and Advances, these variables are co-related. Increase in Loans and Advances is likely to increase the volume of Loan Loss Provision.

Table 4.29

r, P.Er. And 6 x P.Er. between LLP and Loans and Advances

Banks	**r**	**r^2**	**P. Er.**	**6 x P. Er.**	**Remarks**
NABIL	0.92	0.85	0.0452	0.1810	Significant
EBL	0.996	0.992	0.0024	0.0145	Significant
NSBI	-0.28	0.0784	0.278	1.67	Insignificant

(Source: Annex - II)

Table 4.29 shows that except for NSBI all the other commercial banks have high degree positive correlation between Loan Loss Provision and Loans and Advances. They are all significant for their values of ‘r’ are greater than that of 6 times P.Er. The negative ‘r’ of NSBI can be explained as its Loans and Advances did not increase in last two years but its Non-Performing Loans did. This resulted in increase in Loans and Advances. Moreover since correlation of NSBI is lower than 6 times of P.Er. the value cannot be considered as significant and reliable.

The calculated value of ‘r’ of NABIL and EBL is greater than 6 x P.E. so it reveals that the relationship between Loan Loss Provision and Loans and Advances is significant. On the contrary, the calculated value or ‘r’ of NSBI is less than 6 x P.E. the relationship between Loan Loss Provision and Loan and Advances is insignificant.

4.5.7 Correlation between Interest Income and Net Profit

Interest income contributes the major portion of Total Income and thus Net Profit of any finance companies. This correlation between interest income and Net Profit measures the degree of relation of these two variables. It is most likely to have that Net Profit increases with the increase in interest income.

Table 4.30

r, P.Er. And 6 x P.Er. between Interest Income and Net Profit

Banks	**r**	**r^2**	**P. Er.**	**6 x P. Er.**	**Remarks**
NABIL	0.87	0.76	0.0724	0.4344	Significant

EBL	0.999	0.998	0.0006	0.0036	Significant
NSBI	0.88	0.77	0.0694	0.4163	Significant

(Source: Annex - II)

Above table 4.30, shows the correlation of Interest Income and Net Profit. The highest degree of correlation recorded is that of EBL with 0.999. Besides other two banks also have high degree of correlation. Least correlation recorded is 0.87 of NABIL. All of the banks have significant correlations because their 6 times P.Er are greater than the value of ‘r’.

The calculated value of ‘r’ of all the banks is greater than 6 x P.E. so it reveals that the relationship between Interest Income and Net Profit is significant.

4.6 Regression (Trend) Analysis

4.6.1 Trend Analysis and Propensity of Growth of Loans and Advances

Trend analysis shows the linear equation with respect to their loans and advances. Using the linear equation Y= a+bX.

Table 4.31

Trend Forecast of Loans and Advance

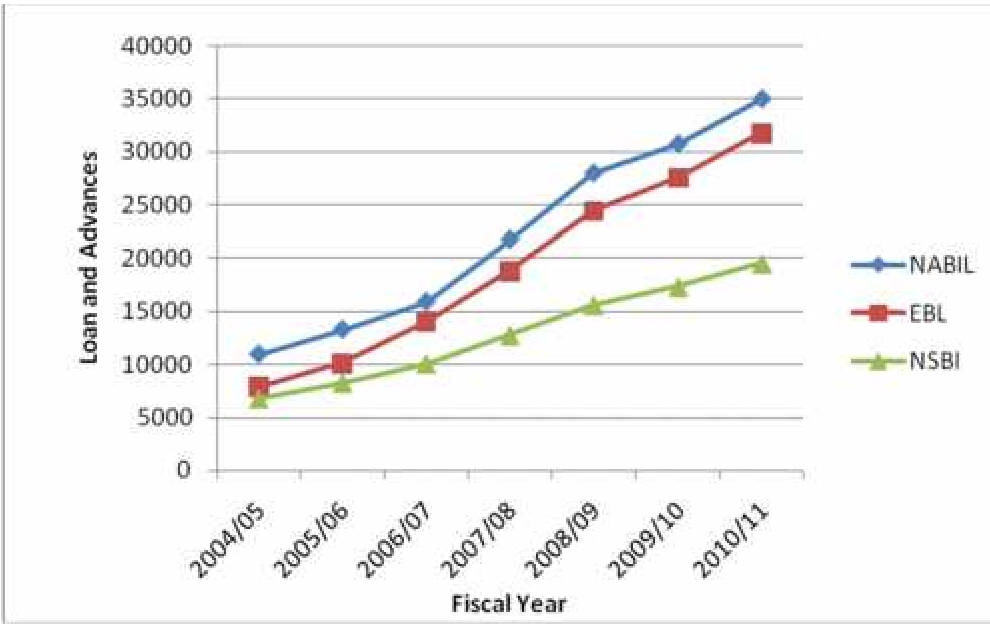
(Rs. in million)

