CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Nepal's financial sector has encouragingly progressed after fiscal liberalization in the country. Consequently, establishment and operations of Banks/Financial Institutions, and non-Financial Institutions has substantially increased. The range of financial inclusiveness has widened, environment for capital mobilization eased, and opportunities in the banking sector extended with the expansion of the financial sector. As the banking business operates at high-risk environment, the degree of the risk grows in proportion of its expansion. Hence, scope of regulation and supervision needs to be widened for overall enabling and strengthening of the financial sector by constantly guarding the trend of steadily escalating risk.

Financial institute's contribution reflects the country's development. Among the financial institutes, banks are mobilizing the most of the financial resources in the country. In other word, banking sector plays a very important role in the economic growth of the country. In fact, commercial banks are leading for financial resources mobilization among banks. A developing country should maintain high and sustained rate of economic development for the progress. It must be mobilized the available resource in an optimum level, require the high level of investment. Bank accepts deposit from various sources, and invests such accumulated resources in the fields of commerce, industry, agriculture trade, tourism, etc. with objectives of profit maximization.

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

There are various types of financial institutions with performing different functions. Central bank is established with main objectives to support other financial institutions, compel, conduct & monitor rules and regulations for the financial sectors. Most of the financial institutions are established and functioning for the profit motives. All of these financial institutes deal with money or money related transactions.

The two essential functions of Commercial Banks may best be summarized as the borrowing and lending of money. They borrow money by taking all kind of deposits. Then they provide this money to those who are in need of it by granting overdrafts to fixed loan or by discounting bills of exchange or promissory note. Thus, the primary function of a commercial banker is that of a broker and dealer in money. By discharging this function efficiently, a commercial banker renders a valuable service to the community by increasing the productive capacity of the country and thereby accelerating the pace of economic development.

Lending is the most primary function of a bank. The banking business has its origin from its function of lending. The pace of time has changed the portfolio of banking business from its primary functions to other functions such as merchant banking, credit and business, documentary credit, traveler cheques business etc. However, the importance of lending in banking business if undoubtedly unchanged and remained vital as it was in early days of this business.

Lending can be divided in to fund base and non-fund based. The fund based lending can be further divided into cash credit overdrafts, demand and terms loans, bills purchased and discounted and export packing credit, project finance, consortium finance, loan syndication, bridge loan etc. Similarly, non-fund based credit can be classified into documentary credit, guarantee and bill co- acceptance facility.

All banks have other important functions along with landing functions. The quality of loan, quality of borrower and quality of securities determines the health of any banker. The efficiency of banker lies in how it multiplies the deposits of depositors. Hence, some basics principles and practices should accompany lending. No banker would willingly give a loan, unless it has sufficient confidence in the borrower that it will not necessary to seek the help of court for recovery. Safety of funds, liquidity of funds, purpose of loan, security for loan, profitability, spread of loan, portfolio and compliance with national interests for some of the principle that a banker should follow while granting a loan. Besides theses the character of person receiving credit, the capacity of the borrower to utilize the fund, the percentage of borrower’s stake in the business etc. are the basic elements which measure the quality of the borrower and ultimately the quality of loan.

The source of finance is the most essential element for the establishment and operation of any profit and non profits institutions. Profit oriented institutions usually obtain these sources through ownership capital, public capital through the issues of shares, and through financial institutions such as banks, in the form of credits of various nature. It is during these stages for the establishment and operations of any organization, the role of banks come into effect in providing these sources, in the form of credit, other nature of direct and indirect investments and various consultancy services. The history of banking system in Nepal in the form of money lending can be traced back in the reigning period of Gunkam Dev, 'the king of Kathmandu'.

Tankadhari ’a special class of people’ was established to deal with the lending activities of money toward the end of fourteen century at the ruling period of king Jayasthiti Malla. During the Prime Ministerial period of Rannodip Singh, one financial institution was established to give loan facilities to the government staff & efforted loan facilities to the public in general in the term of 5 % interest but ' Tejarath' did not accept money from public.

On 30th Kartik, 1994, Nepal Bank limited was established for the first time to provide banking facilities/services in organized manner. Up to 2012, NBL was the only banking service provider to general public and other government/non-government bodies as an organized banker. Later, NRB act 2012 was prepared and issued to establish NRB as a central bank to manage, control and develop monetary system in Nepal. NRB was formally established on 14th Baisakh 2013 & its capital at the starting time was NRs. 10 million. Similarly, Rastriya Banijya Bank was established in 2022 Magh 10 as 100% state owned bank to fulfill the growing needs of the economy. The birth of this bank brought a new landmark in the history of banking facility in the Nepal. Like other developed countries, Nepal also took the policy of open economy to develop good competition in the banking field. Hence, the private sector Banking Company policy is taken for study. Today, 26 commercial banks are operating to provide modern banking services & facilities to boost the economic condition of the country.

The financial sector reform was initiated in mid-1980s under the liberal economic policy of GON. Under this policy, GON first opened the banking sectors to foreign investors. In July 1985, commercial banks were allowed, for the first time to accept current and fixed deposits on foreign currency (U.S. dollar and sterling pound). On May 26, 1986, NRB deregulated the interest rate regime and authorized commercial banks to fix interest rate at any level above its minimum prescribed levels.

Banking plays significant role in the economic development of a country. Bank is a resource for the economic development which maintains the self- confidence of various segments of society and extends credit to the people. So, commercial banks are those financial institutions mainly dealing with activities of the trade, commerce, industry and agriculture that seek regular financial and other helps from them for growing and flourishing, the objectives of commercial banks is to mobilized idle resources into the most profitable sector after collecting them from scattered sources commercial bank contributes significantly n the formation and mobilization of internal capital and development effort.

The concept of the banking has been developed from the ancient history with the effort of ancient goldsmiths who developed the practice of storing people's gold and valuables under such arrangement the depositors would leave their gold for safekeeping would get back their gold and valuable after paying a small amount as fee for safekeeping and serving.

The role of money in an economy is very important. Proper and well –planned management of money directs, determines and enhances the health and productivity of total financial sector and the performance of financial sector affect the growth of economy. Hence, Money is the topic to manage and banks are the manager. The existence of a bank is for the change in every aspect of human being and its presence is for the upliftment of people. Banks are the back bone of the economy. They act as intermediaries to channel funds to productive business companies and projects.

The financial institutions are:

- Commercial Banks
- Development Banks
- Finance companies
- Savings and Credit Associations
- Mutual Saving Banks
- Credit Unions
- Insurance Companies
- Pension Funds
- Investment Companies
- Investment Bankers
- Securities Brokers and Dealers

Banks grants loan and advances to industries, people and companies that result in the increase in the productivity of nation. For example: The loan against to agricultural sector enhances the agricultural product on. The loan amount can be used by the farmers as per their need to produce their product that will promote the agriculture product on. Similarly the loan and advances to different people and corporate bodies help to increase their income and profits. They can use the amount as per their need at right place at the right time.

Bank is a business organization where monetary transaction occurs. It creates fund from its clients saving and lends the same to needy person or business companies in term loans, advances and investment. So proper financial decision making is more important in banking transactions for its efficiency and profitability. Most of the financial decision making loan management it plays the vital role in the business succession, so efficient management of lending policy is needed.

The source of finance is the most essential element for the establishment and operation of any profit and non-profit institutions. Profit oriented institutions usually obtain these sources through ownership capital, public capital through the issues of shares and through financial institutions such as banks, in the form of credits, overdrafts etc Commercial banks, Others Banking Institutions (OBIs), Non Bank Financial Institutions occupy important role in mobilizing financial resources. There are about 17 insurance companies including deposit insurance and Credit Guarantee Corporation, one Employee Provident Fund and one Citizen Investment Trust belong to this type of financial institutions. Apart from this, securities such as corporate shares debentures and bonds.

Nepal Bank Limited (NBL) is the first commercial bank of the country. Commercial banks' have largest portion share (in share capital, investment/lending, etc.) among the financial institutions. They hold the deposits of many persons, government establishments and business units. They made funds available through their lending and investing activities to borrowers, individuals, business firms and government establishments. In dong so, they assist both the flow of goods and services from the procedures to consumers and financial activities of the government, they provide a large proportion of the medium of exchange they are the media through which monetary policy is affected. These facts show that the commercial banking system of the nation is important to the functioning of the economy. Bank is a resource for the economic development, which maintains the self-confidence of various segments of society and extends credit to the people.

The more developed financial systems of the world characteristically fall into three parts. The Central Bank, The Commercial Banks and other financial institutions. They are known as financial intermediaries. The banking business has its genesis from its function of lending. Lending is the most fundamental function of a bank.

The importance of Lending in banking business is undoubtedly unchanged and remains vital as it was early days of this business. Lending has its different forms. It can be divided into fund based and non-fund based Lending. The fund based Lending can be further divided into cash credit, Overdrafts, demand and term credits, bills purchased and discounted and export packing credit, project loan, etc. Similarly, non- fund based credit can be classified into documentary credit, guarantees and bill co- acceptance facility.

1.1.1 Nepal's Financial Sector at a Glance

The Nepalese Financial Sector is composed of Banking sector and non-banking 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-governmental Organizations (NGOs) performing limited banking activities and other financial institutions such as Insurance Companies, Employee's Provident Fund, Citizen Investment Trust, Postal Saving Offices and Nepal Stock Exchange. However, this bulletin contains information of those financial institutions, which are licensed by NRB up to Mid - July, 2009.

During the last two and half decades the Nepalese Financial System has grown significantly. At the beginning of 1980s, there were only two commercial banks and two development banks in the country. After the adoption of economic liberalization policy, particularly the financial sector liberalization that paved the way for establishment of new banks and non-bank financial institutions in the country. Consequently, by the end of Mid – July 2009, altogether 242 banks and non- bank financial institutions licensed by NRB are in operation. Out of them, 26 are "A" class commercial banks, 63 "B" class development banks, 77 "C" class finance companies, 15 "D" class micro-credit development banks, 16 saving and credit co-operatives and 45 NGOs as shown in table below;

Growth of Financial Institutions

Types of Financial Institutions	Mid – July									
	1980	**1985**	**1990**	**1995**	**2000**	**2005**	**2006**	**2007**	**2008**	**2009**
Commercial Banks	2	3	5	10	13	17	18	20	25	26
Development Banks	2	2	2	3	7	26	28	38	58	63
Finance Companies				21	45	60	70	74	78	77
Micro-credit Development Banks				4	7	11	11	12	12	15
Saving & Credit Co-operatives Limited Banking Activities)				6	19	20	19	17	16	16
NGOs (Financial Intermediaries)					7	47	47	47	46	45
Total	4	5	7	44	98	181	193	208	235	**242**

Source: Nepal Rastra Bank, Mid- July, 2009, No. 53

The total assets/liabilities of the financial system witnessed continuous growth over the last seven and half years. During the period 2001 to Mid – July 2009, the total assets of whole financial system increased by 28.99 percent per annum and reached to Rs.988878.8 million in Mid – July 2009 from Rs.273946.2 million in Mid – July 2001. In mid – July 2009 the total assets registered a growth of 40.00 percent compared to 21.26 percent in Mid – July 2008.

Commercial Banks held dominant share on the major balance sheet components of financial system. Of the total deposits Rs.674584.3 million in Mid - July, 2009, the commercial banks occupied 83.5 percent. Similarly, finance companies held 8.5 percent, development banks 7.1 percent, micro credit development banks 0.3 percent and others 0.6 percent. Likewise, on the loans and advances the share of commercial banks stood at 77.8 percent, development banks 8.2 percent, finance companies 11.7 percent, micro credit development banks 1.6 percent and others 0.7 percent in Mid - July 2009. In the same year the share of borrowings, liquid funds and investments constitute 51.8 percent, 74.6 percent and 2.6 percent respectively.

The capital fund, one of the components of liabilities, witnessed a remarkable growth of 104.36 percent and reached to Rs. 52681.8 million in Mid - July 2009 from Rs.25778.0, million in mid July 2008. The borrowings and deposit increased by 12.73 percent and 32.55 percent respectively, while other liabilities decreased by 23.65 percent compared to Mid - July 2008. Similarly loans and advances, the major component of assets increased by 30.70 percent and reached to Rs. 511752.8 million in Mid - July 2009 from Rs. 391537.7 million in mid July 2008. The liquid fund and investment increased by 45.18 percent and 17.46 percent in Mid - July 2009 compared to the previous year.

Growth of Major Balance-Sheet Indicators (%)

Particulars	**Mid – July**								
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Capital Fund	26.56	43.97	26.56	-107.36	-516.43	17.90	192.50	273.5	104.36
Borrowings	-	-	-	12.46	23.77	34.61	22.32	17.55	12.73
Deposits	21.95	3.96	11.51	13.12	9.81	15.42	19.28	30.10	32.55
Liquid Funds	16.20	-5.90	-20.59	22.08	-14.32	4.23	21.66	68.64	45.18
Investment	40.59	43.36	31.00	8.64	18.95	33.76	14.53	18.11	17.46
Loans & Advances	15.94	19.54	11.35	11.67	13.38	10.22	26.55	34.27	30.70

Source: Nepal Rastra Bank, Mid- July 2009: 53

1.1.2 Introduction of Sample Organization Under Study

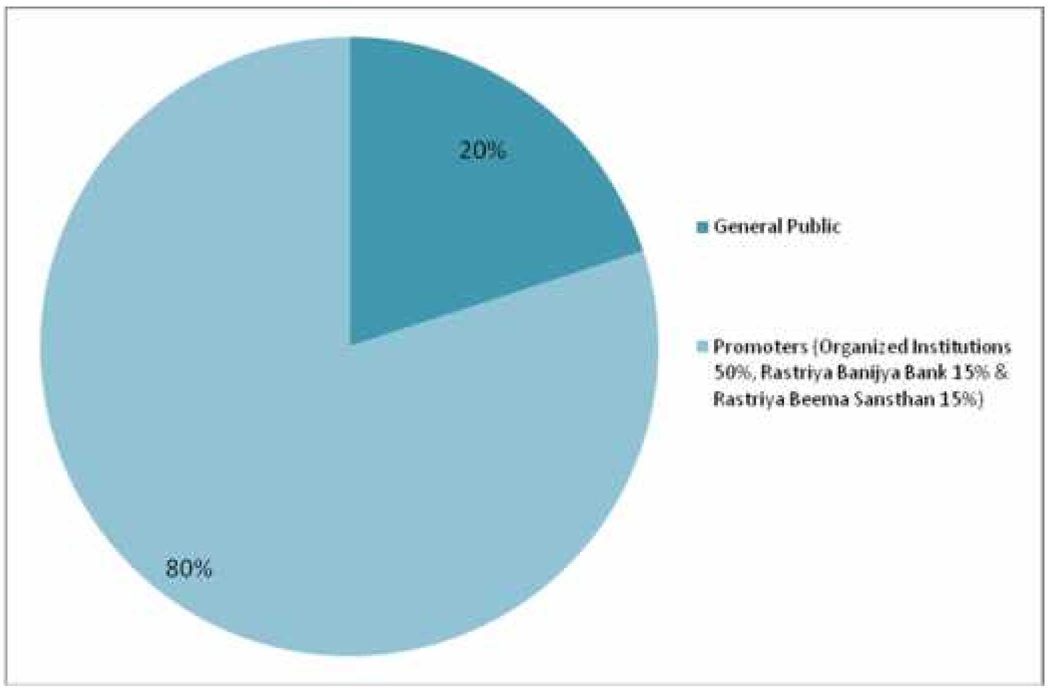
Nepal Investment Bank Limited (NIB)

Nepal Investment Bank Ltd. (NIB), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIB) was Credit Agricole Indosuez, a subsidiary of one the largest banking group in the world. With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, has acquired on April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd. In 2003, 2005 and 2008 the Bank was rated “Bank of the Year” among Banks in Nepal.

The total paid up capital of NIB is Rs. 2407.0689 million. NIB is a Company listed at Nepal Stock Exchange. The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office with the following shareholding structure.

- A group of companies holding 50% of the Capital (Promoter).
- Rastriya Banijya Bank holding 15% of the Capital (Promoter).
- Rashtriya Beema Sansthan holding 15% of the Capital (Promoter)
- The remaining 20% being held by the General Public.

Capital Structure of NIB



Source: Annual Report of NIB, FY 2008/09

International Network and Relations

With the continuous support of its valued customers, the Bank has made all round progress in its operation and overall performance. The Bank has agency and correspondent relationship with more than 19 foreign banks in the world for various currency transaction facilities, enabling public to carry out Remittance and Foreign Trade business.

Apart from the correspondent relationship, the bank has established agency relationship with various foreign money transfer agencies for getting inward and outward remittance facilities, which are:

1.	X-press Money	7.	Alukkas Exchange
2.	UAE Exchange	8.	Doha Bank
3.	Wall Street Exchange	9.	Oman Exchange
4.	Instant Cash	10.	Bank AlBilad
5.	ARY Speed Remit	11.	Arab National Bank
6.	Travelex		

The Bank also has very good network to remit and receive funds from India and abroad. It has relationship with internationally known banks like American Express Bank, Standard Chartered banks, ICICI Bank Ltd, having network coverage across the globe. Apart of these the Bank provides following facilities and services to the customers;

Remittance

Nepal Investment Bank Limited (NIB), operating under the guidelines set by The Government of Nepal and Nepal Rastra Bank (the Central Bank of Nepal), offers one of the safest and the most secured means of money transfer to Nepal. Remitters can send money to NIB from any part of the globe through our correspondent banks, exchange houses and banks in the Middle East and using Prithivi Express, their in-house remittance software.

NIBL is working extended hours to serve its customers in Nepal. Its branches within the Kathmandu valley work all 365 days a year. Apart from its 39 branches, they have 64 remittance agents in the various areas of Nepal.

SWIFT Transfers

NIB offers fast and reliable money transfer services through SWIFT. Your bank account with us can be credited with remittance from anywhere in the world. The remitter has to mention the NIB's SWIFT Address "NIBLNPKT" and the beneficiary details to transfer money to Nepal through us. We cater the need of customers to remit fund anywhere in the world, denominated in major currencies, through SWIFT.

Demand Draft

NIB has draft drawing arrangement with our correspondent banks in different countries. NIB honors bank drafts drawn on/by various international banks denominated in major currencies like US Dollar, Euro, Great Britain Pound, etc.

Traveler Cheques

NIB offers "American Express Traveler's Cheque" that is accepted worldwide.

Cash Management Services

NIB provides Cash Management Services in Nepal. This Bank helps customers to collect their bills receivables more efficiently if they are engaged in exporting goods to India. They can enroll themselves for the service and provide details of their buyer in India. NIB’s correspondent bank in India will collect cheque from your buyer and credit your account in a shorter time through NIB.

Services offered

Deposits	E-zee saving	E-Banking
Premier Banking	ATM	NTC Mobile Bill Payment
Loans and Advances	Vehicle Loans	Credit Card
Debit card	Safe deposit lockers	365 Days Banking

NIBL offers full-fledged Commercial Banking facilities and services to its customers such as: Loan and Advances, Consortium Finance, Working Capital Credit, Term Credit, Demand Credit, Trade Finance (Import Export), Hire Purchase Credit and Letter of Credit, Bills Purchase, Bank Guarantee, Letter of Credit, Housing and Vehicle loans & others.

Automated teller Machine (ATM) Facility

ATM Provides freedom to conduct transitions 24 hours a day and 365 days a year with attractive daily withdrawal limit of Rs. 100,000.00. NIBL ATM services have within

Kathmandu valley and out of Kathmandu valley too. NIBL has 66 own ATM services. In addition, ATM of NIBL has NPN (National Payment Network) service facility too. In this facility, NIBL ATM holder can draw money from other banks' (which has linked with NIB) ATM.

