

# **AN ANALYSIS OF CREDIT MANAGEMENT OF EVEREST BANK LIMITED**

## **A THESIS**

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*RECOMMENDATION*

This is to certify that the thesis

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EVEREST BANK LIMITED**

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

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and found the Thesis to be the original work of the student written in accordance with the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for Master Degree of Business Studies (M.B.S.)

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## **DECLARATION**

I here, declare that this thesis entitled **AN ANALYSIS OF CREDIT MANAGEMENT OF EVEREST BANK LIMITED** have submitted to Office of the Dean, Tribhuvan University is my original work done in the form of partial fulfillment of the requirement of Master of Business Studies (MBS) under supervision and guidance of **Dr. Sushil Bhakta Mathema** of Nepal Commerce Campus.

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## ABBREVIATION

ABBS	Anywhere Branch Banking System
ATM	Automated Teller Machine
B.S.	Bikram Sambat
D.F.	Degree of freedom
EBL	Everest Bank Limited
F.Y.	Fiscal Year
GDP	Gross Domestic Product
KFL	Kathmandu Finance Ltd.
Ltd.	Limited
NA	Not Available
NABIL	Nepal Arab Bank Limited
NEPSE	Nepal Stock Exchange
NG	Nepal Government
NGOs	Non Government Organizations
NMB	Nepal Merchant and Banking Finance Co. Ltd
NPA	None Performing Assets
NRB	Nepal Rastra Bank
PNB	Panjab National Bank
Rs.	Rupees
LC	Letter of Credit
TRs	Trust Receipts
SCT	Smart Choice Technology
Viz	Namely
\$	Dollar

# CHAPTER I

## INTRODUCTION

### 1.0 Introduction

This industrial sector comprises public sectors, manufacturing enterprises, tourism, transportation, construction, consulting services, trade, and services. The economic development of any nation is highly dependent on the various industrial sectors. 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 sector, comprises banks, development banks, rural development banks, agriculture development banks, finance companies, co-operative with limited banking transactions.

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 channel zing the available resources in the needed sectors. It is the intermediary between the deficit and surplus of financial resources. Financial system contains two components viz., depository financial institutions and non- depository financial institutions. Commercial Banks and Finance companies (in Nepalese context) are the examples of depository financial institutions whereas Employee Providence Fund, Development Bank, Insurance Companies etc, are the examples of non-depository financial institutions.

All the economic activities are directly or indirectly channeled through these banks. People keep their surplus money as deposits in the banks and hence banks can provide such funds to finance the industrial activities in the form of loans and advances.

Integrated and speedy development of the country and its financial position of the people are possible only when competitive banking service with its effective credit management 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, Nepal 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.

## **1.1 Evolution of Banking Sector**

The origin of modern commercial banking is traceable in ancient times. There is a reference to the activities of moneychangers in the temple of Jerusalem in the New Testament. In ancient Greece the famous temples of Delphi and Olympia served as the great depositories for peoples' surplus funds and these were the centers of money lending transactions. Indeed the traces of "rudimentary banking" are found in the Chaldean, Egyptian and Phoenician history. The development of banking in ancient Rome roughly followed the Greek pattern. Banking suffered oblivion after the fall of the Roman Empire after the death of Emperor Justinian in 565 AD, and it was not until the revival of trade and commerce in the Middle ages was, however, largely confined to the Jews since the Christians were forbidden by the Canon law to indulge in the sinful act of lending money to others on interest. However, as the hold of the Church loosened with the development of trade and commerce about the thirteen century Christians also took to the lucrative business of money-lending, thereby entering into keen competition with the Jews who had hitherto monopolized the business.

As a public enterprise, banking made its first beginning around the middle of the twelfth century in Italy and the Bank of Venice, founded in 1157 was the first public banking institution. Following it were established the Bank of Barcelona and the Bank of Genoa in 1401 and 1407 respectively. The Bank of Venice and Bank of Genoa continued to operate till the end of the eighteenth century. With the expansion of commercial activities in Northern Europe there sprang up a number of private banking houses in Europe and slowly it spread through out the world. In Nepal, modern banking starts from the establishment of Nepal Bank Limited.