Years	NABIL	EBL	NSBI
2004/05	10946.7	7900.09	6739.35
2005/06	13278.8	10136.3	8241.46
2006/07	15903	14082.7	10065.1
2007/08	21759.5	18836.4	12746.2
2008/09	27999	24469.6	15612.1
2009/10	30752.9	27636.63	17355.66
2010/11	35011.40	31820.50	19580.60

(Source: - Annex- III)

Figure 4.16

Trend Line of Loans & Advance



From the Table 4.31 and the trend line in chart 4.14 above, shows the trend line of loans and advance based on linear equation Y = a + bX of respective commercial banks with respect to their Loans and Advances.

It can be seen that NABIL has the highest Propensity to Growth in Loans and Advances. The above trend line reveals that in the year 2004/05 NABIL has highest loans and advance followed by EBL and NSBI which rises gradually each year and after year 2006/07 NABIL has the highest loans and advance than other banks whereas NSBI has the least. In first two year of study EBL and NSBI has almost same loans & advance. The forested trend line predict that in the year 2009/10 and 2010/11 NABIL will have the high volume of loans and advance followed by EBL and NSBI respectively.

4.6.2 Trend Analysis and Propensity of Growth of EPS

Trend analysis shows the linear equation with respect to their loans and advances. Using the linear equation Y= a+bX.

Table 4.32

Trend Analysis of EPS

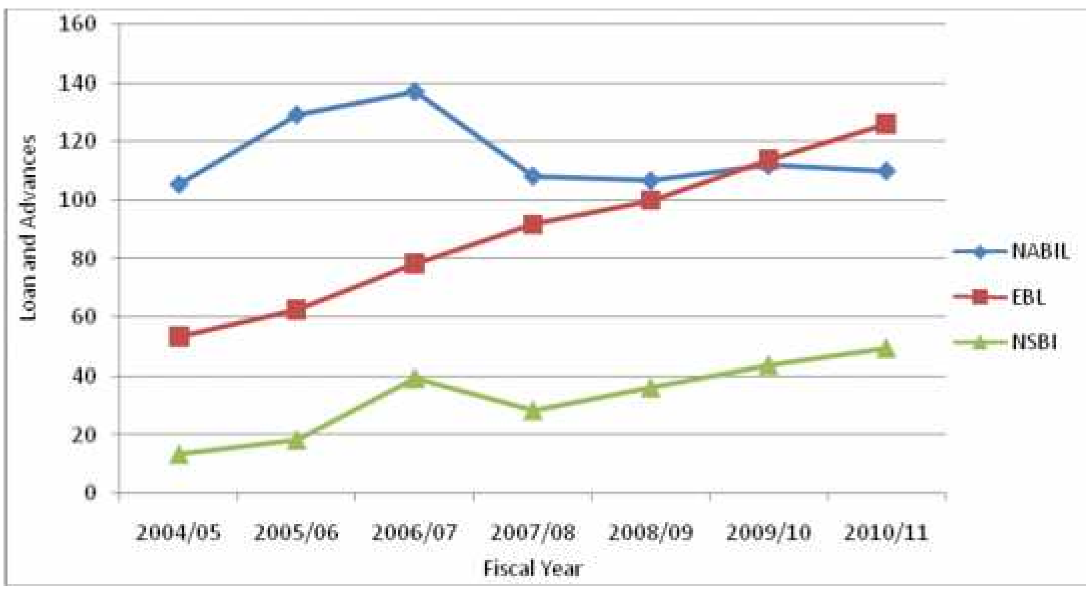
(Amt. in million)

Years	NABIL	EBL	NSBI
2004/05	105.488	53.4	13.2881
2005/06	129.209	62.78	18.2748
2006/07	137.08	78.42	39.3501
2007/08	108.307	91.82	28.3319
2008/09	106.762	99.99	36.1765
2009/10	111.87	113.94	43.83
2010/11	110.052	126.16	49.41

(Source: - Annex- III)

Figure 4.17

Trend Line of EPS



The Table 4.32and the chart 4.15 above, shows the forecasted trend line for the future by using linear equation based on Y = a + bX of respective commercial banks with respect to their EPS.