Management

The Bank is managed by very experienced team of professionals led by Mr. Prithvi Bahadur Pande as the Chief Executive Director/Chairman. Mr. Pandey holds more than 30 years experience in Private and Public commercial Banks and other Financial Institutions. Other management team includes expatriate managers and professionals having several years of experience in the field. The operational management team consists:

Prithivi Bahadur Pandé	Chairman/Chief Executive Director
Jyoti Prakash Pandey	General Manager
Deputy General Manager	
Rajan Kumar Amatya	Retail Banking
Assistant General Managers	
Bijendra Suwal	Information Technology
Anuj Mani Timilsina	Corporate Banking
Manju Basnett	Putalisadak Branch Manager
Department Heads	
Deepak K Shrestha	Trade Finance
Deepak Shrestha	Legal
Rabin Sijapati	Operations
Shreechandra Bhatta	Branch Co-ordination Cell
Bikash Thapa	Cards & Remitance
Sachin Tibrewal	Accounts
Sanjeev Karki	Cash & Transfer
Tul Jung Pandey	Reconciliation
Prabir SJB Rana	Human Resource
Sammit Bhattarai	Credit Administration
Binod Kumar Upadhaya	Internal Audit and Compliance
Shivanth Pandé	Research & Development
Branch Managers	

Nepal Industrial & Commercial Bank Limited (NIC Bank)

Nepal Industrial & Commercial Bank Limited (NIC Bank), commenced operation on 21st July 1998, is the first commercial bank in the country to be capitalized at Rs. 500 million. The Bank which has been in profitable operation from its inception, has managed robust growths in its overall business and profitability during the recent years. The Bank offers a complete suite of commercial banking products and services including transaction banking, international trade finance, business banking, project finance, corporate banking and consumer banking. NIC Bank is one of the most widely held banking companies in Nepal.

The Board, supported by the management team comprising of young, enthusiastic professionals, has successfully embarked on a multi-pronged strategy of consolidation, administrative streamlining, human resource up-skilling, strategic cost management focused non-performing assets management, balance sheet and treasury management and controlled asset growth in tandem with strengthening the credit culture and strategic marketing and sales. The Bank's achievements following these strategic measures are considered well-reflected in recognition by Nepal Rastra Bank, the central bank of Nepal, as the highest rated Bank amongst all private sector commercial banks in the country, based on the internationally recognized **"CAMELS"** rating, during an assessment done in April 2005.

NIC is committed to provide superior banking products and financial services to its patrons through efficient and cost-effective service delivery; offering of new innovative products and friendly customer service; and at the same time maintaining confidentiality, professionalism & good governance. It consistently upgrades its processing systems and technology support besides broadening its scope, range and quality of services. All its branches are inter-connected through VSAT with micro-wave/leased line/optical fibre back-ups and are capable of providing on-line real-time banking services.

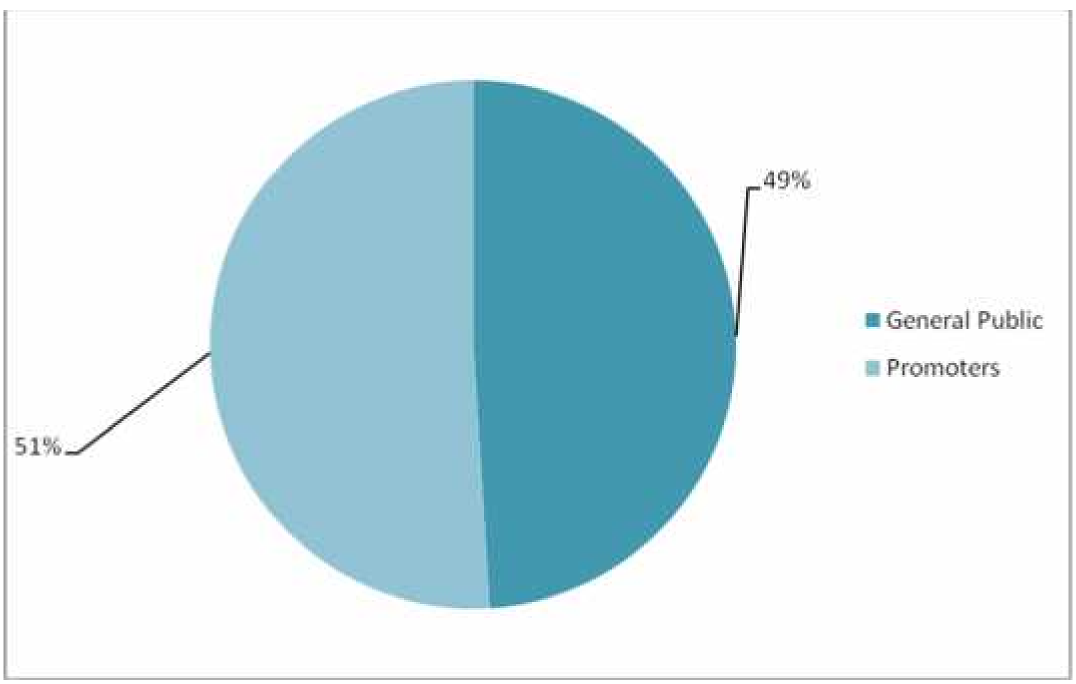
The Bank is seriously considering adopting capital adequacy norms under the Basel II accord to the extent applicable to the Nepalese banking industry well before it becomes a regulatory requirement.

The Bank believes in continuously offering new and value added services to customers with commitment to quality and value to clients. Accordingly, the Bank has been in the forefront in launching innovative & superior products with unique customer friendly features with immense success.

Capital Structure

NIC Bank has an authorized capital of Rs. 1,600 million, issued capital of Rs. 1,140.48 million and paid up capital of Rs. 1,140.48. The promoter individuals hold 51% of paid up capital amounting to Rs. 581.64 million. The remaining 49% of paid-up capital amounting to Rs. 558.83 million is held by the general public. The shares are listed with Nepal Stock Exchange. NIC Bank is one of the banks with largest public shareholders.

Capital Structure of NIC Bank



Source: Annual Report of NIC Bank, FY 2008/9

Services Offered

- Current, Savings, Call and Fixed Deposit Accounts - both in LCY & FCY
- Funds Transfer (Draft, T.T. & Fax, Western Union Money Transfer etc.)
- Purchase & Sale of Traveller's Cheques
- ATM / Debit Card
- Bank Guarantees
- Letters of Credit / Bills Purchases
- Corporate Finance / Consumer Loans
- Clearing / Collection
- Safe Deposit Lockers
- Any Branch Banking System
- Extended Counter Services
- Banking services on SWIFT
- Other Allied Services

Automated teller Machine (ATM) Facility: ATM Provides to conduct transitions 24 hours a day and 365 days a year with daily withdrawal limit of Rs. 50,000.00. NIC own ATM services have only in 4 places, which is within Kathmandu valley. But the bank has set up large scale ATM service under Smart Choice Technology (SCT) network.

Some of the popular services of the Bank are:

NIC Pure Gold: NIC Bank offers sales of pure gold from its branch offices. The benefit to the client is that they get 100% quality assurance regarding the quality of gold.

NIC Small Business Loan is a simple and cost effective loan product aimed at catering to the financing needs of a wide range of small and medium business enterprises. The paper work for a NIC Small Business Loan is minimal and once the loan is approved there will be no need to provide any other information to the Bank periodically as long as the repayment is regular.

NIC Home Loan is a personal Property-finance suite of product. It aimed at helping to make it possible for middle class family dream of living in one's own house. It is a low priced product having maturity up to 15 years.

Others are

- NIC Life Savings Account
- NIC Sickshya Kosh
- NIC Cash Card
- NIC SMS Banking
- NIC Travel Loan
- NIC Auto Loan etc;

Management

The top level Management consists of Board of Directors. The composition of the Board of Directors of the Bank is, as per the Company Act and Bank and Financial Institution Ordinance 2062. The Directors of the Bank are eminent personalities drawn from various fields and majority of them are from Vishal Group of Biratnagar. The Bank is managed by very experienced team of professionals led by Mr. Sashin Joshi as the Chief Executive Officer Mr. Joshi holds professional experience in commercial Bank with Standard Chartered Bank Nepal Limited. Other management team includes professional managers and experts having several years of experience in the related field. The operational management team consists:

Sashin Joshi	Chief Executive Officer
Niraj Shrestha	General Manager - Business Banking
Bimal Daga	Head - Credit Business Banking
Purna Man Napit	Head Audit & Compliance
Bam Dev Dahal	Manager - Projects and Strategic Sourcing
Bhanu Dabadi	Manager - Consumer Lending
Deepak Shrestha	Manager - Liability Marketing & Transaction Banking
Saroj Guragain	Manager - Treasury & Correspondent Banking
Prabin Basnet	Manager – Operations
Sushil Bhattarai	Manager - Information & Technology

Rajesh Raj Gautam	Relationship Manager - Business Banking
Bhesh Raj Khatiwada	Relationship Manager - Business Banking
Ritesh Aryal	Manager – SME
Sanchita Gorkhali	Manager - Human Resource
Shrina Joshi	Manager - Corporate Affairs
Branch Managers	

1.2 Statement of the Problem

Nepal is a small country with small market. Economic condition of the country is degrading due to conflict since 2052 B.S. Overall economic sectors either manufacturing or commercial sectors have undergone heavy losses. But in recent past the economic condition of the country has revived by some margin. Despite conflict situation, the financial institutions are increasing regularly. Liquidity is maximizing day to day with the financial institutions. Hence, the banks and financial institutions are competing among themselves to advance credit to limited opportunity sectors. Due to unhealthy competition among the banks, the recovery of the banks credit has gone negative and overall performance is deteriorating. Non-performing Assets of the banks are increasing. To control such type of state, the regulatory body of the banks and financial institutions NRB has tightened up and has issued strong directives. In this scenario, two oldest most government banks have decreased their non-performing loans however some of the newly established banks have gone to problematic situation due to poor quality of loans and inadequate recovery efforts. Therefore it is necessary to analyze the 'Credit Management' consisting of Credit disbursement, Credit Monitoring, Credit Supervision, Loan Review, Loan Recovery, Loan Loss provision and Loan Write Off procedures of the Banks. As the samples of commercial banks, Nepal Investment Bank Limited (NIB) and Nepal Industrial & Commercial Bank Limited (NIC Bank) have been selected, the problems faced by the banks can be pointed out as follows:

- Liquidity position
- Credit rating company is not available therefore the banks are providing credits on the basis of on their own judgment.
- Unhealthy competition among banks in the limited area.
- Due to poor credit administration, the credit recovery process is slow.
- Non-performing credit is going upward.

- Clear-cut objectives and policy of the credit management is lacking.
- Writing off the non-performing assets is not satisfactory.
- The legal process in the recovery of credit is lengthy and ineffective.

1.3 Objectives of the Study

There is no doubt that the role of the commercial banks 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 of the objectives of the study is as follows:

1. To analyze the loan and advances provided by NIB and NIC Banks.
2. To find out the strength and weakness in the credit management of NIB and NIC banks.
3. To analyze the credit efficiency of NIB and NIC banks.
4. To analyze the relationship between loans and advances, net profit and non performing loan of NIB and NIC banks.
5. To find out the response of credit customers and employees of NIB and NIC banks.

1.4 Importance of the Study

At present the private sector and joint venture banks are gaining a wide popularity through their efficient management and professional cum personalized services and playing important role in domestic and foreign trade. This study is expected to have importance to various groups but in particular is directed to a certain groups of people/organizations, which are:

- Importance to shareholders of the respective banks,
- Importance to the management bodies of these banks for the evaluation of the performance of their banks, and in comparison which other banks,
- Importance to "outsiders" which are mainly the customers, financing agencies, stock exchanges,
- Importance to the government bodies or the policy makers such as the central bank

- Interested outside parties such as- investors, customers (depositors as well as Borrowers), and competitors, stockbrokers, dealers, and market makers.
- Fellow researchers on the same / similar subject

So, this study helps these banks to identify its hidden weakness regarding financial cum credit management and necessity of the present study is justified.

1.5 Limitations of the Study

Although this study will try its utmost care to cover mist of the important sectors, it is still subject to the following limitations, which are as follows:

- The study deals mainly with secondary data. Primary data are taken from personal interview, and questionnaire.
- The study will base on only the past five years periods since 2003/4 to 2007/8.
- This research study largely depends on published documents such as Balance Sheet, Profit and Loss Account Statements, which are circulated at the close of the financial year.
- The study is associated only to the financial performance of Nepal Investment Bank Limited and Nepal Industrial & Commercial Bank Limited.
- In this study, only selected financial and statistical tools and techniques are used.
- The other limitation is the lack of sufficient time and resource because the purpose of this thesis is only to fulfill the partial requirement for the Master of Business Studies (MBS) of the management faculty, Tribhuvan University.

1.6 Organization of the Study

The study will comprise five chapters.

Chapter I: Introduction:

This chapter includes background of the study, introduction of NIBL and NIC Bank, statement of problem, objectives, importance, focus, limitation of study and organization of the study.

Chapter II: Review of Literature:

In second chapter is reviewed of literature which involves conceptual framework and related different studies on the subject. This chapter includes conceptual review, concept of commercial banking, concept of credit, types of credit, non-performing assets, objectives of the sound credit policy, lending criteria, principals of credit policy, project appraisal, provision of NRB for extending advances & investment in productive, priority and deprived sector; review of relevant articles and journals and review of dissertations.

Chapter III: Research Methodology

This chapter includes research design, data collection, and method of analysis and research variables.

Chapter IV: Data Presentation and Analysis

This chapter consist data processing, data analysis, interpretation, major findings and present answers of the questions (of primary data) too. Here are used statistical tools and techniques. Here are

Chapter V: Summary, Conclusion and Recommendations

This chapter is the last chapter, which contains summary, conclusion and recommendations. The brief of the whole study is in this chapter.

CHAPTER - II

LITERATURE REVIEW

Introduction

In this area, may research works have been conducted by various researches regarding various aspect of banking sectors. Various several view and opinions have been expressed by the different persons/researchers regarding commercial bank and their activities, magazines, journals, booklets, book and other related important publications which had been published by various sectors.

Now, in this chapter, what other have related is important to know as it provides guideline and feed back to serve purpose of the study. So, the researcher has reviewed relevant literature relating to the field of this study.

In this area, may research works have been conducted by various researches regarding various aspect of banking sectors. Now, in this chapter, what other have related is important to know as it provides guideline and feed back to serve purpose of the study. So, the researcher has reviewed relevant literature relating to the field of this study. In other words, the main purpose of literature review is to find out what types of works and researches have been done in past in the area of the research problem under study and what has not been done in the field of the research study being undertaken. For review study the researcher uses different books, reports, journals, and research studies published by various institutions, unpublished dissertations submitted by master level students have been reviewed.

It is divided into two headings:

- Conceptual Review
- Review of different studies

2.1 Conceptual Review

The review of text books and other references materials such as: newspapers, magazines, research articles, journals, different books published by Nepal Government, Nepal Rastra

Bank and other institute published materials, and past thesis have been included in this topic.

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

Bodhi B. Bajracharya, in his article "Monetary policy and deposit mobilization in Nepal" (Bajracharya, 1991:3) has concluded that mobilization of the domestic saving is one of the prime objectives of the monetary policy in Nepal. And commercial banks are the most active financial intermediary for generating resources in the form of deposit of private sector and providing credit to the investors in different sectors of the economy.

Book named "Banking Management" says that in banking sector or transaction, an unavoidable ness of loan management and its methodology is regarded very important. Under this management, many subject matters are considered and thought, For example, there are subject matters like the policy of loan flow, the documents of loan flow, loan administration, audit of loan, renewal of loan, the condition of loan flow, provision of security, the provision of the payment of capital and its interest and other such procedures. This management plays a great role in healthy competitive activities. (Bhandai, 2003:107).

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

Portfolio management helps to minimize or manage the credit risks by spreading over the risk to various portfolios. These methods of managing credit risk is guided by the saying do not put all the eggs in a single basket (Bhandari, 2004:125).

Shrestha (2045), made a study on "A study on deposits and credits of commercial banks in Nepal", which revealed that in 2004 AD the credit deposit ratio would be 51.3, other things remaining the same, which was the lowest under the period of review. So, he had strongly suggested that the commercial banks should try to provide more credit facility lunching new banking product otherwise they could not be able to absorb even its total expenses.

2.2 Concept of Commercial Banking

Before defining the term commercial bank, let us define the meaning of bank and commercial. According to H.L. definitions of bank: "A banker or bank is a person or company carrying on the business of receiving moneys, and collecting drafts, for customers subject to the obligation of honoring cheques drawn upon them from time to time by the customers to the extent of the amount available on their customer" (Vaidya; 1992:3).

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

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

The banks pool together the savings of the community and arrange for their productive use. The supply the financial needs of modern business by various means.

Commercial banks act as an intermediately accepting deposits and providing credits to the needy area. The main source of the commercial bank is current deposit, so they give more importance to the liquidity of investment and as such they specialize in satisfying the short- term credit needs of business other than the long-term. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short-term needs of trade and industry such as working capital financing. They cannot finance in fixed assets. They grant credits in the form of cash credits and overdrafts. Apart from financing, they also render services like collection of bills and cheques, safe keeping of valuables, financial advising, etc to their customers (Vaidya, 1999:24).

Commercial banks are organized as a joint stock company system, primarily for the purpose of earning a profit, They can be either of the branch banking types as we see in most of countries, with a large network branches like in Nepal or of the unit banking type, as we see in the United States where a banks operations are confined to a single office or to a few branches within a strictly limited area (Shekhar and Shekhar; 1999:24).

2.2.1 Functions of Commercial Banks

"The business of commercial banks is primarily is to hold deposits and make credits and investments with the object of securing profits for its shareholders. Its primary motive is profit; other considerations are secondary" (Sudarshanam; 1976: 23) .The major functions of commercial banks are as follows.

Accepting Deposit, Advancing Credits, Agency Services, Credit Creation, Financing of Foreign Trade, Safekeeping of Valuables, Making Venture Capital Credits, Financial Advising**,** Offers Security Brokerage Services.

Assist in Foreign Trade

The bank assist the traders engaged in foreign trade of the country. He discounts the bills of exchange drawn by exporters on the foreign importers and enables the exporters to receive money in the home currency. Similarly, he also accepts the bills drawn by foreign exporters (Vaidya, 1999:29).

Offers Investment Banking and Merchant Banking Services

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

2.2.2 Highlight the Current Performance of Nepalese Commercial Banks

The number of commercial bank branches operating in the country increased to 752 in Mid - July 2009 from 555 in mid July 2008. Among the total bank branches, 50.39 percent bank branches are concentrated in the central region alone. By the end of Mid - July 2009, total 379 branches are being operating in this region. However, in the western, eastern, mid-western and far- western region are 19.54 percent (147), 17.95 percent (135), 7.57 percent (57) and 4.52 percent (34) respectively.

Entry of new banks in financial system along with increased in the business, the total assets i.e. sources of fund of commercial banks went up by higher rate of 43.30 percent compared to 15.51 percent in the previous year. By the end of this fiscal year, the total assets of commercial banking sector reached to Rs. 812165.9 million from Rs 566736.0 million in the last year.

