

**A STUDY ON LOAN ADVANCES AND DEPOSITS  
OF EVEREST BANK LTD**

**By:**

**PUNAM KUMARI YADAV**

**R.R. Multiple Campus Janakpur Dham**

**T. U. Regd. No. :7214-612-2003**

**Campus Roll No. : 37/065-67**

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***In partial fulfillment of the requirement for the Degree of***

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# **RECOMMENDATION**

This is to certify that the Thesis

Submitted by

**PUNAM KUMARI YADAV**

Entitled

**“A STUDY ON LOAN ADVANCES AND DEPOSIT OF EVEREST BANK LTD”**

Has been prepared as approved by this department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

.....

**Mr.Saroj Kumar Thakur**  
**(Thesis Supervisor)**

.....

**Prof Dr. Shailendra Labh Karna**  
**(Chairman ,Research Committee)**

.....

**Mr.Jugeshwar Sah**  
**(Asst. Campus Chief)**

.....

**Mr. Vishnu Deo Yadav**  
**(Campus Chief)**

# VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis

Submitted by

***PUNAM KUMARI YADAV***

Entitled:

**“A STUDY ON LOAN ADVANCES AND DEPOSIT OF EVEREST BANK LTD”**

And found thesis to be original work of the student and written

according to the prescribed format. We recommend the thesis

to be accepted as partial fulfillment of the requirement for

**Master’s Degree in Business Studies (MBS)**

**Viva-Voce Committee**

Chairman, Research Committee .....

Member (Thesis Supervisor) .....

Member ( External Expert) .....

Member (Internal Expert) .....

# Faculty of Management

R. R. Multiple Campus Janakpur Dham

## DECLARATION

I hereby declare that the work reported in this thesis entitled “**A STUDY ON LOAN ADVANCES AND DEPOSIT OF EVEREST BANK LTD**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master Degree in Business Studies (M.B.S.) under the Supervision of **Mr Saroj Kumar Thakur** of R.R. Multiple Campus Janakpur Dham.

.....  
**PUNAM KUMARI YADAV**

**Researcher**

**R. R. M. Campus Janakpur**

**T. U. Regd. No. :7214612-2003**

**Campus Roll No. : 37/065-6**

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Researcher

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## ABBREVIATIONS

ABBS	:	Any Branch Banking System
ADB	:	Agriculture Development Bank
ATM	:	Automated Teller Machine
BCBS	:	Basel Committee on Banking Supervision
BIS	:	Bank for International Settlement
BOD	:	Board of Directors
CBs	:	Commercial Banks
CBS	:	Core Banking Solution
CDR	:	Credit Deposit Ratio
CEO	:	Chief Executive Officer
CIB	:	Credit Information Bureau
CIC	:	Credit Information Centre
CRM	:	Credit Risk Management
CRR	:	Cash Reserve Ratio
DGM	:	Deputy General Manager
DPS	:	Dividend Per Share
DRT	:	Debt Recovery Tribunal
DSCR	:	Debt Service Coverage Ratio
EBL	:	Everest Bank Limited
ED	:	Executive Director
EPS	:	Earning Per Share
FINO	:	Financial Inclusion Network Operations
FIs	:	Financial Institutions
FY	:	Fiscal Year
GDP	:	Gross Domestic Product
GON	:	Government of Nepal
IT	:	Information Technology
LC	:	Letter of Credit
MOU	:	Memorandum of Understanding

MPBF	:	Maximum Permissible Bank Finance
NBA	:	Non- Banking Assets
NPA	:	Non Performing Assets
NRB	:	Nepal Rastra Bank
P & L A/c	:	Profit and Loss Account
PNB	:	Punjab National Bank
RBB	:	Rastriya Banijya Bank
NSBIL	:	Nepal SBI Bank Limited
SCBNL	:	Standard Chartered Bank Nepal Limited
SCT	:	Smart Choice Technology
SLR	:	Statutory Liquidity Ratio
T.U.	:	Tribhuvan University
TSA	:	Technical Service Agreement
WADR	:	Weighted Average Deposit Rate
WALR	:	Weighted Average Lending Rate

# CHAPTER – I

## INTRODUCTION

### 1.7 Background of the Study

A bank is that institution or individual who is always ready to receive money on deposits to be returned against the cheque Of their deposits.

A Bank is an establishment which makes to individuals as advances of money as may be required by them & returned back from them when they do not require by then for use

The economic development of any nation is highly dependent on the various industrial sectors. This industrial sector comprises public sectors, manufacturing enterprises, tourism, transportation, construction, consulting services, trade, and services. The smooth operations of these sectors certainly have positive results over the economic growth and development of the nation. The failure of only one sector may also retard the economic growth. The level of contribution of these sectors on Gross Domestic Product (GDP) should be increased year by year. The contribution of financial and consultancy services in overall GDP cannot be overlooked. Agriculture sector has dominated other sector as almost 80% of the people rely on agriculture for their existence. The service sector especially financial sector has occurred significant position in comparison to others. The sector has vital role in smooth running of the economic activities. It is the fact that the existence of financial sector in the development of the capital market as well as money market is remarkable. Moreover, the sector has been able to lure a large community to invest in equity shares through primary & secondary market. Whatever may be the position of the sector, one can definitely state that it is one of the major catalysts in removal of backwardness and poverty from the nation. The financial and consultancy services, one of the important industrial sectors comprises; commercial banks, development banks, rural development banks, agriculture development banks, finance companies, co-operative with limited banking transactions.

“Financial Institutions (FIs) are very important in any economy. Their role is similar to that of blood arteries in the human body, because FIs pump financial resources for economic growth from the depositories to where they are required. Commercial banks

and FIs are key providers of financial information to the economy. They play even a most critical role to emergent economies where borrowers have no access to capital markets. There is evidence that well functioning commercial banks accelerate economic growth, while poorly functioning commercial banks impede economic progress and exacerbate poverty” Integrated and speedy development of the country and its financial position of the people are possible only when competitive banking service with its effective Loan & Advances reaches nooks and corners of the country. In the developing country like Nepal, there is always lack of financial resources not only because of its real absence but because of the available resources not properly mobilized and not fully utilized for the productive purpose; in this course the commercial banks play a vital role. In modern times, commercial banks, which are facilitated, regulated and supervised by the Central bank, confined them and concentrated in their activities of fulfilling the financial needs of their customers. In the present scenario, Nepalese banking system is evolving itself as a powerful instrument of planning and economic growth of all the developed and underdeveloped sectors. The scope and scale of banking too have undergone substantial change in response to the saving and credit needs of people.

Bank came into existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sector and causing an overall economic development. The bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society that they are serving.

While talking about financial system there are two important aspects of financial deepening and financial repression. Financial repression is defined as a situation where the government and/ or central bank’s regulations distort the operation of financial market. In other words, it means banks are dictated by the central bank and/or government not to charge more than certain amount of interest and restriction on other activities too. The indicators of such situation are ceiling on the nominal interest rate, mandatory investment in government paper, imposition of reserve requirement limiting their ability to lend and mandatory directed credit in priority and deprived sector. Similarly, financial deepening is defined as the situation where banks are allowed to charge interest on the prevailing market rate. There is negligible restrictions imposed by the central bank and commercial banks have been given total freedom on their activities.

## **Evolution of Loan & Advances System in Nepal**

While talking about Evolution of Loan & Advances in Nepal, due attention should be paid to the banking history in Nepal. The institutionalized development Loan & Advances has been developed only after establishment of commercial banks. The Loan & Advances Management of financial institutions comprises two activities – Loan Appraisal and Loan Administration. Under the Loan appraisal function, the pre-sanction activities are performed whereas post-sanction activities are studied under Loan administration. The purpose of Loan & Advances is to ensure the end use of funds loaned to the borrower for a specific purpose and repayment in the end of loan period.

Though the modern banking institution has a very recent origin in Nepal, some crude bank operations were in practice even in the ancient times. However, in the absence of any regulatory measures, the unscrupulous moneylenders were known to have charged exorbitant rates of interest and other extra dues on loans advanced. These inconveniences led the Prime Minister Ranoddip (1877-1885) to establish Tejarath Adda in Kathmandu, which was a government financial institution supplying Loan to the people at 5% rate of interest against security of gold, silver and ornaments. The government servants were also entitled to take loans from Tejarath,Adda repayable from their salary at the source. During the time of Chandra Shamsher (1901-1929),Loan facilities of Tejarath Adda were extended to some other parts of the country by opening its branches. It is believed that the so-called well-to-do persons used to take loans from private money lenders even at higher rate of interest than those from the government institutions, for they were not prepared to disclose in public anything that was likely to affect their prestige. When they were approached by this type of clients, the professional money lenders used to raise loans in their own names from Tejarath Adda at 5% rate of interest against gold and ornaments, which were not their own but brought to them by their clients as security for the loans to be financed from the funds raised from Tejarath Adda itself. Thus, without any resources of their own and without any risks on their own part, the money lenders could manage very well to exploit their especial type of clients just playing the role of middlemen between their clients and the government institution. To control spurious rates of interest and also to curb unfair practice on the part of the unscrupulous moneylenders, legislative measures were also taken.

Later Tejarath Adda was replaced by the first commercial bank, Nepal Bank Limited, during the time of Juddha Shamsheer. The establishment of Nepal Bank Limited is a great landmark in the history of modern banking as it has solved many problems and difficulties which the trade and commerce have been facing. This bank performed commercial and some of the central banking functions, as there was no central bank until Nepal Rastra Bank was established.

In 1956, the central bank of Nepal, Nepal Rastra Bank was established. It was established with the purpose of developing Banking system in the country to promote industry, trade and agriculture as well as to circulate Nepalese currency all over the country. In 2022 B.S., the second commercial bank of Nepal, Rastriya Banijya Bank, was established with hundred percent equity holding of the government. These two, NBL & RBB, commercial banks enjoyed monopoly till 2041 B.S. With the first joint venture bank, Nepal Arab Bank Limited coming in the scene the monopoly was broken and it paved the way for new joint venture banks to operate in the country.

Similarly, finance companies came into operation under Finance Company Act 2042, Nepal Industrial Development Corporation came into operation under Nepal Industrial Development Corporation Act 2046, Co-operatives came into operation under Co-operative Act 2048, and Development Banks came into operation under Development Bank Act 2052. Latter on, a unified umbrella act “Bank and Financial Institutions Act 2063” was introduced and issued on Kartik 2063. This act has surpassed the existing Agriculture Development Bank 2024, Commercial Banks Act 2031, Finance Company Act 2042, Nepal Industrial Development Corporation Act 2046, and Development Bank Act 2052. Now, the activities of banks including finance companies are guided by the bank and financial institutions act 2063. The NRB, being a supervisory body, has been issuing directives to control the activities of the CBs.

### **Introduction to Everest Bank Limited**

Everest Bank Limited (EBL), which started operations from October 18, 1994 has been established with the objective of extending professionalized banking services to various sections of the society in the kingdom of Nepal and thereby contribute to the economic development of the country.

EBL joined hands with Punjab National Bank (PNB), India as its joint venture partner in 1997. PNB is the latest nationalized bank in India having 113 years of banking history with more than 4500 offices all over India. Of which 2000 branches are interconnected. PNB has over 4000 ATMs spread across India. PNB is providing top management services to EBL under a Technical Services Agreement (TSA).

Drawing its strength from PNB, EBL has set up strong systems and procedures. EBL thus has the advantage of the banking expertise and financial strength of its partner. EBL has one of the largest networks among the private sector banks in Nepal having 43 branches across the nation, 33 ATM outlets and over 400 correspondents across the globe. The branches are connected through Anywhere Branch Banking System (ABBS) through which the customers can withdraw and deposit money from any branches of EBL. EBL Debit Card can also be used in India through ATMs of PNB.

Based on the audited financial results of FY 2067/068, the Bank's operating profit is Rs. 1516.7 million and net profit is Rs. 931.3 million registering a growth of 11.96% over the previous year. The Bank's credit(Loans& Advances) recorded a growth of nearly 12.45% over the last year reaching a figure of Rs 31661.8 million. Similarly, the total deposits of the Bank posted a growth of 11.36 % amounting to Rs 41127.90 million over the preceding year. The bank has one of the lowest non-performing assets (NPA-0.34%) among the commercial banks in Nepal except those banks which are come in operation recently.

Everest Bank limited is the pioneer and front-runner in retail lending introducing Direct Housing Finance, Vehicle Loan Scheme, Education Loan Scheme, and Loan against future lease rentals and scheme for professionals as also the loan against Lease Rentals of the properties.

Not to be left behind in technological advancement and up gradation, EBL has taken conscious decision to keep pace with the latest technology applicable to the banking sector. It has introduced 365 days banking service and in association with Smart Choice Technology (SCT) is providing ATM services for its customers. EBL Debit Card can be accessed at more than 340 ATMs and over 1000 Point of Sales across the nation. EBL ATM Card can be used at more than 4000 ATMs of PNB in India. The bank is also managing the SCT ATM at Tribhuvan International Airport for the convenience of the

customers and the travelers, the first and the only bank in Nepal to place ATM outlet at International Airport.

EBL is playing a pivotal role in facilitating remittance to and from across globe. It has introduced own remittance package “Everest Remit”. Being the first Nepalese bank to open a representative office in Delhi, India, the Nepalese in India can open account in Nepal from the designated branches of Punjab National bank and remit their savings economically through banking channels to Nepal. The bank has a Drafts Drawing Arrangement with 4000 branches of PNB all over India.

With an aim to help Nepalese citizens working abroad, the bank has entered into arrangements with banks and finance companies in different countries which enable quick remittance of funds by the Nepalese citizens in countries like UAE, Kuwait, Bahrain, Qatar, Saudi Arabia, Malaysia, Singapore and U K. EBL has deputed its staffs on Malaysia, Saudi Arabia, Qatar who will help Nepalese workers working there to remit money in Nepal.

With the help of modern technology, EBL has recently started Branchless Banking aiming to spread the banking services to people living in rural areas of Nepal. Bank has technical tie up with FINO (Financial Inclusion Network Operations), India. People can do their banking transactions with the help of a simple machine by opening accounts through local agents appointed by bank in the villages. At present, the product has been launched at Baglung (Hill), Nepalgunj (Terai), and Bhaktapur (Valley). Large numbers of villagers are benefited by this facility.

### **Capital Structure**

The paid-up capital of EBL is Rs 1391.57 million (as at FY 2067/068) which includes Rs 111.96 million last year issued bonus shares. Issued capital is Rs 1281.40 million. The paid up capital comprises 1.60 million convertible preference shares with 7% dividend rate. The capital reserve is Rs 803.45 million and retained earning is Rs 36.09 million.

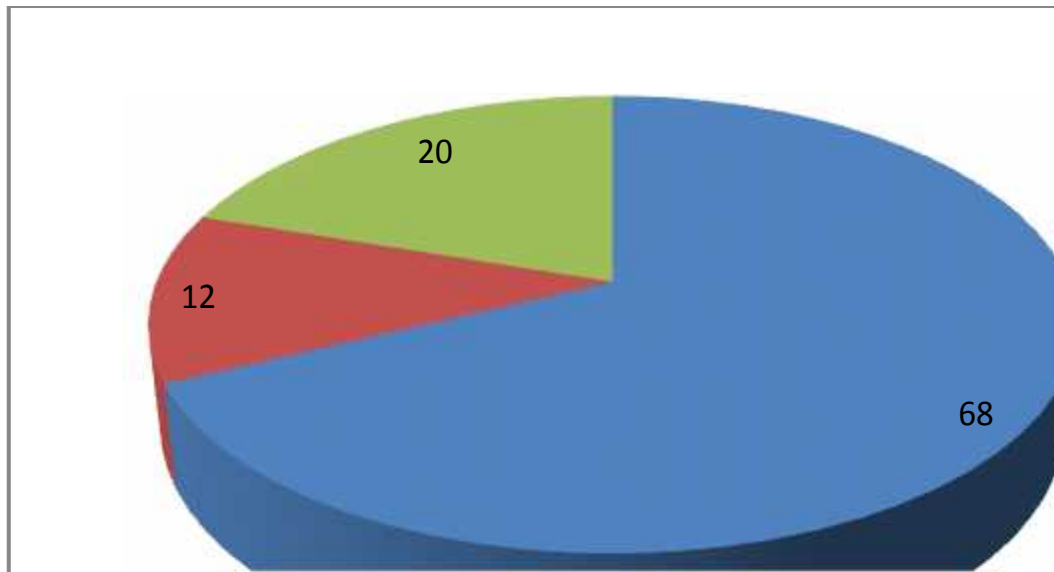
### **Share Holding Pattern**

The present share holding pattern of EBL is as follows.

**Table 1.1**  
**Share holding Pattern of EBL**

S.N	Sources	Percentage
1	Nepalese Promoters( Individual)	68
2	General Public & other Institution	12
3	Punjab National Bank (PNB)	20

**Figure 1.1**  
**Share Holding Pattern of EBL**



## 1.2 Statement of the Problems

In recent years, the liquidity position of banking sectors is very tight. This liquidity crunch has starved the productive sector of the economy and has also increased the service cost of bank loan.

The studies reveal the increasing trend of Loan flows in the economy. But increase in Loan doesn't solely determine the progress of commercial banks until and unless if there is no any safety measure and policies adopted by the bank to control the Loan and its recovery process. The increasing trend of lending/credit is meaningless for the commercial banks and may become threat rather than opportunities.

Increasing number of CBs and branches in our small country has also posed a serious problem of unhealthy competition. Many banks and FIs are trying to sell their product to the limited customers. This has not only affected the stable growth of the banks but also weakened the confidence of general public in the banking service. The unstable political situation has badly affected the loan recovery process of the FIs. The government has not been able to formulate and implement policies and guidelines for new and innovative products. Due to weak presence of the government, the loan recovery process is not being effective.

Some other issues relating to Loan & Advances are:

1. What are the procedures of lending? And status of lending of the Everest Bank Ltd.?
2. What are the major factors affecting Loan policy?
3. How the bank is operating its Loan & Advances in this competitive market?
4. What is the status of Loan administration and Loan recovery process of the bank?
5. How the non-performing Loan is affecting in Loan & Advances ? Is writing off of non-performing assets satisfactory?
6. Is the legal process in recovery of Loan effective?

### **1.3 Objectives of the Study**

The financial institutions play very vital role in the economic development of the nation. The efficient performance of the banks and financial institutions give shape to economic indicators of the nation. The failure of these sectors will certainly ruin the other sector of the economy. The hurdles lying in this sector should be identified as far as possible so that it could run smoothly. The study is aimed to find those all obstacles lying and furnish them in relative to the understudied banks.

Therefore, the main objective of the study is to evaluate and find out the Loan & Advances and Deposit position of the Everest Bank Limited. The study try to identify the strengths and weaknesses associated in them. Besides, the above general objective, some specific objectives of the study are:

- 1) To see the Loan Advances & Deposit practice followed by Everest Bank limited

- J To see how the bank is following the norms of Nepal Rastra Bank with regard to loan/Deposit.
- J To analyze the relationship between the deposits collected and loan distributed by the bank.
- J To analyze the proportion of Non- performing loan to total loan of EBL.

#### **1.4 Significance of the Study**

Banking sector plays an important role in the economic development of the country. Commercial Banks are one of the vital aspects of the vital resources in the need sectors. Bank came into existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sector and causing an overall economic development. The bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society they are serving.

It has become imperative for commercial banks to strengthen the Loan function due to the increased competition and emergence of new types of risks in the financial sector. Therefore, in the present scenario efficient project appraisal is of great importance as it can check and prevent induction of weak account to the banks loan portfolio.

In sum, its importance can be presented as mentioned below:

- a) **Individual:** Any individual, interested to know about the banking sector of the nation, finds a variety of information in the study. The study will supply extremely valuable facts about the banks to the depositor, loan clients, and shareholders and even to the students.
- b) **Organization:** Every organization which is interested to know about the financial condition of the Everest bank before initiating any kind of deal. The corporate client of the respective banks must know the financial situation of the banks. Every bank has a keen concern with their competitor's financial statements as it plays a vital role in plan, policy and strategy formulation.
- c) **Society and Government:** Every government's prime responsibility is to regulate directly and indirectly to the organization operating the territory of the nation. The government has to monitor that whether the organization are exploiting the society or not. For it, it has to go through the financial statement of the organization. The

study, that has analyzed the financial data of the Everest Bank Limited bank, will be benefited to the society and the government to some extend.

## **1.5 Limitation of the Study**

This mini-research, conducted within a limited time constraint, is simply carried out for the partial fulfillment of the requirement of MBS. Every study has to be carried out under the domain of certain areas to make it meaningful. This study has also laid some hypothetical boundaries that are as below:

- ) The study mainly focuses on the importance and role of the Loan and Advances of Everest bank Limited.
- ) The study is associated only to Loan Advances and Deposits of Everest Bank Limited.
- ) In this study, only selected financial tools and techniques are used.
- ) The data of last six years i.e. FY 2062-2068 are taken for our purpose so the conclusions are drawn on basis of the period.
- ) The study is limited to only Everest Bank Limited. Findings or outcomes of the study may not be generalized with any other banks.

## **1.6 Organization of the Study**

The dissertations are found to be difficult to understand and create confusion if it has not partition into various heads. For our convenience, the entire thesis has been segregated into five parts. They are mentioned as below:

**Introduction:** Chapter first has been entitled as "Introduction" which deals with the general ideas about the banking sectors, general background of the study, Introduction of EBL, statement of the problem, significance of the study, objectives of the study, research questions, scope of the study.