## **1.2 Evolution of Banking Sector in Nepal**

Banking service is the oldest service industry in Nepal. It has gone through the various stages of evolution and development since the Vedic times (2000 to 1400 B.C.). Though the modern banking institution has a very recent origin in Nepal, some crude bank operations were in practice even in the ancient times. In the Nepalese Chronicle, it was recorded that the new era known as Nepal Sambat was introduced by Shakhadhar, a Sudra merchant of Kantipur in 879 or 880 A.D. after having paid all the outstanding debts in the country. This shows the basis of money lending practice in ancient Nepal.

Towards the end of 8<sup>th</sup> century, Gunkam Dev had borrowed money to rebuild the Kathmandu valley. In 11<sup>th</sup> century, during Malla regime there was an evidence of professional moneylenders and bankers. It is further believed that money-lending business, particularly for financing the foreign trade with Tibet, became quite popular during reign of Mallas. 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 Ronoddip (1877-1885) to establish Tijarath in Kathmandu, which was a government financial institution supplying credit 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 Tijarath, repayable from their salary at the source. During the time of Chandra Shamsher (1901-1929), credit facilities of Tijarath 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 Tijarath 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 Tijarath 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 was replaced by the first commercial bank, Nepal Bank Limited, during the time of Juddha Shamsher. 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.

In 2042 B.S., finance company Act was passed; but private kept stony silence till 2049 B.S. The first break came in the month of Shrawan of that year, when first company Nepal Housing and Development Finance Company came. The second came in the Poush of the same year, Nepal Finance and Saving Company. In the following three years, our financial system has witnessed the emergence of number of such finance companies.

### **1.3 Nepal's Financial System**

The financial system of Nepal consists of a central bank, commercial banks, finance companies, development banks etc. and it is categorized in the following ways:

<b>Organization</b>	<b>No of Institutions</b>
1. Central Bank	1
2. Commercial Bank	32
3. Development Bank	87
4. Finance Companies	79
5. Micro Credit Development Banks	19
6. Non Government Organizations (NGOs)	45

Details of list of Banks and Non Banks financial institutions as of mid October 2011 is attached in annexure.

#### **Commercial Bank**

Commercial Banks are the major component in the financial system. They work as the intermediary between depository and lenders and facilitate in overall development of the economy, with major thrust in industrial development. The banking sector in Nepal stated

with the establishment of Nepal Bank Limited. Today, we got 31 commercial banks in operation.

The Nepal Bank limited was incorporated in 1937 under the Nepal Bank Act of 1937. Its authorized capital was Rs. 100 Lakh. Initially funds were raised from 20 thousand partly paid-up and 5 thousands fully paid-up ordinary shares of Rs. 100 each. By 1949-50, all the 25 thousand shares were full paid-up. It was established as a semi-government institution. Initially, 51% of share was taken by the government and the rest 49% by the general public. As a semi-public enterprise and in the absence of central banking institution, the Nepal Bank was authorized to carry on certain transactions on behalf of the government in accordance with its instruction and order. Thus, prior to the establishment Nepal Rastra Bank received deposits of government money and remitted it through bills of exchange, cheques and hoondies in Nepal and foreign countries. Currently, HMG/N holds 41% of share in Nepal Bank Limited.

In 2022 B.S. an entirely government owned commercial bank, named Rastriya banijya bank was established under a separate Act with the authorized capital of Rs 1 crore. Being a government owned commercial bank; its objectives and operation are somewhat different from those of the Nepal Bank Ltd. By 2045 B.S., it has expanded to 194 branches throughout the country. Currently, due to its financial position government is given management contract for two years.

The basic objective to allow foreign banks to open a joint venture with Nepal is mainly to develop the banking sector, to create healthy competition in the banking sector, to further develop the already existing old banks and to introduce new technological efficiency in the banking sector. Nepal Arab Bank limited (i.e Nabil Bank Ltd) is the first foreign bank to be established in 2041 B.S. in Nepal. Initially, 50% of shares were owned by United Arab Emirates Bank, 20% by the financial institutions and remaining 30% shares are owned by the general public. Five years ago the National Bank of Bangladesh bought the 50% share of United Arab Emirates Bank and later sold it to NB International (Ireland). It was established with the authorized capital of Rs 100 million, issued of Rs 50 million and paid-up capital of Rs 30 million.

Nepal Indoseuz Bank was established as second foreign bank in 2042 B.S. In this bank, 50% share was initially held by Indoseuz Bank of France, 15% share by Rastriya Banijya Bank, 15% by National Insurance Corporation and 20% by the general public. It was

established with the authorized capital of Rs. 120 million, issued of Rs 30 million. Currently, its foreign JV partner is Credit Agricole.