In the Mid - July 2009, the loans and advances increased marginally at lower rate of 31.44 percent compare to 32.30 percent in Mid - July 2008. By the end of Mid - July

2009, the total outstanding amount of loans and advances of commercial banks reached to Rs. 398143.0 million. It was Rs. 302913.4 million in Mid - July 2008.

The total investment of commercial banks in Mid - July 2009 increased by 61.31 percent and reached to Rs. 130856.9 million from Rs. 108954.8 million in Mid - July 2008. Similarly liquid fund increased by 58.49 percent and amounted to Rs. 105989.0 million.

In the Mid - July 2009, total deposit of commercial bank increased by 32.28 percent compare to 26.25 percent growth in the Mid - July 2008. As of Mid - July 2009, it reached to Rs. 563604.5 million from Rs 426080.3 in the Mid - July 2008. Among the component of deposit, current deposit increased with rate of 27.74 percent compare to 24.56 percent in last year. Similarly, saving deposit and fixed deposit increased by 22.92 percent and 34.82 percent respectively.

In the Mid - July 2009, the borrowing increased by higher rate of 27.15 percent compared to 13.00 percent in the previous year, By the end of Mid - July 2009, it reached to Rs. 18320.2 million from Rs. 14408.2 million in the Mid - July 2008.

The entry of new banks as well as rise in the capital base by some of old banks attributed to change its capital fund. It is increased remarkably by 205.19 percent compared to previous year and reached to Rs. 30399.5 million in Mid - July 2009. It was Rs. 9960.7 million in Mid - July 2008.

Out of the Rs. 396858.0 million outstanding sector wise credits in Mid - July 2009, the largest proportion of the loans and advances is occupied by manufacturing sector. The share of this sector is 21.93 percent followed by other sector 18.34 percent, wholesale & retailers 17.06 percent, construction 11.23 percent and finance, insurance & fixed assets by 9.73 percent. Similarly, service industries comprise 6.35 percent, transportation, communication & public services by 4.54 percent and agriculture by 3.34 percent in the same year.

The outstanding of deprived sector credit of commercial banks in the Mid - July 2009 increased by higher rate of 76.36 percent compared to 12.41 percent in the Mid - July 2008. By the end of Mid - July 2009, it reached to Rs. 13565.1 million from Rs. 7691.40 million in Mid - July 2008. The ratio of deprived sector credit to total outstanding of product wise loans and advances stood at 2.96 percent in the current fiscal period. Last year it was 2.82 percent.

In Mid - July 2009, the credit to deposit ratio of the commercial banks remained to 70.64 percent. It was 71.09 percent in Mid - July 2008 and 67.84 percent in Mid - July 2007.

The non-performing loan of commercial banks declined significantly to 3.53 percent in Mid - July 2009 from 6.08 percent in the Mid - July 2008. The total amount of NPA remained to Rs. 13574.6 million from Rs. 18648.5 million in the Mid - July 2008.

Deposit Mobilization and Credit Flow of Commercial Banks:

Deposit mobilization of commercial banks increased by Rs. 19.12 billion (3.5 percent) to Rs. 568.95 billion in the first three month of 2009/10 compared to an increase of Rs. 25.65 billion (6.1 percent) in the previous year. Similarly, commercial banks' claims to private sector expanded by 6.8 percent (Rs. 27.43 billion) in the review period compared to a growth of 9.2 percent (Rs. 28.22 billion) in the previous year.

The growth in commercial banks' credit to production sector in review period is lower than that of the corresponding period last year. In the review period, such credit increased by 3.3 percent compared to a growth of 8.3 percent in the previous year. On the other hand, credit to wholesale and retail trade: and services increased by 12.4 percent and 8.2 percent respectively in the review period compared to a respective growth of 4.1 percent and 6.9 percent in the same period last year.

In the review period, the liquid fund of commercial banks has declined by 19.0 percent compared to last year's growth of 17.9 percent. Of the components of liquid funds, commercial banks' balance held with the NRB decreased by Rs. 16.99 billion, and their balance held abroad decreased by Rs. 5.49 billion in the review period. The higher growth in loan and advances relative to resource mobilization contributed such a decline in the liquid fund. The total loan and advances of commercial banks increased by 6.5 percent (Rs. 33.86 billion) in the review period.

Inter Bank Transactions and Standing Liquidity Facility

During the first three months of 2009/10, inter bank transactions of commercial banks stood at Rs. 65.53 billion compared to Rs. 68.26 billion in the same period of the previous year. Similarly, commercial banks utilized standing liquidity facility (SLF) worth Rs. 4.05billion in the review period compared to Rs. 33.03 billion in the same period last year.

2.3 Concept of Credit

Credit is the amount of money lent by the creditor (bank) to the borrower (customers) either against security or without security for various business and non business, fixed capital or working capital, institutional or personal uses.

"Sum of the money lent by a bank, etc" .Credit and advances is an important and one of the major volume holding items on the asset side of the balance sheet of a commercial bank. "Bank earns interest on credits and advances, which is one of the major sources of income for banks. Bank prepares credit portfolio, otherwise it will not only add bad debts but also affect profitability adversely" (Varshney and Swaroop, 1994:256).

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

Banks generally grants credit on four ways:

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

2.4 Types of Credit: (Funded and Non-funded)

Funded Credit Facilities

- **Business Credit**

Working Capital Credit

Working capital denotes the difference between current assets and current liabilities. The working capital credit is provided to the customers to meet their working capital gap for supporting manufacturing, trading or service business. A natural process develops wherein funds moving through the cycle are generated to repay a working capital credit. However banks normally don’t provide working capital credit based on difference between current assets and current liabilities only. The normal working capital credit is based on bankable working capital i;e (inventory + trade receivables – trade payables). The working capital credit is provided under different headings described as under;

Overdraft (Cash Credit)

Conceptually it is the excess amount withdrawn by a customer over their deposits from current account maintained with the Bank. However in current banking practice overdraft is provided as loan only and limit is provided to the client. Banks thus prefer to call it cash credit. The credit is not given directly in cash but current account is opened on the name of credit taker and the loan amount is credited to that account. The borrower deposits and withdraws amount in this account. Normally it is a revolving credit. It is provided for a period of 12 months only and may be renewed annually.

Hypothecation

This credit is similar to overdraft considering the operation procedure of accounts. However, inventory/stock is a must security in this credit. Credit amount is fixed by maintaining a certain percentage of margins on inventory value. It is also a revolving line of credit. It is provided for a period of 12 months only and may be renewed annually.

Short-Term Loan

This credit has a fixed maturity within 365 days. Banks normally provide this credit for 3, 6 and 12 months. This credit is provided to meet the instant demand of funds or seasonal fluctuations in the business. It is also called demand loan and can be of either revolving or non-revolving nature.

Trust Receipt Loan (TR)

It is a specific type of credit. It is created to support L/C transactions of a client. When L/C has to be paid, the client has to deposit cash in the Bank. In stead of depositing cash, the client can request to debit his TR account and pay the L/C amount. TR loans are specific in nature because those are booked on the basis of value of L/C document. There may be a single TR limit but it may contain more than one loan having normal maturity dates of 90, 120, and 150 or 180 days depending upon the nature of business the credit taker is in.

Although there may be other types of credit facilities under different loan headings as working capital credit, but the basic nature is that all have maturity within 365 days and are usable for fulfilling working capital gap.

Fixed Capital / Long-Term Credit

It refers to money lent in lump sum to the borrowers having maturity of more than 365 days. It is principal form of medium term debt financing having maturities depending upon the nature of assets created from the credit. However, normal period is within 1 to 10 years. Normally these credit facilities are provided to create fixed asset and for capital expenditure. As per the purpose of credit facility to add fixed assets having longer maturity, maturity period is devised beyond 1 year.

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

Project Credit

Project Credit is granted to the customers as per project viability. This is a mix of both fixed capital and working capital credit. This type of credit facility is generally availed by the business having high capital expenditure and working capital requirement for business operation. The project is financed under a specified or agreed debt equity ratio. Manufacturing units, hotels, mills and other large projects are financed under 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 depending against progress of project.

Consortium Credit

Consortium is a group of banks and financial institutions created to finance a huge project. Consortium credit may include all funded and non-funded credit facilities. No single financial institution grant credit to huge projects due to following reasons

- Single obligor limit (maximum limit for lending to an individual / institution / group as approved by Central Bank) it is 25% and 50% of core capital of financial institutions in case of funded and non-funded limits in Nepal
- Risk associated: A single financial institution may not take entire risk on project. So it may create a consortium to finance a project even though loan amount is within single obligor limit

In this case the decisions are implemented as per consortium meeting decision. A bank having largest exposure in project takes the charge and is called lead bank. Lead bank acts on behalf of other banks/financial institutions as well. The security is charged by way of pari paasu agreement between borrower and lenders (on pro rata basis).

Credit Cards and Revolving Lines of Credit

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

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

Hire Purchase Financing (Installment Credit)

Hire-purchase credits are characterized by periodic repayment of principal and interest over the maturity of the credit. Hirer agrees to take the goods on hire at a stated rental including their repayment of principal as well as interest with an option to purchase. This credit is generally provided for commercial vehicles. Hire purchase credit taken for personal use falls under consumer credit.

- **Consumer Credit**

Financial institutions also extend personal credit to their customers. It is given to those who have regular income and can serve loan installment with ease. These types of credit facilities are of longer term and higher rate is charged with increment in repayment period. The loans are to be paid in Equated Monthly/Quarterly Installments.

Housing Loan

To construct, repair, or purchase residential building.

Vehicle Loan

To purchase private car, jeep etc.

Educational Loan

To finance the education and accommodation cost of student

Personal Loan

For personal use of the client without any specific purpose. It may be revolving as well

Priority or Deprived Sector Credit

Commercial banks in Nepal were required to extend advances to the priority and deprived sector.12 % of the total Credit was a must towards priority sector including deprived sector but this requirement has now been discontinued by NRB. Rs 2 million for agriculture cum service sector and Rs 2.5 million for single borrowers were limit sanctioned to priority sector. Institutional support to' Agriculture Development bank' and 'Rural Development Bank' are also considered under this category. Deprived sector lending includes:

- Advances to Poor/downtrodden/weak/ deprived people up to Rs 30,000 in generating income or employment.
- Institutional Credit to Rural Development Bank and credits to NGOS which are permitted to carryout banking transactions for lending up to Rs 30,000.

Non-Funded Credit Facilities

Those are the credit facilities where fund of lending institution is not involved. These facilities are in use to facilitate the clients in due course of business. In fact these are off Balance sheet transactions of financial institution and fall under contingent liability. Contingent liability pinpoints the liability, which may or may not arise during the happening of certain event. Footnotes are kept as reference to them instead of recording in the books of accounts.

It is non-funded based remunerative facilities but more risky than the funded until adequate collateral are taken. The generally used non funded facilities are.

Bank Guarantee

It is the commitment given by a bank, in request of its customer (applicant), in favor of other party (beneficiary) that in event of default from the applicant, the bank will pay to the beneficiary a certain specified amount instantly when the guarantee is invoked. Generally bank takes a certain percent of committed amount as bank guarantee commission. Further cash margin or security back up is also required by the bank to issue a guarantee.

Letter of Credit (L/C)

It is issued on behalf of the customer (buyer) in favor of the exporter (seller) in international trade 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. Generally there are four parties involved in a L/C transaction. Buyer, Buyer's Bank, Seller's Bank and Seller. Apart of those, there may be introduction of confirming bank as well.

Buyer's Bank opens L/C upon presentation of sellers pro-forma invoice by buyer stating that upon receipt of full documents it will pay to seller's bank the committed sum of amount. Seller dispatches goods and asks its Bank for payment of amount. Seller's Bank sends the documents to Buyer's Bank for payment of L/C amount. Buyer's Bank makes payment to Seller's Bank and asks for reimbursement from Buyer. On reimbursement of amount, Bank releases the documents and buyer releases goods and takes possession.

2.5 Non- Performing Assets (NPAs)

Any loan repayment, which is overdue beyond 90 days in considered as NPA. NPAs are further classified into sub-standard, doubtful and loss assets.

Loans and advances of FIs need to be serviced by either the principal or the interest of the amount borrowed in stipulated time as agreed by the parties at the time of loan settlement. NRB unified directives E. Pra. Ni. No. 20/061/62 (Ashar 2062 BS) for banks and non-bank FIs, defines non performing loans as loans classified as Substandard, Doubtful and Loss or loans which are past due by principal for more than 3 months. Dhungana (2006) in his column states that the details and classification of standard of non performing loans may very from country to country depending upon their own banking system requirement norms. He further states that unlike Nepal, countries like Korea, Indonesia, Phillipines, India have classified the loan into five categories on which normal and special categories are classified as performing loans whereas sub standard, doubtful and estimated loss categories are considered as non performing loans. The study conducted by world bank highlights that all commercial banks of South Asian countries except Nepal and Sri Lanka classify loans as non-performing only after it has been in arrear for at least six months (Pernia, 2004). NRB unified directives for banks and non-bank FIs through directive number E. Pra.Ni.No 02/061/62 (Ashar 2062 BS) classifies NPL, according to international practice, into three categories depending on the temporal position of loan default. Substandard, doubtful and loss Assets are the categories on the basis of the time barred to repay either interest or the principal. The degree of NPA assets depend solely on the length of time the asset has been in the form of non-obliged by the loanee. The more time it has elapsed the worse condition of assets is being perceived and such assets are treated accordingly.

Bringing down the level of non-performing loan is very much necessary for reforming the financial sector and sustaining it. Despite the idea for the establishment of Asset Management Company floating around since last few years, it has yet to materialize. The existing huge amount of non-performing assets of the Banks and financial institutions has been a challenge against the development and sustainability of the financial sector. It is a challenge of arranging necessary infrastructures including financial, physical, and human resources for strengthening of Debt Recovery Tribunal and establishment of Asset Management Company as measures toward bringing down the level of non-performing loans (Economic Survey, 2008/09: 28).

Factors Causing NPAs

Dhungana (2006) in is column broadly categorized into internal and external factors for high level of NPA in Nepalese banking system. The following factors can also be the reason for causing NPA:

With the objectives of lowering the concentration risk of bank loans to a few big borrowers and to increase the access of small and middle size borrowers to the bank loans, NRB through directive number E. Pra.Ni.No. 03/061/62 limits commercial banks to extend credit to a single borrower or group of related borrowers upto 25% of its core capital for fund based credit facilities and not more than 50% of its core capital for non fund based credit facilities like letter of credit, guarantees, acceptances, commitments.

2.6 Objectives of the Sound Credit Policy

The purposes of a written credit policy are:

- To assure compliance by lending authority/officials with the bank's policies and fulfillment of objectives regarding the portfolio management
- To provide personnel with a framework of standards within which they can operate.
- To maintain uniformity in practice of lending within an institution

2.7 Lending Criteria

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

Character

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

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

Capacity

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

- Certified balance sheet and profit and loss account for at least past 3 years
- Reference or other lenders with whom the applicant has dealt in the past or bank A/C.
- Net worth statement of the client
- Documents showing client’s sources of income other than the business shown

Capital

This indicates applicant's capacity to inject his own money. By capacity analysis, it can be concluded that whether borrower is truing to play with lender's money only or is also injecting his own fund to the project. For capital analysis financial statements, like certified balance sheet, profit and loss account is the data required. Availability of other liquid funds to the client and details of liquid investments may be helpful in analyzing the capital factor.

Collateral

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

Right over shares, debentures and bond owned by the client may be additional collateral. Further, personal/joint and corporate/cross guaranteed act as an additional security.

Conditions

Once the funding company is satisfied with the character, capacity, capital, and collateral then a credit agreement (sanction letter) is issued in favor of the borrower stating conditions of the credit to which borrower's acceptance is required. Non-compliance with any of the condition by the client must give bank right to trigger recovery action.

2.8 Principals of Credit Policy

Good credit policy is essential to carry out the business of lending more effectively. Some policies are as follows: (Source: www.creditguru.com).

1. **Principle of Safety Fund**

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

2. **Principle of Liquidity**

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

3. **Principle of Security**

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

4. **Principle of Purpose of Credit**

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

5. **Principle of Profitability**

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

6. **Principle of Spread**

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

7. **Principle of National Interest**

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

2.9 Project Appraisal

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

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

Generally, the project appraisal involves the investigation from the following aspects:

a. Financial aspect
b. Economic aspect
c. Management/Organizational aspect
d. Legal aspect

Directives Issued by NRB for the Commercial Bank: (related to credit aspect only):

1. Credit Classifications and Provisioning:

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

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

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

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

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

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

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

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

Group of related customer:

- If a company takes 25% or more share of another company.
- Member of board of directors of company shareholders of private limited company and such members and shareholder with others in a single house, even if husband,

wife, son, daughter, daughter in law, unmarried daughter, adopted son, adopted unmarried daughter, father, mother, stepmother and brothers & sisters whom be should look after. And the above members personally or combined take 25% or more share of another company.

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

2.10 Provision of NRB for Extending Advances & Investment in Productive, Priority and Deprived Sector

Productive Sector

Productive Sector include advances to Priority Sector and Other Productive Sector which includes advances and investment in shares and debentures of small, medium and large industries as defined in industrial enterprises act; pre-shipment credit like purchase of merchandise, processing, assembling, packaging etc.; export bill financing, advances for purchase of public transport like truck, bus, tempo etc. and agricultural/farm equipment; investments on shares and debentures of government/semi-government or private sector agricultural insurance, godown, banking or like companies etc.

As per NRB regulation, commercial banks are required to extend 40% of the total advances to productive sector, which also includes 12% to priority sector including deprived sector.

- **Priority Sector Credit Program**

"Priority sector" is defined to include micro and small enterprises which help increase production, employment and income as prioritized under the national development plans with an objective to uplift the living standard of general public particularly the deprived and low income people by progressively reducing the prevalent unemployment, poverty, economic inequality and backwardness. Micro and small enterprises are classified into agricultural enterprises, cottage and small industries and services. In addition, other businesses as specified by NRB from time to time are also included under Micro and small enterprises. All credits extended to priority sector up to the limit specified by NRB are termed as "Priority Sector Credit.

NRB has provided the requisite proportion of Priority Sector lending as follows:

Table 2.1

NRB Requirement of Priority Sector Investment

Fiscal Year	Minimum percent of Total Credit to be invested in Priority Sector
2004/05	4%
2005/06	2%
2006/07	2%
2007/08	4%
2008/09	4%

Source: NRB Directives 2009

Effective from FY 2007/08, investment in Priority Sector shall not compulsory. Before FY 2002/03, the commercial banks were directed to invest 8% of their total credit to priority sector.

) **Deprived Sector Lending**

"Deprived Sector" includes low income and particularly socially backward women, tribes, lower caste, blind, hearing impaired and physically handicapped persons and squatters (sukumbasi) family. All credits extended for the operation of self-employment oriented micro-enterprises for the upliftment of economic and social status of deprived sector up to the limit specified by NRB is termed as "Deprived Sector Credit". "Deprived Sector Credit" is considered as integral part of priority sector credit and this credit comprise micro-credit programs and projects also.

The businesses under the Priority Sector Credit Program have been classified under the following four major heads:

- Agriculture and Agro-bases business
- Cottage and small industries
- Services
- Other business

Lending in Deprived Sector will be included in Priority Sector for the purpose of compliance test for 12% credit to Priority sector.