**Literature Review:** Chapter second is "Literature Review" which gives the knowledge about the literature that has been studied during the course of the preparation of the thesis. This part portrays about the literature available in the study. It includes review of NRB articles, review of related studies, review of financial journals & economic articles and review of books.

**Research Methodology:** Third chapter is "Research Methodology" which comprises all the tools and techniques those have been adopted in the study. This chapter furnishes information about the research design, source of data, population & samples, method of data analysis employed in the study.

**Data Presentation and Analysis:** In the fourth chapter entitled "Data Presentation & Analysis", the data collected from the various sources are presented and processed it in readable and understandable form. The graphs, bar diagram, pie chart are drawn from the data obtained in this part of the study.

**Summary, Conclusion, and Recommendation:** The last chapter, i.e. fifth, is "Summary, Conclusion, Major Findings & Recommendation" in which the entire study is summed up. The conclusions acquired from the study are presented in the part of the chapter. The major findings, for which the study had been carried, are also the subject matter of this chapter. After conducting the study, the researcher provides extremely vital recommendations to the scholars, relevant organizations and government in this part. Besides above chapters, bibliography and appendixes are also included.

# **CHAPTER - II**

## **LITERATURE REVIEW**

The review of literature is a crucial aspect of planning of the study. The main purpose of literature review is to find out what works have been done in the area of research problem under the 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 Framework
- ) Review of related studies

### **2.1 Conceptual Framework**

The review of textbooks and other reference materials such as Newspapers, Magazines, Research Articles, Journals and past Thesis have been included in this topic.

For most banks, loans account for half or more of their total assets and about half to two-third of their revenues. Moreover, risk in banking tends to be concentrated in the loan portfolio. When a bank gets into serious financial trouble, its problems usually spring from loans that have become uncollectible due to mismanagement, illegal manipulation of loans, misguided lending policies, or an unexpected economic downturn. No wonder, then, when examiners appear at a bank they make a through review of the bank's loan portfolio. Usually this involves a detailed analysis of the documentation and collateral for the largest loans, a review of a sample of small loans, and an evaluation of the bank's loan policy to ensure that it is sound and prudent in order to protect the public's funds.

Credit administration involves the creation and management of risky 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 weakness 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.

The central focus of commercial banking concerns the acquisition and servicing of loans. A bank mobilizes deposits and lends to businesses. Banks lend or invest up to 75 – 80% of their deposits. Indeed, commercial banks are the primary, if not only, source of loans for most small and medium-sized business firms and provide vital service to business organizations and to the community as a source of loans. Banks also have a responsibility to those depositors who have entrusted their funds for safekeeping. Banks also have responsibility to those who have provided debt and equity capital; thus banks are expected to operate profitably. It is through returns to equity holders in the form of dividends and through retained earnings that banks are enabled to continue in operation and to grow along with the communities they serve. Accordingly the well managed bank must institute loan policies designed to ensure that adequate control exists in the approval and disbursement of loans and that outstanding loan are monitored so as to ensure compliance with terms of the loan and ultimate repayment of principal and interest. The business mainly borrows from the bank to acquire/create assets, to meet cash flow gap, to optimize return on shareholders' capital and to manage tax.

### **Types of (Loan) Credit**

Bank extends loan facilities by a way of fund-based facilities and non-fund based facilities. The fund based facilities are usually allowed by way of term loans, cash credit/overdraft, bills discounted/purchased, demand loans, overdrafts, trust receipt etc. Further, the bank also provides non fund-based facilities by way of issuance of inland and foreign letters of credit, issuance of Bid Bonds/guarantees, deferred payment guarantees etc.

) **Overdrafts/Cash Credit Accounts:** These are advances for financing current assets or advances against Bank's deposits, government securities, approved shares and debentures of companies, personal security etc. Generally the limit is fixed after assessment of the needs of the borrower, a minimum margin is prescribed and drawing power is allowed periodically to control the withdrawals in the account.

The various types of securities against which cash credits/overdrafts are allowed are pledge/hypothecation of goods or products, pledge of documents of title to goods, mortgage of immovable property, book debts, trust securities, etc. In cash credit/overdrafts accounts the borrower is allowed to draw on account within the prescribed limit/drawing power, as and when required.

- J) **Demand loans:** A demand loan account is an advance for a fixed amount and no debits to the account are made subsequent to the initial advance except for interest, insurance premium and other sundry charges. As an amount credited to a demand loan account has the effect of permanently reducing the original advance, any further drawings permitted in the account will not be secured by the demand promissory note taken to cover the original loan. Normally, demand loans are allowed against the Bank's own deposits, government securities, approved shares and debentures of companies, life insurance policies, pledge of gold/silver ornaments, and mortgage of immovable property.
- J) **Term loans:** Term loans are sanctioned for acquisition of fixed assets like land, building, plant/machinery, office equipment, furniture-fixture, etc., for purchase of transport vehicles and other vehicles, for purchase of agricultural equipment, machinery and other movable assets e.g. tractors, pump sets, cattle etc. under various schemes of agricultural advances introduced from time to time, for purchase of house, consumer durables, etc. and loans under Special Schemes introduced from time to time.
- J) **Bills Finance:** Advances against Inland Bills are sanctioned in the form of limits for the purchase of bills or discount of bills or advance against bills sent for collection, to borrowers for their genuine trade transactions. Bills are either payable on demand or after usance period. Demand Bills which are payable on demand or at sight, are purchased from the parties who are sanctioned bills purchase limits and Usance Bills which are payable on maturity after a certain period of time as per terms of contract are discounted for parties who are sanctioned discount of bills limit.
- J) **Packing Credit (Pre-shipment):** Packing credit is an advance given to an exporter for financing the purchase, processing or packing of goods against an export letter

of credit of an approved Bank received from the buyer. Packing credit advances are generally allowed separately for each Letter of Credit to comply with the guidelines issued by NRB/EBL.

- J **Trust Receipts (TRs):** Trust receipts are used to finance the import of goods wherein the Bank releases the Bill of Lading or Airway Bill to the customer for exchange of TR signed by a customer. By signing this document, the customer gives certain undertakings to the bank. Thus, he undertakes to hold the documents, the goods represented thereby and the net proceeds thereof as Trustee for the Bank; and also undertakes to pay the proceeds of all sales to the bank and to give to the bank on request authority received from the buyers for the sale proceeds of the goods.
- J **Inland Letter of Credit:** Letter of credit (LC) is issued by the bank at the request of its customer in favor of a third party informing him that the Bank undertakes to accept the bills drawn on its customers up to the amount stated in the LC subject to the fulfillment of the conditions stipulated therein. When Bank issues a LC, it assumes responsibility to pay its beneficiary on production of bills drawn in accordance with the terms and conditions of the LC.
- J **Bid Bonds:** Bank issues Bid Bonds in lieu of the security deposit/earnest money deposit/tender deposit to fulfill the requirements of the bids being made by the contractors. The terms and conditions of these Bid Bonds are based on the requirement of the tender document.
- J **Guarantees:** Guarantee is a contract to perform the promise, or discharge the liability of a third person in case of his default. In the ordinary course of business, Bank often issues guarantees on behalf of its customers in favor of third parties. When Bank issues such a guarantee, it assumes a responsibility to pay the beneficiary, in the event of default made by the customer.

### **Objective of the Sound Credit Policy**

The purpose of a written credit policy is:

- J To assure compliance by lending personnel with the bank's policies and objectives regarding the portfolio of credits and

- J To provide personnel with a framework of standards within which they can operate.

### **Principle of Credit Policy**

Good credit policy is essential to carry out the business of lending more effectively.

Major credit policies are as follows :

- J **Principle of Safety Fund:** Banks should look the fact that there is not any unproductive or speculative venture or dishonest behavior of the borrower.
- J **Principle of Liquidity:** Liquidity refers to pay on hands when it is needed without having to sell long term assets at loss in unfavorable market. A banker has to ensure that money will come in as on demand or as per agreed terms of repayment.
- J **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.
- J **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.
- J **Principle of Profitability:** Profitability denotes that the value crested by the use of resources is more than the total of 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 projects.
- J **Principle of Spread:** Portfolio of advances is to be spread not only among many borrowers of same industry but across the industries in order to minimize the risk of lending keeping “Do not put your all eggs in the same basket”.
- J **Principle of National Interest:** In lending and granting advances, interest of nation should not be distorted (if undermined). Priority and deprived sector of the economy and other alarming sector should be given proper emphasis while extending advances.

### **Lending Consideration**

The first step of lending consideration is the availability of supporting application and other relevant documents from the customer and then processing of credit file. Prior to

processing the credit file questions such as given below must be raised to the perspective customer. This is the second step of lending consideration and is called “Interviewing the customer”. While analyzing the loan application which should include the assessment of the person(s) involved in the company and the appraisal of the company’s performance. The analysis should revolve around the below mentioned canons of lending considerations (Johnson & Johnson):

) **Character**

Character is the analysis of the applicant as to his ability to meet the obligations put forth by lending institutions. The legal status of the enterprises should be noted. The historical background of the company will also help to some extent. Prior to adjoining the company’s performance it is equally important in refer to ‘controller’ of the business. It is the controller’s character and ability that needs to be closely assessed, though it’s difficult, yet it is of crucial importance as the controllers are the cornerstone of the enterprise, and key to success of the venture. Particularly in Nepal proper assessment of the controller is very important as effective and critical analysis of the company is very difficult due to unavailability of adequate data, genuine financial statements, market surveys etc.

) **Ability**

Ability Describes about whether company achieve what is promised. It is measured by people behind the business have the managerial capability to run the business or not and whether the company have the expertise, experience, drive and past energy needed to make the business a success and justify the bank’s support. For this an interview with applicant’s customers/suppliers will further clarify the situation.

) **Margin**

Interest margin set the interest rate to reflect the risk, the purpose of the credit facility/ies, the period of the credit facility/ies and security. The administration cost associated with the running the credit portfolio and the associated investment in people and assets are tremendous. These investment must be paid for and yield a good return.

) **Purpose**

Purpose is to find why the facility/ies are needed. Are the reasons given satisfactory or need closer and deeper study. Example: working capital loan facility must be utilized to

take care of the working capital requirement and not for financial fixed assets. To finance trading, identify specifically the loan is needed to finance more debtors, more stock, changing stock mix, slow moving stock etc. Traders who are involved in local trading only i.e. non-involvement of import/export activity mainly require revolving credit which can be an Overdraft, a Pledge Loan or a Demand Loan.

) **Amount**

Amount must be related to purpose and repayment.

) **Repayment**

Repayment mainly means to find out the income sources of the borrower. The income sources can be calculated from the sale of assets and profits from the unit.

) **Insurance**

Security should not be the sole reason for agreeing or not agreeing a loan/credit. But it does not also mean that the bank should not secure its loan. Hence, while appraising the loan application the bank must always keep in mind what will happen if things go wrong. Thus, for safety reasons it is highly desirable to obtain adequate collateral for the coverage of the credit risk.

### **Project Appraisal**

Effectiveness of Loan and Advances management in the Bank is highlighted by the quality of its loan portfolio. Every bank strives hard to ensure that its credit portfolio is healthy and that non-performing assets are kept at lowest possible level, as both of these factors have direct impact on its profitability. In the present scenario efficient project appraisal has assumed a great importance as it can check and prevent induction of weak accounts to loan portfolio.

The purpose of project appraisal is to achieve the guarantee of reasonable return from the project. Generally, following aspects need to be scrutinized and analyzed while appraising the project.

- |                     |                      |                     |
|---------------------|----------------------|---------------------|
| 1. Financial aspect | 2. Economic aspect   | 3. Marketing aspect |
| 4. Technical aspect | 5. Management aspect | 6. Legal aspect     |

## **Management**

Management is a process of achieving an organization's goals and objectives by judiciously making use of resources of men, materials, machines, money, methods, messages and moments. While making use of resources management should have clear vision of the future goals to be got accomplished and have the ability to effectively and efficiently coordinate the existing resources. It refers to the kind of tasks and activities that are performed by managers. The specific nature of the activities is determined by such managerial functions such as planning, organizing, directing, leadership and controlling. All managers, regardless of their level of functional area, perform these functions to some degree, although perhaps with varying emphasis.

According to F.W Taylor, "Management knows exactly what you want people to do and then seeing that they do it in the best and cheapest way".

According to Parker Follet, "Management is art of getting things done through people".

From early part of the twentieth century, the management process was regarded as the five activities that the managers performed – plan, organize, command, coordinate, and control. However, the modern management processes have been condensed to the basic four: Planning, organizing, leading, and controlling (Robbins S.P. et. al.: 2009: 7).

### **) Planning**

The Planning component encompasses defining and organization's goals, establishing and overall strategy for achieving those goals, and developing a comprehensive hierarchy of plans to integrate and coordinate activities.

### **) Organizing**

Designing and organization's structure is regarded as organizing. Organizing includes determining what tasks are to be done, who is to do them, how the tasks are to be grouped, who reports to whom, and where decisions are to be made.

### **) Leading**

Every organization contains people. And it is part of manager's job to direct and coordinate those people. Performing this activity is the leading component of

management. By leading, managers motivate employees, direct the activities of others, select the most effective communication channel, or resolve conflicts among members.

## **) Controlling**

After the goals are set, the plans formulated, the structural arrangements determined, and the people hired, trained, and motivated, something may still go amiss. To ensure that things are going as they should, a manager must monitor the organization's performance. Actual performance must be compared with the previously set goals. The appearance of any significant deviations requires that the manager get the organization back on track. The responsibility for monitoring, comparing, and correcting is the basis of the controlling process.

Management can also be grouped into three hierarchical levels named as – top, middle and lower levels. Top management establishes the policies, plans and objectives of the organization as well as a budget framework under which various departments will operate. Middle or tactical management has the responsibility of implementing the policies and overall plans of the top management. Lower or operational management has the responsibility of implementing day-to-day operations and decisions of the middle management to produce goods and services to meet the revenue, profit and other goals, which in turn will enable the organization to achieve its overall plans and objectives. Level of management is important because information needs tend to be different at different levels of management and amount of time required for any function varies considerably with each group.

## **Types of Customers**

In a very broad sense all the persons in the society fall under category of the prospective customer of the bank. To categorize them into different groups depends upon the products of the bank. Mainly there are two types of customer, one is saver class known as depositors and others are user class known as entrepreneurs. Both type of customer may be a single person too. The customers can be categorized on the basis of different parameters, but here the effort is being made on the basis of banking products.

**i. On the basis of Depositors:**

- ) Individual depositor
- ) Business organization depositors
- ) Other institutional depositors

**ii. On the basis of lending**

- ) Manufacturers
- ) Traders
- ) Export oriented business
- ) Multinational business
- ) Business houses/groups
- ) Consumer
- ) banking

**Risks in Banking Business**

Credit risk is the risk of default by borrower due to inability and/or unwillingness to repay his debts in accordance with the agreed terms and conditions. Continuing technological innovation and the rapid development of e-banking capabilities enhance the gravity of such risks. The credit risk of bank's portfolio depends on external as well as internal factors. The external factors can be economy wide as well as company specific.

Some of the economy wide factors are:

- ) State of the economy
- ) Wide swings in commodity prices
- ) Fluctuations in foreign exchange rates and interest rates.
- ) Trade restrictions.
- ) Government policies, etc.

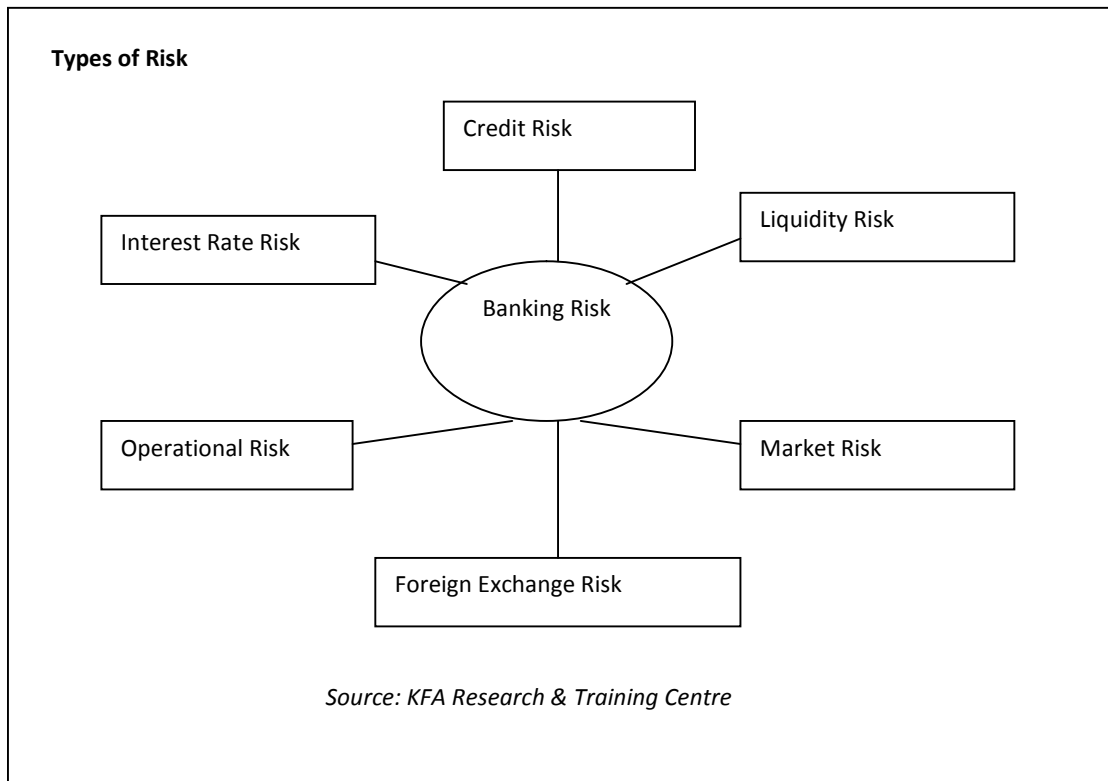
Some company specific factors are:

- ) Management expertise
- ) Company policies
- ) Labor relations

There are several inherent risks in banking which can be classified in to three broad categories i.e., Credit Risk, Market risk and Operational risk. Influencing credit risk for a bank is:

- ) Deficiencies in loan policies/administration.
- ) Absence of prudential credit concentration limit.
- ) Inadequately defined lending limits for loan Officers/Credit Committees.
- ) Deficiencies in appraisal of borrowers' financial position.
- ) Excessive dependence on collateral without ascertaining its quality/reliability.
- ) Lack of risk pricing mechanisms.
- ) Absence of loan review mechanisms.
- ) Ineffective system of monitoring of accounts.

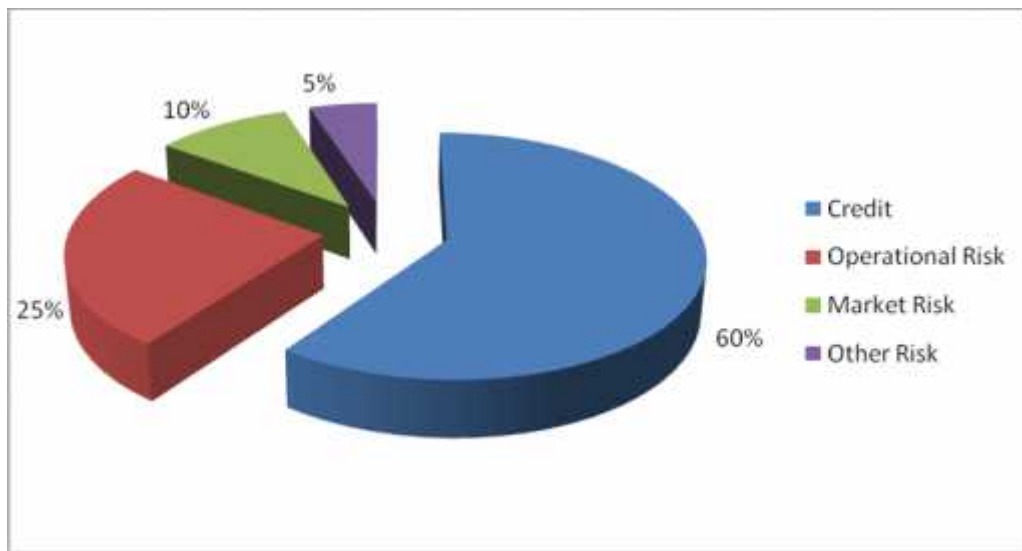
**Figure 2.1**  
**Types of Banking Risk**



## Credit Risk

Credit risk is the risk that the borrower fails to meet the obligation on agreed terms. It is the combined outcome of default and exposure risk. The element of credit risk also includes concentration risk, transaction risk and migration risks. As per the research outcome of KFA Research & Training Centre the credit risk covers the 60% of the risk profile of the bank. The following diagram helps to highlight the risk profile of the bank in more precise form.

**Figure 2.2**  
**Risk Profile of the Bank**



While the bank can influence and control the internal factors to improve quality of its credit portfolio, the risk due to external factors can be minimized by proper diversification across industries and by initiating necessary changes in the loan portfolio in anticipation of adverse developments. Development of effective risk assessment and monitoring systems will help in improving the quality of credit decisions thereby reducing loan losses on an on going basis and thus gradually improving the quality of loan portfolio.

### **Need for Credit Risk Management**

- ) The liberalization of economy has brought about sweeping changes in the economic environment and has induced new anticipated and unforeseen risks in lending. The assessment of these risks is essential to facilitate prudent credit decisions.
- ) The terms and conditions of loans & advances sanctioned to borrowers (i.e. the price, the maturity, the form of credit etc.) determine the profit that accrues to the bank from that loan. If the terms are decided without proper assessment of the credit risk, the bank might be charging low interest rate from poor quality customer's thereby sustaining losses due to default, and charging high rates from good quality customers thereby driving them away to other banks.
- ) The increasing pressure on spreads in the banking industry as well as competition on both sides of the balance sheet makes an efficient credit risk management system essential for banks. In this increasingly competitive situation a sound credit risk management system can be a source of competitive advantage for the bank.