Standard Chartered Bank Nepal limited was established as the third foreign bank in 2043 B.S. In this bank also 50% share is initially held by ANZ Bank of Australia, 35% is held by Nepal Bank Limited and remaining 15% share held by the general public. It was established with the authorized capital of Rs 100 million, issued of Rs 50 million and paid-up capital of Rs. 30 million. Currently, its JV partner is Standard Chartered Bank.

Himalayan Bank Limited was established in 1992 by the distinguished business personalities of Nepal in partnership with Employees Provident Fund and Habib Bank Limited, one of the largest commercial banks of Pakistan. It is the first commercial bank of Nepal with maximum the Nepalese private sector. Besides commercial activities, the Bank also offers industrial and merchant banking.

Apart from these banks, we already have many more commercial bank like Everest Bank Limited, Nepal Bangladesh Bank Limited, Nepal State Bank of India, Bank of Kathmandu Limited, Nepal Credit & Commercial Bank Limited, Lumbini Bank Limited, Machapuchre Bank Limited, Kumari Bank Limited, Laxmi Bank Limited, Siddhartha Bank Limited, Agriculture Development Bank etc as per table below.

**Table 1 List of Commercial Bank in Nepal**

1. Nepal Bank Limited
2. Rastriya Banijya Bank
3. Agriculture Development Bank Ltd.
4. Nabil Bank Limited
5. Nepal Investment Bank Limited
6. Standard Chartered Bank Nepal Limited.
7. Himalayan Bank Limited
8. Nepal SBI Bank Limited
9. Nepal Bangladesh Bank Limited
10. Everest Bank Limited
11. Bank of Kathmandu Limited
12. Nepal Credit and Commerce Bank Limited
13. Lumbini Bank Limited

14. Nepal Industrial & Commercial Bank Limited
15. Machhapuchhre Bank Limited
16. Kumari Bank Limited
17. Laxmi Bank Limited
18. Siddhartha Bank Limited
19. Global Bank Ltd.
20. Citizens Bank International Ltd.
21. Prime Commercial Bank Ltd
22. Sunrise Bank Ltd.
23. Bank of Asia Nepal Ltd.
24. DCBL Bank Ltd.
25. NMB Bank Ltd.
26. Kist Bank Ltd.
27. Janata Bank Nepal Ltd.
28. Mega Bank Nepal Ltd.
29. Commerz & Trust Bank Nepal Ltd.
30. Civil Bank Limited
31. Century Commercial Bank Limited
32. Sanima Bank Limited

Apart from Commercial Banks, Finance companies, Development Banks, Co-operatives and NGOs, many non-depository financial institutions like Insurance companies, Mutual Fund etc. are also in our financial system.

#### **1.4 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 110 years of banking history with more than 4500 offices all over India. Of which 1400 branches are interconnected. PNB has over 1000 ATMs spread across India. 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 and over 250 correspondents across the globe. The branches are connected through Anywhere Branch Banking System (ABBS) through which the clients can withdraw and deposit money from any branches of EBL. Based on the audited financial results of FY 2066/067, the Bank's operating profit is Rs. 1349.1 million and net profit is Rs.831.8 million registering a growth of 26.56% over the previous year. The Bank's credit recorded a growth of nearly 15.07 % over the last year reaching a figure of Rs 28156.4 million. Similarly, the total deposits of the Bank posted a growth of 10.83 % amounting to Rs 36932.30 million over the preceding year. The bank has one of the lowest non-performing assets (NPA-0.16%) among the commercial banks in Nepal.

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 50 ATMs and over 250 Point of Sales across the nation. The bank has managed 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 the Airport.

**Awards and Achievements:**

Despite the harsh economic and political scenario, the bank was able to grow on an average at 30% per annum in the year 2006/2007. This is the greatest achievements than any company could achieve. For the effective services provided to the customer in the competitive market it has been awarded

“BANK OF THE YEAR 2006.”

“NICCI EXCELLENCE AWARD”

EBL is playing a pivotal role in facilitating remittance to and from across globe. 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 175 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.

**Capital Structure:**

The paid-up capital of EBL is Rs 1030.467 million (as at FY 2066/067) which includes Rs 200million convertible preference share. Issued capital is Rs 1050 million. The capital adjustment reserve is Rs 36.71 million and retained earning is Rs 108.60 million.

**Share Holding Pattern:**

The present share holding pattern of EBL is as follows.