Deprived sector credit is advances up to Rs.50, 000 per borrower family meant for weak, poor and deprived people extended in the following manner by the commercial banks shall qualify to be included under deprived sector credit:

- Direct investment made by the commercial banks themselves in income generating employment oriented programs.
- Investments made by commercial banks in share capital of Rural Development Banks, Rural Micro Finance Development Center and other Development Banks established with an objective to extend credit to deprived sector.
- Advances to the Rural Development Banks and other Development Banks engaged in the similar poverty alleviation programs.
- Advances to Cooperatives, Non-governmental Organization and Small Farmers Cooperatives approved by NRB for carrying out banking transactions.
- Advances to Micro-Finance Institutions/ (Rural Development Banks and other financial institutions, cooperatives and non-governmental organizations approved by NRB for intermediation) stipulating the condition to disburse such credit to deprived sector only.
- Loans extended by commercial banks to development banks engaged in micro credit activities with stipulated condition to disburse the credit only to the deprived sector up to Rs.30,000 a family shall be eligible for the purpose of inclusion under Deprived Sector Credit.

Effective from FY 2000/01, Nabil Bank and Himalayan Bank shall compulsorily extend advances to the deprived sector by 3% of its total outstanding credit while new commercial banks are required to invest 0.25% of total outstanding credit to the deprived sector.

- **Regulation relating to Loan Classification and Loan Loss Provisioning**

With an objective to minimize the possible loss of credits extended by commercial banks as provided under section 23(1) of Nepal Rastra Bank Act 2012 (with amendment) relating to development and regulation and banking system . This directive in respect of loan classification & provisioning has been issued in exercised of authority under section 56 of bank and financial institutions act 2063.

- **Classification of Outstanding Loan and Advances on the Basis of Aging**

Banks shall classify outstanding principal amount of loan and advances on the basis of aging.

2.11 Review of Relevant Articles and Journals

Ganesh Shrestha, (1998) in this article *"Lending Operations of Commercial banks of Nepal and its Impact on GDP"* presented the objectives to make an analysis of contribution of commercial banks' lending to the Gross Domestic Product (GDP) of Nepal. She has set a hypothesis that there has been a 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, general and social sectors as independent variables. A multiple regression technique has been applied to analyze the contribution.

The multiple analyses have shown that all the variables except service sector lending have positive impact on GDP. Thus in conclusion, she has accepted the hypothesis, i.e. there has been positive impact on GDP by the lending of commercial banks in various sectors of economy, except service sector investment."

Rabindra Bhattarai, (2002) in this article "*Something is Rotten with the State of Commercial Banking in Nepal*" starts with words like NPA, conflict of interest, merky offshore ownership, well connected defaulter, loan swapping and political obstruction to describe the commercial banks in Nepal. Mr. Bhattarai quoted the words of the Governor to describe the state of banking sector as 'terrible'. Also, he quotes one of the donor representatives involved in financial reform as "Nepal has the weakest central bank in the developing world." As per the author, bankers with patronage could get away with getting anything they wanted approved by the regulator. He quotes Mr. Himalaya SJB Rana, the first governor of NRB, "only 3 out of 12 Governors actually completed their five year terms in its entire history because they were sacked for undefined exigencies." He also quotes Mr. Shovan Dev Pant, the then Executive Director of Nabil, "The financial sector is in appalling state."

Bhattarai says that all the evidences gathered for his article point to one direction-the regulatory body, NRB not doing its job properly. He explains that the malaise with the financial sector was deep. As an instance, he presents Nabil Bank and its ownership. He bets on the fact that even Nabil Bank Shareholders do not know of the Bank's owners of the major block of shares. The author expects NRB to disclose this fact if they know about it.

Another example Bhattarai presents is on the profitability of the banks in the very first year. He questions their profit figures with the given state of ailing economy, where each sector is showing heavy losses. Also, the increasing trend of Non-performing Assets (NPAs) is explained by him is a result of scam. A scam process as explained to him by an NRB official goes like this, "You put in Rs.50 million to promote a bank and then borrow Rs.500 million from it. They are not opening banks to do banking but to siphon loans for themselves." However, the author is of a view that the new directives issued on October 2001 shall improve the situation.

Here, the author has not clearly mentioned of the research methodology. The conclusions are not well supported by data. The article reflects a one sided biased view of the author and the view of NRB on this has not been taken. The conclusion made by the author has not been tested.

2.12 Review of Dissertations

Chand (2004) entitled with *"Credit Disbursement and Repayment of Agriculture Development Bank Nepal"* has following objectives and major findings:

Objectives:

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

Major Findings:

- There is systematic relationship between credit disbursement and repayment. The coefficient of correlation value as calculated is 0.94 which shows significance relationship.
- Repayment situation is satisfactory on production inputs and agro-based industry, warehouses and marketing percentage of repayment to due to the farm mechanization and irrigation and tea horticulture and livestock, poultry and fisheries in much less satisfactory.

Shrestha (2008) entitled with *"Effective Implementation of Credit Policy in Nepalese Commercial Banks"* has following objectives and major findings:

Objectives:

- To study the relationship between deposits & lending.
- To study the classification, provision for loan/advances & its effect in profitability.
- To examine the sector wise and security wise lending
- To identify and analyze the problems and prospects of lending practice of Nepalese Commercial Banks

Major findings:

- Flow of lending depends upon the availability of low cost deposit in the market
- Consumer financing and loan to manufacturing units are more secured than other sectors
- First preference of the Banks for security to loan is fixed assets collateral followed by Government Bonds
- Lengthy procedure in loan processing and tedious legal procedures is the key factor affecting growth of lending.
- Lack in follow ups and irregular site visits lead to generation of NPA.

Shrestha (2009) entitled with *"Credit Risk Management of Joint Venture Banks"* has following objectives and major findings:

Objectives:

- To determine and analyze credit risk of joint venture banks in Nepal.
- To evaluate strength, weakness, opportunity and threats in credit management in commercial banks
- To provide suggestions & recommendations about credit risk management

Major findings:

- Lending in one lucrative sector and concentration in urban areas only is increasing the risk of loss for the Bank
- Credit policies and practices were found satisfactory. Bank has opportunity to explore the virgin village market and SMEs.
- Most of the customers are satisfied with the Joint Venture Banks in terms of service and counseling regarding credit facilities.

Nepal (2009) entitled with *"Credit Management of Commercial Banks in Nepal"* has following objectives and major findings:

Objectives:

- To assess the credit practices of selected Nepalese commercial banks.
- To explore the credit efficiency, analyze the industry environment and management quality in terms of credit practices
- To explore the relationship with loan & advances, NPA and Net profit

Major findings:

- Repayment is satisfactory in agro based industry and production sector compared to other sectors.
- Management quality and credit efficiency of selected banks found satisfactory as they have standard credit practices
- Credit disbursement and repayment has significant relationship. Flow of new credit depends upon the recovery status

CHAPTER - III
RESEARCH METHODOLOGY

3.1 Introduction

Research refers to a search for knowledge. The Webster International Dictionary gives a very inclusive definition of research as "a careful critical inquiry or examination in seeking facts and principles; diligent investigation in order to ascertain something.

Research Methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it we study the various steps that are generally adopted by a researcher, studying his research problem among with the logic behind them. This chapter looks into the research design, nature and sources of data, data collection procedure and tools & technique of analysis.

A research methodology helps us to find out accuracy, validity and suitability. The justification on the present study cannot be obtained without help of proper research methodology. For the purpose of achieving the objectives of study the applied methodology are used. The research methodology used in the present study is briefly mentioned below.

3.2 Research Design

A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. Descriptive and analytical research designs have been used to this study.

Both exploratory and descriptive research designs are to be followed in the study. This type of design has become necessary keeping in view the quantity and quality of information and data that is available.

3.3 Population and Sample Techniques

Now 26 commercial banks are operating in Nepal. Out of the 26 commercial bank, two commercial banks- Nepal Investment Bank Limited and Nepal Industrial & Commercial Bank Limited have been selected as sample for the present study. Similarly, financial statements of these two banks for 5 years from 2003/4 to 2007/8 have been taken as samples for the same purpose.

3.4 Data Collection

The researcher uses two type sources of data collection.

a) Primary Data and
b) Secondary Data

The primary data are those which are collected a fresh and for the first time and thus happen to be original in character. The secondary data, on the other hand are those, which have already been collected by someone else and already, been passed through the statistical process.

Primary data are also taken from questionnaires, personal interview, face to face and telephone interview, and the secondary data are obtained from financial statements of the commercials banks, as following sources:

- Annual reports of the banks
- "Banking and Financial Statistics" report of Nepal Rastra Bank Magazines/Books
- Published and unpublished bulletins, reports of the banks
- Published and unpublished bulletins, reports of the Nepal Stock Exchange
- Previous studies and reports
- Unpublished official records
- Journals and other publish and unpublished related documents and reports of Central Library T. U., Nepal Commerce Campus Library, Nepal Rastra Bank Library, Shankar Dev Campus Library
- Various Internet Websites

- Other published materials

3.5 Data Collection Procedure

The study is based on both primary and secondary data. The source of data is already explained above (No. 3.4 Data Collection).

As the study will also be based on primary data, information will be collected developing a scheduled questionnaire and distributing these to employees of the banks and clients. Question of open end (i.e. yes or no) will be included in questionnaire. Besides this, junior employees and clients are also being observed and responses have been drawn from them about relevant questionnaires. Secondary data are collected from annual reports of NIB and NIC banks.

3.6 Methods of Data Analysis

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

a) Financial Tools
b) Statistical Tools

3.6.1 Financial Tools

For the sake of analysis, various financial tools were used. The basic tools used were ratio analysis and statically tools.

3.6.1.1 Ratio Analysis:

Ratio analysis is a powerful and the most widely used tool of financial analysis. A ratio defined as "The indicated quotient of two mathematical expression" and as “The relationship between two or more things.

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

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

A. Liquidity Ratio

Liquidity refers to the ability of a firm to meet its short- term or current obligations as and when they fall due for payment. So liquidity ratios are used to measure the ability of a firm to meet its short-term obligations and from them the present cash solvency as well as ability to remain solvent in the event of adversities of the same can be examined.

Inadequate liquidity can lead to unexpected cash short falls that must be covered at inordinate costs, thus reducing profitability. In the worst case, inadequate liquidity can lead to the liquidity insolvency of the institution. On the other hand, excessive liquidity can lead to low asset yields and contribute to poor earnings performance.To find -out the ability of banks to meet their short-term obligations, which are likely to mature in the short period, these ratios are calculated. The following ratios are developed under the liquidity ratios to identify the liquidity position.

Cash and Bank Balance to Total Deposit Ratio

This ratio shows the ability of banks immediate funds to cover their deposit. Higher the ratio shows higher liquidity position and ability to cover the deposits and vice versa. It can be calculated by dividing 'cash and bank balance' by deposits. This ratio can be calculated using the following formula.

$$= \frac{\text{Cash and Bank Balance}}{\text{Total Deposits}}$$

Cash and Bank Balance to Current Deposits Ratio

This ratio computed to disclose the soundness of the finance company to pay total calls made of current deposits. It can be expressed as:

$$= \frac{\text{Cash and Bank Balance}}{\text{Current Deposits}}$$

B. Activity/Efficiency Ratio

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

Loans (Credits) and Advances to Total Deposits Ratio

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

$$\text{Loans and Advances to Total Deposits Ratio} = \frac{\text{Loans and Advances}}{\text{Total Deposits}}$$

Loans and Advances to Fixed Deposit Ratio

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

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

Loans and Advances to Total Assets Ratios

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

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

Performing Assets to Total Assets Ratio

It tells the percent of performing assets on total assets. It is useful to know the fact that whether the good loan is increasing or not. We can generate more earning by increasing good loans and reducing bad and inferior loans. It teaches us to invest sources of final only on good loan (i. e. profitable venture). It is computed as:

$$\text{Performing Assets Ratio} = \frac{\text{Performing Assets}}{\text{Total Assets}}$$

Loan Loss Provision to Loan and Advances Ratio

It measures the percentage of loan loss provision on loan and advances. Loan loss provision on loan is given to reduce risk of non-payment of released loan. As per directives to bank and finance companies by NRB (2058 B.S.), 1% of good loan can be provisioned as loan loss provision to reduce risk that may arise due to no recovery of disbursed loan. It is computed as:

$$\text{Loan Loss Provision Ratio} = \frac{\text{Total loan Loss Provision}}{\text{Total Loan Due}}$$

Overdue Loan to Total Loan Ratio:

It shows the percentage of non-performing loans to total loans. Banks performance is good if the percentage is low and vice versa. It also shows the loan recovery efficiency of the bank. Loan loss provision should be provisioned on the basis of overdue loan classification. It is computed as:

$$\frac{\text{Overdue Loan}}{\text{Total Loan}}$$

Overdue Loan to Total Loan =

C. Leverage Ratio

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

Long-term Debt to Net Worth Ratio

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

$$= \frac{\text{Long Term Debt}}{\text{Net Worth}}$$

Total Debt to Net Worth Ratio

The ratio is calculated to find out the proportion of the outsider's fund and owner's fund to finance for the total assets. It also called the proportion of outsider's claim and insider's claim on total assets of the bank. Generally very high the ratio is unfavorable to the business because the debt gives third parties legal claims on the company these claims are for interest payments at regular intervals, plus repayment of the principal by the agreed time. On the other hand, very low ratio is also unfavorable from the shareholders point of view. They want this ratio to be high so that they can have better returns with smaller capital. It is calculated as follow:

$$= \frac{\text{Total Debt}}{\text{Net Worth}}$$

Total Debt to Total Assets Ratio

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

$$= \frac{\text{Total Debt}}{\text{Total Assets}}$$

D. Profitability Ratios

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

"Profitability ratios are the indicators of degree of managerial success in achieving firm's overall goals."It shows the overall efficiency of the business concern. The following ratios are calculated under the profitability ratios:

Net Profit/Loss to Total Assets Ratio

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

In this study, Net Profit/Loss to total assets ratio is examined to measure the profitability of all the financial resources in bank-assets and is calculated by applying the following formula:

$$\frac{\text{Net Profit/Loss}}{\text{Total Assets}}$$

=

Interest Income to Total Credit and Advances

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

$$\text{Interest Income to Total Credit \& Advances} = \frac{\text{Interest Income}}{\text{Total Credit and Advances}}$$

E. Other Ratios

Earning Per Share (EPS)

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

$$= \frac{\text{Net Income after Taxes}}{\text{Number of Common Stocks Outstanding}}$$

Price Earning Ratio (P/E Ratio)

The P/E ratio is widely used by the security analysts to value the firm's performance as expected by investors. It shows the price currently paid by the market for each rupee of currently reported earning per share. It is also called multiplier. Here, the expression takes place as follows:

$$= \frac{\text{Market Price per Share}}{\text{Earning Per Share}}$$

Capital Fund Ratio

It shows how much the bank is sound on the basis core capital fund and secondary capital fund. Bank should maintain the directives given by NRB on capital fund. It is calculated by the formula:

$$\text{Capital Fund Ratio} = \frac{\text{Primary Capital + Supplementary Capital}}{\text{Weighted Average Assets}}$$

(Weighted Average Assets = Risk Weightage on Balance Sheet Items + Risk Weightage on off-balance items.)

Limitations of Ratio Analysis

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

i) Different firms in the industry although apparently comparable in respect to size, age location; product mix and technology may not be really comparable if they are following different accounting methods.

ii) Financial statements record past transactions. They are, thus an index of what happened in the past. They do not show the current position of the business. Evidently ratio analysis is also primarily concerned with analyzing the past, which may or may not be relevant today. It is thus a sort of 'POST-MORTEM' analysis rather than a guide for decision-making.

iii) In the context of persistent price level changes, intra firm trends analysis losses much of its operational significance.

iv) The differences in the definitions of items in the balance sheet and the income statement make the interpretation of ratios difficult.

v) Some times ratio analysis may suffer from what is known as fallacy of misplaced concreteness. "

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

3.6.2 Statistical Tools Used

For supporting the study, Statistical tool such as Mean, Standard deviation, Coefficient of Variation, Correlation, trend analysis and diagrammatic cum pictorial tools have been used under it.

Arithmetic Mean (Average)

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

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

Where:

$\overline{X}$ = Arithmetic mean

N = Number of observations

X = Sum of observations

Standard Deviation (S.D.)

"The standard deviation is the square root of mean squared deviations from the arithmetic mean and is denoted by S.D. or σ." It is used as absolute measure of dispersion or variability. It is calculated:

$$\sigma = \sqrt{\frac{\Sigma x^2}{N} - \left(\frac{\Sigma x}{N}\right)^2}$$

Where,

σ = Standard Deviation

$$\frac{\phi\varepsilon^2}{N} = \text{Sum of Squares of Observation}$$

$$\frac{\phi\varepsilon}{N}^2 = \text{Sum of Squares of Mean}$$

Coefficient of Variation (C.V.)

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

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

Where,

$\overline{X}$ = Mean

σ = Standard Deviation

C.V. = Coefficient of Variation

Correlation Coefficient (r)

Correlation may be defined as the degree of linear relationship existing between two or more variables. These variables are said to be correlated when the change in the value of one results change in another variable. Correlation is of three types. They are Simple, Partial and Multiple correlations. Correlation may be positive, negative or zero. Correlation can be classified as linear on non- linear. Here we study simple correlation only." In simple correlation the effect of others is not excluded rather these are taken as constant considering them to have no serious effect on the dependent variable." It is calculated as:

$$r = \frac{\Sigma XY}{N\ \sigma X \sigma Y}$$

Whereas,

r	=	Correlation Coefficient between X and Y
X	=	$(X - \overline{X})$
Y	=	$(Y - \bar{y})$
Σ X	=	Standard Deviation of Series X
Σ Y	=	Standard Deviation of Series Y
N	=	Number of Pairs of Observation

Coefficient of Determination (r^2)

It explains the variation percent derived in dependent variable due to the any one specified variable; it denotes the fact that the independent variable is good predictor of the behavior of the dependent variable. It is square of correlation coefficient.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

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

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

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

4.1 Financial Condition of selected Nepalese Commercial Banks

Financial analysis assists in identifying the major strengths and weaknesses of a firm. It indicates whether a company has enough cash to meet its obligations ability to utilize properly their available resources. Financial analysis can also be used to assess the company's liability as an ongoing enterprise and determine whether a satisfactory return is being earned for the risks return. This is necessary to find out the comparative financial condition of the banks in terms of credit practices necessary to find out the comparative credit practices in those banks.