Credit risk can be associated with individual borrowers. Minimization of credit risk requires a system to assess and manage the risk associated with individual borrowers. The concentration of risk in individual risk pools e.g. the same industry should be avoided to minimize this concentration risk, also known as portfolio risk .

### **Credit Risk Rating**

Credit risk rating is as rating assigned to borrowers, based on an analysis of their ability and willingness to repay the debt taken from the bank. Credit risk rating is one of the important tools to decide in the following matters:

- ) **Whether to lend to a borrower or not:** The Credit rating of a borrower determines the appetite of the bank in determining exposure level. A bank would be willing to lend to highly rated borrowers but would not like exposure to borrowers with very poor credit risk rating.
- ) **Pricing:** The risk premium to be charged to a borrower should be determined by its credit risk rating. Borrowers with poor credit rating should be priced high. Credit rating, however, is just one amongst inputs to pricing.

- ) **Risk Mitigates:** The extent of collateral security required and the need to step up margin requirements are linked to credit risk rating of a borrower. The higher the risk category of a borrower, the greater should be value of collateral and/or the margins.
- ) **Level of decision-making:** The delegation of loan sanction/approval powers can be linked to the credit risk rating of a borrower. For low risk borrowers, higher power of approval can be at the lower level to facilitate faster sanctioning of loans thereby ensuring better customer service. For higher risk borrowers, approval from higher level may be considered.

Credit risk ratings eventually help a bank to assign a probability of default for borrower according to its risk category. The expected losses from a loan can be determined using the probability of default. This probability will then help to determine the terms and conditions for the loans in terms of the amount, interest rate to be charged, maturity etc.

In present era of globalization and increasing threat of external competition, the time has come for the banks to introduce a sound and scientific credit risk system to survive in the long run. In determination of faculty risk rating, it is useful to factor risks into one associated with the borrower and those associated with collateral and other factors such as types of business, economic conditions etc. The description of risk rating categories is as follows:

**Exceptional:** Exception degree of stability, substance and diversity. Strong fundamental balance sheet with continuous significant cash flow demonstrated throughout the business or industry cycle. Both size and market position give obligor unquestioned access to financial markets. Obligors in this category would typically be rated AAA by the major Rating Agencies.

**Excellent:** High degree of stability, substance and diversity. The balance sheet and operations are slightly more prone to adversity within the business or industry cycle. Ready access to financial markets, An AA rating would be typical of obligors in this category.

**Strong:** Strong market and financial position with history of successful performance but more susceptible to economic or market changes. Stability substance and diversity are

still characteristics but some exceptions may exist. Has access to financial markets under normal market conditions. An A-/A rating would be typical of these Obligor.

**Good:** Comfortable assets coverage and cash flow protection but may be susceptible to cyclical change. More concentration of business risk-by product or market may be present, may have limited access to financial markets. An A-/B plus rating would be typical of these obligors.

**Satisfactory:** Assets and cash flow protection are reasonably sound. Risk elements exist and more likely to be reflected in volatility of earnings and overall performance. Alternative financing is available but may be limited to private or institutional sources. A BBB rating could be used for these obligors.

**Adequate:** Acceptable assets protection and cash flow provide reasonable prospect of orderly pay-out. Nevertheless risk elements are sufficiently pronounced to make future performance and the ability to attract alternative financing uncertain. Alternative financing may be difficult to source. Financial strength is at a level generally considered to be minimally acceptable for a new customer.

**Marginal:** Unfavorable industry or company specific risk factors represent a concern. Operating performance and financial strength may be marginal and it is unlikely that the obligor can attract alternative sources of financing. Considering all the weakness and mitigating factors, there is an expectation that conditions will improve and the risk rating will be upgraded.

**Special Mention:** Potential or emerging weakness creates unacceptable business risk. Concerns center on the potential for a continuation of unfavorable economics market or borrower-specific conditions or trends which may affect future debt service capacity. Defects in loan documentation, collateral control and financial information may also be a factor. Weakness are not pronounced and do not represent an imminent or serious threat to orderly repayment or assets protection. Nevertheless, greater than normal management attention is warranted to ensure a continuance of cash flow and asset value protection. Must possess' potential for improvement and upgrading. Very late in servicing debts obligations is also one of the factors for rating a facility as special mention.

**Substandard:** Facilities are inadequately protected by the current sound worth and paying capacity of the obligor or by any collateral pledged. Loans so classified must have

a well-defined weakness or weaknesses that may jeopardize the liquidation of the debt. They are characterized by the possibility that the Bank will sustain some loss (of principal and/or interest) if the deficiencies are not corrected.

**Doubtful:** Facilities have all the weakness inherent in those classified as substandard will the added characteristics that exist authorizing. Borrowings values more collection or liquidation in full improbable. The extent of the probable loss is significant; there may be certain important and reasonably specific pending factors that work to the advantage and strengthening of the assets. Pending factors include merger, acquisition, liquidation procedure, capital injection, additional collateral, new financing sources and/or additional guarantors. All loans in this category must be on non-accrual.

**Loss:** Represents credit outstanding or portions of such outstanding which are determined to un-collectible. While there are may be some long term salvage or recovery potential, prospects are not sufficiently assured to support continuance as a bankable asset. (Source EBL Credit Policy 2067/68)

### **NRB Directives**

NRB has issued various directives to streamline the commercial banks and other financial institutions. CBs and FIs are bound to comply the directives issued by NRB that covers diverse area of banks. Capital adequacy, Liquidity position, Loan Classification and Provision and Priority Sector Lending are major aspects of these directives.

### **Capital Adequacy Norms for Commercial Banks**

(The Capital Funds of “A” class Commercial Banks is to be calculated as per Capital Adequacy Framework 2007, updated July 2011, issued by NRB)

On the basis of risk-weighted assets, the banks shall maintain the prescribed proportion of minimum capital fund as per the following time-table.

**Table 2.1**

#### **Required Capital Fund**

<b>Time Table</b>	<b>Required Capital Fund on the basis of weighted Risk assets (in percentage)</b>	
	<b>Core Capital</b>	<b>Capital Fund</b>
For FY 2062/63	5.50%	11.00%
For FY 2063/64	5.50%	11.00%

For FY 2064/65	5.50%	11.00%
For FY 2065/66	6.00%	10.00%
For FY 2066/67	6.00%	10.00%
For FY 2067/68	6.00%	10.00%

*Sources: NRB Directives Manual*

While examining capital adequacy of any banks, it can be further classified into core capital (Tier I Capital), Supplementary Capital (Tier II Capital) and Overall Capital (Sum of Tier I & Tier II).

**For Core Capital:**

$$\text{Capital Adequacy Ratio} = \frac{\text{Core Capital}}{\text{Sum of Risk-Weighted Assets}} \times 100$$

**Elements of Tier I Capital:**

- a. Paid Up Equity Capital
- b. Irredeemable non-cumulative preference shares which are fully paid-up and with the capacity to absorb unexpected losses. These instruments should not contain any clauses whatsoever, which permit redemption by the holder or issuer upon fulfillment of certain condition. Banks should obtain prior approval of NRB for this kind of instruments to qualify as a component of core capital.
- c. Share Premium
- d. Proposed Bonus Equity Share
- e. Statutory General Reserve
- f. Retained Earnings available for distribution to shareholders.
- g. Un-audited current year cumulative profit, after all provisions including staff bonus and taxes. Where such provisions are not made, this amount shall not qualify as Tier 1 Capital.
- h. Capital Redemption Reserves created in lieu of redeemable instruments.
- i. Capital Adjustment reserves created in respect of increasing the capital base of the bank.
- j. Dividend Equalization Reserves.
- k. Any other type of reserves notified by NRB from time to time for inclusion in Tier 1 Capital.

### **Deductions from Core (Tier 1) Capital**

Banks shall be required to deduct the following from the Tier 1 Capital for capital adequacy purposes. The claims that have been deducted from core capital shall be exempt from risk weights for the measurement of credit risk.

- a. Book value of Goodwill.
- b. Miscellaneous Expenditure to the extent not written off.
- c. Investment in equity of financial institutions licensed by NRB except some exempted by NRB.
- d. All investment in equity of institutions with financial interest.
- e. Investment in equity of institutions in excess of the prescribed limits.
- f. Investments arising out of underwriting commitments that have not been disposed within a year from the date of commitment.
- g. Reciprocal crossholdings of bank capital artificially designed to inflate the capital position of the bank.
- h. Any other items as stipulated by NRB, from time to time.

Sum of risk-weighted assets = Total On-Balance Sheet Risk-Weighted Assets+  
Total Off-Balance Sheet Risk-Weighted Items.

The general reserve of EBL has found to be increasing every year. The core capital of EBL is in positive figure and increasing every year compared to Last Fiscal Year due to higher positive amount in retained earnings. The reason behind it is that the profit of the bank is in increasing trend.

### **For Overall Capital**

$$\text{Capital Adequacy Ratio} = \frac{\text{Core (Tier I) Capital} + \text{Supplementary (Tier II) Capital}}{\text{Sum of Risk-Weighted Assets}}$$

### **Elements of Tier II Capital**

- a. Cumulative and/or redeemable preference shares with maturity of five years or above.
- b. Subordinate term debt.

- c. Hybrid capital instruments.
- d. General loan loss provision.
- e. Exchange equalization reserve.
- f. Investment adjustment reserves.
- g. Revaluation reserves
- h. Any other type of reserves notified by NRB from time to time for inclusion in Tier 2 Capital.

### **Capital Fund**

The Capital Fund is the summation of Tier 1 and Tier 2 capital. The sum total of the different components of the tier 2 capitals will be limited to the sum total of the various components of the Tier 1 capital net of deductions as specified in 4.5.1.2. In case the Tier 1 capital is negative, Tier 2 capital shall be considered to be “Nil” for regulatory capital adequacy purpose and hence, in such a situation, the capital fund shall be equal to the Tier 1 capital.

### **Total Risk Weighted Assets**

For the purpose of calculation of capital fund, the risk-weighted assets have been classified into following two components:

#### **i. On- Balance Sheet Risk-Weighted Assets**

For the purpose of calculation Capital Fund, the On-Balance Sheets Assets are divided as follows with assignment of separate risk weight. Accordingly, for determining the Total Risk-Weight Assets, the amount as exhibited in the balance sheet assets shall be multiplied by their respective risk-weights and the added together.

**Table 2.2****On-Balance Sheet Risk-weighted Assets**

<b>On Balance Sheet Assets</b>	<b>Risk Weight (in %)</b>
Cash Balance	0
Gold(Tradable)	0
Balance with Nepal Rastra Bank	0
Investment in Govt. Securities	0
Investment in NRB Bonds	0
Fully secured loan against own Fixed Deposit Receipt	0
Fully secured loan against Govt. Securities	0
Accrued Interest on Bond	0
Balance with Domestic banks and Fin. Institutions	20
Fully secured FDR Loan against Fixed Deposit Receipt of other banks	20
Balance with foreign banks	20
Money at Call	20
Inter Bank Borrowing	20
Loan against the guarantee of internationally rated foreign Banks	20
Other investments with internationally rate foreign banks	20
Investments in Shares, Debentures and Bonds	100
Other investments	100
Loan, Advances and Bills Purchased/Discounted	100
Fixed Assets	100
Other accrued interest receivable	100
All Other Assets	100

*Source: NRB Directives Manual 067/68*

**ii. Off-Balance Sheet Risk-Weighted Assets**

For the purpose of calculation Capital Fund, the Off-Balance Sheet items are divided as follows with assignments of separate risk weight. Accordingly, for determining the Total Risk-Weighted off Balance sheet assets, the amount of such transactions shall be multiplied by their respective risk-weights and then added together.

**Table 2.3**  
**Off Balance Sheet Risk-Weighted Assets**

<b>Particulars of Off-Balance sheet items</b>	<b>Risk Weight (in %)</b>
Bills Collection	0
Forward Foreign Exchange Contract	10
L/Cs with Maturity of less than 6 months (full value)	20
Guarantees provided against counter guarantee of internationally rated foreign banks	20
L/Cs with Maturity of more than 6 months (full value)	50
Bid Bond, Performance Bond and Underwriting Commitment	50
Credit Purchase/Repurchase and Takeover	50
Advance payment Guarantee	100
Financial and Other Guarantee	100
Irrevocable Loan Commitment	100
Contingent Liability in respect of Income Tax	100
All other contingent liabilities Including Acceptance	100

*Source: NRB Directives Manual 067/68*

### **Directives Relating to Loan Classification and Provisioning (Directive no.2)**

#### **Classification of Loans and Advances**

Loans and Advances shall be classified into the following 4 categories:

##### **1. Pass**

Loans and Advances whose principal amount are not past due and past due for a period up to 3 (Three) months shall be included in this category. These are classified and defined as Performing Loans.

##### **2. Substandard**

All loans and advances that are past due for a period of 3 months to 6 months shall be included in this category.

##### **3. Doubtful**

All loans and advances which are past due for a period of 6 months to 1 (one) year shall be included in this category.

##### **4. Loss**

All Loans and advances which are past due for a period of more than 1 (one) year as well as advances which have least possibility of recovery or considered unrecoverable and

those having thin possibility of even partial recovery in future shall be included in this category.

Loan and Advances falling in the category of Sub-standard, Doubtful and Loss are classified and defined as Non-Performing Loan.

### **Classification in Respect of Term Loan**

In respect of term loans, the classification is made against the entire loan on the basis of the past due period of overdue installment of principal/interest.

### **Classification in Respect of Reschedule and Restructured Loan**

The term reschedule means process of extending repayment period/time of credit taken by the borrower. The term restructured means process of changing the nature or conditions of loan/facility, adding or deleting of conditions and change in time limit.

Written plan of action from the borrower should be taken while making reschedule/restructure of the loan. Further at least 25% of accrued interest outstanding on date of restructuring or rescheduling should be collected.

### **Loan Loss Provisioning**

The Loan Loss provisioning on the basis of the outstanding loans and advances and bills purchases classified as per NRB Directives shall be provided as follows:

<b><u>Classification of Loan</u></b>	<b><u>Loan Loss Provision</u></b>
Pass	1 %
Substandard	25 %
Doubtful	50 %
Loss (Bad Loan)	100 %

**Note:-** Loan loss provision set aside for Performing loans is defined as “General Loan Loss Provision” and Loan loss Provision set aside for Non-performing loan is defined “Specific Loan Loss Provision”.

### **Provisions on restructured or rescheduled loans are made as follows:**

- a. A minimum of 12.5% provision is to be made on rescheduled or restructured loans.

- b. Where the installment of principal and interest of restructured or rescheduled loan is serviced regularly for two consecutive years, such loan can be converted into Pass Loan.

### **Loan loss provision related to Non Banking Assets (NBA)**

For all NBA acquired by the bank, provisioning for loss on such NBA is provided at one hundred percent from the same fiscal year. This provision has been enforced from fiscal year 2062/063.

If the NBA acquired by the bank has been sold in any year, the loan loss provision made against such NBA should be adjusted in the same year of sales.

In restructured loans, the repayment period is changed from the pre determined period at the time of loan sanction. Restructured loans also form a part of NPA although the separate reporting is required.

In addition to above, NRB has required a 20% additional provision in case of loan issued against personal/corporate guarantee which are not fully covered by collateral security. However, the classification of such loan should be included in above mentioned four types of loan, i.e. Pass, Substandard, Doubtful, Bad.

## **2.3 Review of Related Studies**

Garg, A. (2063) in an article published in 'Souvenir' of Rastriya Banijya Bank Ltd., titled "*Principles of Lending and Credit Culture at RBB*" has mentioned that the lending combines the science of obtaining and analyzing the facts of a loan request and the art of making judgments about that information, the feasibility of the business, and the credibility of the borrower.

The lender should make sure that he understands the various risks which affect it and wherever possible takes steps to manage the risks. First and foremost these include the major obvious risks such as the term and magnitude of the loan and what changes could affect the borrower's ability to repay the loan.

In view of Garg, lending primarily based on the Charisma, stature, reputation, market image of the borrower. All of us believe in something called –looks are deceptive, don't judge book by its cover, ever take anything at its face value etc.

In the article he focused that the credit culture of RBB for the last several years is based on:

- ) Name Lending
- ) Collateral based Lending
- ) Limit based lending
- ) Universal Lending
- ) One time lending
- ) Attitude lending

In the article Garg has concluded that the successful banks have developed an internal credit culture that guides their banking operations .A bank's credit culture is the unique combination of policies, practices, experience and management attitudes that defines the lending environment and determines the lending behavior acceptable to the bank.

Shrestha, R. (2064) on his research title "*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."

Bhattarai, S. (2063) on his research title "*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. 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 Shovan Dev Pant, the then Executive Director of Nabil, "The financial sector is in appalling state."

The researcher 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 he 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 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.

Richard et.al. (2008) have published a research paper entitled "*Credit risk management system of a commercial bank in Tanzania*" in International Journal of Emerging Markets, Volume 3, Number 3, 2008. The purpose of the research was to develop a conceptual

model to be used further in understanding credit risk management (CRM) system of commercial banks in an economy with less developed financial sector.

The major finding of this research is that the components of CRM System differ in CBs operating in a less developed economy from those in a developed economy. This implies that the environment within which the bank operates is an important consideration for a CRM system to be successful.

Joshi, R. (1999), has studied on "*Lending policy of Commercial Banks in Nepal*" The main objectives of this study is to examine the role of commercial bank in its functions as well as performance, to show the relationship between deposit and loan advance, to identify major weakness of lending policy of the commercial banks and to suggest lending policy to process the utilization of the resources and they are still lazy to pay active role to utilize these sources collected from different sectors in accordance with the need of the economy. He recommended that Nepal Rastra Bank have significant role in the overall economic policy of the country NRB must take safe of lending policy and role to solve various problems, which have been arising in the banking development.

Gautam, R. (2000), on his research entitled "*Investment Analysis of Finance Company of Nepal*" wanted to see the investment policy of financial institutions of Nepal and Loan & Advance management especially of bad loans. He has highlighted the following findings.

The use of funds towards the hire purchase credit is decreasing rapidly. As the direct date of good and bad credit was not available, the credit loss provision used to analyze the credit quality. Credit loss is increasing every year significantly and should be controlled. The loss provision of some company is more alarming on individual analysis. The company having above average credit loss provision should rethink on their investment and repayment policy.

Pant, R.P. (2001), Pant has studied on "*A study of Deposit and its utilization by Commercial Bank in Nepal.*" The main objective of the study is to test whether lending process is significant and to find out the way to encourage lending by increasing bank deposit The finding of the study are: commercial banks in Nepal are not able to satisfy

the financial need of the economy, commercial banks in Nepal are not playing an active role to utilize their resources collected from different sector, according to the need of the economy. He has recommended the new branches should be open.

Acharya, N. (2001), "*Deposit mobilization of commercial bank in Nepal*". The main objective is to analyze the impact of interest rate on deposit mobilization as well as credit ratio increase or decrease as the change in interest rate. Besides this, the objective is to know the efficient utilization of the accumulated deposits. She has found out that the commercial bank have not been successful in the mobilization of the deposits collected by the commercial banks. It is because of the fact that the commercial banks have not able to motivate and facilitate to their cents except at change in the rate of interest. The problems are to attracting the savings to the maximum possible extent to channeling these savings into those sectors of the economy where there are most needed and to extending banking facilities in the country to unbanked areas. The changes of interest rates in loan are also recommended. Commercial banks should extend long term and medium term credit in addition to short term credit.

Joshi, D. (2002), "*A Study on Commercial Banks of Nepal with Reference to Financial Analysis of Rastriya Banijya Bank*" is the study conducted to dissect the financial position of the bank and recommend the essential suggestion to that bank. The conclusions drawn from the study were:

- a. The bank found well in maintaining adequate level of liquidity position.
- b. The deposit and lending were increasing per year.
- c. Return on asset was not quit enough to be satisfied.
- d. The bank was not capable to invest its resources in more productive sector thus, the researcher had suggested taking serious action to check that situation.

Aryal, K.N. (2003), "*A Evaluation of credit investment and Recovery of Financial Public Enterprises in Nepal*" a case study of ADB/N. His research statement of problem was - because of high interest rate of non institutional sources, people are unable to pay their

credit at fixed time. These institutions compel them to transfer their property to the moneylender resulting himself or herself as a landless person.

ADB/N is one of the major financial institutions supporting for the people for the different purpose like agro, industries, tea, coffee, livestock farming etc. ADB/N provides the credit for individual and cooperative sector to all collection amounts is not good. However, ADB/N has increased its effort to collect its credit. It is said that those people who really need do not receive sufficient amount of credit from ADB/N. His major findings are actual credit disbursement, collection and outstanding are increasing in decreasing rate. Yearly increase in credit disbursement is higher than that of collection. Positive relation between credit disbursement and collection that is 0.996 Targeted credit collection and disbursement fixed by planning and project department is not significantly different than the actual. Most of the customers are unaware of the policy of the bank. He recommends the borrowers should be aware about the credit, its use and its payment procedures and schedule; Greater attention should be given to increase the credit collection and to collect old outstanding amount of credit and renewal of it. To accelerate the collection, credit should be followed continuously in a regular interval of time. The behavior of the personal should be strictly supervised in granting credit in proper investment proposal because of most of the bad credit disbursement is due to weak decision of the personal.