From the above trend line we can see that the EPS of NABIL was very high than other banks whereas NSBI has lowest EPS. At the first two year of study; however, the EPS of EBL climbed up gradually. The EPS of NABIL starts declining from the year 2006/07 and become almost 100 in the year 2008/09.

As forecasted by the trend line, in future EBL will have the best EPS than other banks reaching at 126.16 followed by NABIL at 110. On the other hand, in the year 2010/11, NSBI will have the lowest EPS of 49.41 as predicted by the trend line.

4.7 Major Findings of the Study

From the Analysis of data, following findings can be made: -

- The average Investment to Loan & Advance and Investment ratio of all three commercial bank is 0.5. The mean ratios of NABIL, EBL and NSBI are 0.3867, 0.2431 and 0.8510 respectively. Only NSBI has registered the higher ratio than the Combined Mean. This infers that NSBI has the lowest degree of investment in risky assets. And similarly, NABIL and EBL have the lowest ratio meaning that they have high degree of investment in risky assets.

- The average of Loan &Advances and Investment to Total Deposit ratio of all three commercial bank is 1. The mean ratios of NABIL, EBL and NSBI are 1.04, 0.913 and 1.03 respectively. NABIL has the highest mean ratio whereas NSBI has the mean ratio near to the combined mean. This shows that NABIL has been doing best in mobilizing the funds collected in an income-generating sector. So does NSBI. Since for both the banks, the ratio is 1, it refers that none of the deposit is idle. There is maximum utilization of the collected funds of NABIL and NSBI. On the other hand, the mean ratio of EBL is 0.91 which is less than the industry average. This indicates that the EBL is somehow poor in utilization of the collected funds.

- The average Loans and Advances to Shareholder' Equity ratio of all the banks is 9.27. The mean ratios of NABIL, EBL, and NSBI are 8.945, 11.10, and 9.12 respectively. NSBI has the highest mean ratio whereas NABIL has the lowest.

Since the ratios of NABIL, and EBL are lying below the Combined Mean, it can be concluded that they have not succeeded in increasing Loans and Advances in proportion to the size of their capital.

- When measuring the lending strength in absolute terms, the mean Loans and Advances of NABIL is highest of all as 27999 and NSBI has the least of 15612.10. Whereas coefficient of variance is highest of EBL i.e. 24.47%.

- While analyzing the Net profit of three commercial banks, the NSBI has the lowest Mean net profit during the study period. It has the Mean of 198.69 (million) with variability of 48.30%, whereas NABIL has the highest Mean of 649.08 with variability of 43.40%. The Mean Net Profits of EBL is 358.37 and these Standard Deviation is 168.45. Under this analysis it can be said that NABIL has the best performance.

- While analyzing the Lending Efficiency and its contribution in Total profitability of Loan Loss Provision to Total Loan and Advances, NSBI has the highest amongst all, calculated as 0.29. The combined mean ratio of all three commercial bank is 0.04 and the mean ratio of NSBI is 0.06 which is higher than the combined mean. The highest ratio of NSBI clearly depicts the portion of Non-Performing Loans in the Total Loans is higher than in other commercial banks.

- While analyzing Interest Income from Loan and Advances to Total Income, the ratios of NABIL, EBL, and NSBI, all the banks have their ratios higher than the combined mean ratio. This clears the fact that, interest income form Loans and Advances have much higher contribution in the Total Income and thus profit of the banks. This also clarifies that the banks are pretty much aggressive in investment and have invested their funds comparatively much less in risk free investments which bear much lesser return than risky investments.

- While analyzing Earning per Share, EPS of EBL is the highest in total however looking at the EPS of 5 years period; EBL is not doing so well. EBL has the highest mean of 173.40 this is due to the very high EPS in the fiscal year 2004/05 which was drastically declined in the following year. The combined mean is 105.95. NABIL has the second highest EPS mean with 117.36 however looking at the overall period this bank has maintained an EPS higher than the combined mean throughout the period. The lowest EPS mean is that of NSBI at27.08. EPS of NSBI is below the combined mean all the time. So, looking at the EPS although EBL has the highest mean EPS, NABIL is seemed well in maintaining the stakeholders' wealth throughout the study period.