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

4.2 Credit Management in NIB and NIC

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

4.2.1 Total Loans and Advances to Total Deposit Ratio

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

Table 4.1

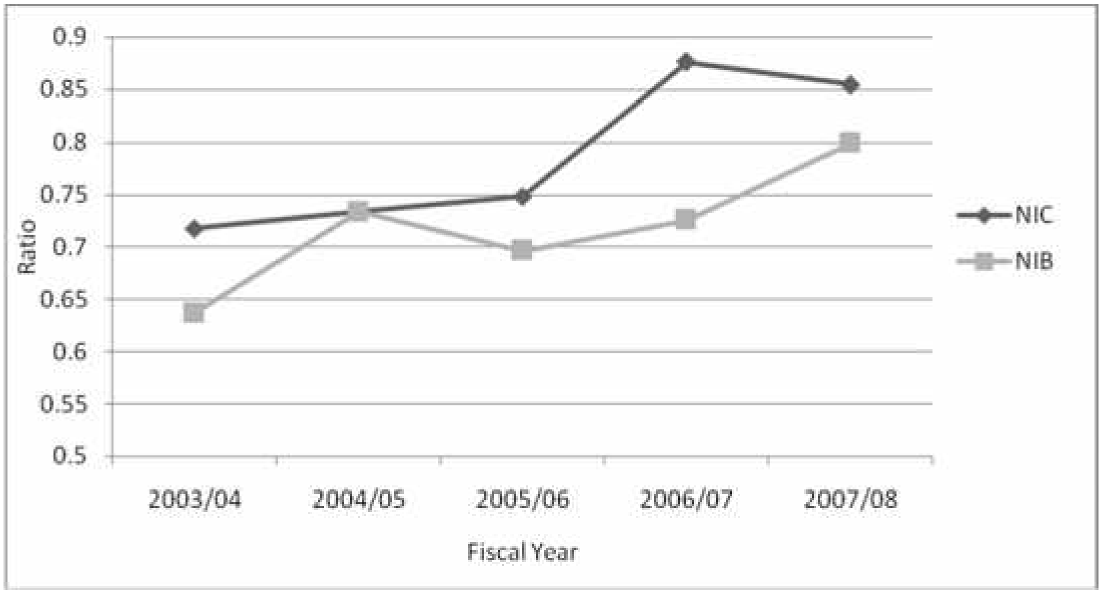
Total Loans and Advances to Total Deposit Ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NIB	0.63	0.73	0.69	0.72	0.79	0.71
NIC	0.71	0.73	0.74	0.87	0.85	0.78

Source: Annual Reports of NIB and NIC (Appendix – 1)

Diagram 4.1

Total Loans to Total Deposit Ratio



Source: Table 4.1

The table 4.1 shows that the ratio of credit deposit ratio in NIB was 0.63, 0.73, 0.69, 0.72 & 0.79 on FY 2003/4, 2004/5, FY 2005/6, FY 2006/7 and FY 2007/8 respectively. Similarly the ratio of NIC is 0.71, 0.73, 0.74, 0.87 & 0.85 on FY 2003/4, 2004/5, FY 2005/6, FY 2006/7 and FY 2007/8 respectively. In overall comparison, NIB has the highest ratio in FY 2007/08 i.e. 0.79 and as well as NIC has the highest ratio in FY 2006/7 i.e. 0.87. Moreover, NIC has observed the lowest ratio in FY 2003/04 with 0.71 and as well as NIB has observed the lowest ratio in FY 2003/4 with 0.63.

For mean point of view, NIC has maintained higher loan & advances to total deposit. In this way, it shows that NIC seems to be strong to mobilize its total deposit as loan & advances. However higher ratio does not mean it is always better from the point of liquidity. If maintained this, it will help to make consistency on the profitability of the banks.

4.2.2 Interest Income to Loans & Advances

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

Table 4.2

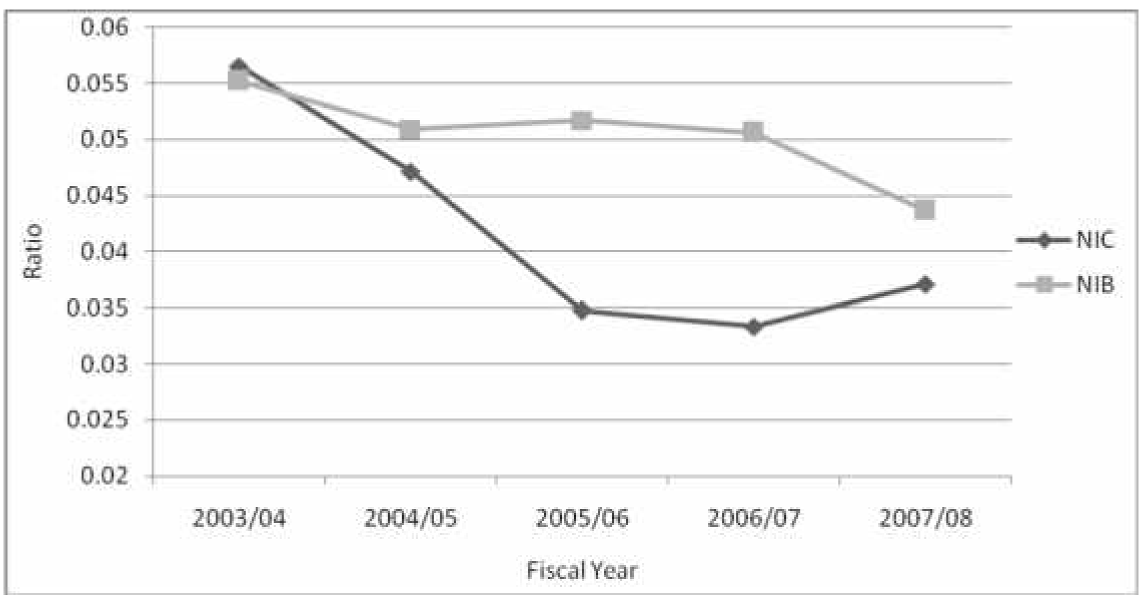
Interest Income to Loan & Advances

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NIB	0.05521	0.05091	0.05173	0.05061	0.04366	0.050
NIC	0.05650	0.04717	0.03473	0.03334	0.03710	0.041

Source: Annual Reports of NIB and NIC (Appendix-1)

Diagram 4.2

Interest Income to Loan & Advances



Source: Table 4.2

Table 4.2 shows the ratio of interest income to loan and advances of the selected sample banks over the study period. Interest income to loan and advances ratio of NIB range is highest to 0.05521 and lowest to 0.04366 in the fiscal year 2001/02 and 2007/08 respectively. Mean ratio is 0.050, ratio of fist four years are above the mean and ratio of fiscal year 2007/08 is below the average.

The mean interest income to loan and advances of the NIC is 0.041. Ratio of NIC does not show clear direction. Highest ratio is in the fiscal year 2003/04 and lowest in the fiscal year 2006/07. The mean Interest income to loan and advances of NIB is 0.050, the highest ratio is in the fiscal year 2003/4 & the lowest ratio is in FY 2007/8. It has highest ratio in the fiscal year 2001/02 and lowest ratio in the fiscal year 2003/04. Mean interest income to loan and advances is higher of NIB than NIC, so NIB has good performance than NIB from interest income point of view.

4.2.3 Non-performing Loans to Total Loan and Advances Ratio

NRB has directed to all the commercial banks to create loan loss provision against the doubtful and bad debts. To measure the volume of non-performing loan to total loan & advances the main indicator of NIB and NIC has been used. This ratio shows the percentage on non-recovery loans in total loan & advances.

Table 4.3

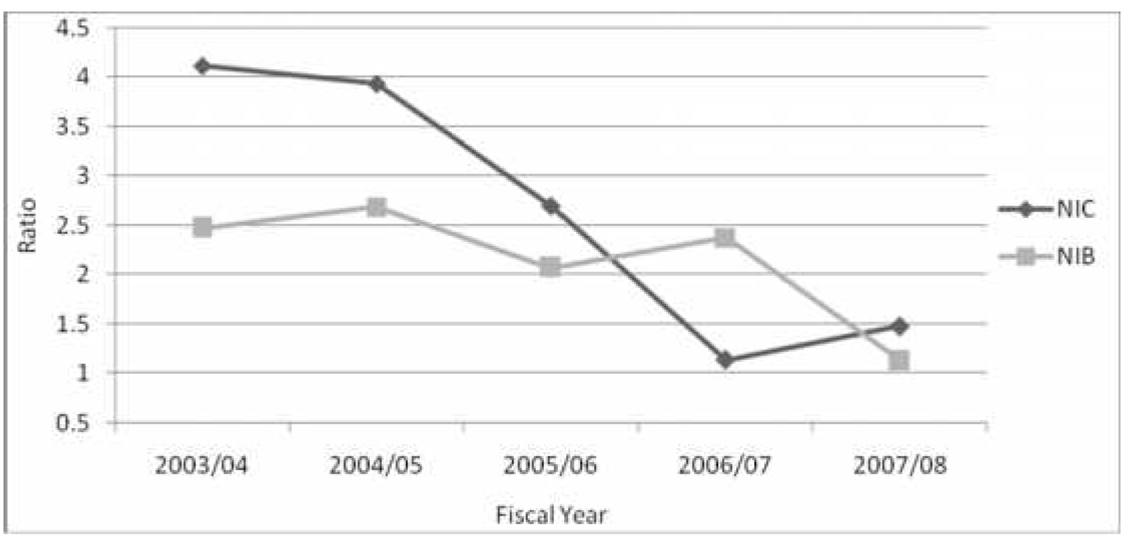
Gross Non-performing Loan to Total Loan and Advances (in %)

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NIB	2.4718	2.6862	2.0678	2.3747	1.1241	2.14
NIC	4.1163	3.9355	2.6975	1.1311	1.4747	2.67

Source: Annual reports of NIB and NIC(Appendix-1)

Diagram 4.3

Gross Non-performing Loan to Total Loan and Advances (in %)



Source: Table 4.3

Table 4.3 shows the Non- performing loan to total loan and advances over the study period. Ratios of NIB ranges are highest of 2.68 and lowest of 1.22 on FY 2004/5 and FY 2007/8 respectively. It shows decreasing trend in subsequent years. Likewise the ratios of NIC ranges are highest of 4.11 and lowest of 1.13 on FY 2003/4 and 2006/7 respectively. It is in decreasing trend in comparison with the fist two year of the study. NIB has lowest non performing loan to total loan and advances than NIC, thus NIB is best performer than NIC. The Mean of Non-performing loan to loan and advances of NIB and NIC are 2.14 and 2.67. Ratio of NIB in the first two year is above the average and below the average in the last two fiscal years. Ratios of NIC in the first three years are above the average and ratios of last two years are below the average. It shows that the non performing loan of both the sample banks is decreasing.

Banking sector is seriously affected by the non-performing loans. Sample banks are not far from this above fact. If non-performing loan increases, the overall banking business will be affected. So provision amount will get increased and profit will decrease. So, it is suggested that both the sample banks (NIB and NIC) to be sincere while granting loan and to do effective follow up for recovery of non-performing loans.

4.2.4 Loans and Advances to Total Assets Ratio

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

Table 4.4

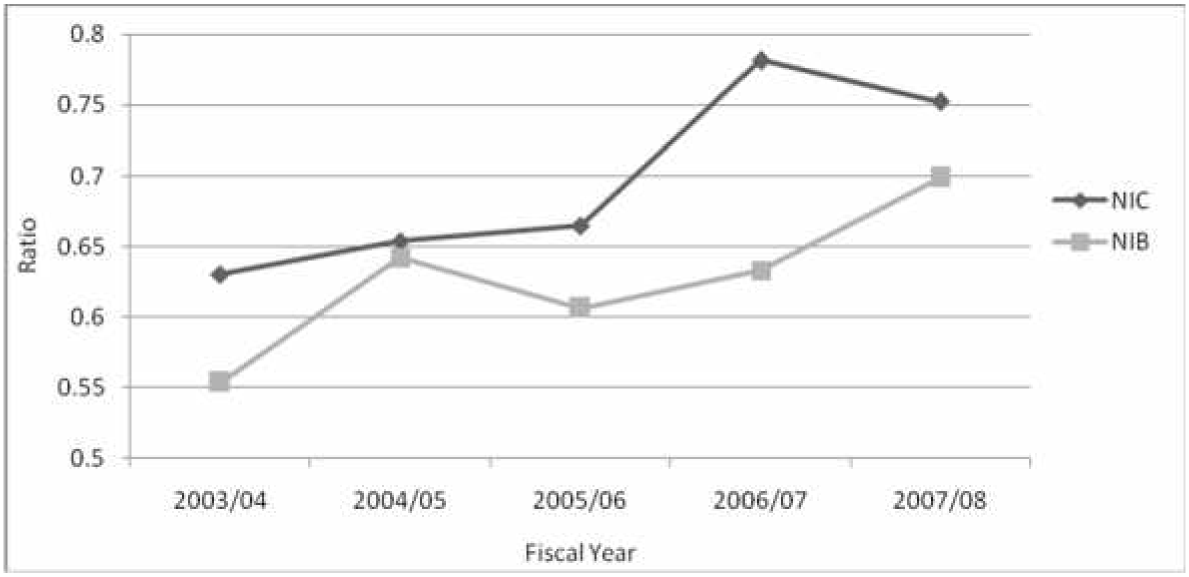
Loans & Advances to Total Assets Ratio

Bank/F.Y	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**Mean**
NIB	0.5536	0.6423	0.6063	0.6329	0.6986	0.62
NIC	0.6302	0.6538	0.6647	0.7816	0.7523	0.69

Source: Annual reports of NIB and NIC (Appendix-1)

Diagram 4.4

Loans & Advances to Total Assets Ratio



Source: Table 4.4

Table 4.4 shows that the ratio of loans & advance to total assets in five years for the sample commercial banks. Loans and advances to total assets ratio of NIB range is highest of 0.6986 in the fiscal year 2007/08, and ratio is 0.5536 lowest in the fiscal year 2003/04. Here this ratio does not show any clear direction of the trend. Loans and advances to total assets ratio of NIC is highest in the fiscal year 2006/07, which is 0.7816. Loans and advances to total assets ratio of NIC is lowest in the fiscal year 2003/04, which is 0.6302. From the mean point of view, it can be said that mean ratio of NIC is highest than the NIB. NIB mean is 0.62 and NIC mean is 0.69. It can be concluded that the higher mean ratio indicates the good lending performance. Here NIB and NIC should focus to increase loan and advances to total assets ratio to increase lending performance.

4.2.5 Loan and Advances to Current Assets Ratio

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

advances in appropriate level, and require to finding out and manage the appropriate portion of current assets.

Table 4.5

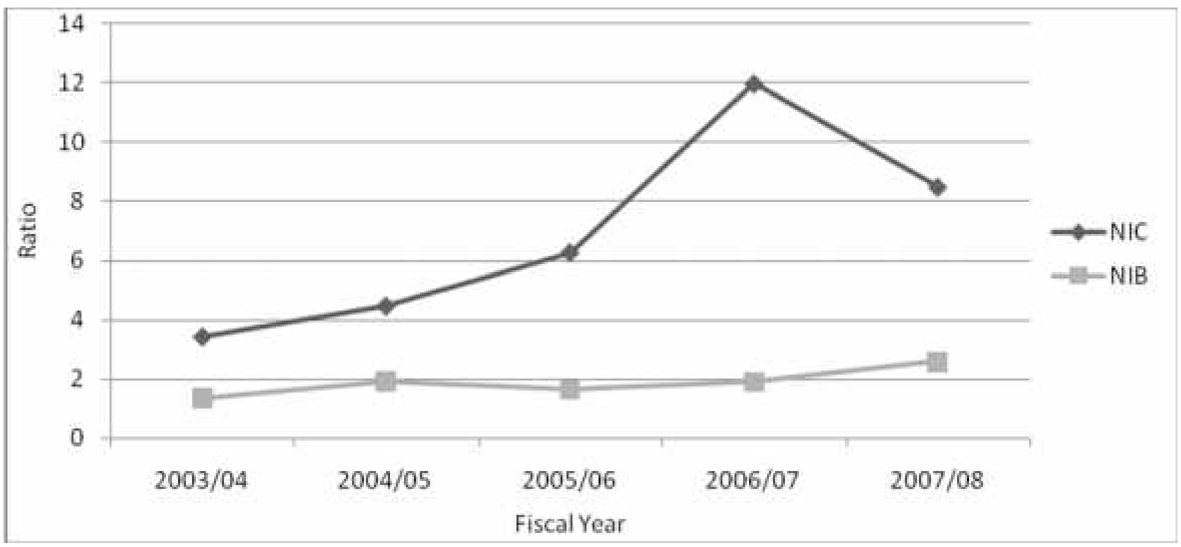
Loan & Advances to Current Assets Ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NIB	1.3591	1.9305	1.6455	1.9085	2.5900	1.88
NIC	3.4170	4.4620	6.2595	11.967	8.4781	6.91

Source: Annual reports of NIB and NIC (Appendix- 1)

Diagram 4.5

Loan & Advances to Current Assets Ratio



Source: Table 4.5

Table 4.5 shows the loan and advances to current assets of selected companies over the study period. Loans and advances to current assets ratio of NIB ranges highest of 2.59 times in the fiscal year 2007/08 and lowest 1.35 in the fiscal year 2003/04. Loan and advances to current assets ratio of NIB in the fiscal year 2003/04 and 2005/06 is below the average and above the average in the rest of the fiscal years. This shows the increasing trend on loan and advances to current assets ratio of NIB. Ratio of NIC is highest in the fiscal year 2006/07 with 11.96 and lowest 3.4 in the fiscal year 2003/04. The mean Loan and advances to current ratio of NIC is 6.91 which is very high in comparison with the average ratio of NIB. From the mean point of view, it can be said that mean ratio of NIC is higher than NIB. It can be concluded that the higher mean ratio indicates the good short term lending performance. Here NIB should focus to increase loan and advances to current assets ratio to increase short term lending performance.

4.2.6 Loans Loss Provision to Total Loan and Advances Ratio

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

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

Table 4.6

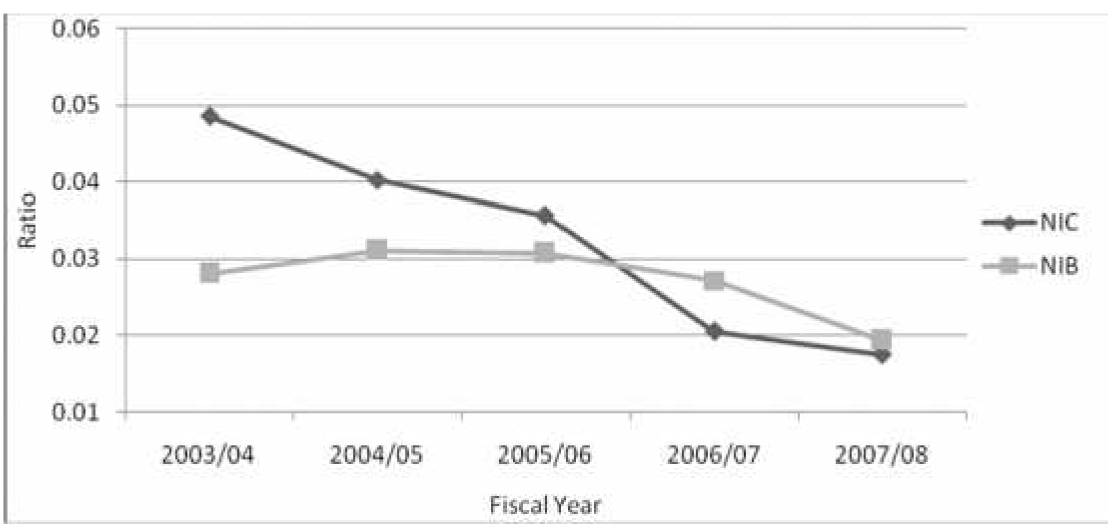
Loan Loss Provision to Total Loan & Advances

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NIB	0.02811	0.03110	0.03072	0.02716	0.0193	0.027
NIC	0.0486	0.0402	0.0356	0.0205	0.0175	0.03

Source: Annual reports of NIB and NIC (Appendix- 1)

Diagram 4.6

Loan Loss Provision to Total Loan & Advances



Source: Table 4.6

Table 4.6 shows the loan loss provision to total loan and advances of selected commercial banks over the study period. Ratios of NIB ranges are highest 0.031 in the fiscal year 2004/05 and lowest 0.019 in the fiscal year 2007/08. Average ratio of NIB is 0.027, ratio in first four fiscal years is above the average and ratio in fiscal year 2007/08 is below the average. The ratio does not give any clear trend. NIC has highest ratio of 0.048 in the fiscal year 2003/04 and lowest 0.017 in the fiscal year 2007/08. It has mean ratio of 0.03. Here average loan loss provision to loan and advances ratio of NIC is highest than NIB. Increased ratio indicates the increased volume of non-performing loans and vice versa. Loan loss provision of both the NIC and NIB is decreasing trend in the fiscal year 2007/08, so the decreasing loan loss ratio indicates efficient credit policy and gradual increment on the performance of the company. NIC Loan loss provision to total loan an advance ratio is also decreasing trend. Here loan loss provision to total loan and advances of NIB is in decreasing trend, which indicates decreased volume of non-performing loans of NIB. It can say that the decreasing trend is due to the effective credit policy and good performance of the company.