Parajuli, S. (2003), *"A Comparative Study of Financial Performance of Joint Venture Banks in Nepal"* is the topic of the thesis intended to evaluate effectiveness of monitoring and collecting policy of banks. The study was limited between Nepal Arab Bank and Nepal Grindlays Bank Ltd. among various joint venture banks. The researcher has able to conclude the following points:

- a. The liquidity ratio portrays that the liquidity position is relatively higher in case of NABIL.
- b. NABIL had better performance than NGBL in term of the activity ratio. The researcher pointed the reason behind it that NABIL might have comparatively better lending policy than NGBL.

- c. Profitability ratios (Net Profit to Total Asset, Net Profit to Total Deposit, Net Profit to Total Capital Employed, EPS) were found higher than NABIL but DPS was higher in case of NABIL.

Regmi, P. (2004), has submitted theses named “*Loan & Advance Management of Commercial Banks with reference to Nepal Bangladesh Bank and Bank of Kathmandu*”. His research major objectives relevant to my research are -Role of Loan & Advance management in financial institutions of Nepal.

Major findings:

- ) Both Nepal Bangladesh and Bank of Kathmandu have utilized most funds in the form of credit and advances. Almost 80% of total deposits of the bank have been forwarded to customers as a credit and advances.
- ) Provisions for credit loss have been increasing year by year for both the banks.
- ) Equity portion of total sources of the bank is slightly increasing in the recent years because NRB has issued directives to the entire bank to increase its paid up capital.

Recommendation:

- ) Banks should avoid extending credits merely based on oral information presented at the credit interview. Historical financial and trade records, as well as realistic cash flow projections should be obtained for proper assessment of the proposal.
- ) Banks should regularly follow the credit customer to confirm that whether the customers have utilized their credit for the same purpose committed at the time of taking credit from the bank.
- ) Some customers are unsatisfied with the service charges and interest of credit; therefore banks should decrease service charges and interest charges.
- ) Bank's efficiency should be increased to satisfy the demand of depositors at low level of cash and bank balance.

Dali, B.R. (2006), in his thesis entitled to “*A Study on Loan & Advance Risk Management of Commercial Banks in Nepal*” has found out the analysis that standard chartered bank has higher risk index, probability of book value insolvency is less than one percentage, latest non banking asset is nil and total Loan & Advance management is good and reasonable

where as Himalayan bank has higher risk index its probability of book valued insolvency is less than one percentage and non banking assets are 0.1465%. Everest Bank has also higher risk index, Probability of book value insolvency is more than one percentage and its non banking assets are 0.4659 where as Nabil bank has higher risk index and probability of book value insolvency is less than one percentage, the latest non banking assets are nil.He has shown perfectly the relationship of loan and loan loss provision and how they affect the credit systems.

Shrestha, M. (2006) in his study "*Loan and Advance Management with Special Reference to Nepal SBI Bank Limited*" has found out the analysis that loan and advances and investment to total deposit ratio of SBI bank is high and it indicates good performance of lending for a bank and it has high amount of loan loss provision and high volume of non performing loans which is not sign of efficient credit management. The bank is recommended to adopt innovative approach to marketing.

Gurung, A.K. (2006) in study "*A Financial Study of Joint Venture Banks in Nepal: A Comparative Study of Nepal Grindlays Bank Ltd and Nepal Indosuez Bank Ltd.*", a thesis, was conducted to find the financial Strengths & weaknesses of those understudied banks and whether they are complying the rule and regulation laid by NRB. The basic findings have been mentioned as:

- J Both bank had unsatisfactory performance in term of liquidity position and interest coverage ratios.
- J Although both banks were utilizing its resources efficiently, they were also competent to maintain capital adequacy ratio as prescribed by NRB.
- J Profitability ratios of both banks registered increasing in anterior part of the period of study and decreasing in posterior part.

The researcher had suggested raising their capital base to improve their capital structure and also recommend extending their branches in almost all part of the nation.

Basnet,S. (2008) in thesis entitled "*Loan& Advance Management of Rastriya Banijya Bank Limited*". The objectives in his study were – 1) to analyze the performance of RBB.  
2) to

analyze the credit and advances provided by the bank. 3) to analyze the recovery status of the credit disbursed. 4) to find out the strengths and weaknesses in the credit administration of the bank.

The major findings of Basnet relevant to my study are as follows:

- ) During the study period, the bank registered a significant increase in deposits, loans and advances and profitability.
- ) The net profit of the bank over the study period was observed in decreasing trends.
- ) The loan loss provision of RBB is decreasing trend, so the decreasing loan loss ratio indicates efficient credit policy and gradual increment on the performance of the bank.

The researcher has put forth valuable recommendations. Some of them are presented here. Banks should be more focused in credit creation and maintaining the effective, competitive interest rate for the loan and advances. Banks should provide modern banking facilities and new products. Banks should make provision for bad loans as per NRB Directives. Bank should regularly follow up with credit customers and ensure the end use of the credit facility. The deposit collection and Loan floatation of commercial banks should be balanced.

Limbu, R. (2008) has submitted thesis entitled “*Loan & Advance Management of Nabil Bank*” in 2008. His major objectives are:

- ) To analyze the portfolio of lending of selected sector of bank.
- ) To evaluate various financial ratios of the Nabil Bank.
- ) To determine the impact of deposit in liquidity and its effect on lending practices.

Major findings:

- ) The cash and bank balance to total deposit of the Nabil bank shows the fluctuating trend during the study period.
- ) Cash and bank balance to interest sensitivity ratio of Nabil bank is also in fluctuating trend.
- ) Loan and advance to fixed deposit ratio of Nabil is fluctuating trend. The average mean ratio is 3.66 times in the study period.

- J The Non – performing assets to total assets ratio of Nabil is in decreasing trend. The average ratio for the study period is 1.19%
- J The debt to equity ratio of Nabil bank is in increasing trend during the study period, average mean being 11.38 times.
- J The debt to assets ratio of Nabil is high or in other words they have excessively geared capital structure. On an average 92% of assets are financed through debt capital that is outsiders cost bearing fund, which implies that the bank has riskier debt financing position. The Total Assets to Net Worth of Nabil is increasing trend. The average mean ratio is 12.41 times at the study period.
- J Net Profit to Gross Income ratio of Nabil bank is in fluctuating trend.
- J Interest income to total income ratio of Nabil is in increasing trend, the average mean during the study period being 0.99%.
- J Loan loss provision to total loan & advances of Nabil bank is in decreasing trend, the mean ratio of the study period is 2.8%.
- J Non – performing loan to total loan & advances ratio of Nabil bank is also decreasing trend, average for the study period being 1.58%.

### **2.3 Research Gap**

Many researchers and scholars have conducted various researches in Loan Advances & Deposit management of commercial banks in Nepal. When we go through the findings, the studies are limited to traditional data and information. Therefore, innovative recommendations are lagging behind. However, the banking in Nepal has undergone the drastic change now a day. The CBs with plenty of liquidity few years back are now forced to stop lending because of liquidity crunch. Hence, we need to take into considerations the recent international trends and practices. The international banking system has just been revived from Global Recession. Although Nepalese financial system has not faced direct impact of world wide economic crisis, it needs to re-think about the long term effect of the formulated plans and policies and be prepared for changes.

Nepal has become WTO member from April 2004. From 2010, foreign banks can also operate in Nepal abiding by the rules and regulations laid down by NRB. Foreign

banks may have strong technological advantages and management expertise. So, Nepalese banks also should apply modern management style and adopt technological innovations so that they may enhance their strengths.

The Loan administration needs extra focus with proper management of doubtful and bad debts. In this research, the researcher has attempted to analyze the Loan Advances & Deposit policies and their implementation with regard to NPA management of EBL from FY 2062/63 to 2067/68.

We may find study in Loan Advances & Deposits of many commercial banks of Nepal. However there are not any studies in Loan Advances & Deposits of EBL. Hence this study aims to see the Loan Advances & Deposit management practice of EBL. The study reveals the information about amount of Loan Advances & Deposits, NPA, and follow of NRB directives regarding capital adequacy and lending by EBL.

# **CHAPTER - III**

## **RESEARCH METHODOLOGY**

“Research is essentially a systematic inquiry seeking facts through objectives verifiable methods in order to discover the relationship among them and to deduce from them broad principles or laws” (Joshi: 2003: 3). Methodology is the research method used to test the hypothesis. Every study is intended towards the analysis, discover and actual position of any situation. The findings are possible only with help of certain tools and techniques. The research oriented task ask for serious consideration on research design; sample size; sources of data; data collecting instruments and procedure; data tabulation; data analyzing techniques to be adopted and study limitation in term of tools unavailable. The basic objective of this study is to highlight the role and importance of Loan Advances & Deposit in Everest Bank Limited. This study tries to answer the following research questions;

- ) What information does the bank need about the customers/borrowers while making the Loan/ credit appraisal?
- ) What are the processes involved in it for the approval or disapproval of the project appraisal?
- ) What sort of informational guidelines should the bank considered while making the Loan/credit appraisal?
- ) Are the management information issues practiced in the bank?

In order to achieve the pre-determined objectives of this study certain research methodology has been applied. So the purpose of this chapter is to present and explain the research methods applied in this study.

### **3.2 Research Design**

Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance (Wolff & Pant, 1999). It is the task of defining path for solution of the research problem. In other words, it is the outline of a plan to test the hypothesis and should include all the procedures that follow. The basic objective of research design is just to check the researcher for deviation from

actual course of action. The basic objective of the study is to examine the existing policies and practices of Loan Advances & Deposits of Everest Bank Limited, its role, its effectiveness in decision making and to provide suggestion for better information system. According to the type of the research design, this thesis falls under descriptive and analytical design. It lies under analytical design as it tries to analyze the financial data to reach at conclusion. At the same time, it also represents descriptive research design as it describes much more about the efficiency of the understudied banks. The research will mainly base on the primary data and information provided by the bank. On the basis of qualitative and quantitative information the analytical framework will be drawn. After the evaluation of this information the interpretation will be presented as an outcome. The study after its conclusion, recommendation has been given in the end based on the findings.

### **3.2 Nature and Sources of Data**

There are twenty seven commercial banks operating in the political boundary of the nation. Among them, Everest Bank Limited has been selected for the present study. Similarly, financial statements of EBL for 6 years i.e. FY 2062-2068 have been taken as samples for the same purpose.

#### **Sources of Data**

The sources of the information required for any study will be either primary or secondary data. The data possessing original character and collected from actual field by the researcher or through agent for the first time is known as primary data. The data are utilized when secondary data are not accessible easily. The data compiled by previous researchers for their purpose is known as secondary data. The use of secondary data reduces the considerable amount of time and tension of collecting information from the actual workplace. For the study, both primary and secondary data are basically used for analyzing the subject matter of the thesis. The primary data will be obtained from observation, field study, questionnaire, interview and other sources, and the information provided by the bank. The data obtained from these sources are unstructured. Secondary data is collected or applied for the study will be obtained form journals, books, web sites,

newspapers and other sources. Official records and publications on related field are also used for the study. The sources of data selected are authentic and reliable and cross checking of data has been done. The secondary data used are internal reports, annual reports, news letter and published materials of EBL, Nepal Rastra Bank directives and other sources.

### **3.3 Tools Needed for Analysis**

The data and information, obtained from the related field, are found in rude form and need further processing to make it readable and understandable. The data should be analyzed by the use of various tools and techniques. The adopted tools may be statistical, financial or banking tools.

#### **Financial Analysis**

Financial analysis is the process of analyzing various items of financial statements of a firm to ensure its comparative strengths and weakness. The financial is carried on basis of the financial statement prepared to know the financial position of any organization either trading concern or manufacturing. The financial analysis is made by the external and internal parties to understand the financial condition. The internal body comprises management and Board of Directors and external parties comprise shareholders, creditors, government, bondholders, scholars etc. The external parties are interested to know it because of their interest towards the organization. Thus, the financial health of any organization is the matter of concern of stakeholders.

There are various tools and techniques available for the analysis of any financial data obtained.

Ratio analysis, the easiest way of having assessment of two or more than two firms quantitatively, has been adopted as financial tool for the purpose of study. To evaluate the financial condition and performance of a company, the financial analyst needs certain yardsticks. The yardstick frequently used is a ratio, or index, relating two pieces of financial data to each other (Van Horne, 2000). Although there are various ratios relating to the evaluation of firm's performance, few ratios are merely taken into consideration for our purpose.

The study covers those ratios that are relating to our subject matter. Financial ratios can be grouped into following types (Ross, Westerfield & Jordon, 2002):

- a. Liquidity Ratio
- b. Credit( Loan & Advances) Ratio
- c. Stability Ratio
- d. Deposit Composition
- e. Credit Composition
- f. Investment Composition
- g. Other Ratios

Above ratios are generally interpreted to analyze the financial position of bank or FIs by Shareholders, Investors, Depositors and Creditors or other stakeholders. However, our research is limited to Analyze Loan, Advances & Deposit Management of EBL. In this light, as a researcher, I have tried to analyze only few selected ratios.

### **Credit Ratio**

The credit ratios attempt to find out the Loan and Advances position of any financial institution in relative to various variables. These ratios give the ideas about the extension limit in term of Loan credit. The strategic position i.e., aggressive or conservative of any financial institution is assessed with the help of these ratios.

#### **i) Total (Loan) Credit to Total Deposit**

$$\text{Total Credit to Total Deposit} = \frac{\text{Total Credit}}{\text{Total Deposit}}$$

The credit of any financial institutions basically depends upon the amount of deposit accumulated by them. The ratio assists to know the lending status and fund utilization position of the particular financial institutions. The higher ratio means huge portion of deposit is employed on lending various sectors and vice versa.

#### **ii) Total Credit to Fixed Deposit**

$$\text{Total Credit to Fixed Deposit} = \frac{\text{Total Credit}}{\text{Fixed Deposit}}$$

The ratio attempts to acknowledge the portion of total credit facility provided among the total fixed deposit. The higher ratio depicts that the portion of credit provided is higher in comparison to fixed deposit and vice versa.

### **iii) Total Credit to Saving Deposit**

$$\text{Total Credit to Saving Deposit} = \frac{\text{Total Credit}}{\text{Saving Deposit}}$$

The ratio attempts to acknowledge the portion of total credit facility provided among the total saving deposit. The higher ratio depicts that the portion of credit provided is higher in comparison to saving deposit and vice versa.

### **Stability Ratio**

The solvency position of any financial institutions is measured by their capital. The huge accumulated capital ensures about the longer and safe of these financial institutions. Their capital bases are matter of concern of outsiders, insiders and regulatory bodies. Relatively, higher capital instills confidence in the mind of depositors & creditors. In certain long term project financing, preference is placed on capital funds to deposit. It is evaluated by the use below mentioned ratios:

#### **i) Capital to Total Deposit**

$$\text{Capital to Total Deposit} = \frac{\text{Capital}}{\text{Total Deposit}}$$

The ratio attempts to tell about the relative position of the capital and total deposit of any financial institutions. The higher ratio ensures about the better capital and solvency position and vice versa. The ratio having value greater than one means the amount of capital is greater than deposit. The ratio also assists to know the fact that by how much degree these financial institutions are playing with deposit holders' money in relative to their own capital.

#### **ii) Capital to Total Credit**

$$\text{Capital to Total Credit} = \frac{\text{Capital}}{\text{Total Credit}}$$

The ratio tells about the relative position of capital and credit. The amount of credit outflow of any financial institutions is generally found much more than the capital accumulated except newly established financial institutions. Thus, these ratios are generally found less than 1. The ratio having greater value is preferable and assumed to be safer than other.

### **iii) Capital to Total Risk Asset**

$$\text{Capital to Total Risk Asset} = \frac{\text{Capital}}{\text{Total Risk Asset}}$$

The ratio tells about the comparative position of capital and total risk asset. The solvency position of any financial institutions will be in danger if the capital is very less than the total risk asset. The ratio having higher value is preferable in comparison to lower ratio. The higher ratio ensures about the greater amount of capital.

### **Loan Loss Provision on Total Credit**

$$\text{Total Loan Loss Provision to Total Credit} = \frac{\text{Total Loan Loss Provision}}{\text{Total Credit}}$$

The loan loss provision is made for the safeguard of financial institutions from being bankrupt. The higher amount of loan loss provision ratio indicates that the particular financial institution is suffering from non-performing loan and NPA. The amount for loan loss provision is made by allocating certain % of amount from the net income earned by the financial institutions. Thus, higher loan loss provision also reduces the profit. The ratio having lower value is preferable.

### **Growth Rate**

$$\text{Growth of Deposit} = \frac{\text{Previous year Deposit} - \text{Current year Deposit}}{\text{Current Year Deposit}}$$

It gives idea about the increment in the amount of deposit in respect to last year. The aforesaid formula can also assess the increment rate of loan as well as other variables.

## **Banking Tools**

NRB is the authorized monitoring and supervising body that simultaneously evaluates the financial health of financial institutions. Every financial institution is liable to send their periodic financial statements as mentioned by it in prescribed formats. NRB weighs the weakness and strengths relating to them on basis of these statements. The appropriate directions are given to the concerned financial institutions for the correction of the faults and mistakes made by them. There exist various measurements for the evaluation of their financial status.

## **CAMEL Rating**

It is the most popular method of supervising financial institutions. The method is prescribed by BIS (Bank for International Settlement) and adopted world widely. The full form of the word “CAMELS” is (Rose, 2002):

C	=	Capital Adequacy
A	=	Asset Quality
M	=	Management Quality
E	=	Earnings
L	=	Liquidity –SLR and CRR
S	=	Sensitivity to Risk.

## **Capital Adequacy**

Every financial institution must be sound in term of capital base for its stability. The adequate capital ensures the deposit holders from the possible risk associated with the business. The sufficient capital base also enables financial institution for the additional loan out flow in various prescribed sectors. In sum, the capital adequacy promotes the depositor holders’ and creditors’ (if any) confidence on the financial institutions; loan availing capacity; enable to afford large portion of non performing asset and also uphold to enhance their goodwill and fame.

According to The Basel Capital Accord prepared by Basel Committee on Banking Supervision (BCBS), the capital adequacy is measured by classifying capital in two

levels: Tier 1 (Core) Capital and Tier 2 (Supplementary) capital elements. The norms in term of capital laid by NRB are revised time to time. (NRB website: www.nrb.org.np)

On the basis of the risk-weighted assets, the banks shall maintain the prescribed proportion of minimum capital fund as per the following table-

**Table 3.1**  
**Required Capital Fund on the basis of weighted risk assets**

Time Table	Required Capital Fund on the basis of weighted risk assets (in %)	
	Core Capital	Capital Fund
For FY 2066/67	6.00%	10.00%
For FY 2067/68	6.00%	10.00%

*Source: NRB Directives)*

### **Asset Quality**

Investments, Loan & Advances are the prime asset of any financial institutions. The major source of income of these financial institutions is generated from the returns obtained from these investments, loan & advances. Thus, they must be conscious about insolvency and bankruptcy.

### **Management Quality**

The success and failure of any organization are determined by efficiency and capability of its management set-up. Management team not only formulates optimum policy and organizational plans but also implements for the achievement of short term and long term objective. The structure of BOD, quality of human manpower, operational cost, management information system, internal control system, decision making procedure, adoption of directives are important determinants of the qualitative management. The negative indication of C, A, E & L signals inefficiency of any management team.

### **Earning**

The earning & income status of any financial institution is indication of their success. The optimum utilization of the available fund, the recovery of principle and interest, return of the investment affects the earning position of financial organizations. The earning status also guarantee for the organizational stability. The earning position can be assessed by examination of the financial statement prepared at the end of the fiscal year.

In this connection, the earning generation capacity and its future trend of various variables can be also evaluated from it. The earning ascertains dividend to shareholders, bonus to employee and tax to government. Every CB's are directed to allocate certain amount of income in General Reserve for the gradual increment in Capital fund.

### **Liquidity**

The liquidity position of any financial institutions determines their capacity to meet their current financial obligations without any difficulty. Every financial institution must be enabling to refund the deposited amount to every deposit holders as per the demand made by them. These financial institutions are bound to maintain statutory liquid asset as per the direction of central bank i.e. NRB. The liquid asset maintained by these financial institutions is examined by the central bank by below mentioned ways: i) On-Site Inspection ii) Special Inspection iii) Follow up Inspection iv) Off-Site Inspection.

Now a day, Nepalese banking industries has been witnessing a tough liquidity crunch. The inter bank lending rate has gone up as high as 12%. CBs are hardly maintaining the CD ratio prescribed by NRB.

### **Performance Rating**

Under this Method, each and every five components of CAMEL are assigned certain numerical value for Quantitative Rating. This method is also referred as Component Rating System because of the different rating of each component. During course of rating, these components are assigned maximum scale of 5 and minimum scale of 1 according to their position & condition. If any component of any financial institutions is found the excellent then number 1 is provided for it. The number 1 indicates the very strong performance of the understudied aspect. Similarly, number 5 is given to the components whose performances are very unsatisfactory and need of immediate corrective action to check it from bankruptcy.