**Table 2 Share holding Pattern of EBL**

S.N	Sources	Percentage
1	Nepalese Promoters	50
2	General Public	30
3	Punjab National Bank (PNB)	20

**1.5 Statement of Problem**

Financial institutions play a major role in the proper functioning of an economy. These institutions act as an intermediary between the individuals who lend and who borrow. These institutions make the flow of investment easier. It pools the funds scattered in the economy and mobilize them to the productive sector. However, these institutions inherent a large amount of risk, which cannot be, denied either. If a bank behaves irresponsibility, the costs borne by the economy are enormous. A large amount of depositors' money is at stake. And the banks and financial institutions are competing among themselves to advance credit to limited opportunity sectors. Due to unhealthy competition among the banks, the recovery of the bank credit is going towards negative trends. Non-performing credits of the banks are increasing year by year. To control such type of state, the regulatory body of the banks and financial institutions NRB has renewed directives of the credit loss provision. Therefore, it is necessary to analyze the credit management of Credit disbursement recovery provision for loss and write off the credit.

Banking sector exposed to a number of risks. These risks are broadly categorized into two segments:

- Portfolio or On- Balance Sheet risks

Portfolio risks arise from various unanticipated changes in the terms of balance sheet. The size and composition of a bank's balance sheet are important determinants of its risk (variability in return) and return (profitability) profile. The most important balance sheet items are deposits, borrowings, advances and investments, which are affected by changes in interest rates, in deposit flow and loan demand, and in the ability of borrowers to repay loans. These unanticipated changes generate three basic portfolio risks namely interest rate risk, liquidity risk and credit risk. Apart from these three, there are capital risk and operational risk.

- Off-Balance Sheet risks

Off-balance sheet activities risk refers to those which come in the form of contingent claims and commitments to a bank. These risks take the form of balance sheet risks only on realization of some contingency. Today due to intense competition, banks resort to off-balance sheet activities, which increase the earnings and at the same time do not lower (nominal) bank capital ratio, though they do raise risk-based capital requirement.

Such risks in excessive form had led many banks to go bankrupt in a number of countries. But due to their central role in economy, governments and the central banks try their best to rescue banks from such situations. The impact of macroeconomics conditions on the banking system requires special attention for two reasons. First, a well-functioning banking system is important for the effectiveness of the macroeconomic policies, and second, weakness that emerges in the banking system, if left unattended, could pose a threat to macroeconomic stability. Prevention of stress in a banking system requires well-balanced institutional and regulatory structures, as well as macroeconomic policy mix that is sensitive to bank's financial soundness.

The financial sector at present comprises the central bank, commercial bank, finance companies, co-operatives and (Non Government Organizations) NGOs with the limited banking activities. These banks and financial institutions have a nationwide network providing financial services. In spite of the fact that the financial sector has been enlarging rapidly in recent year, a large portion of credit demand is being met by

unorganized sector ie: private money lender, merchant, traders, individuals, landlords at very high rate of interest which is 2-3 times higher than that of the institutional source.

In recent years, the liquidity position of banking sector are increasing year by year and it is rated as high as 24% but the still the productive sector of the economy are starved by the credit crunch. This has created a paradoxical situation in the banking sector.

**Other problem faced by banks can be pointed as follows:**

- Liquidity is maximum.
- Due to limited investment sectors, banks are competing unfairly in the limited area.
- Due to poor credit administration, the credit recovery process is slow.
- Non-performing credit is going upward.
- Writing off the non-performing assets is not satisfactory.
- The legal process in recovery of credit is lengthy and ineffective.
- Clear-cut objectives and policy of the credit management is lacking.

## **1.6 Objectives of the Study**

The financial institutions plays 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 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 credit management 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 examine the information procedure in controlling the credit policies and practices of Everest Bank limited
- 2) To identify norms laid by Nepal Rastra Bank in term of with regard to loan/credit management of the bank.
- 3) To know the relationship between the deposits collected and loan flowed by the bank.
- 4) To identify the non-performing assets of Everest Bank Limited.

## 1.7 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 credit 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 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.

## 1.8 Focus of the Study

This study confirms the analysis of credit advances (i.e. Credit disbursed and recovery) of Everest Bank limited. The present study analytically discloses the strengths and weakness of the commercial banks in relation to credit disbursed and their recovery.