4.3 Credit Efficiency in NIB and NIC Bank

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

4.3.1 Interest Expenses to Total Deposit Ratio

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

Table 4.7

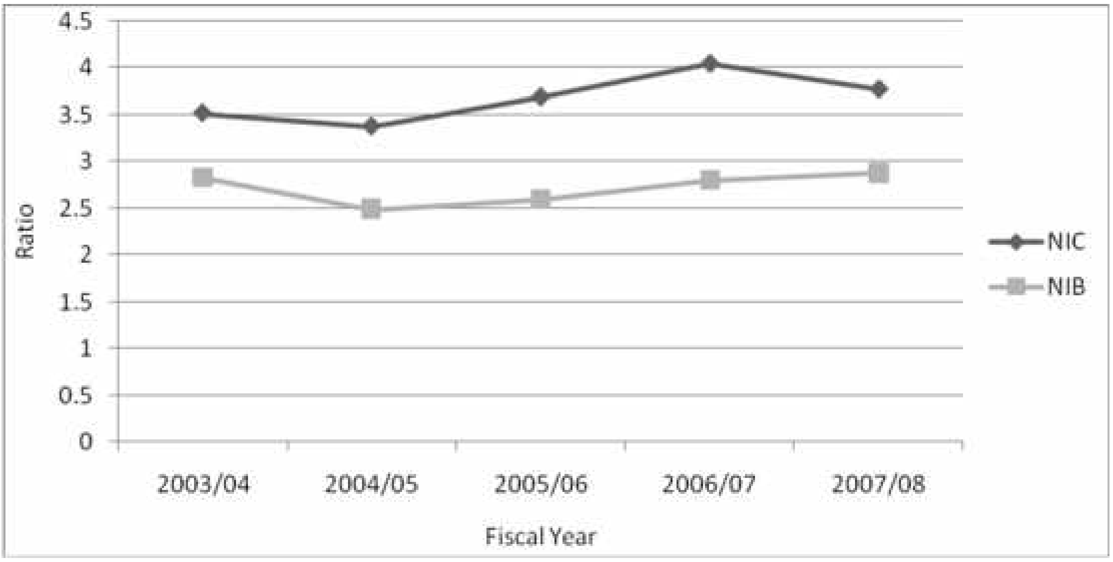
Interest Expenses to Total Deposit Ratio (%)

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NIB	2.8304	2.4872	2.5938	2.7993	2.8798	2.71
NIC	3.5196	3.3771	3.6885	4.0437	3.7705	3.67

Source: Annual reports of NIB and NIC (Appendix- 1)

Diagram 4.7

Interest Expenses to Total Deposit Ratio (%)



Source: Table 4.7

Table 4.7 shows the cost of deposit of selected commercial banks over the study period. Ratio of NIB ranges highest 2.87 in the fiscal year 2007/08 and lowest 2.48 in the fiscal year 2004/05. Average ratio of NIB is 2.71, ratio in fiscal year 2004/05 and 2005/06 are below the average and ration in fiscal year 2003/04, 2006/07 and 2007/08 are above the average. The ratio shows the increasing trend over the study period. Ratio of NIC ranges highest 4.0 in the fiscal year 2006/07 and lowest 3.3 in the fiscal year 2004/05. Its average ratio is 3.67 and higher among the selected banks for the study. Here average interest expenses to total deposit ratio of NIC is higher than of NIB ratio. Increase ratio indicates the increased cost of deposit. Here NIB is able to collect the cheaper deposit than NIC.

4.3.2 Interest Expenses to Total Expenses Ratio

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

Table 4.8

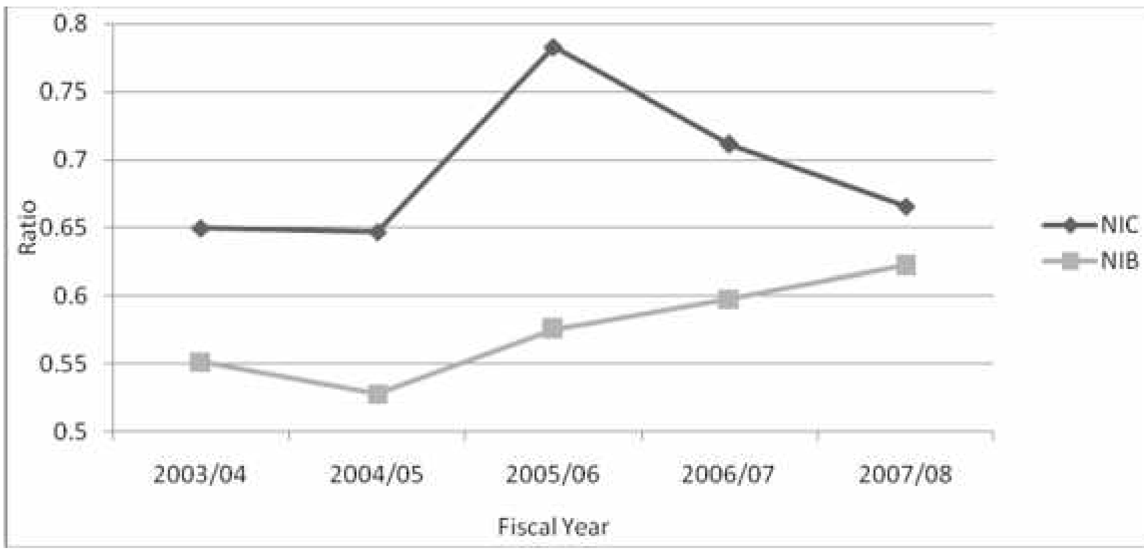
Interest Expenses to Total Expenses Ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NIB	0.5518	0.5279	0.5757	0.5978	0.6222	0.57
NIC	0.6497	0.6472	0.7830	0.7114	0.6659	0.69

Source: Annual reports of NIB and NIC (Appendix- 1)

Diagram 4.8

Interest Expenses to Total Expenses Ratio



Source: Table 4.8

Table 4.8 shows the interest expenses to total expense ratio of selected banks over the study period. Ratio of NIB ranges highest 0.622 in the fiscal year 2007/08 and lowest 0.52 in the fiscal year 2004/05. Average ratio of NIB is 0.570. Ratio of NIB shows the fluctuating trend. Ratio of NIC range is highest 0.78 in the fiscal year 2005/06 and is lowest 0.6471 in the fiscal year 2003/04. Average ratio of NIC is 0.69. Here average interest expenses to total expenses ratio of NIC is higher than NIB. NIB has low interest expenses to total expenses ratio, it shows that decrease in cost of deposit as decrease in the interest expenses to total expenses ratio.

4.3.3 Non-interest Bearing Deposits to Total Deposit Ratio

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

Table 4.9

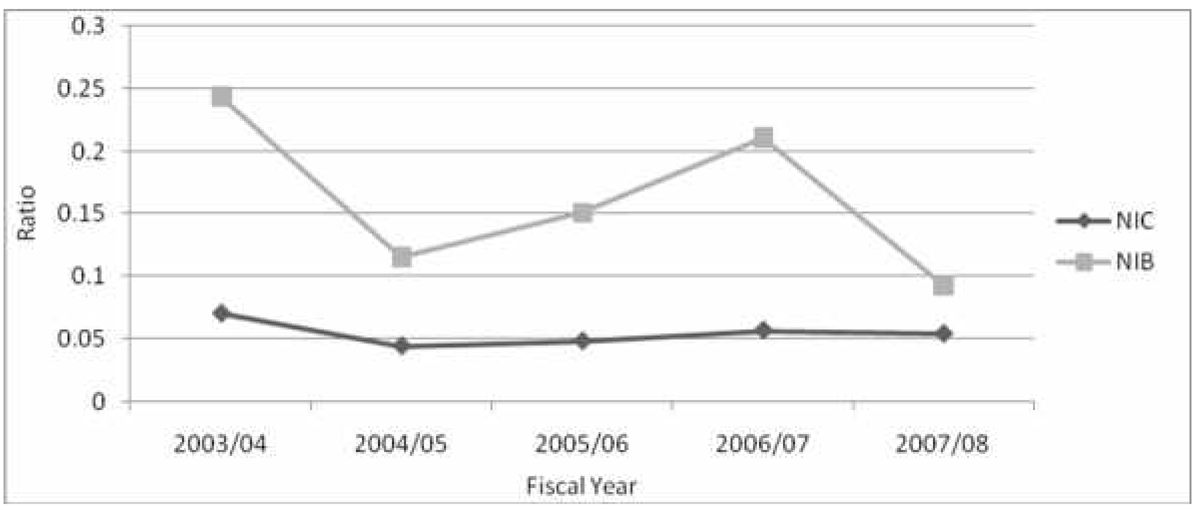
Non-interest Bearing Deposits to Total Deposit Ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NIB	0.2435	0.1153	0.1505	0.2108	0.0925	0.16
NIC	0.0703	0.0443	0.0482	0.0567	0.0541	0.054

Source: Annual reports of NIB and NIC (Appendix- 1)

Diagram 4.9

Non-interest Bearing Deposits to Total Deposit Ratio



Source: Table 4.9

Table 4.9 shows non- interest bearing deposits to total deposit ratio of selected commercial banks over the study period. Ratio of NIB is in fluctuation trend, ranges highest 0.24 in the fiscal year 2003/04 and lowest 0.09 in the fiscal year 2007/08. Average ratio is 0.16. Non - interesting bearing deposits to total deposit ratio of NIC range is highest 0.07 in the fiscal year 2003/04 and lowest 0.04 in the fiscal 2004/05.

Ratio of NIB is highest 0.24 in the fiscal year 2005/06 and lowest 0.09 in the fiscal year 2003/04. Average ratio of NIB is 0.16. From the mean point of view, it can be said that NIB has highest mean ratio than NIC. In this way, the deposit mixture of NIC carries the highest level of interest bearing deposits in its deposit mixture (in compare of NIB). This major portion of non-interest bearing deposit consists of current deposits and this deposit is particularly maintained by business enterprises.

4.3.4 Interest Income to Total Income Ratio

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

Table 4.10

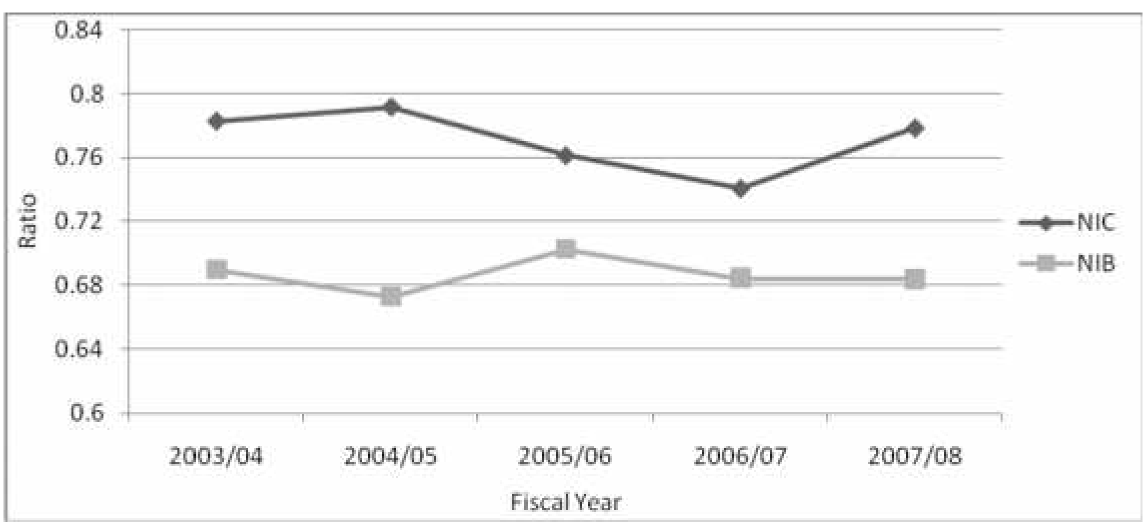
Interest Income to Total Income Ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NIB	0.6869	0.6728	0.7025	0.6843	0.6837	0.68
NIC	0.7830	0.7918	0.7615	0.7408	0.7786	0.77

Source: Annual reports of NIB and NIC (Appendix- 1)

Diagram 4.10

Interest Income to Total Income Ratio



Source: Table 4.10

Table 4.10 shows the interest income to total income ratio of selected commercial banks over the study period. Ratio of NIB range is highest 0.70 in the fiscal year 2005/06 and lowest 0.675 in the fiscal year 2004/05. Average ratio of NIB is 0.68. Ratio of NIC range is highest 0.79 in the fiscal year 2004/05 and lowest 0.74 in the fiscal year 2006/07. Average ratio is 0.77, ratio of fiscal year 2005/06 and 2006/07 are below the average and above in rest of the fiscal year.

From Average point of view, it can be said that NIC has high interest income to total income (in compare with NIB). This shows that in total income of NIB and NIC, interest income contributes 68% and 77% respectively. The lowest ratio of NIB indicates its low dependency in fund-based activity. The highest ratio of NIC indicates greater dependency on fund-based activities.

4.4 Relationship of ‘Loans and Advances’ and Net Profit

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

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

Table 4.11

Relationship between ‘Loan and Advance’ and Net Profit in NIB: Correlation Matrix

	Loans & Advances	Net Profit
Pearson correlation	1	0.688
N	5	5

Source: Annual Reports of NIB (Appendix- 1) and Calculation: Appendix-2

The table 4.11 presents the correlation coefficient between loans (loans & advances) and net profit during study period. The calculated Person's Correlation Coefficient was found 0.688, which shows high degree of positive correlation. It indicates that loans (loans & advances) and net profit were found highly correlated. That means, increasing 'loans & advance' helps to increase the net profit and vice versa. Coefficient of determination was found to be 0.4733 which indicates that 47.33% of total change in profit has been determined by the 'loans and advances'. Loans and advances' has high influence on net profit of the NIB. Effective loans management helps to increase and stable the net profit of the NIB. No exception is found in case of NIB. Thus, it is logical to review the impact of various components of credit in net profit of the NIB.

Table 4.12

Relationship of Loan and Advance and Net Profit in NIC: - Correlation Matrix

	Loans & Advances	Net profit
Person correlation	1	0.2083
N	5	5

Source: Annual reports of NIC (Appendix- 1) and Calculation: Appendix-3

The table 4.12 presents the correlation coefficient between 'loans and advances' and net profit during the study period. The calculated Person's correlation coefficient was found 0.2083, which shows low degree of positive correlation. It indicates that 'loans and advances' and net profit were found low related with each other. That means, increasing 'loans and advances' helps to increase the net profit whereas decrease in 'loans and advances' decreases the net profit. Similarly, coefficient of determination was found to be 0.0433 which indicates that 4.33 % of total change in profit has been determined by 'loans and advances'. Loans (loans and advances) have high influence on net profit of the NIC Bank. Effective loans management directly effects to net profit of the NIC bank. No exception is found in case of NIC Bank. Thus, it is logical to review the impact of various components of working on net profit.

4.5 Relationship of 'Loans and Advances' and Non-Performing Loans

Effective non-performing loans directly affect the volume of the loans(Loans and Advances). It is regarded as the most important indicator. Increase non performing loans is the risky in loans management whereas weak level (decrease) of non-performing loans is signal of the better performance of the loans management. Thus, it is logical to review the valuation of non-performing loans & loans management.

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

Table 4.13

Relationship between 'Loan and Advances' and Non-Performing Loans in NIB:-

Correlation Matrix

	Loans and advances	Non-performing loan
Person correlation	1	0.386
N	5	5

Source: Annual reports of NIB (Appendix- 1) and Calculation: Appendix-4

The table 4.13 presents the correlation coefficient between non-performing loan and 'loans & advances' during study period. The calculated Person's correlation coefficient was found 0.386, which shows low degree of positive correlation. It indicates that non-performing loans and 'loans & advances' were positively related with each other. That means, increasing on performance in loans management. Coefficient of determination was found 0.149 which indicates that 14.89% of total change in loans management has been positively determined by non-performing loans.

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

Table 4.14

Relationship between Loan and Non-Performing Loans in NIC:-Correlation Matrix

	Loans and advances	Non-Performing Loans
Person correlation	1	-0.9155
N	5	5

Source: Annual Reports of NIC (Appendix- 1) and Calculation: Appendix-5

The table 4.14 presents the correlation coefficient between non-performing loan and loans (loans and advances) during study period. The calculated Person's correlation coefficient was found -0.9155, shows high degree of negative correlation. It indicates that non-performing loans and loans (loans and advances) were negatively related with each other. That means, decreasing on performance in loans management. Coefficient of determination was found 0.838 which indicates that 83.81% of total change in loans management has been negatively determined by non-performing loans.

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

4.6 Impact of Loan and Advances, Net Profit and Non-Performing Loan on Mean, S.D. (Standard Deviation) and C.V. (Coefficient of Variance)

Loan has high implication for determining net profit. Effective loan directly effect the net profit of the bank. It means that the net profit of the bank is largely depended by the loan management. Thus, it is more significance to know the impact of loans in net profit. Moreover, non-performing loan has the grate affect in the loan management and net profit of the bank.

Mean, Standard Deviation and C.V. are used for computation to find out the result/variable. The following tables are presented Mean, Standard Deviation and C.V. of the NIC and NIB Banks:

Loan and Advances

Table 4.15

Mean, S.D. & C.V. of Loan and Advances

Banks	Mean	S.D.	C.V.	C.V.%
NIC	7229.72	2305.862	0.3189	31.89
NIB	15253.774	10107.97	0.6626	66.26

Source: Annual reports of NIB and NIC (Appendix- 1)

Calculation: Appendix-6a and 6b

The table no. 4.15 shows that the mean loan and advances of NIB is higher than the NIC. As well as, the S.D. of NIB is higher than NIC. NIB has higher degree of variation in loan and advances. The C.V. of NIC is 0.3189 and the C.V. of NIB is 0.6626. This shows that the C.V. of NIC is lower than C.V. of NIB. So loan and advances of NIC is more uniform and consistent than NIB.

Net Profit

Table 4.16

Mean, S.D. & C.V. of Net Profit

Banks	Mean	S.D.	C.V.	C.V.%
NIC	136.04	331.809	2.439	243.90
NIB	387.08	195.1642	0.5041	50.41

Source: Annual Reports of NIB and NIC (Appendix- 1)

Calculation: Appendix-7a and 7b

The table no. 4.16 shows that the mean of net profit of NIC is lower than the NIB. In the same way, The S.D. of NIB is lower than NIC. NIB has higher degree of variation in net profit. The C.V. of NIC is 2.439 and the C.V. of NIB is 0.5041. This shows that the C.V.

of NIC is higher than C.V. of NIB. So the net profit of NIC is inconsistent than NIB. In other word, the net profit of NIB is more uniform than NIC.