### **Overall Composite Rating**

This is single rating system and calculated by multiplying the performance rating obtained to the weight assigned to various components. According to BIS standard, the following weights are given to each component:

- i. 25% to Capital

- ii. 25% to Asset Quality
- iii. 25% to Management Quality
- iv. 15% to Earning Status
- v. 10% to Liquidity

Thus, the formula for calculation of composite rating as per BIS norms is given by,

$$\text{Composite Rating} = (25\%) \text{ Capital} + (25\%) \text{ Asset} + (25\%) \text{ Management} \\ + (15\%) \text{ Earning} + (10\%) \text{ Liquidity}$$

The weight for each component varies from 1 to 5 depending upon their position and condition. The following number is given to each component on the below mentioned condition:

- i. Number 1: the excellent situation
- ii. Number 2: little bit well than average situation in which FIs are having their attention towards the risk.
- iii. Number 3: the qualitative level are in decreasing stage and need of corrective action
- iv. Number 4: unsatisfactory situation, it should be checked at time otherwise there exist high possibility of bankrupt in future.
- v. Number 5: extremely unsatisfactory situation, FIs will bankrupt at any time if corrective action not initiated.

### **Decision**

The composite rating having minimum value is preferable to maximum value

### **Spread Rate**

This rate used to be one of the regulating measure adopted by NRB for the performance of commercial banks. The spread rate having lower value demonstrates the higher efficiency in term of handling deposit and lending. The higher operating expenses and deposit handling cost collectively boost the interest-spread rate of the particular FI. The financial institutions having lower interest spread rate is preferable as it enables the general people to acquire comparatively higher interest rate on deposit and lower interest rate on loan withdrawn. The lower interest spread rate also enables to enhance the competitive position of the particular financial institutions.

### **Method of Calculation of the Spread as prescribed by NRB:**

- a. The interest spread has to be calculated on the basis of the interest paid on all deposits in Nepalese Rupee as well as Foreign Currency and Interest earned on Nepalese Rupee and Foreign Currency lending, investments, money at call as well as balance held in foreign nostro accounts.
- b. For the purpose of obtaining average weighted deposit rate, the interest expenses for the particular period shall be divided by the monthly average deposit of the same period with the quotient multiplied by 100. The deposit amount should include all types of deposits, meaning Current, Saving, Fixed, Call deposit and other deposits, including deposits in foreign currency.
- c. Similarly, for the purpose of obtaining average weighted loan rate, the interest income from lending, investment, money at call and foreign nostro account for a particular period shall be divided by the monthly average balances (of loan, investment, money at call and foreign nostro accounts) of the same period with the quotient multiplied by 100. For the purpose of consideration of average loans and advances, only interest bearing loan, investment, money at call and balances held in foreign nostro accounts shall be considered. The inter-bank lending shall not be included for the purpose.
- d. Despite the above methodology, the deposit and lending amount could not obtain in monthly data so the annual data is used for the purpose of analysis.

The difference between the weighted average lending rate and the weighted average deposit rate is the Weighted Interest Spread. It can be expressed as:

### **Interest Spread Rate= WALR- WADR**

Where, WALR= Weighted Average Lending Rate and

WADR= Weighted Average Deposit Rate

### **3.4 Limitation of the Research Methodology**

- ) Only the selected financial tools have been used in this thesis.
- ) Researcher depends on both the primary and secondary data i.e., Balance sheet, Profit and Loss Account of the banks and data provided by NRB.

- ) Sample taken by the researcher is only one.
- ) The study is based on the information provided by the organization and observation so the analysis is done on the basis of available information that may not present the real activities of the organization.
- ) Only the six years or in some case only four years data (2062/063,2063/064,2064/065,2065/066,2066/067 & 2067/068) have been collected to analyze the Loan Advances & Deposit position of the bank.
- ) The study is limited to only Everest Bank Limited. Findings or outcome of the study may not be generalized with any other banks.

# **CHAPTER- IV**

## **DATA PRESENTATION AND ANALYSIS**

### **4.2 Introduction**

This chapter deals with the presentation, analysis and interpretation of relevant data of EBL in order to fulfill the objectives of this study. To obtain the best result, the data have been analyzed according to the research methodology as mentioned in third chapter. A report can be worthless if interpretation is faulty, even if valid and reliable data have been collected.

The data after collection has to be processed and analyzed in accordance with the outline laid down for the purpose at the time of developing the research plan. The purpose of this chapter is to introduce to the mechanics of data analysis and interpretation. Data analysis is the relationships or differences supporting or conflicting with original or new hypothesis should be subjected to statistical tests of significance to determine with what validity data can be served to indicate any conclusion.

With the help of this analysis, efforts have been made to highlight Loan, Advances and Deposit of EBL as well as other cases of problems of EBL can be visualized. The main objective of the study is to examine the existing policies and practices of Loan & Advances of Everest Bank Limited.

### **4.2 Loan and Advances of EBL**

In order to enhance and strengthen the Loan and Advance management of the Bank, Everest Bank Limited has implemented various Loan policies and practices with consent to NRB rules and regulation before the Loan proposal or appraisal is being made and after the Loan exposure has been sanctioned to the borrower.

Loan proposals in favor of borrowers will be considered by various officers of the Bank in accordance with the broad guidelines laid down in this circular. Nepal Rastra Bank's guidelines/norms regarding lending by Bank's in Nepal have been kept in view while formulating the guideline

## **Prior to the Approval of Loan Facilities**

Incumbent In-charge of branches will exercise the loaning powers vested in them subject to compliance of these guidelines and subsequent circulars to be issued from time to time. These guidelines will be applicable for advances of Rs. 1.00 lac and above.

### **A. Disposal of Loan Applications at Branch/HO Level**

- i. Borrowers will be required to fill the prescribed loan application form (**Annex-i**) at the branch where the facilities are proposed to be availed, giving complete information. No column of the application form is to be left blank and in case nothing is to be reported against any column, NIL or NA is to be mentioned. Application received will be entered in "Loan Application Receipt & Disposal Register" and date of receipt recorded therein.
- ii. Detailed appraisal note as per (**Annex-ii**) will be prepared by Branch and proposals falling within the powers of the Branch Manager will be sanctioned by him at the recommendation of another officer in Branch. Proposals falling beyond the powers of the Branch will be forwarded to Head Office for consideration.
- iii. Loan proposals received at Head Office will be handled and scrutinized by Loan Officer and entered in "Loan Application Receipt and Disposal Register" at Head Office. The proposal will be put up by Loan Officer to the Deputy General Manager, In-charge of Loan, who in turn will dispose off the proposals falling within his power and put-up higher proposals to the Chief Executive Officer (CEO). Likewise, CEO will dispose off the proposals within his powers and mark the proposals beyond his power to the Management Committee or the Board, as the case may be. In the absence of CEO, DGM (Credit) will mark the proposals to the Management Committee/Board.
- iv. The following time frame has been laid down for disposal of the loan applications and delays beyond the prescribed period will have to be explained both at Branch as well as Head Office Level:

<b>Activity</b>	<b>Time Frame</b>
Preliminary appraisal including site visit/trade of inquiries, raising of observations at the branch level.	Two weeks from the receipt application.
Preparation of Loan Appraisal Note and submission to Head Office.	Further one week.
Scrutiny at Head Office and raising of queries, if any	One week from receipt at Head Office
Preparation of appraisal note and conveying of decision to the branch.	Further one week.

Thus, all Loan proposals must be disposed off within a maximum period of 5 weeks except proposals falling in the powers of Management Committee/Board which may be delayed further to some extent, depending upon the date of next Management Committee/Board meeting.

It is however, clarified that the above time frame is the maximum and all efforts must be made to dispose off the loan proposals as quickly as possible.

v. At the end of each month, branches will submit a "Limits Sanctioned Statement" (**Annex iii**) to Head Office reporting all advances sanctioned including small loans of less than Rs.1.00 lac so as to reach Head Office by the seventh of the following month. Officer (Loan) and DGM will scrutinize these statements and put up a consolidated statement including Limits Sanctioned at Head Office to the Board through ED. Observations on limits sanctioned by Branches will be conveyed to the branches for taking corrective steps, if any.

## **B. Financial Statements/Documents to be submitted Along With Loan Application**

### **Forms:**

Loan applications can be of two type's viz. for meeting the Working Capital requirements of the borrower and the other for acquisition of any Capital Assets. The following information/statements will be obtained from the borrower for processing the application.

### **Application for Working Capital facilities**

- )] Memorandum & Articles of Association or Partnership deed duly attested by the borrower.
- )] Last three year's audited Profit and Loss Account and Balance Sheet/current year's estimated and following year's projected P&L and Balance Sheet.

- J Asset and Liabilities Statement of promoter directors/partners/proprietor as on the latest financial year end.
- J Assets and Liabilities Statement or Balance Sheet of any other person/firm/company proposed as guarantor.
- J Copies of title deeds of immovable properties shown in Assets in any of the statements referred above.
- J Profile of borrowers covering experience and qualification of promoters, industry/commodity profile, market and future prospects etc.
- J Names of existing or other bankers and details of facilities sanctioned.
- J Copy of registration certificate with Industries, Department or Department of Cottage and Small Industries, as the case may be.
- J Copy of Income Tax registration certificate.

#### **Application for Term Loans**

In addition to the above requirements as in the case of Working Capital facilities, the following additional statements/information is required to be submitted:

- J Project report covering all aspects of the project including Total Cost of Project and Means of Financing with supporting documents such as estimates/quotations etc. for land & building and plant and machinery etc.
- J Copies of all approvals from GON or Nepal Rastra Bank, if any.
- J Copies of collaboration agreement, MOU etc., if any.
- J Projected financial statements such as Profit & Loss A/C, Balance Sheet and Funds Flow statements for the entire repayment period.

The above mentioned application form is submitted in case of overdraft and term loan facility obtained by the firm/industry/company. But for individual schematic loan such as education loan, vehicle loan, housing loan, home equity loan, professional loan etc. bank has its own application format. Beside the application form the customer have to submit the following documents as required by the bank for further loan processing in any type of loan.

## **Land Papers**

- i. Lal Purja
- ii. Char Killa
- iii. Rajinama Paper
- iv. Blue Print
- v. House Map and Its Approval.
- vi. Citizenship certificate
- vii. Bio Data
- viii. Estimation of Building

## **Income Source related Papers.**

- i. Last two years balance sheet and
- ii. one year projected Balance sheet
- iii. Salary certificate if employed
- iv. Firm Registration with its renewal
- v. PAN/Vat certificate
- vi. Tax Clearance

## **For Educational Loan**

- i. Academic certificate of the student
- ii. Two references from the college
- iii. Fee structure of the university
- iv. Offer letter from university
- v. Photocopy of Passport with Visa

All the charges occurred during the loan processing period have to born by the customer itself. The charges to be born by customers are as follows:

- i. Registration Pass at Malpot
- ii. Insurance premium up to Loan period to be paid by customer.
- iii. Valuation charges
- iv. Loan Processing Charge as prescribed by the bank.

## **Broad Financial Parameters for Considerations of Loan Proposals**

### **i. Debt Equity Ratio (Long Term Debt to Equity)**

This should generally be not more than 1.5:1. However, higher debt equity of upto 2:1 can be considered in deserving cases. In case of Term Loan proposals, at least 20% of the total project cost should be contributed by promoter or their friends/relatives to ensure sufficient stake of the promoters in the venture.

### **ii. Current Ratio**

It should be not less than 1.33:1 to ensure adequate Working Capital Margin.

### **iii. Profitability Ratio**

Profitability ratio should be in keeping with the industry trend.

### **iv. Debt Service Coverage Ratio:**

In case of Term Loan proposals average projected DSCR (Debt Service Coverage Ratio) should be in the range of 1.5 to 2.

v. Projected sales and projected level of Current assets including inventory and receivables on the basis of which Working Capital facilities are to be assessed, must be reasonable and in the keeping with the past trends and deviations, if any to be suitably explained.

vi. Classification of assets and liabilities into Current Assets and Current Liabilities must be critically examined at the time of appraisal. Old stocks and old book-debts/receivables should be classified as non-current assets while making assessment of Working Capital requirement.

## **Rate of Interest**

Bank will publish its lending rate at the beginning of each quarter and the rates to be charged from the borrowers will be within a band of 1% depending upon the credit rating of the borrower on the basis of compliance of the parameters as given in (**Annex- IV**).

Compliance of parameters (as provided in Annex-IV) as under:

<b>Aggregate Score</b>	<b>Rating</b>	<b>Rates of Interest</b>
Compliance of 7 out of 7 parameters	AA	1% less than the published rate
Compliance of 6 out of 7 parameters	A+	Published rate
Compliance of 5 out of 7 parameters rate	A	0.5% over published
Compliance of 4 and less out of 7 parameters	B	1% over published rate

**Note:-**

- i. Borrowers establishing new projects will be initially allotted "B" rating for application of interest rates till their working are stabilized and all parameters become applicable to the Account.
- ii. Interest will be charged on quarterly basis.

### **NRB Guidelines Regarding Single Obligor's Limit & Reporting to Credit Information Bureau (CIB)**

NRB's regulations regarding single obligor limit will be strictly observed. The present limit to a single borrower or to the companies within the same group is as under:

Fund based Facilities--35% of Bank's Capital Fund

Non-fund based Facilities -- 50% of Bank's Capital Fund

#### **Note:**

Capital Fund includes: Paid up capital, statutory reserves fund, undistributed profits and other funds or accounts as specified by NRB less accumulated losses.

### **Obtaining Credit Information of the Customer**

Before sanction of limit to any borrower, information must be obtained from CIB to ensure that the borrower is not in the Black/Defaulters' list of CIB.

The bank obtains the credit information of the customer prior to extension or renewal, restructuring or rescheduling of loans of Rs 1,000,000.00 (One Million) or more. Such type of information is provided by the Credit Information Centre, Kamaladi, Kathmandu. For information below rupees one million the bank obtains the credit information from local agencies or as specified or instructed by the Head Office.

The information obtained from the CIC, Kamaladi is treated as most reliable source of obtaining credit information of the customer. Where the information from the centre is received in course of extension of credit facilities to any customer, information from other agencies is not required. The providers of sources of information to the credit centre are the users to the information too.

### **Collateral Security**

Though it is not a pre-requisite for sanction of a Loan proposal, it is desirable that initially only the Loan proposals should be considered which are backed by sufficient collateral security by way of mortgage of land and building or pledge of other assets of value. However, deserving proposals can also be considered without collateral on merits of the case.

### **Post Sanction Monitoring**

The loan documents for each facility should be obtained and formalities regarding creation of mortgages or pledge of other securities must be completed before release of facilities. Documents for facilities of Rs.10 lac and above should be got approved from Bank's Legal Officer or Bank's approved counsel.

- J All securities of the Bank such as stocks, plant/machinery, other assets, building etc. must be insured comprehensively at borrower's cost in the name of the Bank and the Borrower.
- J Working Capital facilities will be sanctioned subject to renewal after one year and renewal process should be started well in time and at least one month before the due date.
- J In the case of facilities against hypothecation over stocks, borrower will submit the statement of stocks hypothecated to the bank at the end of each month to be submitted latest by 15th of the following month. The stocks shown in the statement must tally with the stock record in the books of the borrowers which must be verified by the bank officials at least once a quarter at irregular intervals. Checking of stocks physically will also be done during such visits by bank Officials.
- J Borrowers must submit provisional and audited balance sheet within two months and six months respectively from the close of accounting year failing which penal interest of 2% per annum will be charged for the period of delay. In addition, data relating to production, sales etc. will be submitted every quarter within 15 days from the close of the quarter.
- J Branches will submit quarterly review sheet in respect of all borrower accounts with limit of Rs. 1 lac and above at the end of each quarter (Ashad, Ashwin, Poush, Chaitra) within one month from the close of the quarter in the pro-forma given in

**(Annex-V).** Action will be initiated for rectification of any shortcomings/irregularities observed in the review sheet promptly. The quarterly review sheet will also be accompanied by a report on availment of each facility sanctioned i.e. the extent of availment, interest and non-interest income earned by the bank during the quarter. Reasons for low availment or lower income in the account will be properly explained by the Branches.

- J Availment of facilities will be allowed within sanctioned limit and any temporary/excess accommodation to meet exigencies will be permitted only in consultation with the sanctioning authority or the authority in whose power such enhanced facility falls.
- J All efforts are to be made to recover the interest/installment in the borrower accounts on the due date/within time period permitted. In case of non-recovery for any reason whatsoever, such accounts are to be treated irregular and a monthly "statements of irregular accounts" will be submitted to Head Office by Branches within 7 days from the close of the month.
- J Branches will strictly comply with the terms and condition of sanction in all cases. However, in case of relaxation of any stipulation in the sanction letter is required, prior consent of the sanctioning authority will necessarily be obtained.
- J Sanction letter will be issued to the borrower by the branch in original and duplicate copy will be returned to the branch by the borrower after affixing their unqualified acceptance. This acceptance will form part of the documentation and will be filed with other loan documents.

### **Reporting to Higher Authorities**

Reporting is made from the branch level to its Head Office. Beside these the bank also reports to NRB as per the requirements. The Head Office reports the overall financial standing position of the customers and borrowers to NRB on the basis of information provided by the various branches. From the branch level the bank makes the reports on weekly, monthly, quarterly and yearly basis and such other reports as prescribed by the higher authorities. The same report is presented in the consolidated form by Head Office after collecting information from the branch and is forwarded to NRB.

The bank prepares the following reports and submits to higher authorities for necessary decision making.

**) On Weekly Basis:**

- i. Foreign Exchange Risk Monitoring Statement.
- ii. Weekly Statistics on the Convertible Foreign Exchange Reserve.
- iii. Liquidity Report.
- iv. Weekly Key Parameters of Balance Sheet.
- v. Loan outstanding of borrowers.

**) On Monthly Basis:**

- i. Assets and liabilities report
- ii. Position of big borrowers and depositors
- iii. Profit & Loss Account and Balance Sheet
- iv. Priority, Non Priority and Deprived sector lending position
- v. Interest rate yield on advances and deposits
- vi. Sector wise loan outstanding
- vii. Security wise loan and advances

**) On Quarterly Basis:**

- i. Credit concentration of single sector of economy
- ii. Liquidity risks
- iii. Loan and advances provisioning

**) On Yearly Basis:**

- i. Financial directives

And such other reports as submitted on the basis of monthly and quarterly and as per the additional requirements of the Head Office as well as NRB.

#### **4.4 Processing of Loan Applications**

The processing of loan application is provided by the NRB to the credits related to industrial project, services and priority sector. This guideline is not made applicable to commercial credits, advances against security of gold/silver.

### **A. Time Frame**

All commercial banks are requested to speedily process the loan applications received, and complete such processing within one month from the date of receipt of the application. The prescribed time frame by NRB for loan application processing is as follows.

<b>Activities</b>	<b>Time Frame for Action</b>
1. Ascertain of appropriateness of documents/information.	Within one week from the date of receipt of application
2. Issue of letter to customer intimating to furnish additional documents/information within one week, failing which his application will be treated as cancelled.	Within another week
3. Complete credit analysis for customers fulfilling all requirements	Within one week from receipt of full document/information
4. Take decision on loan approval	Within another one week
5. Issue of offer letter to the customer	Within two days of approval

### **B. Notification of rejection of Application**

Where an application for loan is rejected the concerned customer should be notified duly assigning the reasons for such rejection within one week from the date of receipt of application.

### **C. Return regarding rejections of Application**

Return of all rejected loan application should be filed with NRB, Department of Inspection and Supervision in the prescribed format as mentioned below.

<b>Particulars</b>	<b>Number of Account</b>	<b>Amount</b>	<b>Remarks</b>
Approved Loan			
Rejected Loan			
Reasons for rejection			
1. Insufficient documents/information			
2. Budgetary constraints			
3. Not within bank's credit line activities			
4. Commercially non-feasible			
5. Technically non-feasible			
6. Insufficient collateral			
7. Others (Specify)			

## Test of Compliance of NRB Directives

### Capital Adequacy

On basis of actual capital maintained by EBL on respective years to the capital as prescribed by NRB, one can easily know that whether EBL is complying the directive in this regard or not. For the purpose, the data of five years are presented as below:

**Table 4.1**  
**Showing Capital Adequacy Test of EBL**

(Rs in Million)

For Core Capital (% of total risk assets)	Time Table				
	2062/63 (5.50%)	2063/64 (5.50%)	2064/65 (5.50%)	2065/66 (6.00%)	2066/67 (6.00%)
Required Core Capital as per NRB	621.01	823.72	1157.19	1,447.92	1,534.80
Actual Core Capital	927.55	1171.13	1,900.86	1,981.58	2147.83
<b>Result</b>	<b>Complied</b>	<b>Complied</b>	<b>Complied</b>	<b>Complied</b>	<b>Complied</b>
<b>For Overall Capital</b>	<b>11.00%</b>	<b>11.00%</b>	<b>11.00%</b>	<b>10.00%</b>	<b>10.00%</b>
Required Total Capital as per NRB	1,242.02	1,647.44	2314.38	2,561.97	2818.17
Actual Capital Fund	1,391.33	1,676.12	2406.06	2,703.87	3257.14
<b>Result</b>	<b>Complied</b>	<b>Complied</b>	<b>Complied</b>	<b>Complied</b>	<b>Complied</b>

*Source: Everest Bank Annual Reports*

EBL is authorized to have transaction in foreign currency so that the bank could provide service to tourist and Nepalese working aboard. At the same time, they earn two types of earning from foreign exchange.

- a) Trading gain:
- b) Revaluation gain:

In earning obtained from second type of gain, every Commercial Banks have to allocate 25% of its earning in Exchange Equalization Reserve. Such reserve of EBL is in increasing trend which portrays that EBL is efficiently handling the foreign currency.

NRB has instructed & compelled to allocation of certain amount on loan loss provision fund on basis of ageing of interest payment made by the loan party. The banks having lower amount of loan loss provision is due to lower and decreasing amount of bad loan and NBA. Loan loss provision fund is maintained to compensate the banks from possible default of loan floated. It is the fact that loan loss provision fund contribute in

building capital and amplifies the capital base of banks but it also indicates that the greater amount of the loan provided by those banks are in non performing situation. The free reserves are those reserves that are not allocated for specific purpose prescribed by NRB. The greater amount of free reserve improves the solvency position of bank as it magnifies the capital base of the bank.