Research Questions to find out the exact answer:

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

### **1.9 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 credit management of Everest bank Limited.
- The study is associated only to the financial performance of Everest Bank Limited.
- In this study, only selected financial tools and techniques are used.
- The data of last Five years i.e. FY 2062/63-2066/67 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 outcome of the study may not be generalized with any other banks.

### **1.10 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:

- a) Introduction
- b) Literature Review
- c) Research Methodology
- d) Data Presentation & analysis
- e) Summary, Conclusion, Major Findings & recommendation

- 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, scheme of the study.
- Part two 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.
- Third chapter is "**Research Methodology**" which comprises all the tools and techniques those have been adopted in the study. This chapter furnishes about the research design, source of data, population & samples, method of data analysis employed in the study.
- In the fourth chapter entitled "**Data Presentation & Analysis**", the data collected from the various sources are presented and process it in readable and understandable form. The graphs, bar Diagram, pie chart are drawn from the data obtained in this part of the study.
- The last chapter 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**

### **2.0 Introduction**

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 Review
- Review of related studies

### **2.1 Conceptual Review**

The review of textbooks and other references materials such as newspapers, Magazines, research articles, journals and past thesis have been included in this topic.

Credit administration involves the creation and management of risk assets. The process of lending takes into consideration the people and system required for the evaluation and approval of loan requests, negotiation of terms, documentation, disbursement, administration of outstanding loans and workouts, knowledge of the process and awareness of its strength and 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.

#### **2.1.1 Background**

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 able 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 loans 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.

### **2.1.2 Types of Credit**

Bank extends loan facilities by 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 produce, 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.
- **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.

- **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.
- **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.
- **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.
- **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 receive from the buyers the sale proceeds of the goods.
- **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.

- **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.
- **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.

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

The purpose of a written credit policy is:

- To assure compliance by lending personal with the bank's policies and objectives regarding the portfolio of credits and
- To provide personnel with a framework of standards within which they can operate.

### **2.1.4 Principle of Credit Policy**

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

Some policies are as follows:

- **Principle of Safety Fund:** Banks should look the fact that there is not any unproductive or speculative venture or dishonest behavior of the borrower.
- **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.
- **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.

- **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.
- **Principle of Profitability:** Profitability denotes the value created 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 venturesome project.
- **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”.
- **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.

### 2.1.5 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 prospective 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 economy and the appraisal of the company’s performance. The analysis should revolve around the below mentioned canons of lending considerations:

➤ **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.

### **2.1.6 Project Appraisal**

Effectiveness of credit 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

### **2.1.7 Credit Risk**

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. 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 external factors are

- Management expertise
- Company policies
- Labor relations

The internal factors within the bank, influencing credit risk for a bank is:

- Deficiencies in loan policies/administration.
- Absence of prudential credit concentration limit.
- Inadequacy 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.

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.

### **2.1.8 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".

#### ➤ **Planning**

Planning is the process of deciding in advance the courses of action or strategies to be followed, and when and how to undertake these, for achieving the goals and objectives of the organization.

➤ **Organizing**

Organizing refers to the formal grouping of people and activities to facilitate achievement of the firm's objectives. It deals with a quantitative and qualitative aspect of manpower in terms of placement, the roles they play and the relations amongst them, with the aim that they work together effectively towards accomplishing the goals, objectives and targets of the organization. It is needed for assigning responsibilities, jobs and hierarchy among personnel.

➤ **Controlling**

Controlling is the means of checking the progress of plans and correcting any deviations that may occur along the way. It helps to evaluate the performance, highlights abnormal deviations, and guides a manager to take specific corrective actions.

➤ **Directing**

Directing is the way activating plans, structure and group efforts in the desired direction. It is needed for the implementation of plans by providing desired leadership, motivation and power communication.

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.

## **2.2 Review of Related Studies**

**Regmi P.(2004)** has submitted theses named “Credit Management of Commercial Banks with reference to Nepal Bangladesh Bank and Bank of Kathmandu”, on December 2005. His research major objectives relevant to my research are  
-Role of credit 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:

1. 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.
2. 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.
3. Some customers are unsatisfied with the service charges and interest of credit; therefore banks should decrease service charges and interest charges.
4. Bank's efficiency should be increased to satisfy the demand of depositors at low level of cash and bank balance.