Non-Performing Loan

Table 4.17

Mean, S.D. & C.V. of Non-Performing Loan:

Banks	Mean	S.D.	C.V.	C.V.%
NIC	142.172	37.1714	0.2614	26.14
NIB	293.228	77.3665	0.2637	26.37

Source: Annual Reports of NIB and NIC (Appendix- 1)

Calculation: Appendix-8a and 8b

The table no. 4.17 shows that the mean of non-performing loan of NIC is less than the NIB. As well as, the S.D. of NIC is less than NIB. NIB has higher degree of variation in non-performing loan. The C.V. of NIC is 0.2614 and the C.V. of NIB is 0.2637. This shows that the C.V. of NIC is less than the C.V. of NIB. So the non-performing loan of NIC is more consistent/uniform than NIB.

4.7 Analysis of Responses by Credit Customer of Banks

Table 4.20

Analysis of Responses of Credit Customers of NIB Bank

Frequencies of Responses of Credit Customers of NIB Bank							
Particulars:	Yes		No		No clear responses		Total
	No.	%	No.	%	No.	%	No.
1. Are you satisfied with the bank?	7	70	3	30	-	-	10
2. Does any bank officer visit your project site at the time of granting credit?	8	80	1	10	1	10	10
3. Do you know all information about bank policies?	5	50	5	50	-	-	10
4. Are you satisfied with the bank interest rate?	2	20	8	80	-	-	10
5. Do you want to take further credit from the bank?	7	70	1	10	2	20	10
6. Have you received any notice from bank before credit expiration date?	7	70	1	10	2	20	10
7. Do you feel that you have got full cooperation from the bank officer?	6	60	4	40	-	-	10
8 Is the services charge taken by the bank satisfactory?	5	50	4	40	1	10	10
9. Have you utilized the entire credit to the same sector as specified at the time of taking credit?	9	90	-	-	1	10	10
10.Are you thinking to switch the bank in the future?	1	10	7	70	2	20	10

- 70% of sample customer of the bank told that they were satisfied with the bank and the remaining percentage said no.
- 80% of the sample customer said bank officer visited their project site at the time of granting credit.1 customer said 'no' and the remaining customer was unknown about the bank officer visit, he said he was the representative of the credit taking group.
- Only the 50% of the customer said they were up to date with the banking polices.

- Eight customers out of ten customers were unsatisfied with the bank interest rate. Only two customers said," We are more or less satisfied".
- 7 out of 10 customers responded that they would take credit from the same bank in the near future, 1 said 'no ', and the remaining 2 customers did not responded clearly.
- 70% of the customer of the bank want to take further credit from the bank, 20% customer were uncooperative with the researcher, and remaining 10% said 'no', he said he would need credit no more.
- 6 out of 10 customers were satisfied with the bank officers' cooperation, 4 customers were unsatisfied.
- Services charge taken at the time of issuing credit is high from the view point of 40% customers.50% customers said they were more or less satisfied with the service charges. One customer was unaware of that service charge.
- 90% of the sample customers said they utilized the credit for the same sector as specified at the time of taking loan. One customer did not response clearly. Nobody said 'no'.
- Only one out of ten responded clearly that he would change the bank next time. Two customers did not wanted to response the question. Seven customers said they would attach with the bank.

Table 4.21

Analysis of Responses of Credit Customers of NIC Bank

Frequencies of Responses of Credit Customers of NIC							
Particulars:	Yes		No		No clear responses		Total
	No.	%	No.	%	No.	%	No.
1. Are you satisfied with the bank?	5	50	5	50	-	-	10
2. Does any bank officer visit your project site at the time of granting credit?	7	70	1	10	2	20	10
3. Do you know all information about bank policies?	7	70	3	30	-	-	10
4. Are you satisfied with the bank interest rate?	4	40	6	60	-	-	10
5. Do you want to take further credit from the bank?	8	80	1	10	1	10	10
6. Have you received any notice before credit expiration date?	7	70	1	10	2	20	10
7. Do you feel that you have got full cooperation from the bank officer?	7	70	3	30	-	-	10
8 Is the services charge taken by the bank satisfactory?	5	50	3	30	2	20	10
9. Have you utilized the entire loan to the same sector as specified at the time of taking loan?	8	80	1	10	1	10	10
10.Are you thinking to switch the bank in the future?	1	10	9	90	-	-	10

- 50% of sample customer of the bank told that they were satisfied with the bank and the remaining 50 %percentage said 'no'.
- 70% of the sample customer said bank officer visited their project site at the time of granting credit.1 customer said 'no' and the remaining 2 customers were unknown about the bank officer visit.
- 7 out of 10 customers said they were up to date with the banking polices.
- Out of ten customers, six customers were unsatisfied with the bank interest rate. Four customers were satisfied with the bank interest rate.

- Out of 10 customers, 8 customers were responded that they would take credit from the same bank in the near future, 1 said 'no ', and the remaining 1 customer did not respond clearly.
- 70% of the customers of the bank received notice of repaying credit from the bank, 20% customers said, "This is our first time, we do not know." One (10%) customer told that bank didn't give any notice to repaying credit.
- Out of 10 customers, 7 customers were satisfied with the bank officers' cooperation, 3 customers were unsatisfied.
- Services charge taken at the time of issuing credit is not satisfied from the view point of 30% customers. 50% customers said they were more or less satisfied with the service charges. 20% customers were unaware of that service charge.
- 8 (80% of the sample) customers said they utilized the credit for the same sector as specified at the time of taking credit. One customer (10% of the sample) did not response clearly. One customer (10% of the sample) said he had not utilized all the credits as purpose.
- Only one out of ten responded clearly that he would change the bank next time. Nine (90% of the sample) customers said they would attach with the bank.

4.8 Analysis of Responses to Questionnaire by Employees of NIB Bank & NIC

Table 4.22

Frequencies of Responses from Employees of Banks

(No. of responses = 10 employees in each bank)

Particulars	NIB		NIC	
	Yes	No	Yes	No
1. Are you satisfied with the bank?	6	4	5	5
2. Is there customer related problem in the bank?	10	-	10	-
3. Is there NRB related problem in the bank?	7	3	9	1
4. Is there credit policy related problem in the bank?	10	-	10	-
5. Do you know about interest rate on credit?	6	4	7	3
6. Do you see any changes needed in the process of recovering loan?	8	2	8	2
7. Is your organization obeying 'NRB Directives' sincerely?	10	-	10	-
8. Are you satisfied with the incentive offered by the bank to employees?	6	4	7	3
9. If you get the opportunity, would you like to switch the bank for the same post?	10	-	10	-
10.Are you satisfied with the promotion policy of the bank?	3	7	5	5

- NIB Bank: 6 employees out of 10 are satisfied with the bank where as 4 employees are dissatisfied. Regular payments of salary, working facilities and working environment are causes of their satisfaction. Main causes of dissatisfied respondents are ' not getting promotion' as well as not providing bonus to the bank staffs.

- NIC: 5 employees are satisfied and 4 employees are dissatisfied with the working institution. Quality of work life, leave facilities, automation were the main causes of their satisfaction. Dissatisfied employee said the overload of the work and not increasing any benefits as the main cause of dissatisfaction.

- NIB Bank: All the employees of the bank said there was customer related problem. At the time of evaluation of project, at the time of recovering loan, bank should face problems. Lack of good customer is another major problem.

- NIC: 10 out of 10 employees said they should face the customer related problem.

- NIB Bank: 7 employees said there is NRB related problem whereas 3 employees said 'no'. Frequent changes in rules, regulation, provisions and directives are main causes of problem.

- NIC: 9 employees said there is NRB related problem whereas 1 employee said 'no'. The reason is same as said by the NIB Bank that is frequent changes in rules; regulation, provisions and directives are main causes of problems.

- NIB Bank: All the sample 10 employees taken as sample said there is credit related problem in the bank. No repayment of credit in time by customer, slow in the legal process, increasing amount of non-performing credit are the main causes of the credit related problems.

- NIC: All of them said there is customer related problem in the bank. The causes of problem for this bank are also the same as faced by the NIB Bank.

- NIB Bank: 60% (6 out of 10 employees) employees know the interest rate of credit of the bank, 40 %(4 out of 10 employees) employees do not know the interest rate of credit of the bank. Most of the employees who work in the credit department said they were up to dated with the interest rate of the bank.

- NIC: 70% (7 out of 10 employees) employees know the interest rate of credit of the bank, 30 %(3 out of 10 employees) employees do not know the interest rate of credit of the bank. There could be seen booklet of the interest rate structure of credit on the table of most employees in the credit management. So, the employees used the same while consulting with the customers.

8 employees (out of 10 employees) of the both banks said there is necessary to change in the process of recovering loan. Lengthy and weak legal process of recovery is the main cause of the problem.

All respondents of both banks (NIB & NIC) are agreed about that their bank is obeying the 'NRB rules and directives' sincerely.

- NIB Bank: 6 employees (out of 10 employees) say that they are satisfied with the incentive of the bank. 4 employees are dissatisfied with the incentive provided by the bank. They are satisfied as they compare to low incentives paying bank and dissatisfied when they compare their incentives with the high incentives paying bank.

- NIC: 7 employees (out of 10 employees) say that they are satisfied with the incentive of the bank. 3 employees are dissatisfied with the incentive provided by the bank. Newly appointed employees are more satisfied than the old one.

Both of the banks' all sample employees answered that they will shift the bank, if and only if, they get the chance to go to high public image and more facilities providing bank. That kind of bank in their mind was Standard Chartered Bank, etc.

- NIB Bank: Three employees are satisfied with the bank promotion policy. The remaining seven out of ten is dissatisfied with the bank promoting policy. Main reason of dissatisfaction is nepotism, favoritism, open recruiting policy etc.

- NIC: Fifty percent employees are satisfied and fifty percent employees are dissatisfied with the bank's promotion policy.

4.9 Major Findings of the Study

Major findings of the study are as follows:

- Average loan and advances to total deposit ratio of NIB and NIC is 0.71 and 0.78 respectively. NIC has maintained higher loan & advances to total deposit. In this way, it shows that NIC seems to be strong to mobilize its total deposit as loan & advances. However higher ratio does not mean it is always better from the point of liquidity. All banks are capable to use more than 50% of deposit on loan and advances. If maintained this, it helps to make consistency on the profitability of the banks.

- The Average interest income to loan and advances of the NIB is 0.05. Ratio of NIB does not show clear direction. Average interest income to loan and advances ratio of NIC is 0.041 and, in terms of the average ratio NIB has best performance.

- NIB has lowest non performing loan to total loan and advances (in compare with NIC), this NIB is best performer than the NIC. Banking sector is seriously affected by the non-performing loan. All banks are not far from this above fact. If non-performing loan increases, the overall banking business will be affected. So provision amount will increase and profit will decrease. So, it is suggested that both the banks (NIB and NIC) to be sincere while granting loan and to do effective follow up for recovery of non-performing loan.

- Average loan and advances to total assets of NIB and NIC is 0.62 and 0.69 respectively. It can be concluded that the higher mean ratio indicates the good lending performance. Here NIB should focus to increase loan and advances to total asset ratio to increase lending performance. Loan and advances to current assets ratio of NIB is in increasing trend as per last two FYs. From the mean point of view, it can be said that mean ratio of NIC has highest than NIB. It can be concluded that the higher mean ratio indicates the good short term lending performance.

- During the review period, Loan loss provision of NIB and NIC is in fluctuating trend, so the fluctuating loan loss ratio indicates inefficient credit policy. Here loan loss provision to total loan and advances of NIB is in decreasing trend as per last 3 FYs, which indicates decreased volume of non-performing loans of NIB; we can say this is due to the effective credit policy and good performance of the company.

- Average interest expenses to total deposit ratio of NIC is higher than of NIB ratio. Increase ratio indicates the increased cost of deposit. Here NIB is able to collect the cheaper deposit than NIC.

- Here average interest expenses to total expenses ratio of NIC is higher than NIB. NIB has low interest expenses to total expenses ratio, it shows that decrease in cost of deposit as decrease in the interest expenses to total expenses ratio.

- In 'non-interest bearing deposits to total deposit ratio', from the mean point of view, it can be said that NIB has highest mean ratio than NIC. In this way, the deposit mixture of NIC carries the highest level of interest bearing deposits in its deposit mixture (in compare of NIB). This major portion of non-interest bearing deposit consists of current deposits and this deposit is particularly maintained by business enterprises.

- From Average point of view, it can be said that NIC has high interest income to total income (in compare with NIB). This shows that in total income of NIB and NIC, interest income contributes 68% and 77% respectively. The lowest ratio of NIB indicates its low dependency in fund-based activity. The highest ratio of NIC indicates greater dependency on fund-based activities.

- Correlation Coefficient between the loans and advances to net profit of NIB is 0.688; it indicates high degree of positive relationship between loans and net profit. This means, increasing loans helps to increase the net profit. Loans have high influence on net profit of the NIB. Effective loans management helps to increase and stable the net profit of the NIB. Correlation Coefficient between the loan and advances to net profit of NIC is 0.507; it indicates high degree of positive relation between loan and net profit. Loans have high influence on net profit of the NIB Bank. Effective loans management directly affects to net profit of the NIB Bank.

- Correlation coefficient between non-performing loan and loans of NIB is 0.386, which shows positive correlation. It indicates that non-performing loans and loans were positively related with each other. That means, decreasing on performance in loans management. Effectively loans management helps to decrease the non-performing loans.

- Correlation coefficient between non-performing loan and loans of NIC is -0.9155; it indicates that non-performing loans and loans were negatively related with each other. Coefficient of determination was found 0.838 which indicates that 83.8% of total change in loans management has been negatively determined by non-performing loans. Loan management has been negatively influenced by non-performing loans. Effectively loans management helps to decrease the non-performing loans.

- Loan gives significance impact in net profit. In addition, non-performing loan has the grate affect in the loan management and net profit of the bank. **In Loan & Advances**, the mean, S.D. and C.V. of loan and advances of NIB is higher than the NIC. NIB has higher degree of variation in loan and advances. So loan and advances of NIC is more uniform and consistent than NIB. **In Net Profit,** the mean of net profit of NIC is less than the NIB. But, the S.D. and C.V. of NIC is high than NIB. NIB has higher degree of variation in net profit as per mean. But, NIB has low degree of variation in net profit as per S.D. and C.V. So net profit of NIB is more uniform and consistent than NIC as per S.D. and C.V., but NIC is more uniform and consistent than NIB as per mean. In Non-Performing Loan, the mean, S.D. and C.V. of non-performing loan of NIB is higher than the NIC. NIB has higher degree of variation in non-performing loan. So, non-performing loan of NIC is more uniform and consistent than NIB.

- As per credit customers' satisfaction view, the credit customers' satisfaction percentages are 70% and 50% of NIB and NIC banks respectively. NIB customers' satisfaction level is high than NIC. However, credit customers of the both banks (NIC & NIB) are not fully satisfied. It indicates that the banks have some rooms for the improvement.

- In NIB Bank, 6 employees out of 10 are satisfied with the bank where as 4 employees are dissatisfied. Regular payments of salary, working facilities and working environment are causes of their satisfaction. Main causes of dissatisfied respondents are ' not getting promotion' as well as not providing bonus to the bank staffs. In NIC bank, 5 employees are satisfied and 4 employees are dissatisfied with the working institution. Quality of work life, leave facilities, automation were the main causes of their satisfaction. Dissatisfied employee said the overload of the work and not increasing any benefits as the main cause of dissatisfaction. The employees' satisfaction percentages are 60% and 50% of NIB and NIC banks respectively. NIB employees' satisfaction level is high than NIC as per answer of a question of "Are you satisfied with the banks?" It can say that the both (NIC & NIB) banks employees are not fully satisfied. The management of the both banks should think about increase their staffs' motivation level and make satisfaction them.

- Finally, it is said that bank must be more efficient. Bank always manages their resource efficiently. Bank insists on to increasing loans, advances and deposits. Deposits should be mobilized as much as possible, ultimately which enhance profit. Banking sector is affected by the non-performing loan. Banks be supposed to try to reduce the non performing loan and should always sincere while granting new loan. Effective follow up is required for recovery of non- performing loan. Along with the credit creation, bank reduces the interest rate for increasing loan and advances.

This helps them to maintain more competitive. Banks need to offer modern banking facilities and new product for the development of banking industry. Credit customer and staffs are major parts of the banks. Now credit customer and staffs are not fully satisfied. So, for the achievement of target, goals and objectives of commercial banks, bank always consider about to make satisfied their credit customers and staffs. Bank forever requires appointing right man (staff) in a right place, and requires always thought for high quality return from low cost.

CHAPTER –V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

As the final chapter of the study, this chapter briefly explains the summary of the study, tries to fetch out findings and conclusions and attempts to offer suggestions and recommendations for strengthen the financial position of the sample banks.

5.1 Summary

Development of any nation would be daydream until and unless an adequate amount of capital is invested and mobilized in productive sectors like industries trade and business of every nook and corners of the country. In fact, the development of economy of the world is result of substantial investment in such productive sector. In order to boost up the economy and the social life of any country, it is extremely essential to have a mechanism through which small amount of saving can be collected and transferred into efficient uses. Hence, finance plays a vital role and thus contributes in the economic development of nation and the banks provide such financial services.

The basis of business is burrowing from individuals, firms and occasionally government i.e. receiving deposit from them. With these resources and bank's own capital, banks disburse loan or extend credit and also invest in securities. Bank is an institution, which deals with the transaction of money. They perform several financial monetary and economic activities that are essential to accelerate the rate of economic growth of the country.

At present, 26 commercial banks have been operating in Nepal. After the adaptation of liberal policy by the government in 1990, number of banks and financial institutions are increasing day by day. In town, they have been rendering high quality banking services to the people. There is cut throat competition between banks and financial intuitions. In remote area, there have no sufficient bank. More than 50 % peoples are out of banking service. So, it has to increase enhancing access to financial services in remote areas too.

Bank must be more efficient and try to increase loans, advances and deposits. Deposits should be mobilized as much as possible, ultimately which increase profit. Banking sector is affected by the non-performing loan. Banks be supposed to try to reduce the non performing loan and should always sincere while granting new loan. Effective follow up is required for recovery of non- performing loan. Along with the credit creation, bank reduces the interest rate for increasing loan and advances. This helps them to maintain more competitive. Banks could do better by offering modern banking facilities and new product for the development of banking industry. Credit customer and staffs are major parts of the banks. Now credit customer and staffs are not fully satisfied. So, for the achievement of target, goals and objectives of commercial banks, bank always think about to make satisfied their credit customers and staffs as well.

5.2 Conclusion

This research has been undertaken to evaluate the credit management of commercial banks. Two banks Nepal Investment bank limited and Nepal Industrial & Commercial banks are under study and five year financial statements of respective banks have been used for the study. The study has been divided into five chapters which include introduction, review of literature, research methodology, data presentation and analysis and summary, conclusion and recommendation. This study mainly based in secondary data, with include published annual report and other publication of banks. Other related information was gathered from the concerned banks, Nepal Rasta Bank, Nepal Stock Exchange, Securities Board of Nepal, different websites. The data have been analyzed by using financial and statistical tools like ratio analysis, correlation coefficient, regression analysis trend analysis etc.