- The Correlation between Deposits and Loan and Advances of the entire sample bank is significant. The correlation between Shareholder's equity and Loans & Advance is also significant for all the banks. Similarly, the correlation between total income and Loans & advance of NABIL is insignificant and other two banks have significant. Looking at the relation between interest suspense and loans & advance, NABIL has positive relation whereas other banks have opposite relation. Furthermore, correlation between loan loss provision and loan and advance of NABIL and EBL is significant whereas NSBI are insignificant. In addition, there is significant correlation between interest income and net profit of all three commercial banks under study.

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 JVBs in credit behavior. 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. JVBs 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 JVBs .JVBs 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 JVBs 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 JVBs 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 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 JVBs become essential to manage credit in proper way and playing great role of the comparative analysis of credit management of JVBs. The researcher has identified the research problem of five JVBs .The objectives which are determined on the basis of research problem. In order to carry out this study, the primary as well as 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 JVBs. The analysis is associated with comparison and interpretation. Various financial ratios of three commercial banks are analyzed such as lending strength in relative term ratio, lending strength in absolute terns ratio, landing efficiency and its contribution in total profitability, analysis of portfolio behavior of loans and advances. Under statistical analysis, some relevant statistical tools such as trend analysis, coefficient of correlation analysis .This study helps to analyze the portfolio behavior of lending and measuring the ratio of loan and advances made in different sector. It is also 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, SEBO, NRB and different journals and newspaper. The present study has been undertaken to examine and evaluate the financial performance of three JVBs .The financial statement of five years i.e. 2004/05 to 2008/09 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 three banks are not being able to maintain the appropriate standard of current ratio. From analysis it is found that NABIL have not ability to satisfy the credit needs of the community, NSBI is found in slightly better position and EBL is found in average position. EBL has been seen safe from loan loss. NABIL is successful in collecting the fund in the cheapest possible price but NSBI has been paying high interest against total deposit. From credit portfolio view, it has been found that NABIL should give focus on private, priority and deprived sector to invest. EBL and NSBI has been higher intensity to invest in private and government sector. Similarly, NABIL shows better performance regarding profitability ratio. NSBI has not better position regarding profitability ratio. According to mean growth ratio, it is found that EBL is successful to maintain the economic and financial position in better way. The primary data are collected in the form of questionnaire and collected from, respondents to concerned banks. Questionnaires are given to the staffs and customers; regarding the questionnaire their opinions are analyzed.

The findings were drawn analysis the five years data of above mentioned commercial banks. Different ratios were calculated to get the results for conclusions. Since the topic of the study revolves around the lending practices, the distribution of loans and advances, their recovery, and the ratios of those items that are related to the distribution and recovery of loans and advances are calculated.

5.2 Conclusion

The measurement of Lending strength in relative terms has revealed that NSBI has the highest Investment to Loans and Advances and Investment ratio. This ratio gives the portion of risk free investment out of total Loans and Advances and Investment. NABIL has the highest Loans and Advances and Investment to Total Deposit ratio referring that it has the maximum mobilization of deposits than others.

The absolute measure of lending strength reveals that NABIL has the highest mean of 27999 in Loans and Advances with a fluctuating trend but similarly it also has the highest standard deviation of 6173.29 million. Considering the most years' data of all the three commercial banks under the study are all in the line with the directives provided. In case of term loan, NRB directives have set the standard of 75% but the punishment of providing Loan Loss Provision is the same. None of the commercial banks have ever exceeded this limit; none of them have ever reached even 60% till date.

The measurement of efficiency in Lending has revealed that Loan Loss Provision to Total Loan & Advances Ratio is pretty satisfactory since according to NRB directives Loan Loss Provision indicates provision against both Performing and Non-Performing Loans. Thus, even the increase in good loan increases the Loan Loss Provision.

The ratio of Interest Income from Loans and Advances to Total Income explains the contribution of interest income from loans and advances in the Total Income. The ratio of Interest Suspense to Interest income from loans and advances among these banks is of varying nature. The greater the ratio the greater is the chance of the failure of the banks in realizing its loan interest in cash. The ratio of interest income to interest expenses is pretty interesting. According to analysis, the one rupee of interest expense has been able to earn Rs. 1.94 in an average. NABIL significantly has been decreasing interest suspense ratio.