**Udas S. (2004)** "A Comparative Appraisal on Financial Performance of Nepal Bangladesh Bank Ltd and Bank of Kathmandu" is the study which revealed that NBBL is more efficient than BOK in all aspects. The objective behind the study was to scrutinize the causes of the changes in cash position of those banks in the respective year. The findings of the study had been highlighted as below:

- a) Current ratio of NBBL was higher than BOK.
- b) NBBL had been able to utilize its deposit more efficiently than BOK.
- c) All profitability ratios of NBBL were greater than BOK.

**Singh A. (2005)** The thesis entitled "A Comparative Evaluation of Financial Performance of Nepal Arab Bank Ltd. And standard chartered Bank Nepal Ltd." showed that liquidity position of both the banks is below the standard. To evaluate the income and expenditure of the both banks was the prime objective of the researcher. The conclusions drawn from the study were:

- a) NABIL had been capable to maintain better liquidity position as comparative to SCBNL.
- b) The turnover ratio showed that NABIL is more efficient in utilizing its sources than SCBNL. NABIL's (investment & advance)/deposit ratio was 57% whereas later was 41%.
- c) The profitability ratios of those banks were found to be satisfactory. However, figure showed that SCBNL had higher profitability ratios than NABIL.
- d) NABIL seemed to be more efficient in utilizing its capital for generating interest income.

**Ghale B. (2005)** Another thesis entitled "A Study on Comparative Analysis of Financial Performance of Joint Venture Banks in Nepal: NABIL & NBBL" was intended to evaluate the financial performance of NABIL and NBBL. The researcher has been able to find the mentioned facts relevant to those banks:

- a) Liquidity Position of NABIL was higher than that of NBBL.
- b) The profitability ratios showed that both banks were able to earn significantly. However, EPS ratio of NABIL bank was higher than NBBL. The reason behind the less earning of NBBL was its low capital base. The DPS trend of NABIL was positive and greater than NBBL.
- c) The composition of the operating expenditure showed that NBBL was paying more of its income in paying interest, commission and general expenses.

**Dhakal M. (2005)** "A Comparative Study on Financial Performance of Nepal SBI Bank Ltd. and Nepal Investment Bank Ltd" laid the main objective to find the position and to examine relative financial performance of those joint venture banks. The findings of the study have been presented briefly as below:

- a) The current ratio showed that both banks were able to meet their current liabilities. However, the liquidity position of NIBL was comparatively better than NSBL.
- b) Capital Employment ratio of NSBL found to be higher than that of NIBL.
- c) Both EPS and DPS of NIBL were greater than NSBL. Thus, NIBL had been able to satisfy their shareholder effectively.
- d) NIBL had adopted more aggressive lending and borrowing policy to generate profit than NSBL.

**Parajuli S. (2006)** "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 Standard chartered bank nepal 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 SCBNL in term of the activity ratio. The researcher pointed the reason behind it that NABIL might have comparatively better lending policy than SCBNL.
- 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.

**Bohara B. (2006)** Another thesis entitled, "A Comparative Study of Financial Performance of Nepal Arab Bank Ltd. and Nepal Investment Bank Ltd." was aimed to highlight the function and policies of joint venture banks especially those banks that are under study. The findings of the study were:

- a) Both banks had enough current asset to settle its current liability but so far as comparative analysis is concerned, the current Ratios of NIBL were higher than NABIL.
- b) Profitability ratios of NABIL were obtained higher than the later one. The researcher further discovered that it was the result of adoption of the better lending portfolio by the particular bank.
- c) DPS provided by NIBL was high enough to satisfy its shareholder properly than that of NABIL.

**Prasad P. (2006)** "A Comparative Study on the Financial Performance of Nepal Investment Bank Ltd. and Standard chartered Bank nepal L td." was dissertation carried with the objective to acknowledge the deposit and advance pattern of those understudied banks. Basically the study concluded that both banks had sound financial position and earning enough to influence its market share price of those banks. The overall analysis of the financial indicator shows that NIBL had more satisfactory result than SCBNL. Profitability ratios especially EPS was abstracted to be higher in case of SCBNL.

**Shakya S. (2007)** Thesis entitled, "Financial Analysis of Joint Venture Banks in Nepal: with Reference to Nepal Arab Bank Ltd. and Standard Chartered Bank Nepal Ltd." attempted to know the financial health of those banks by use of various financial tool and techniques. The major findings of the thesis are pinpointed as below:

- a) Total deposit, loan & advances of both banks were increasing year by year.
- b) The liquidity position of SCBNL was found to be better than NABIL
- c) SCBNL was ranked as superior than NABIL in term of the profitability ratios.
- d) Loan & advance to total asset ratios had been fluctuated during the period of year in the case of NABIL and the same was found in increasing trend in previous years and decreasing in later years in case of SCBNL.