Average loan and advances to total deposit ratio of NIB and NIC is 0.71 and 0.78 respectively. NIC has maintained higher loan & advances to total deposit. In this way, it shows that NIC seems to be strong to mobilize its total deposit as loan & advances. However higher ratio does not mean it is always better from the point of liquidity. All banks are capable to use more than 50% of deposit on loan and advances. If maintained this, it helps to make consistency on the profitability of the banks. The Average interest income to loan and advances of the NIB is 0.05. Ratio of NIB does not show clear direction. Average interest income to loan and advances ratio of NIC is 0.041 and, in terms of the average ratio NIB has best performance. NIB has lowest non performing loan to total loan and advances (in compare with NIC), this NIB is best performer than the NIC. Banking sector is seriously affected by the non-performing loan. All banks are not far from this above fact. If non-performing loan increases, the overall banking business will be affected. So provision amount will increase and profit will decrease. So, it is suggested that both the banks (NIB and NIC) to be sincere while granting loan and to do effective follow up for recovery of non-performing loan. Average loan and advances to total assets of NIB and NIC is 0.62 and 0.69 respectively. It can be concluded that the higher mean ratio indicates the good lending performance. Here NIB should focus to increase loan and advances to total asset ratio to increase lending performance. Loan and advances to current assets ratio of NIB is in increasing trend as per last two FYs. From the mean point of view, it can be said that mean ratio of NIC has highest than NIB. It can be concluded that the higher mean ratio indicates the good short term lending performance. During the review period, Loan loss provision of NIB and NIC is in fluctuating trend, so the fluctuating loan loss ratio indicates inefficient credit policy. Here loan loss provision to total loan and advances of NIB is in decreasing trend as per last 3 FYs, which indicates decreased volume of non-performing loans of NIB; we can say this is due to the effective credit policy and good performance of the company. Average interest expenses to total deposit ratio of NIC is higher than of NIB ratio. Increase ratio indicates the increased cost of deposit. Here NIB is able to collect the cheaper deposit than NIC. Here average interest expenses to total expenses ratio of NIC is higher than NIB. NIB has low interest expenses to total expenses ratio, it shows that decrease in cost of deposit as decrease in the interest expenses to total expenses ratio. In ‘non-interest bearing deposits to total deposit ratio’, from the mean point of view, it can be said that NIB has highest mean ratio than NIC. In this way, the deposit mixture of NIC carries the highest level of interest bearing deposits in its deposit mixture (in compare of NIB). This major portion of non-interest bearing deposit consists of current deposits and this deposit is particularly maintained by business enterprises. From Average point of view, it can be said that NIC has high interest income to total income (in compare with NIB). This shows that in total income of NIB and NIC, interest income contributes 68% and 77% respectively. The lowest ratio of NIB indicates its low dependency in fund-based activity. The highest ratio of NIC indicates greater dependency on fund-based activities. Correlation Coefficient between the loans and advances to net profit of NIB is 0.688; it indicates high degree of positive relationship between loans and net profit. This means, increasing loans helps to increase the net profit. Loans have high influence on net profit of the NIB. Effective loans management helps to increase and stable the net profit of the NIB. Correlation Coefficient between the loan and advances to net profit of NIC is 0.507; it indicates high degree of positive relation between loan and net profit. Loans have high influence on net profit of the NIB Bank. Effective loans management directly affects to net profit of the NIB Bank.

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5.3 Recommendations

The findings of the study reflect both positive and negative results with respect to the financial performance of the sampled banks. But the recommendations have been presented for the improvement of the negative of the banks. As per the above conclusion the following suggestions can be concluded for the banks:

- Both of the banks should try increase the loan and advances to deposit; here they have maintained more the 50%. High ratio shows the capability of bank on mobilizing its total deposit as loan and advances.

- Banking sector is seriously affected by the non-performing loan. All banks are not far from this above fact. If non-performing loan increases, the overall banking business will be affected Banks should sincere while granting loan and to do effective follow up for recovery of non- performing loan.
- Average loan and advances to total assets of NIB is below 50%. So, NIB should focus to increase loan and advances to total asset ratio to increase lending performance.
- Banks should do a lot o exercise to more credit creation, and reducing the interest rate for increasing loan and advances. This helps them to maintain more competitive.
- Banks could do better by offering modern banking facilities and new product for the development of banking industry.
- Provision of doubtful loan should be maintained as per the directives of Nepal Rastra bank.
- Bank always needs to think about providing satisfaction to their credit customers. For this, banks should be more dynamic and creating new offers. It helps to increasing banks' loan, profit, reputation, etc.
- Human resource is a major part to operating smoothly and achieving goals of any banks. So banks should make satisfaction to their staffs. Bank have to appoint right man in a right place and appointment and promotion should be fair. Banks should try to fulfill their requirement as much as possible. Handsome money/salary may be a staff motivation factor, but, for all staffs, only handsome salary will not be motivate. Working environment, respect, working facilities (equipment/ furniture/ vehicle, etc.), job guarantee, retirement facilities, etc. will be staffs motivation factors too. Bank requires always thought for high quality return from low cost/expenditure.

- Other recommendations :-

  For the achievement of target, goals and objectives of commercial banks, from study, analysis and observation with facts it is concluded with a reasonable realistic solution. Commercial banks have to channelize their funds by gradually shifting priorities from consumer loan to the productive sector to help for capital formation in the country. Commercials banks have to improve their quality of services. They have to shift their focus from urban areas to rural areas, where they can increase their deposits and loans.

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APPENDICES

Appendix – 1

NIC Bank

	Loan and Advances	Deposits	Interest Income	NPL		Total Assets	
2003/04	3743.1	5215.8	211.51	146.59		5939.4	
2004/05	4909.4	6691.7	231.61	185.43		7508.1	
2005/06	6902.1	9223.7	239.75	179.55		10383.6	
2006/07	9128.7	10420.4	304.44	101.14		11679.3	
2007/08	11465.3	13419.7	425.4	98.16		15238.7	
	Total Expenses	**Non Interest Deposit**	**Current Assets**	**LLP**	**Interest Expenses**	**Total Income**	**Net Profit**
2003/04	282.54	366.7	1095.43	181.95	183.58	270.12	68.3
2004/05	349.17	296.59	1100.26	197.64	225.99	292.5	113.7
2005/06	434.48	444.81	1102.65	246.15	340.22	314.83	96.6
2006/07	592.25	591.8	762.76	187.25	421.37	410.91	158.5
2007/08	759.81	726.43	1352.34	200.65	505.99	546.34	243.1

NIB Bank

	Loan and Advances	Deposits	Interest Income	NPL		Total Assets	
2003/04	7338.56	11524.68	405.2	181.4		13255.5	
2004/05	10453.16	14254.57	532.25	280.8		16274	
2005/06	13178.15	18927.3	681.79	272.5		21732.08	
2006/07	17769.1	24488.85	899.45	421.97		28073.51	
2007/08	27529.3	34451.72	1202.17	309.47		39405.95	
	Total Expenses	**Non Interest Deposit**	**Current Assets**	**LLP**	**Interest Expenses**	**Total Income**	**Net Profit**
2003/04	591.14	1787.08	5399.3	206.3	326.202	587.51	152.67
2004/05	671.53	1205.47	5414.66	325.1	354.549	791.07	232.14
2005/06	852.7	1984.14	8008.38	404.9	490.947	970.48	350.53
2006/07	1146.66	3745.73	9310.16	482.67	685.53	1314.23	501.39
2007/08	1594.45	2546.69	10628.96	532.65	992.158	1758.24	698.67

Source: Annual Reports of NIB and NIC

Appendix-2
Correlation of NIB of Loan and Advance and Net Profit

FY	Loan and advance (x)	Net Profit(y)	$X=(x-\bar{x})$	$Y=(y-\bar{y})$	XY
2003/4	7338.56	152.67	-7915.214	-234.41	1855405.3137
2004/5	10453.16	232.14	-4800.614	-154.94	743807.1331
2005/6	13178.15	350.53	-2075.624	-36.55	75864.0572
2006/7	17769.1	501.39	2515.326	144.31	287526.91506
2007/8	27529.3	698.67	12275.526	311.59	3824931.14639
	$\sum X$= 76268.87	$\sum X$= 1935.4			$\sum xy$=6787534.5655

$\bar{X} = \frac{\sum x}{n} = \frac{76268.87}{5}$ = 15253.774

$\bar{Y} = \frac{\sum x}{n} = \frac{1935}{5}$ = 387.08

$$r = , \frac{xy}{N\pm_x \pm_y}$$

where

$x = x - \bar{x}$

$y = y - \bar{y}$

$= \frac{6787534.5655}{5 \times 10107.97 \times 195.1642}$ = 0.688 =0.69

$r^2 = 0.476$

r^2 in percentage = 47.60%

Appendix-3

Correlation of NIC Bank of Loan and Advance and Net Profit

FY	Loan and advance (x)	Net Profit(y)	$X=(x-\bar{x})$	$Y=(y-\bar{y})$	XY
2003/4	3743.1	68.3	-3486.62	-67.74	236183.6388
2004/5	4909.4	113.7	-2330.32	-22.34	51835.9488
2005/6	6902.1	96.6	-327.62	-39.44	12921.3328
2006/7	9128.7	158.5	1898.98	22.46	42651.0948
2007/8	11465.3	243.1	4235.58	107.06	453461.1948
	$\sum X$= 38148.6	$\sum X$= 680.2			$\sum xy$=797053.206

$\bar{X} = \frac{\sum x}{n} = \frac{36148.6}{5} = 7229.72$

$\bar{Y} = \frac{\sum x}{n} = \frac{680.2}{5} = 136.04$

$$r = \frac{xy}{N \pm_x \pm_y}$$

where

$x = x - \bar{x}$

$y = y - \bar{y}$

$$= \frac{797053.206}{5 \times 2305.862 \times 331.809} = \frac{797.53.206}{3825528.82} = 0.20835$$

r^2 =0.0433

r^2 in percentage = 4.33%

Appendix-4

Correlation of NIB of Loan and Advance and Non-performing Loan of NIB

FY	Loan and advance (x)	Non-Performing Loan (y)	$X=(x-\bar{x})$	$Y=(y-\bar{y})$	XY
2003/4	7338.56	181.4	-7915.214	-111.828	885142.551
2004/5	10453.16	280.8	-4800.6	-12.428	59661.856
2005/6	13178.15	272.5	-2075.624	-20.728	34023.5342
2006/7	17769.1	421.97	2515.326	128.742	323828.0998
2007/8	2752.3	309.47	12275.526	16.242	199379.093
	$\sum X$= 76268.87	$\sum X$= 1466.14			$\sum xy$= 1511035.134

$$\bar{X} = \frac{\sum x}{n} = \frac{76268.87}{5} = 15253.774$$

$$\bar{Y} = \frac{\sum x}{n} = \frac{1466.14}{5} = 293.228$$

$$r = , \frac{xy}{N \pm_x \pm_y}$$

where

$x = x-\bar{x}$

$y = y-\bar{y}$

$$= \frac{1511035.134}{5 \times 10107 \times 77.3665} = \frac{1511035.134}{3910091.3050} = 0.386$$

r^2 =0.1489

r^2 in percentage = 14.8%

Appendix-5

Correlation of Loan and Advance and Non Performing Loan(NPL) of NIC Bank

FY	Loan and advance (x)	Non Performing Loan (y)	X=(x-$\bar{x}$)	Y=(y-$\bar{y}$)	XY
2003/4	2743.1	146.59	-3486.62	4.418	-15403.887
2004/5	4909.4	185.43	-2320.32	43.258	-100372.402
2005/6	6902.1	179.55	-327.62	37.378	-12245.78
2006/7	9128.7	101.14	1898.98	-41.032	-77918.947
2007/8	11465.5	98.16	4235.58	-44.012	-186416.346
	$\sum$ X= 36148.6	$\sum$ X= 710.87			$\sum$ xy=-392357.362

$\bar{X} = \frac{\sum x}{n} = \frac{36148.6}{5} = 7229.72$

$\bar{Y} = \frac{\sum x}{n} = \frac{71087}{5} = 142.172$

$$r = , \frac{xy}{N\pm_{x}\pm_{y}}$$

where

x= x-$\bar{x}$

y= y-$\bar{y}$

$$= \frac{-392357.362}{5\times 2305.862\times 37.1714} = \frac{-392357.362}{428560.5937} = -0.9155$$

$r^2 = 0.838$

r^2 in percentage = 83.88%

Appendix-6 a

Calculation of S.D., C.V and Mean ($\bar{X}$) of NIB on Loan and advance of NIB

Year	X (Loan and adv.)	X^2
2003/4	7338.56	53854462.8736
2004/5	10453.16	109268553.985
2005/6	13178.15	173663637.442
2006/7	17769.1	315740914.81
2007/8	27529.3	757862358.49
	$\sum x$=76268.87	$\sum x^2$= 65257569.108

$$\bar{X} = \frac{x}{n} = \frac{76268.87}{5} = 15253.774$$

$$\pm = \sqrt{\frac{\sum x^2}{N} - \left(\frac{\sum x}{N}\right)^2}$$

$$= \sqrt{\frac{65257569.108}{5} - \left(\frac{76268.87}{5}\right)^2}$$

$$= \sqrt{130505513.821 - (15253.74)^2}$$

$$= \sqrt{130505513.821 - 232676583.987}$$

$$= \sqrt{-102171070.166}$$

$$= 10107.97$$

$$\text{C.V. } \frac{\pm}{\bar{X}} = \frac{10107.97}{15253.4}$$

$$= 0.6626$$

C.V. Percentage= 66.26%

Appendix-6 b

Calculation of S.D. C.V. and Mean ($\bar{X}$) of Loan and Advance of NIC

FY	X (Loan and adv.)	X^2
2003/4	3743.1	14010797.61
2004/5	4909.4	24102208.36
2005/6	6902.1	47638984.41
2006/7	9128.7	83333163.69
2007/8	11465.3	131453104.09
	$\sum x$=36148.6	$\sum x^2$= 287929258.16

$$\bar{X} = \frac{x}{n} = \frac{36148.6}{5} = 7229.72$$

$$\pm = \sqrt{\frac{\sum x^2}{N} - \left(\frac{\sum x}{N}\right)^2}$$

$$= \sqrt{\frac{287929258.16}{5} - \left(\frac{36148.6}{5}\right)^2}$$

$$= \sqrt{575851.632 - (7229.72)^2}$$

$$= \sqrt{575851.632 - 52268851.278}$$

$$= \sqrt{5317000.354}$$

$$= 2305.8621$$

$$\text{C.V.} = \frac{\pm}{\bar{X}} = \frac{2305.862}{7229.72}$$

$$= 0.3189$$

C.V percentage= 31.89%

Appendix-7 a

Calculation of S.D., C.V. and Mean ($\overline{X}$) of Net Profit of NIB

FY	X(Net Profit)	X^2
2003/4	152.67	23308.1289
2004/5	232.14	53888.9796
2005/6	350.53	122871.2809
2006/7	501.39	251391.9321
2007/8	698.67	488139.7689
	$\sum x$=1935.4	$\sum x^2$= 939600.088

$\overline{X} = \frac{\sum x}{N} = \frac{1935.4}{5} = 387.08$

$\pm \quad = \sqrt{\frac{\sum x^2}{N} - (\frac{\sum x}{N})^2}$

$= \sqrt{\frac{939600.008}{5} - (\frac{1935.4}{5})^2}$

$= \sqrt{187920.0176 - (387.08)^2}$

$= \sqrt{187920.0176 - 149830.926}$

$= \sqrt{38089.0912}$

= 195.1642

C.V.= $\frac{\pm}{\overline{X}} = \frac{195.1642}{387.80}$

C.V. percentage = 50.41%

Appendix-7 b

Calculation of , S.D., C.V. and Mean ($\overline{X}$) of Net Profit of NIC

Year	X(Net Profit)	X^2
2003/4	68.3	4664.89
2004/5	113.7	12927.69
2005/6	96.6	9331.56
2006/7	158.5	25122.25
2007/8	243.1	890976.1
	$\sum x$=680.2	$\sum x^2$= 643022.49

$\bar{X} = \frac{\sum x}{N} = \frac{680.2}{5} = 136.04$

$\pm \quad = \sqrt{\frac{\sum x^2}{N} - (\frac{\sum x}{N})^2}$

$= \sqrt{\frac{643022.49}{5} - (\frac{680.2}{5})^2}$

$= \sqrt{128604.498 - (136.04)^2}$

$= \sqrt{128604.498 - 18506.8816}$

= 331.809

C.V. $= \frac{\pm}{\overline{X}} = \frac{331.809}{136.04}$

= 2.439

C.V. percentage= 243.9%

Appendix-8 a

Calculation of S.D., C.V. and Mean ($\bar{X}$) of Non-Performing Loan of NIB

Year	X(Non-Performing Loan)	X^2
2003/4	181.4	32905.96
2004/5	280.8	78848.64
2005/6	272.5	74256.25
2006/7	421.97	178058.68
2007/8	309.47	95771.6809
	$\sum x$=1466.14	$\sum x^2$= 459841.2109

$$\bar{X} = \frac{\sum x}{N} = \frac{1466.14}{5} = 293.228$$

$$\sigma = \sqrt{\frac{\sum x^2}{N} - \left(\frac{\sum x}{N}\right)^2}$$

$$= \sqrt{\frac{459841.2109}{5} - \left(\frac{1466.14}{5}\right)^2}$$

$$= \sqrt{91968.242 - (293.228)^2}$$

$$= \sqrt{91968.242 - 85982.659}$$

$$= \sqrt{5985.5820}$$

$$= 77.3665$$

$$\text{C.V.} = \frac{\sigma}{\bar{X}} = \frac{77.3665}{293.288}$$

$$= 0.2637$$

C.V. Percentage = 26.37%

Appendix-8 b

Calculation of S.D., C.V. and Mean ($\bar{X}$) of Non-Performing Loan of NIC

Year	X(Non-Performing Loan)	X^2
2003/4	146.59	21488.6281
2004/5	185.43	34384.2849
2005/6	179.55	32238.2025
2006/7	101.14	10229.2996
2007/8	98.16	9635.3856
	$\sum x$=710.87	$\sum x^2$= 107975.8007

$$\bar{X} = \frac{\sum x}{N} = \frac{710.87}{5} = 142.174$$

$$\sigma = \sqrt{\frac{\sum x^2}{N} - \left(\frac{\sum x}{N}\right)^2}$$

$$= \sqrt{\frac{107975.8007}{5} - \left(\frac{710.87}{5}\right)^2}$$

$$= \sqrt{21595.1614 - (142.174)^2}$$

$$= \sqrt{21595.1614 - 20213.446276}$$

$$= \sqrt{1381.715124}$$

$$= 37.171428$$

$$\text{C.V.} = \frac{\sigma}{\bar{X}} = \frac{37.171428}{142.174}$$

= 0.2614

C.V. percentage = 26.145%

Appendix - 9

Research Questionnaire

I hereby request you to fill up the questionnaire designed for proposed survey of the surveyor. The precious views and opinions from your side will be helpful for facilitating the research entitled ***"Credit Management of Commercial Banks with reference to NIB And NIC Bank".*** The views expressed by you here in the questionnaire will be used for the research purpose only and kept confidential.

Name (Optional) :
Address :
Qualification :
Occupation :

1. Are you satisfied with the bank?
2. Does any bank officer visit your project site at the time of granting credit?
3. Do you know all information about bank policies?
4. Are you satisfied with the bank interest rate?
5. Do you want to take further credit from the bank?
6. Have you received any notice before credit expiration date?
7. Do you feel that you have got full cooperation from the bank officer?
8. Is the services charge taken by the bank satisfactory?
9. Have you utilized the entire credit to the same sector as specified at the time of taking credit?

10. Are you thinking to switch the bank in the future?

Thank You For Your Kind Cooperation!