The core capital of CBs must be at least up to 6.00% of total risk asset held by them. As per the requirement, EBL has maintain Rs.927.55 million in FY 2062/63, 1171.13 million in FY 2063/064, 1900.86 million in FY 2064/065, 1981.58 million in FY 2065/066 and 2147.83 million in FY 2066/067 core capital respectively. It portrays that EBL has complied NRB requirement of core capital adequacy.

Another requirement relating to capital adequacy is the overall capital. CBs must maintain its overall capital at least 10% of total risk assets. The actual overall capital fund of EBL is more than as specified by NRB. The actual capital funds have been found to be Rs. 1391.34 million in FY 2062/063, Rs 1676.12 million in FY 2063/064, Rs. 2406.06 million in FY 2064/065, Rs. 2703.87 million in FY 2065/066 and Rs.3257.14 million in FY 2066/067 respectively. The actual capital funds of EBL were more than prescribed by NRB in five years. It portrays that EBL has complied NRB requirement of capital adequacy.

Apart from above analysis of the capital adequacy ratios, capital to total risk asset ratio of five year are also discussed as below:

**Table 4.2**  
**Showing Capital Adequacy Ratios**

(Rs. in Million)

Particulars	EBL				
	Ashad 2063	Ashad 2064	Ashad 2065	Ashad 2066	Ashad 2067
Core Capital	927.55	1171.13	1900.86	1,981.58	2147.83
Capital Fund	1,391.34	1,676.12	2406.06	2,703.87	3257.14
Total risk Assets	11291.14	14976.74	21039.88	24131.92	27556.35
Core Capital/Total risk Assets	8.21%	7.82%	9.03%	8.21%	7.80%
Capital/ total Risk Assets	12.32 %	11.20%	11.44%	11.20%	11.82%
Excess in Total Capital Fund	1.32%	0.20%	0.44%	1.20%	1.20%
Excess in Core Capital	2.71%	2.32%	3.53%	2.21%	2.21%

Source: EBL Annual Report

In table 4.2, CAR (Capital Adequacy Ratio) in Core Capital of EBL has been found 8.21%, 7.82%, 9.03%, 8.21% & 7.80% of total risk asset in Aashad 2063-Aashad 2067 respectively whereas the Capital Adequacy Ratio in terms of capital fund has been found 12.32%, 11.20%, 11.44%, 11.20% and 11.82% of total risk asset in Aashad 2063-Aashad 2067. Nepal Rastra Bank earlier provided that the Capital Adequacy ratio should be 11%. This has since been reduced to 10% from the financial year 2066/067. The EBL Capital Adequacy ratio stands at 11.20%, inclusive of provision of 30% dividend as bonus share. It clearly gives sense that EBL has complied NRB directive of capital adequacy ratio in all four year.

### Loan Classification and Provisioning

**Table 4.3**

**The classification and provisioning of Non-performing Assets of Everest Bank limited for the period of 6 years (FY 2063-2068) as per the NRB guidelines**

(Rs in Million)

S.No.	Particulars	Asadh 2063			Asadh 2064		
		Amount	%	Provision	Amount	%	Provision
1	Pass Loan	9757.20	96.26	97.57	13750.62	97.64	137.51
2	Sub-standard Loan	10.67	0.11	3.17	4.22	0.03	1.06
3	Doubtful Loan	0.68	0.01	0.68	2.35	0.02	1.18
4	Loss Loan	117.88	1.16	117.88	106.61	0.76	106.61
	<b>Total NPA (2+3+4)</b>	<b>129.23</b>	<b>1.28</b>	<b>121.73</b>	<b>113.18</b>	<b>0.81</b>	<b>108.85</b>
5	Rescheduled Loan	249.82	2.45	31.23	218.88	1.55	27.36
		Extra Provision		84.41	Extra Provision		144.90
	Total of (2+3+4+5)	379.05	3.73	237.37	332.06	2.36	281.11
	<b>Grand Total</b>	<b>10136.25</b>	<b>100</b>	<b>334.94</b>	<b>14082.68</b>	<b>100</b>	<b>418.62</b>

S.No.	Particulars	Asadh 2065			Asadh 2066		
		Amount	%	Provision	Amount	%	Provision
1	Pass Loan	18555.27	98.51	185.55	24248.59	99.10	242.49
2	Sub-standard Loan	6.31	0.03	1.58	1.36	0.005	0.34
3	Doubtful Loan	0.75	0.004	0.37	28.51	0.12	14.26
4	Loss Loan	120.26	0.64	120.26	88.11	0.36	88.11
	<b>Total NPA</b>	<b>127.32</b>	<b>0.67</b>	<b>122.21</b>	<b>117.98</b>	<b>0.485</b>	<b>102.71</b>
5	Rescheduled Loan	153.85	0.82	19.23	102.98	0.42	12.87
		Extra Provision		170.35	Extra Provision		226.82
	Total of (2+3+4+5)	281.17	1.49	311.79	220.96	0.905	342.40
	<b>Grand Total</b>	<b>18836.44</b>	<b>100</b>	<b>497.34</b>	<b>24469.55</b>	<b>100</b>	<b>584.89</b>

S. No	Particulars	Asadh 2067			Asadh 2068		
		Amount	%	Provision	Amount	%	Provision
1	Pass Loan	28030.84	99.55	280.31	31553.32	99.66	315.53
2	Sub-standard Loan	5.47	0.02	1.37	72.92	0.23	0.18
3	Doubtful Loan	12.63	0.04	6.32	4.41	0.013	2.20
4	Loss Loan	25.60	0.09	25.60	16.97	0.053	16.97
	<b>Total NPA</b>	<b>43.70</b>	<b>0.16</b>	<b>32.29</b>	<b>94.3</b>	<b>0.30</b>	<b>19.35</b>
5	Rescheduled Loan	81.85	0.29	10.23	14.20	0.003	1.78
		Extra Provision		226.82	Extra Provision		276.22
	Total of (2+3+4+5)	125.55	0.45	270.34	108.5	0.303	297.35
	<b>Grand Total</b>	<b>28156.40</b>	<b>100</b>	<b>550.65</b>	<b>31661.82</b>	<b>100</b>	<b>612.88</b>

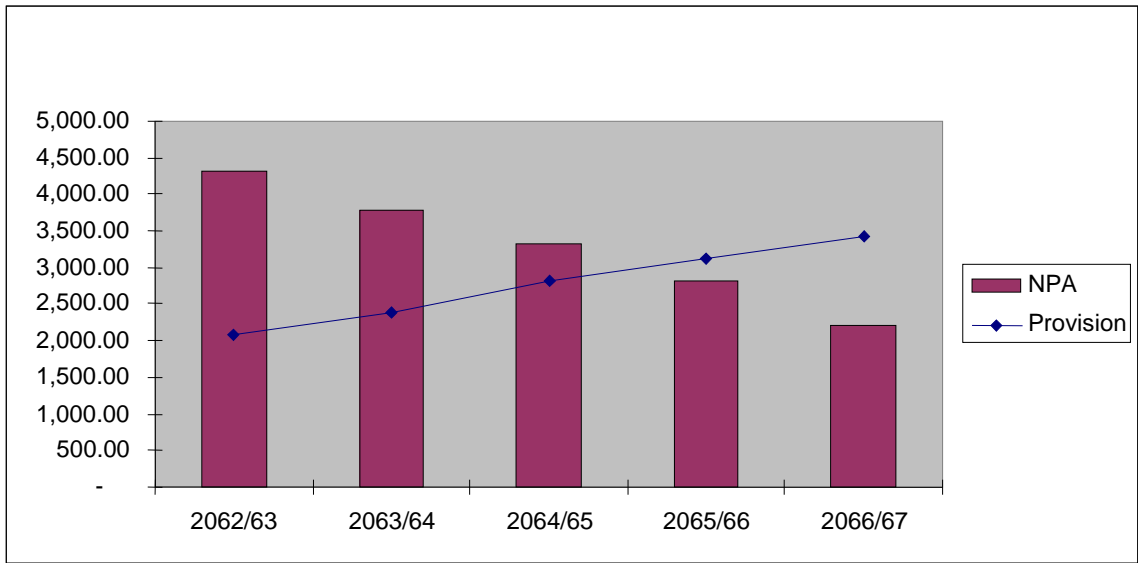
Source: EBL's Annual Report 067/068

- J Gross non-performing assets (including substandard, doubtful, loss and rescheduled accounts) constitute 0.94% of the total credit as on Ashad end 2067 against 0.98% of Ashad 2066, 1.49% of Ashad 2065, 2.36% of Ashad 2064 and 3.72% of Ashad 2063. This shows that the percentage of non-performing assets of the total credit is in decreasing trend and very low as compared to industry trend.
- J The Gross Non performing Assets excluding rescheduled accounts is 0.34% as on Asadh 2068 against 0.48% for the year ended Ashad 2066, 0.48% for Ashad 2066, 0.67% for the year ended Ashad 2065, 0.81% for the year ended Ashad 2064 and 1.27% for the year ended Ashad 2063.
- J Against the non performing Assets of Rs 129.24 million the provision have been made of Rs 121.74 million i.e. 96.26% for the period of Ashad 2063. Non performing Assets of Rs 113.18 million the provision have made of Rs 108.84 million i.e. 97.64 % for the period of Ashad 2064. Non performing Assets of Rs 127.31 million the provision have been made of Rs 122.21 million i.e. 95.99% for the period of Ashad 2065. Non performing Assets of Rs 117.98 million the provision have been made of Rs 102.71 million i.e. 99.10% for the period of Ashad 2066 and Non performing Assets of Rs 43.70 million the provision have been made of Rs 32.06 million i.e. 98.02 % for the period of Ashad 2067. As per the NRB guidelines Loan loss provision of 25% on Substandard Loan, 50% on Doubtful Loan

and 100% on Loss Loan, the figure shows that EBL has followed the NRB guidelines.

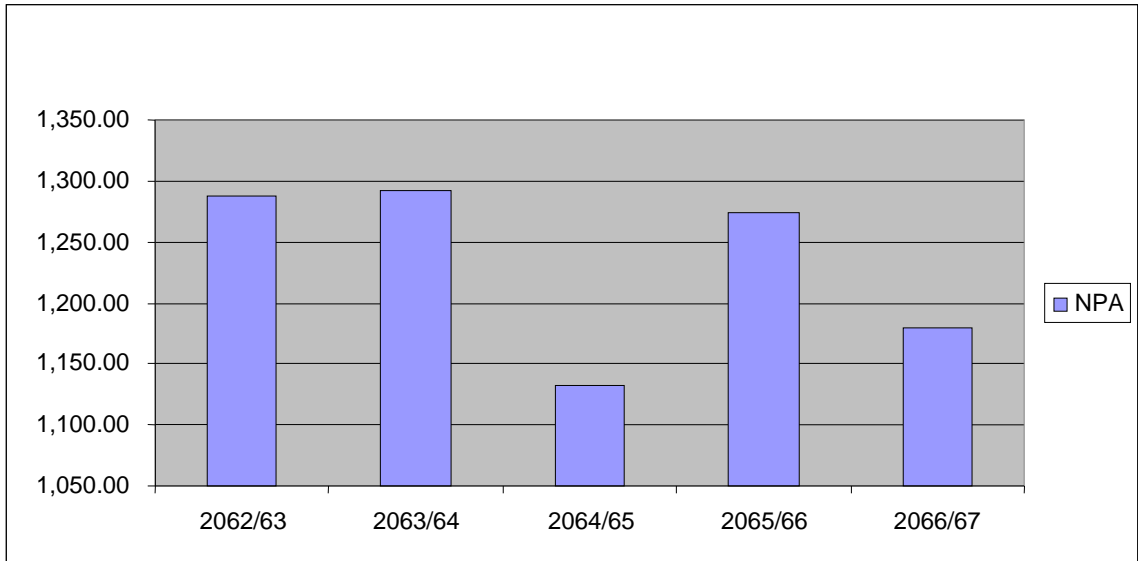
J The ratio of Net Non -performing Assets (All NPA-provision) and Net credit (total credit-provision) was 1.45% (including rescheduled accounts) in FY 2063, 1.43 % in FY 2064, 0.76% in FY 2065, 0.44% in FY 2066 and 0.32% in FY 2067.

**Figure 4.1**  
**Non Performing Loans & Provision**



*Source: EBL's Annual Report*

**Figure 4.2**  
**Gross NPA Excluding Reschedule Account**



On the basis of financial result published, Gross NPA Percentage of different banks as at the end of Ashad 2067 is as under:

**Table 4.4**  
**Gross NPA of Different Banks**

S.No.	Name of Commercial Banks	Gross NPA (%age) Ashad 2067 (Audited)
1	Nepal Bank Limited	5.91%
2	Rastriya Banijya Bank	15.68%
3	Nabil Bank Limited	0.80%
4	Nepal Investment Bank Limited	0.58%
5	Standard Chartered Bank Nepal Limited	0.66%
6	Himalayan Bank Limited	2.16%
7	Nepal SBI Bank Limited	2.02%
8	NB Bank Limited	19.30%
<b>9</b>	<b>Everest Bank Limited</b>	<b>0.16% (.34% in 068)</b>
10	Bank of Kathmandu Limited	1.27%
11	NCC Bank Limited	2.74%
12	NIC Bank Limited	0.90%
13	Lumbini Bank Limited	9.06%
14	Macchapuchre Bank Limited	2.75%
15	Kumari Bank Limited	0.43%
16	Laxmi Bank Limited	0.08%

17	Siddhartha Bank Limited	0.45%
18	Agriculture Development Bank	8.83%
19	Global Bank Limited	0.09%
20	Citizens Bank International limited	0.00%
22	Prime Commercial Bank Limited	0.00%
23	Sunrise bank Limited	0.15%
24	Bank of Asia Nepal Limited	0.01%
25	DCBL Bank Limited	1.59%
26	NMB Bank Limited	0.51%
27	Kist Bank Limited	0.20%

*Source: NRB Publications 066/07*

From above table, it is seen that EBL has maintained the non –performing loans at very low level. This portrays a sound Loan and Advance system of the bank. The highest non-performing loan among the CBs is of RBB followed by Lumbini bank, ADB and Nepal Bank Limited which have NPA more than 5%. NPA of above 2% is regarded as not satisfactory. Being a comparatively old bank in Nepal, EBL is able to reduce the NPA at similar level of new comers who have less numbers of matured loans in their portfolio. Citizens Bank International and Prime Commercial Banks have no NPA. However, their operation has not passed 3 years. Bank of Asia Nepal has NPA of 0.01% and Sunrise Bank 0.15%.

#### **4.4 Retail Lending Position of Everest Bank**

Everest bank has played an important role in implementing retail lending in Nepalese market. Till last decade, banking credit in Nepal was limited in business loan only. Everest bank is pioneer in starting housing loan to individual households. Similarly, EBL introduced Education loan, Home Equity Loan, Loan against future lease rentals, Professional loan etc.

Retail lending is important because it directly benefits to consumers. A borrower may en-cash his future earnings at present and may buy/build asset of his like because of this facility.

The performance of the Everest Bank in the area of retail lending is as under:

**Table 4.5**  
**Retail Lending Position of EBL**

(Rs in Million)

Retail Lending Schemes	Ashadh 62-63		Ashadh 63-64		Ashadh 64-65		Ashadh 65-66		Asadh 66-67	
	No	Amt.	No	Amt.	No	Amt.	No	Amt.	No	Amt.
Housing Loan	1886	1583	2321	2034	2622	2833	3065	3731	-	4131
Vehicle Loan	849	572	1135	785	1506	1089	1804	1428	-	-
Education Loan	342	161	518	253	491	244	478	233	-	208
Flexi Loan	446	899	748	1378	1482	3196	2214	5021	-	-
Others	19	19	24	24	506	144	716	110	-	6451
<b>Total Retail Lending</b>	<b>3542</b>	<b>3234</b>	<b>4746</b>	<b>4474</b>	<b>6607</b>	<b>7508</b>	<b>8227</b>	<b>10523</b>	<b>-</b>	<b>10790</b>
Total Credit	10136.25		<b>14098</b>		18836.43		24469.56		28156.40	
<b>% of Retail lending</b>	<b>31.90%</b>		<b>31.73%</b>		<b>39.86%</b>		<b>43.01%</b>		<b>38.32%</b>	

(Source: Monthly News Letter of EBL 066/067)

Total retail lending of EBL as per above table is Rs 10790 million as on Ashadh end 2067 against total loan portfolio of Rs 28156.40 million. It is 38.32% to total loan portfolio of the bank. The amount wise net retail lending was Rs 10523 million during the fiscal year 2065/066 as against Rs 7508 million in FY 2064/065. The retail loan of EBL is persistently increasing over the years. The retail loans are the credit facilities provided directly to the ultimate consumers. The increase in retail loan conveys the message of improvement in the living standard of the consumers provided the loans are serviced as per rule. From above table, the portion of retail loan in total credit of the bank is steadily increasing over the years. Therefore, we can say that the bank has been contributing to enhance the living standard of the common people of the nation.

#### **4.5 Analysis of Cost of Deposit Fund**

The interest rate spread is one of the indicators of financial intermediation efficiency of any CB's. Every financial institution pays certain prevailing interest rate on deposits and receive higher rate of interest from lending. The differential interest margin is basic incentive to FI's to cover their operational costs and contribute to the worth of equity holders. The determination of interest rate of the deposits and lending used to determine by government before 1989. Nowadays, these interest rates are more or less governed by the market forces. But it can't be neglected the fact that the differential rate is mostly

influenced by operational efficiencies and profit margin of FI's. NRB had issued various directives relating to interest rate spread to be maintained by CB's. In Sept. 1993, NRB directed the CB's to keep the spread rate below 6% and again in July 1998, NRB gave directive to CBs to lower their weighted interest rate spread within 5%. The interest rate spread shows the efficiency of CB's in term of cost of capital, Operational cost, Profit margin mentality etc. The higher interest rate spread indicate that depositors were getting low interest rate while borrowers were being punished with high interest charge curtailing the flow of loans to the export and industrial sectors or other productive projects. This situation retards the pace and process of economic development. The level of the spread also portrays the structural characteristics of the financial system of the nation. The structural characteristics comprise prudential norms laid by NRB such as CRR, NPAs of the banking system etc.

The interest-spread rate can be studied on two heads.

a) Unweighted interest spread rate

b) Weighted interest spread rate

a) Unweighted interest spread rate: It is the easiest way to find out and no need of further calculation. The difference between interest rate on deposit and lending gives the idea about unweighted interest spread rate.

b) Weighted interest spread rate: The weighted interest spread rate is the basis for the comparison of efficiency of any CB's. Generally, spread rate means weighted interest spread rate. It requires a little more mathematical calculations to obtain Interest paid on deposit, cost of deposit, interest earned in loan and advances, yield on advances etc. Those banks are termed as efficient bank that has lower weighted interest spread rate.

The table 4.6 shows the cost of deposit, lending rate and weighted spread interest rate of Everest Bank Limited for Six years from FY 062-63 to FY 067-68.

**Table 4.6**  
**Showing Cost of Deposit of EBL**

(Rs in million)						
Basis	FY 062-63	FY 063-64	FY 064-65	FY 065-66	FY 066-67	FY067-68

Deposit	13802.40	18186.20	23976.30	33322.90	36932.30	41127.91
Interest Expenses	401.40	517.20	632.60	1012.90	1572.80	2535.90
<b>CostofDeposit(%)</b>	<b>2.91</b>	<b>2.84</b>	<b>2.61</b>	<b>3.04</b>	<b>4.26</b>	6.16
Lending	10136.20	14082.70	18836.40	24469.60	28156.40	31661.8
Interest Income	1066.50	1378.70	1848.10	2565.30	3535.50	4331.03
<b>CostofLending(%)</b>	<b>10.52</b>	<b>9.80</b>	<b>9.81</b>	<b>10.48</b>	<b>12.56</b>	13.68
<b>WACD (%)</b>	<b>7.61</b>	<b>6.96</b>	<b>7.20</b>	<b>7.44</b>	<b>8.30</b>	7.52

*Source: EBL Annual Reports 067/068*

The figure portrays that the deposit rate and lending rate of EBL have shown mixed characteristics. The cost of deposit had reduced steadily until FY 2064-65. From FY 2065-66, it has again started to increase. Similarly, the cost of lending had also reduced until FY 2063-64. From FY 2064-65, it has started to increase. The Nepalese economy has been facing liquidity crises presently. The remittance has been regarded as a main source of money inflow in the national economy which has shown decrease in growth rate. The increased number of FIs may to face critical liquidity crunch in the days ahead. Therefore, the cost of deposit as well as the cost of lending is also likely to be increased.

On comparison of cost of deposit & cost of lending of EBL, the weighted average interest rate spread has been found to be in decreasing trend. From general public's point of view, it is better situation when FIs provide higher interest rate in deposit and charging lower interest rate on loan & advances. In fact, it is idle situation that is desired by society & government. NRB on behalf of government attempted to do on this regard. But now, the matter of interest-spread rate has been completely deregulated by NRB since our economy is facing toward market economy. It is believed that FIs will be in severe difficult situation when they charge higher interest on lending & provide lower interest on deposit i.e. higher interest spread rate. In market-oriented economy, customer will not prefer those FIs that have high interest spread. If any CBs try to gain by maintaining higher interest spread rate, they will find it difficult to sustain in the competitive money market. In fact, maintaining lower interest spread rate means possessing higher competitive position and higher financial intermediation efficiency. In money market,

there are same CB's those are forced to maintain higher spread interest rate because of higher cost of capital and large position of NPA level. In a situation where the level of non- performing asset of the bank is quite large, all the bad debts get translated in to higher interest rate for the borrowers & lower interest rate for the depositors. It is a clear symptom of financial & commercial inefficiency. In sum up, Darwin's principle of "Survival of Fittest" also fits in the banking sector. Our money market is being much more competitive and only those fittest FIs can only sustain or exist in the prevailing situation. It is no doubt to say that CB's having lower interest spread rate can only survive in financial environment otherwise it has to lose its existence.