**Joshi R. K. (2007)** "A Study of Financial Performance of Commercial Banks", tried to evaluate the financial position of joint venture and non joint venture banks in term of capital adequacy ratios, liquidity ratios, profitability ratios, turnover ratios etc. Debt equity ratios of local banks were obtained to be higher than joint venture banks. Among the joint venture banks, NABIL's was found to be stronger in term of profitability ratios. The earnings of the then joint venture banks were increasing in increasing rate whereas it was found to be increasing in decreasing rate.

**Joshi D. (2008)** "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.

**Mahato B. (2008)** "A Comparative Study of the Financial Performance of Nepal Arab Ltd and Nepal Indvestment Bank Ltd." is the study commenced with motive to discover the financial strengths & weaknesses of those banks and recommend to the management in

formation of policies and plans. The conclusions abstracted from his dissertation were:

- a) Liquidity ratios of NIBL are higher than that of NABIL.
- b) Almost all the profitability ratios of NABIL were found to be higher than later one.
- c) Mr. Mahato had seen low capital base of both banks so suggested to raise their equity capital in their capital structure.

**Maharjan P. (2008)** The other study entitled, "A Comparative Analysis of Financial Performance between Nepal Bangladesh Bank Ltd and Standard chartered bank nepal Ltd." was initiated with clear-cut objective to compare the financial position of those banks. The conclusions of the study were:

- a) Liquidity positions of both banks were sound.
- b) Capital employment rate of NBBL was found better than later one.
- c) Investment of NBBL was found riskier than that of NBBL.
- d) Profitability position of NBBL was in increasing trend till fiscal year 1997 and stable thereafter whereas SCBNL showed fluctuation during the period of year.
- e) SCBNL seen more safe in future as the capital base of SCBNL was higher than NBBL

**Shrestha B. (2009)** "A Comparative Study of the Financial Performance Between Nepal State Bank Ltd and Nepal Bangladesh Bank Ltd." was conducted with the objective to evaluate the financial strengths & weaknesses of those banks and also to advise the concerned authority in decision making on various aspects. The conclusions drawn from the dissertation are highlighted as below:

- a) Liquidity positions of both banks were sound.
- b) NBBL had been able to utilize its resources efficiently in income generating sector than that of NSBL.
- c) Interest Earned to Total Asset ratios were decreasing in both case. However, NBBL's Return to Net Worth ratio was higher than later one.
- d) Although both banks were competent to earn sufficient profit, NBBL had superior profitability ratios than that of NSBL.

**Mandal C. (2009)** "A Comparative Financial Performance Appraisal of Joint Venture Banks" is the dissertation designed to discover the financial position and rank of those JVB. The study was limited within three JVBs i.e., NABIL, SCBNL and NIBL. The major points found from the dissection of financial statement of those JVB are highlighted as below:

- a) Liquidity position of NIBL was better than NABIL and SCBNL.
- b) NABIL and SCBNL had registered low cash in hand & bank balance in the respective year. On the basis of that fact, the researcher had concluded that both banks were investing most of their deposit amount in more productive sector like treasury bills, marketable securities and short-term investments.
- c) SCBNL had superior EPS than rest two banks i.e., NABIL and NIBL.

**Regmi P. (2010)** "A Comparative Study of the Financial Performance of Himalayan Bank Ltd and Nepal Bangladesh Bank Ltd" is the study carried with intention to acknowledge financial status of those banks and compare their position so that their rank could be identified. The pinpoints abstracted from the study have been mentioned as below:

- a) Both banks were able to utilize its capital efficiently in productive sectors.
- b) Non-Performing asset of NBBL found higher than HBL.
- c) Profitability ratios of NBBL were not satisfactory in comparison to HBL.

**Dhungana J. (2010)** "A Study of Joint Venture Banks' Profitability" is a dissertation carried to scrutinize the profitability status of three JVBs i.e., NABIL, NIBL and SCBNL. The major findings were:

- a) All those banks were exhibiting their pleasing performance over the period of study.
- b) Interest Earned to Total Deposit ratio showed that NABIL was able earn higher interest among three JVBs.
- c) The profitability ratios of those banks revealed that they are improving their financial performance per year.