The measurement of ratio of Loans and Advances to Total Deposits shows the high capability of commercial banks under study towards investment in risky assets. The high degree positive correlation between Deposits and Loans and Advances of all banks shows that mobilization of Loans and Advances is in high degree in respect to the Deposits collected. This is indicative of availability of good lending opportunities.

There is no uniformity in correlation of two variables in different commercial banks. High degree of positive correlation indicates good performance. One of the banks has negative correlation between investments and Loans and Advances probably because unavailability of good lending opportunities results in increase in Investment and vice versa.

The trend analysis of Loans and Advances has revealed that, NABIL has the highest trend line and thus is the best amongst the three commercial banks in accordance to giving out loans and Advances. The trend analysis of EPS, that checks the financial health of an organization, shows that all of the commercial banks under study have a decreasing trend of the EPS. Along with the average line, all the banks have a decreasing trend of EPS.

Qualitative analysis of Recovery of Loan has revealed the practical problems in collection of mobilized loans and Advances. Once the loan is given, it’s more like the company has to, literally chase the borrower to recover its investment. It’s probably is the lack of government support, from the regulations it makes, that the borrower normally dominates the bank, provided that the borrower is a known of the regulations such that he can manipulate it to his benefit. Liquidation of collateral, as regarded as security against the loan advanced, is one very tedious job. Realization of default loan via the liquidation of collateral does not turn out to be as simple as it sounds. The most distributing part is that there is no such directive regarding recovery of loans. It was said that the directives regarding recovery of loans were made but is not circulated till date.

5.3 Recommendation

Based on the conclusions, the following recommendations have been forwarded: -

1. Investment to Loans and Advances mean ratio of NABIL and EBL are below the combined mean. Investment in risk-free assets is also important. Though flows of loans in riskier assets are quite profit some default of those loans will make the company hard to sustain for a longer period of time. Investment in risk-free and riskier asset should go hand in hand. Thus, NABIL and EBL should increase in their risk free assets at least to the combined mean.
2. In overall, Loans and Advances of sample banks are increasing and so are Non-Performing Loans and Loan Loss Provision. EBL however is working over this but it still is not sufficient. Similarly, NABIL and NSBI also need to control these variables.
3. All the commercial banks have increasing Loan Loss Provision; it may be because there is provision of maintaining 1% Loan loss provision for the “Pass” loan too. According to NRB Directives the loans which exceed the due period of more than three months is considered as non-performing loan. The new loans are likely to be categorized as non-performing loans in short span of time of mere three months. All the banks should take extra care for not increasing the non-performing loans. They should be in high alert and should be well known about the due period of the loans so they can inform their clients through different medium (letters, phone calls, personal meeting etc.) in advance. This helps a lot in maintaining the sound position of the institution. Moreover, every bank should try to collect its new

as well as old loans. Collection of more of the non-performing loans helps the institution to reduce the amount of loan loss provision.

4. NABIL has the highest loans and advances and investment to Total Deposit referring that it has the highest mobilization of deposits whereas EBL has the least ratio. Every bank is required to maintain certain percentage of liquidity as per the directives given by the NRB. They should not forget the level of liquidity required to be maintained before flowing of loans. There is punishment by NRB for violating the rules directed by NRB.
5. The banks are suggested that they keep track of their authorized quota to invest in specific loan category else there's provision of punishment according to the NRB Directives. According to the directives of NRB, bank can invest only 40% of total loan in hire purchase else they have to make provision of 25% of the excess volume. Considering the most years' data of all the selected banks all are in line with the directives provided. Commercial banks have been mending the over investment but still in previous years.
6. The ratio of Interest Suspense to Total Interest Income from loans and Advances mean ratio is highest of NSBI. It has to maintain almost 1.4% of interest income from Loans and Advances as Interest Suspense. Similarly, it is 0.59% and 0.55% for EBL and NABIL respectively. So, this figure is not so bad however, all banks especially NSBI should try to control it. High Interest Suspense decreases the profits of the company. All three banks are also recommended on concentrating in collecting their installment payments timely.
7. In practice, the JVBs 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 its 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.

8. 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. 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.
9. 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 SBI .So, banks are recommended to utilize its risky assets and shareholders fund to gain high profit margin.

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