#### **4.6 Analysis of Deposit, Loan & Advances and Investments**

The deposit of banks and FIs are raw material that is essential for the operation of its basic functions. The deposit must be sufficient to meet the demand of the loan seekers. Inadequate level of deposit hinders the growth of the particular financial institutions so various deposit schemes are introduced by various banks to get rid from deposit crunch.

**Table 4.7**

**Deposit, Loan & Advances and Investment Position of Everest Bank Ltd.**

(Rs in Million)

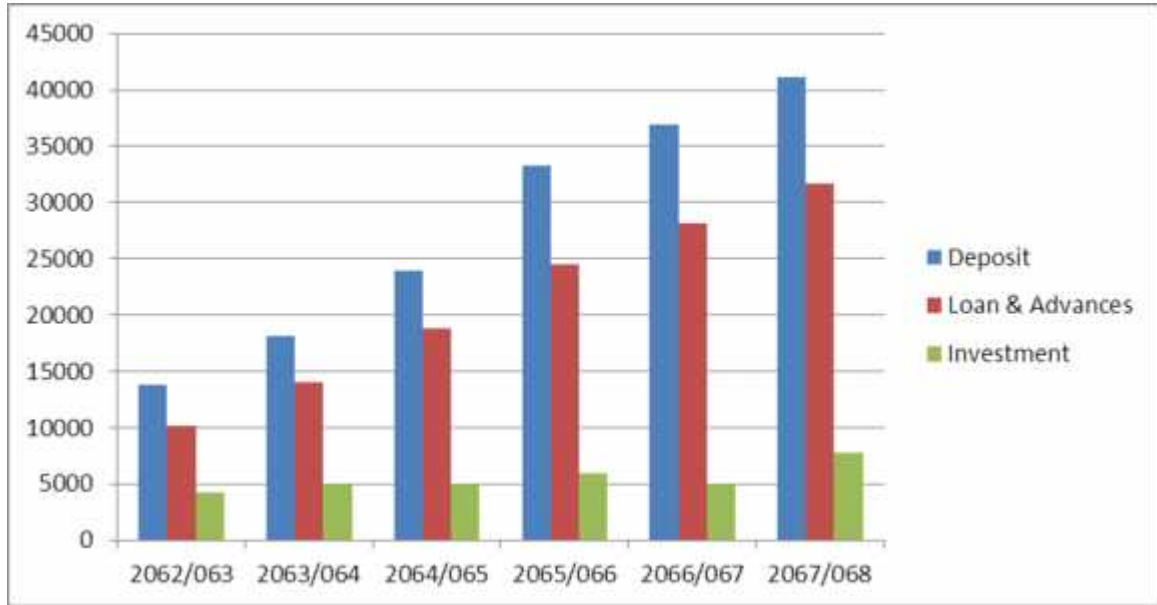
<b>Fiscal Year</b>	<b>2062/063</b>	<b>2063/064</b>	<b>2064/065</b>	<b>2065/066</b>	<b>2066/067</b>	<b>2067/068</b>
Deposit	13802.40	18186.25	23976.29	33322.95	36932.30	41127.90
Loan & Advances	10136.25	14082.69	18836.43	24469.56	28156.40	31661.80
Investments	4200.51	4984.31	5059.56	5948.48	5008.30	7743.90

Source-EBL Annual Reports 067/068

The Deposit, Loan & Advances and Investment of EBL are rising over the studied period as shown in table 4.7. Its deposit rose from Rs. 13802.40 million in 2062/063 to Rs. 41127.90 million till 2067/068 which was increased by 27325.5 million in Six years. The lending of the bank also regularly increased from Rs. 10136.25 million in FY 2062/63 to Rs. 31661.80 million till 2067/068 which was increased by 21525.55 million in Six years. Similarly the investments are also rising from Rs 4200.51 million in 2062/063 to Rs. 7743.90 million till 2067/068 which was increased by Rs 3543.39 million in six years. The Deposit, Loan & Advances and Investment of EBL are in increasing trend.

Figure 4.3

BarDiagram of Deposit, Loans & Advance & Investment Position of EBL



The above bar diagram, drawn on basis of table-4.9, reveals the comparative position of deposit and lending of EBL in respective years, which is steadily increasing.

#### 4.9 Analysis of Growth Rate of Deposit, Loan & Investments

It is essential to know the growth rate of various important variables to evaluate the performance of any organizations. The deposit, lending and Investments are key variables of banking sector and they have serious impact over the profitability of the FIs. Profitability can't be imaged without adequate amount of lending and lending is made on basis of capital base and its deposit accumulated. The data of deposit collected by EBL is given below:

**Table 4.8**  
**Showing Deposit & Loan and Advances Growing Rate of EBL**

(Rs. In million)

FY	2062/063	2063/064	2064/065	2065/066	2066/067	2067/068
Deposit	13802.40	18186.25	23976.29	33322.95	36932.30	41127.9
Growth Rate	-	31.76%	31.84%	38.98%	10.83%	11.36%
Loan & Advances	10136.25	14082.69	18836.43	24469.56	28156.40	31661.8
Growth Rate	-	38.93%	33.76%	29.91%	15.07%	12.45%

Source: EBL Annual Reports 067/068

The deposit of EBL is growing steadily in the above studied period of time. Its growth rate in 2065/066 found highest i.e. 38.98% and lowest in 2066/067 i.e. 10.83%. It seems that EBL has performing best in terms of Deposit and satisfy their depositors and performing above the average performance of the banking sector in this regard. Thus, EBL's deposit is increasing at higher in rate than the overall banking sector. As against the system's growth of 18.00% (NRB bulletins) during the FY 2065/066, EBL's growth was 38.98%.

The amount of loan & advances of EBL is increasing per year and its rate of increment is fluctuating over the period of time. The rate is highest in 2063/064 i.e. 38.93% whereas the lowest in 2067/068 i.e. 12.45%. The aggregate loan & advance of banking sector is increasing per year and its rate is fluctuation over the period of time. As against the system's credit growth of 14.20% (NRB bulletins) during the 2066/067, EBL's credit growth was 15.07%. While during 2067/68 it was 12.45%

## 4.8 Ratio Analysis

### Credit Ratio

Credit Deposit ratio is one of the Loan ratios that tell about the Loan position of any bank. It gives idea of comparative status of Loan with respect to overall deposit and its component. The below mentioned credit ratios provide clear-cut ideas of banks about Loan.

Credit to Total Deposit (i.e. CD Ratio):  $\frac{\text{Total Credit}}{\text{Total Deposit}}$

Credit to Fixed Deposit (i.e. CD Ratio):  $\frac{\text{Total Credit}}{\text{Fixed Deposit}}$

Credit to Saving Deposit (i.e. CD Ratio):  $\frac{\text{Total Credit}}{\text{Saving Deposit}}$

**Table 4.9**  
**Credit Ratios of Total Credit and Total Deposit**

(Rs. in million)

Loan & Advances to Total Deposit Ratio			
Fiscal Year	Loan & Advances (1)	Total Deposit (2)	Ratio $=(1 \div 2) \times 100$
2062/63	10136.20	13802.40	73.44
2063/64	14082.69	18186.25	77.44
2064/65	18836.43	23976.29	78.56
2065/66	24469.56	33322.95	73.43
2066/67	28156.40	36932.30	76.24
2067/68	31661.80	41127.90	76.98

Source: EBL Annual Reports 067/068

The CD ratios are found higher in EBL over the studied period. EBL has floated more than 70% of its deposit as loan & advances. The highest ratio in EBL was 78.56% in FY 2064/065 and lowest 73.43% in FY 2065/066. In general, 70%-80 % credit deposit ratio is assumed to be appropriate considering to market demand and internal strength of a particular bank. So the EBL CD ratios are as per the standard prescribed. Thus, EBL is efficiently deploying its deposit collected so that it could earn more profit.

**Table 4.10**  
**Credit Ratios of Total Credit and Fixed Deposit**

(Rs in Millions)

Loan & Advances to Total Fixed Deposit Ratio			
<b>Fiscal Year</b>	<b>Loan &amp; Advances (1)</b>	<b>Total Fixed Deposit (2)</b>	<b>Ratio <math>=(1\div 2)\times 100</math></b>
2062/63	10136.25	4242.35	238.93
2063/64	14082.69	5626.66	250.29
2064/65	18836.43	6446.18	292.21
2065/66	24469.56	7049.98	347.09
2066/67	28156.40	10451.84	269.40
2067/68	31661.8	15061.93	210.21

*Source: EBL Annual Reports 0667068*

The credit as a ratio of fixed deposit is higher in EBL in each year. It shows the credit floated in relative to fixed deposit collected is higher. It also furnish that growth rate of credit outflow is higher in comparison to fixed deposit growth. In case of EBL, the ratio recorded lowest in FY 2067/068 i.e. 210.21 times and highest in FY 2065/066 i.e. 347.09 times.

**Table 4.11**  
**Credit Ratios of Total Credit and Saving Deposit**

(Rs in Millions)

Loan & Advances to Total Saving Deposit Ratio			
<b>Fiscal Year</b>	<b>Loan &amp; Advances (1)</b>	<b>Total Saving Deposit (2)</b>	<b>Ratio <math>=(1\div 2)\times 100</math></b>
2062/63	10136.25	6929.22	146.28
2063/64	14082.69	9029.25	155.97
2064/65	18836.43	11883.85	158.50
2065/66	24469.56	14782.33	165.53
2066/67	28156.40	13369.50	210.60
2067/68	31661.8	13039.10	242.82

*Source: EBL Annual Reports 067/068*

The credit as a ratio of saving deposit is higher in every studied period. The growth rate of credit outflow is higher than the growth rate of saving deposit in EBL. The highest ratio is in FY 2067/68, i.e. 242.82% and lowest in FY 2062/63, i.e. 146.28%.

### Stability Test

**Table 4.12**  
**Showing Stability Ratios of EBL**

(Rs. in Million)

<b>FY</b>	<b>2062/63</b>	<b>2063/64</b>	<b>2064/65</b>	<b>2065/66</b>	<b>2066/67</b>	<b>2067/68</b>
Total Capital Fund	1391.34	1,676.12	2348.39	2703.87	3257.14	3765.24
Total Deposit	13802.40	18186.20	23976.30	33322.90	36932.30	41127.9
Total Credit(Loan&Advances)	10136.20	14082.70	18836.40	24469.60	28156.40	31661.8
Capital to Total Deposit Ratio	10.08%	9.21%	9.79%	8.11%	8.82%	9.15%
Capital to Total Credit Ratio	13.73%	11.90%	12.47%	11.05%	11.57%	11.89%

*Source: EBL Annual Reports*

Stability test of any bank is carried to ascertain the sustaining capacity in long run. The test is carried by studying capital position in relative to various variables. Capital to total deposit ratio of EBL is found decreased to 8.11% in 065/066. The ratio was highest, 10.08% in FY 2062/63. It means that both the capital's position in relative to deposit is improving and maintaining around 9.19% average in six year and enhancing its stability position.

Another ratio "Capital to total Credit" found stable in EBL in all six years. EBL has maintained around 12.10% in average Capital to total Credit in all six years. It means both the capital and total credit are increasing in EBL; the improvement made by EBL in building up its stability position is remarkable. It is due to higher growth rate of capital in comparative to growth rate of credit floated. The bank is able to satisfy its shareholders with high returns in their investment in share capital.

#### **4.9 Position of Major Financial Indicators of Everest Bank Ltd for FY2062-63 to 2067-68**

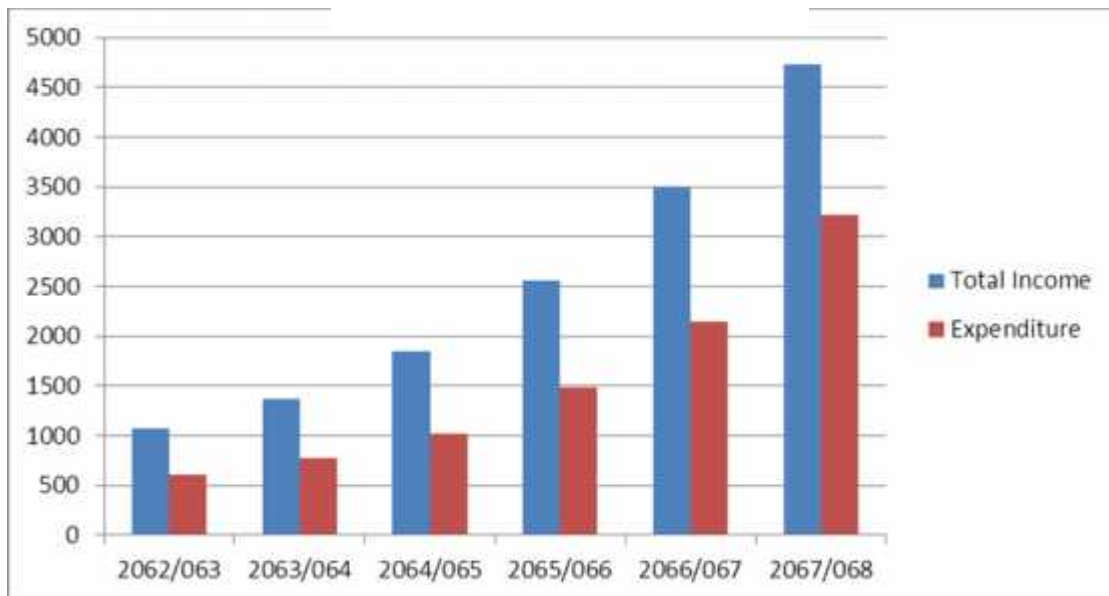
Table 4.13

Particulars	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68
Loan & Advances	10136.20	14082.70	18836.40	24469.60	28156.40	31661.8
Deposit	13802.40	18186.20	23976.30	33322.90	36932.30	41127.9
Interest on Loan & Advances	770.83	1157.39	1480.96	2446.95	2815.64	2535.87
Total Income	1066.50	1370.70	1848.20	2565.30	3500.80	4728.8
Total Expenditure	613.40	772.80	1024.30	1491.80	2151.70	3212.1
Operating Profit	453.10	597.90	823.90	1073.50	1349.10	1516.7
Net Profit	237.20	296.40	451.20	638.70	831.80	931.3
Non Performing Loan	128.81	129.24	113.18	127.31	117.99	107.65
Ratio of NPL to L & Advance	1.27%	0.92%	0.60%	0.52%	0.42%	0.34%

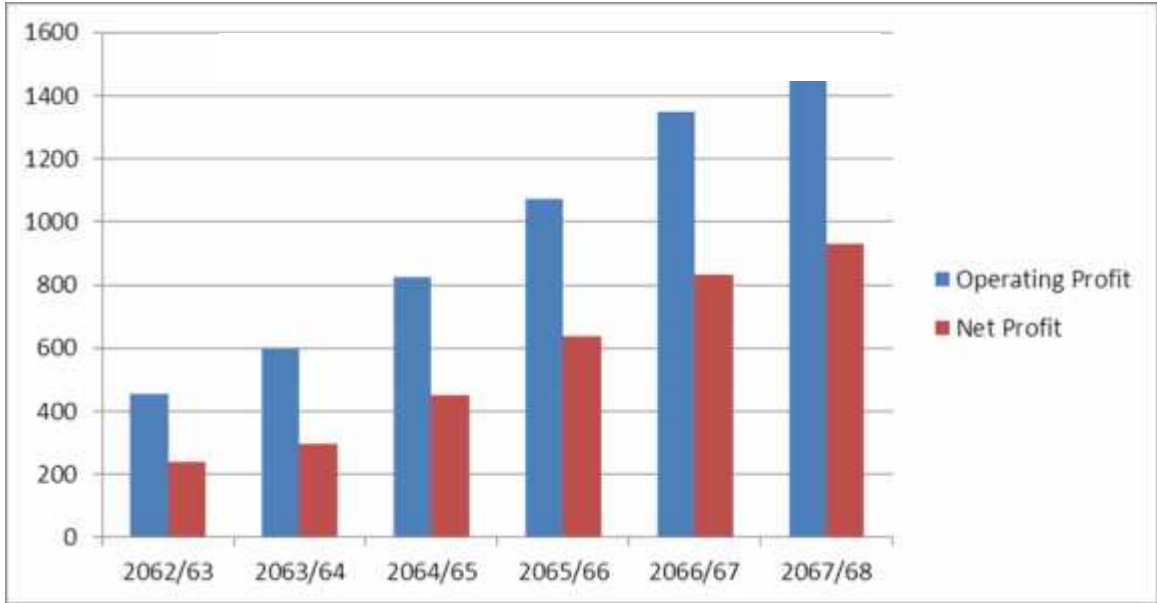
**Major Financial Indicators of EBL**

*Source: EBL Annual Reports 067/068*

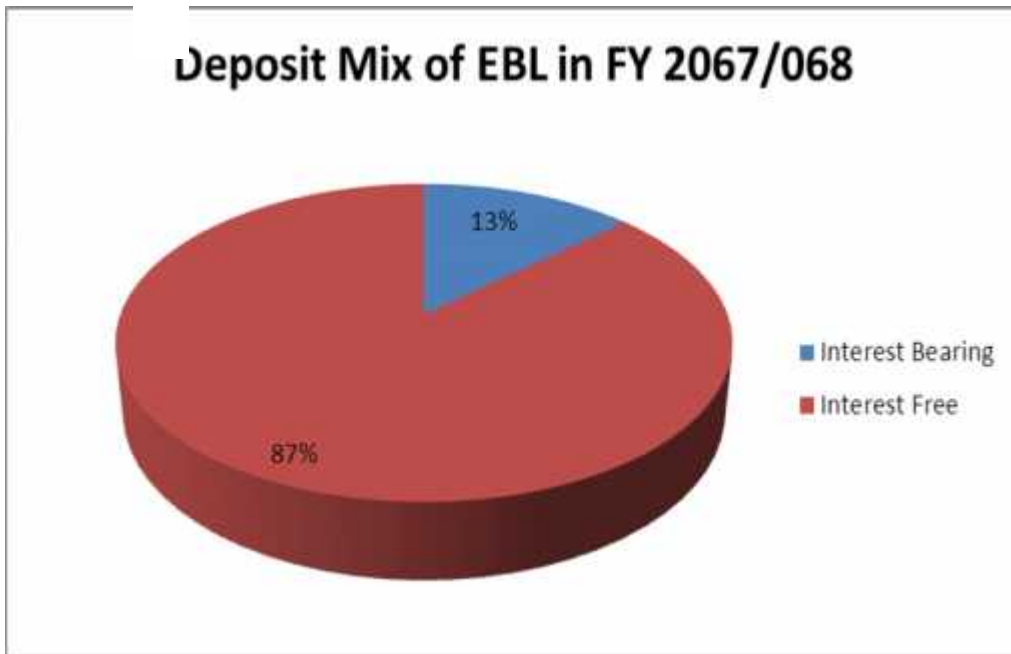
**Figure 4.4  
Total Income and Total Expenditure of EBL**

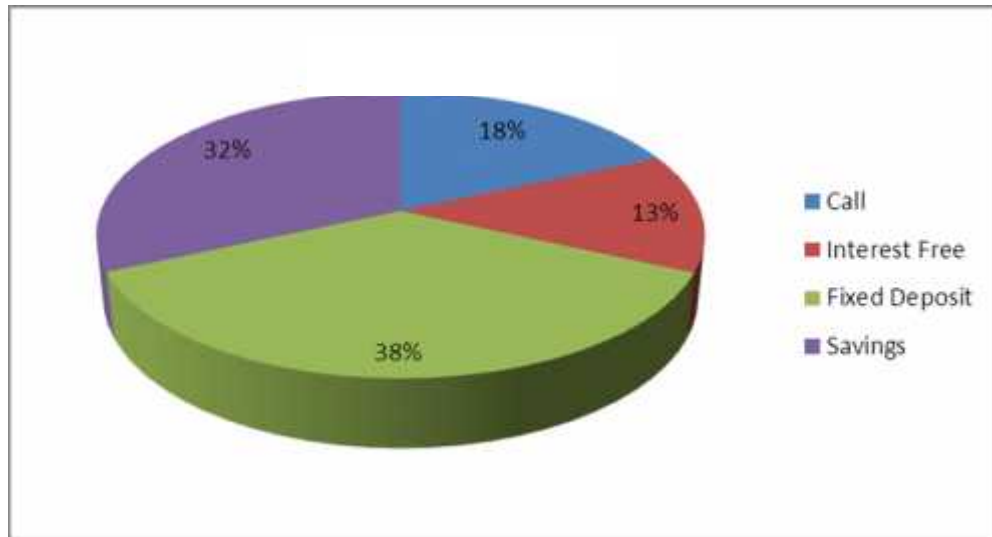


**Figure 4.5**  
**Operating Profit and Net Profit of EBL**



**Figure 4.6**  
**Deposit Mix of EBL in FY 2067/068**



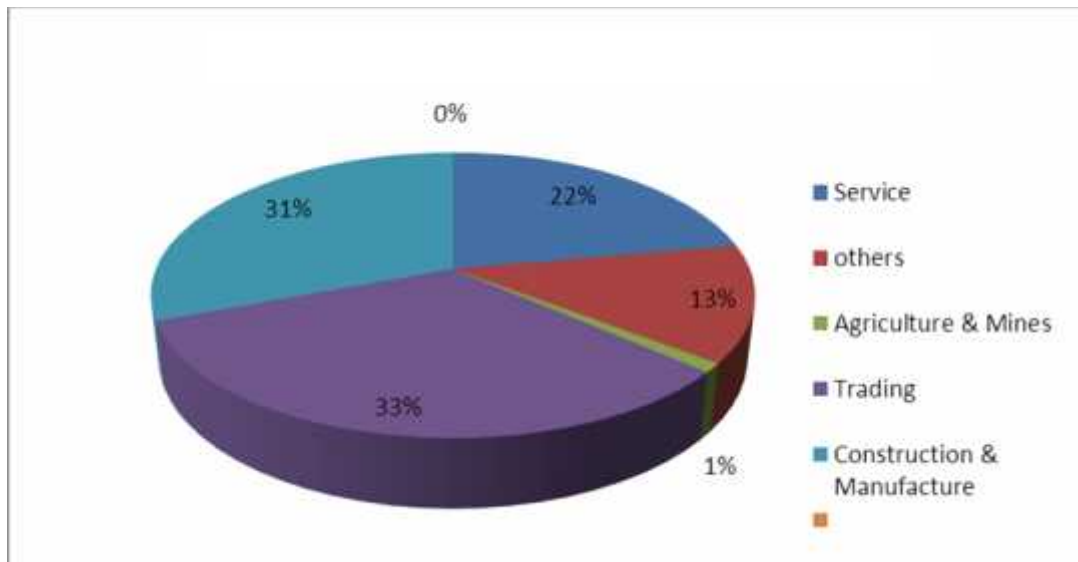


**Sector Wise Distribution of Credit as on FY 2067/68**

Out of total loan & advances, EBL has made lending in Trading by 33%, Construction & Manufacture 31%, Service 22%, Agriculture & Mines 0.3% and Others 13%.

**Figure 4.7**

**Sector wise Distribution of Credit of EBL in FY 2067/068**



The above mentioned table highlights the increasing trend of loan and advances of Everest Bank Limited as a whole. In fiscal year 2063/64 the loan and advances has

increased by 38.93% compared to the corresponding period of Last fiscal year, in FY 2064/65 – 37.75%, in FY 2065/66 – 29.90% and in FY 2066/67 -15.07%.& in FY 2067/68-12.45%

The increase in the figure of loan and advances has resulted increase in the interest income of the Bank. The loan and advances of the bank shows the direct relation with the interest income of the bank. Increase in loan and advances have led the bank's increase in interest income.

There is high chance of increase in the non performing loan as the loan and advances of the bank increases. In this regard the bank has to monitor the loan closely and scrutinize the loan proposal meticulously and strictly. The non performing loan of the bank is in decreasing trend however the loan and advances is increasing. The bank has maintained the lowest gross non performing loan ratio of 0.34% for the year ended Ashad 2068. In comparison to other commercial banks except newly opened banks.

The total deposit of the EBL is also in increasing trend. In fiscal year 2062/63 the deposit has increase by 36.69% compared to the corresponding period of Last fiscal year, in FY 2063/64- 31.76%, in FY 2064/065- 31.84%, in FY 2065/66 – 38.98% , in FY 2066/67- 10.83% amounting to Rs 36932.30 millions and in FY 2067/68 11.36% amounting to Rs 41127.90 millions. The average cost of deposit as on Aswin 2067 was 3.69%. The Cost of Deposit in the financial year 2066/67 was 3.60%. The reason for increase in cost of deposit is due to liquidity crunch in Nepalese economy resulting increase in interest to attract deposit. While in FY2067/68 it was 6.16%

The total operating profit and net profit is also in increasing trend. In fiscal year 2063/64 the operating profit has increase by 31.96% compared to the corresponding period of Last fiscal year, in FY 2064/065 -37.80%, in FY 2065/66 - 30.30% and in FY 2066/67 – 25.68%and in FY 2067/68-12.42%. Likewise the net profit of EBL is also in increasing trend. In fiscal year 2063/64 the net profit has increase by 24.95% compared to the corresponding period of Last fiscal year, in FY 2064/065 – 52.23%, in FY 2065/66 – 41.56% and in FY 2066/67 – 30.23% While in FY2067/68- it was 11.96%.

This shows the positive growth of the bank as a whole.

# CHAPTER-V

## SUMMARY, CONCLUSION AND RECOMMENDATION

### 5.4 Summary

Banking sector plays an important role in the economic development of the country. Commercial banks are one of the vital aspects of this sector, which deals in the process of channelizing the available resources in the needed sectors. It acts as the intermediary between the deficits and surplus of financial resources.

Loan Advances & Deposit belongs to the broad subject of Accountancy which deals with inspection and administration of the Loan and Deposit records and payments of the customers, clients.

Loan Advances & Deposits answers the clients' questions regarding their credit and payment history and credit and payment processes. The management organizes the internal movements of the flow of credits and payments as well as reconciliations regarding conflicting schedules, conflicting payments, and promissory notes while at the same time maintaining the good relationship with good clients. On the other hand, bad debtors are handled with due process. Legal actions are filed against them should they fail to comply with the payments or should they refuse to pay their debts.

On the part of the debtors, they should be well aware of the schedule of payments so as not to be subjected to legal matters. Most credits, before being granted, need to leave a guarantee that they can be paid. Thus, collaterals come into picture. They pose as securities to ensure creditors that the loans they give to debtors are either going to be paid according to the stipulated schedule or else, they have the authority to claim the securities as payment for their debts.

Loan and Advance Management, from a debtor's point of view, is managing finances especially debts so as not to have a tail of creditors lurking behind your back. Loan and Advance management is a responsibility that both the debtor and the creditor should seriously take.

EBL has started its operation from October 18, 1994 with the objective of extending professionalized banking services to various sections of the society of Nepal and thereby contribute to the economic development of the country.

EBL has been promoted by well established businessmen/industrialists of Nepal as a joint venture with PNB of India, one of the largest commercial bank in India having more than 4400 branches, approximately 5000 ATM and over 200 foreign correspondents around the globe. At present EBL has been successful to operate 43 branches all over in Nepal, which has recorded to have large number of networks within Nepal among other commercial banks. EBL has also operated 5 Revenue Collection Counters through which revenue has been collected on behalf of Nepal Government. Importantly, EBL has been collecting government revenue free of cost. The ATM network of EBL has reached 33.

Everest Bank Limited with its concept of mass banking has a broader view to incorporate the borrowers within its reach. The bank is committed to provide products and services as per the needs of the customers. The bank has different schemes of products and services as compared to other commercial banks. EBL is the pioneer and front-runner in retail lending introducing Direct Housing Finance, Vehicle Loan Scheme, Education Loan Scheme, Loan against Future Lease Rentals and scheme for Professionals as also the Loan against Lease Rentals of the properties.

The central focus of commercial banking concerns the acquisition and servicing of loans. A bank mobilizes deposits and lends to businesses. Banks lend or invest up to 70 – 80% of their deposits. Indeed, commercial banks are the primary, if not only, source of loans for most small and medium-sized business firms and provide vital service to business organizations and to the community as a source of loans. There is a risk involved in lending the money. With the opening up of the economy rapid changes are taking place in the technology and financial sector exposing banks to greater risks. The well managed bank must institute loan policies designed to ensure that adequate control exists in the approval and disbursement of loans and that outstanding loan are monitored so as to ensure compliance with terms of the loan and ultimate repayment of principal and interest.

The basic objectives of the study are to examine the existing policies and practices of Loan and Advance management during the loan processing and appraisal of the loan.

The research is based on a case study and is descriptive in nature. Being a case study, the research is mainly focused on the primary data and the information provided by the Bank. The data was obtained through various interviews, experience and formal and informal discussion with the personal of EBL. Secondary data was also used for the study. The secondary sources include data obtained through journals, annual reports, bulletins, web sites and various other sources.

## **5.5 Conclusion**

Bank is a resource mobilizing institution, which accepts deposit from the various sources and invest such accumulated resources in the fields of agriculture, trade, commerce, industry, tourism etc. The commercial bank has its own role and contribution and it is a source for economic development. It maintains economic confidence of various segments and extends credit to people. Now the role of bank is not only limited to the lending. It has also extended its business to remittance - non fund based business where the bank can generate income without lending to borrowers. However, the income generated from the fund based business cannot be ignored as it covers more than 70% of the total income of the bank. Besides Deposit, Lending, and Remittance business, banks nowadays have started providing other utility services like bills payment, balance recharge of mobile, selling air ticket etc. Due to advancement of Technology, it has become convenient to banks and customers to spread such services to common peoples. Therefore, the banking facility confined to depositor and debtors has been extended to other ordinary people of diverse field like students, households, etc.

Loan/Credit activity is the integral part of banking business. Detailed information on various aspects of Loan/ credit activities and the system implemented by the bank has to be included during the process of loan sanction in order to minimize risk inherent with it. It is crucial for a banking institution to lay down clearly defined systems and procedures for conducting its day to day operations. It is still more crucial that the laid down systems and procedures are meticulously compiled with by all concerned.

Based on the entire study and findings some conclusions have been made. This study particularly deals with conclusion about Loan Advances and Deposit management in banking system and information flows.

- ) Everest Bank Limited has earned operating profit of Rs. 1516.7 million which is 12.42% more than last year and has been able to post a after tax net profit of Rs. 931.3 million, which is 11.96% higher than the last year.
- ) The average spread has gone up marginally from 4.78% to 5.31%. The spread has gone up due to improvement in average yield on interest bearing assets from 9.53% to 11.51% and cost of deposit and borrowing also increased from 4.75% to 6.91%.
- ) EBL is more focused on fund based income rather than non fund based and others. The major portion of the bank's income is generated through the interest earned the loan and advances. Any loss measures control fund in the appraisal of the loan proposal will directly effect the interest income of the bank.
- ) Despite in increase in number of commercial banks, the growth of loan and advances of EBL is in increasing trend besides maintaining the low non performing loans among the other commercial banks. This shows the good result of Loan Advances and Deposit management of the Everest Bank Limited. The bank complies with strict rules and regulation considering the NRB directives while processing the loan appraisal of the borrower. All possible steps are taken to strengthen the pre sanction appraisal of the loan – "Prevention is better than Cure".
- ) The loan proposal processed and the lending criterion of the bank is found as per the rules and regulations prescribed by NRB.

## **5.6 Recommendations**

Information is the life blood of any organization. The value of it cannot be ignored. It's only by the help of information that keeps any organization up to date with the present scenario and prepares for the future comings.

Based on the entire research work, some suggestions have been recommended that are suggested to be adopted by the bank.

- ) The ratio of non performing loans on total loans of the bank among others highlights the sound Loan & Advance management of the bank. But there are still outstanding non performing loans of the bank. The bank should take the optimum advantage from Debt Recovery Tribunal (DRT) in order to minimize the non performing loans.

- ) The bank has made the lending of 31% on construction and manufacturing sector. The bank should increase its lending in service sector area, the sector where the lending is more secured. Further the bank should also give more emphasis on agricultural sector of the economy. The potential of modernization of agriculture and generation of employment and capital from agriculture sector is high. The demand of agricultural products has also been increasing. Therefore, the investment in agricultural sector may be more secured. As the import turnover of the economy is greater than the export turnover of the country, the lending in trading should also be increased.
- ) The bank should introduce the credit card facility to its customers. It helps to increase the lending portfolio of the bank.
- ) The banking system in Nepal has been facing the problem of liquidity crunch. Without new schemes to attract more deposit, the lending capacity of the bank may be constrained. Hence, bank should introduce new deposit schemes with competitive rate of interest and accumulate raw material in the form of deposit for lending in profitable and viable projects.
- ) In order to be competitive in the market and provide better facility to the customer the bank should speedily process the loan application received and notify the concerned customer in case of loan is rejected duly assigning the reasons for such rejection.
- ) Bank may find it advantageous to increase the capital base because it may be able to finance projects which require high amount of investment.
- ) The retail loan portfolio of the bank is increasing over the studied period. However, bank should further introduce other consumer loan schemes so that diverse group of people may take advantage of banking product and improve their living standard.
- ) EBL has increasing trend of performing loan and decreasing trend of non performing loan which is very good for the bank and the same trend should be continued in the future also.
- ) The profit of the bank is in increasing trend, which encourage the bank to perform better than current situation in future to earn more and more profit by satisfying their customers.

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# ANNEXURE

## Annex - I

**Everest Bank Limited**

**Application form for Loan Facilities of Over Rs. 1 Lac & Above**

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**(All columns to be completed and in case nothing is to be reported against any item,  
Nil/ NA to be mentioned)**

### **1. Details of the Unit**

- i. Name and Address
- ii. Constitution  
(Sole proprietorship, Partnership firm, Private Limited,  
Public Limited Company, Co-op. Society etc.)
- iii. Name of the business house (group)
- iv. Date of Incorporation/  
Commencement of business
- v. Registration with /No.
- vi. Registered Office
- vii. Administrative Office
- viii. Factory
- ix. Telephone No/ fax No.

### **2. Details of the Promoter/s**

- i. Name(s) of Proprietor/Partners/  
Directors etc. (in case of Co. indicate  
% of shares held)



## **8. Technical Feasibility**

I. Name of the Product(s) Including

By-product & its (their) use

ii. Manufacturing process in brief

iii. Capacity (No. of Units. /Quantity in kg/Volume in liters per annum)

Capacity for each Product

Licensed

Installed

Operating

iv. Location advantages, if any

(Please indicate availability of power,  
Water, Labour, Transport, Raw materials etc.)

v. Whether clearance has been obtained

from the pollution control authority

## **9. Land & Building**

(Please give area in Sq. Mtr. &  
approx. value)

## **10. Particulars of Machinery & Other Fixed Assets**

### **11. Utilities**

Power

Sanctioned Load

Connected Load

Future Power Consumption

Stand By Arrangements

Water

Fuel

Other

## **12. Economic Feasibility**

Marketing Strategy

Name of the major Customers

Extent of Competition

Nature and volume of order/enquiries on hand

**13. For Term Loan Only**

i. Cost of Project and Means of Finance:

ii. Repayment period & Projected Profit & Loss

and Balance Sheet, Funds Flow for the period

of repayment (to be enclosed)

iii. Debt Service 1 Year 2 Year 3 Year 4 Year 5 Year (Up to \_\_period  
Coverage Ratio of repayment)

(DSCR)

**14. Facilities Sanctioned/Proposed**

(Rs. in lacs)

Nature of facilities Existing Proposed Security Offered Margin

i.

ii.

iii.

iv.

**Note :** - Date of last sanction in case of existing unit be given

- Incase facilities are also enjoyed from other Banks

Complete details thereof should also be furnished.

**15. Guarantors**

Name

Details of Assets

Details of Liabilities

i.

ii.

iii.

**16. Details of Collateral Security**

**17. Limit Sanctioned to Allied/Associate Concern/Family Concern**

(With names & Address of their Bankers)

**18. Limit Sanctioned from other Banks (Name & Address of the Bank and Amout sanctioned)**

**Applicant's Signature:**

**Date:**

**Office Seal:**

## ANNEX -II

Everest Bank Limited

Reg : Loan Proposal A/C

Assets \_\_\_\_\_ Classification  
(AA/A+/A/B)

### Gist of the Proposal :

#### 1. About The Borrower

Name of the Unit:

Established:

Dealing with EBL since:

Activity:

Constitution :

Name of the Director/Proprietor/Partner:

Name of Director of EBL, if any having interest in the unit:

#### 2. Financial Structure (Last 3 years)

(Rs. in Lacs)

\_\_\_\_\_

#### **Liabilities**

Capital

Reserve & Surpluses

Long Term Sources - TL

- Others

**Sub-Total**

Sundry Creditors

Bank Borrowing

Other Current Liabilities

**Sub-Total**

**Total Liabilities**

**Assets**

Fixed Assets:

Net Block

Investments

Intangible & Misc. Exp.

**Sub-Total**

Current Assets:

Inventory

Receivables

Advances to Allied/

Sister Concerns

Cash & Bank Balance

Other Current Assets

**Sub Total**

**Total Assets**

Debt Equity Ratio

Current Ratio

**3. Operations**

Sales

PBT

**4. Limit Sanctioned/Proposed**

(Rs. in Lacs)

Facility

Existing      Proposed  
Recommended

**5. Date of last Sanction**

**6. Borrowers' Worth**

NM (AS ON \_\_\_\_\_ )

I. P.

**7. Guarantors'**

NM (AS ON \_\_\_\_\_ )

I.P

i)

ii)

iii)

**8. Collateral Security, If Any**

**9. Limits Sanctioned to Allied/Associate Concerns/Family Concerns**

**(With Names & Address of Their Bankers)**

**10. Limit Sanctioned by Other Banks to the Party**

Name of the Bank

Facility

Amount

Outstanding

**11. Latest Position of all Accounts (As on)**

**12. General Comments**

Brief Background/History

Promoters/Management

Industry/Commodity Profile

Comments on Important Financial Indicators

(Net Worth, Debt Equity, Sales, Profit/Profitability, Current Ratio and Rating Parameters)

**13. Assessment of MPBF**

i. (For Working Capital Limits)

ii. (For Detail regarding Total Project Cost, Means of Financing, DSCR etc. in case of Term Loan)

**14. Justification for Non-Fund Based Limits**

**15. Comments on Past Conduct And Value of A/C**

**16. Recommendations**

## ANNEX -III

**Everest Bank Limited**

**B/O .....**

**B/O .....**

Statement of Limits Sanctioned for the month of .....

<b>S. N.</b>	<b>Date of Sanction</b>	<b>Name and Address of the borrower (with Activity Column names of Director/Partners/ Proprietor)</b>	<b>Net Worth (NPR. 000's)</b>	<b>Facilities (NPR 000's) Sanctioned &amp; Limit</b>	<b>Collateral Security Value</b>	<b>Sanctioning Authority</b>

## ANNEX -IV

### Everest Bank Limited

#### Application of Parameters for ascertaining Rate of Interest on

#### Working Capital & Term Loan advances above Rs. 1 lakh

1. Interest rates on Working Capital & Term Loan advances over Rs. 1 lakh are to be fixed on the basis of compliance of 7 parameters:-
  - i. Satisfactory Current Ratio i. e. 1.33:1
  - ii. Satisfactory Debt Equity Ratio which normally should not exceed 2:1
  - iii. Punctual submission of information like Quarterly information of Sales/ Profit, Monthly Stock Statement/ Book Debt Statement.
  - iv. Timely submission of renewal papers (latest within 12 months from the date of last sanction/review/renewal).
  - v. Reasonableness of inventory holding (Stock Management).
  - vi. Timely Repayment of Term Loan.
  - vii. General compliance of terms & conditions of sanction.
  
2. In order to determine the applicable category of the borrower (AA, A+, A, B) branch should work out average compliance out of seven parameters. For example, for a borrower to whom say 5 parameters are applicable and the borrower is complying with 3 out of 5 applicable parameters category is to be worked out as follows:

$$3/5 \times 7 = 21/5 = 4.2$$

I.e. actual compliance: 4

Category of borrower: B

Whenever the average compliance works out in fractions, all fractions above 0.5 be rounded off to the next higher integer for the purpose of compliance of parameters.

3. The basis of determining parameters shall preferably be the latest audited balance sheet of the borrower. In case of inability of the borrower to furnish the latest audited balance sheet, a provisional balance sheet signed by the Chief Executive of the borrowing Organization may be taken into consideration for determining the parameters.
  
4. All Working Capital accounts and Term Loans are to be reviewed annually for the application of interest rate.
  
5. For downward revision of rates, in case of change in the category of borrower, the case may be referred to the sanctioning authority.

## ANNEX -V

Everest Bank Limited

B/O

Review For Quarter Ended

1. Name of the Borrower:

2. Date of last sanction &

Sanctioning authority

3. Give the details of the terms and conditions

which have not been complied with and reasons thereof.

The steps being taken for compliance of pending terms be given.

4. i) Date of Documents

ii) Whether all necessary documents have been obtained?

iii) Whether mortgage created with Malpot Karyalaya?

5. Position of Account as on.....

(If any account is irregular, reasons for the same and steps taken for rectification be given)

*(Rs. in lacs)*

Nature of Facility	Limit Sanctioned	Value of Security	D. P.	Balance	Irregularity if any	Last Date when regular

Fund Based


Non-Fund Based


**6. Stock Statement**

- i. Whether received/verified as per sanction**
- ii. Date of last stocks statement**
- iii. Date of last verification/visit to the unit**
- iv. Value of stock older than one year hypothecated**
- v. BM's comments on the turnover of stocks**
- vi. Whether the stocks are fully insured**  
(Amount of insurance cover & its validity be given)

**7. Is the BM satisfied with**

**Operational Turnover:**

**8. Financial Information**

Whereas full efforts should be made to get the latest information, however if the

information for the Current quarter is not available, the same for the earlier quarter/s be indicated.

(Rs. in Lacs)

- 
- 
- i. Sales (Invalue)**
  - ii. Production (in oty)**
  - iii. Net Profit before Tax**
  - iv. Cash Profit/Loss**
  - v. Sundry Creditors**
  - vi. Sundry Debtors**
  - vii. Statutory liabilities**

#### **9. BM's Comments**

(on overall performance  
and adverse features in  
the account)