The researcher had suggested mobilizing their resource in almost all part of the nation by extending their branches even in the rural areas. Further, he also recommended that those banks should increase their capital base over the period of time.

**Aryal K. (2011)** “A Evaluation of Credit Investment and Recovery of Financial Public Enterprises in Nepal”, a thesis, case study of ADB/N. His research statement of problem: 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 major financial institution 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 the region of the country. Credit outstanding amount is increasing day by day but the collection amount 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. So Mr. Aryal chose this bank to analyze the credit disbursement and recovery pattern of ADB/N.

Major findings:

1. Actual credit disbursement, collection and outstanding are increasing in decreasing rate.
2. Yearly increase in credit disbursement is higher than that of collection.
3. Positive relation between credit disbursement and collection i.e. 0.996.
4. Targeted credit collection and disbursement fixed by planning and project department is not significantly different than the actual.
5. Most of the customers are unaware of the policy of the bank.

Recommendation:

1. The borrowers should be informed about the credit, its use and its payment procedures and schedule.
2. Greater attention should be given to increase the credit collection and to collect old outstanding amount of credit and renewal of it.
3. To accelerate the collection, credit should be followed continuously in a regular interval of time.
4. The behavioral 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 personnel.

## 2.3 Research Gap

Credit management is a term used to identify accounting functions usually conducted under the umbrella of Accounts Receivables. Essentially, this collection of processes involves qualifying the extension of credit to a customer, monitors the reception and logging of payments on outstanding invoices, the initiation of collection procedures, and the resolution of disputes or queries regarding charges on a customer invoice. When functioning efficiently, credit management serves as an excellent way for the business to remain financially stable. All the research studies mentioned herein are concerned with the study of credit strength and contribution in regard with capatial capacity. Most of them have indicated the credit risk management. In this research some statistical and financial tools are used for calculation of lending policy of financial companies. Besides this, below mentioned factors have been studied analytically and intensively by this research.

- ❖ Measuring the credit strength and efficiency,
- ❖ Analyzing the contribution of credit in total profitability and study of the loan and advances, profitability,
- ❖ Credit position of the of financial companies.

## **CHAPTER III**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

“Research Methodology refers to the various sequential steps to adopt by a research in studying a problem with certain objective in view” (Mr. Joshi, 2001). 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 credit management 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 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 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.

#### **3.1 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 (Mr. 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 deviate from actual course of action. The basic objective of the study is to examine the existing

policies and practices of credit management 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 sometime, 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 Sample Size**

A Sample is that part of the universe which we select for the purpose of investigation (Mr. Gupta, 1995). Sampling technique is very much essential for conducting any research. It allows the researcher more time to make an intensive study of the research problem. When the study of whole population is not possible, the sampling technique is adopted. The ideal sampling represents the whole universe accurately and independently. For the study purpose too, sampling is done while extracting data required. The study of financial data of some banks from very beginning period makes the study lengthy and vague. Thus, the financial data of recent six years are taken as sampling for the study.

There are thirty one commercial banks operating in the political boundary of the nation. Among them, Everest Bank Limited has been selected as sample for the present study. Similarly, financial statements of EBL for 5 years i.e. FY 2062/63 to 2066/067 have been taken as samples for the same purpose.

### **3.3 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. But the primary data are collected by informal discussion which are unstructured. Secondary data is collected or applied for the study will be obtained from 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 and published materials of EBL, Nepal Rastra Bank directives and other sources.

### **3.4 Data Analysis Tools & Techniques:**

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.

### **3.5 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. “**Ratio, in general, refers to the quantitative relationship between two sets of arithmetical data**” (Mr. Rana, 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:

- a) **Liquidity Ratio**
- b) **Credit Ratio**
- c) **Stability Ratio**
- d) **Deposit Composition**
- e) **Credit Composition**
- f) **Investment Composition**
- g) **Other Ratios**

**a) Liquidity Ratios:**

Liquidity ratios measure the firm's ability to meet term financial obligation out of current or liquid assets. These ratios basically concentrate on current assets and liabilities and used to ascertain immediate commitments made by the firms. In banking sense, each and every commercial bank accepts various types of deposit and obliged to refund their deposit-holder as per demand or stipulated time. The banks must satisfy the financial need of their clients. In case of being unable to do so these banks will loose their goodwill and public won't trust them in any respect.

**i) Cash Reserve Ratio (CRR):**

Cash Reserve Ratio= (Cash in Vault+ NRB Balance)/ Total Deposit

The ratio attempts to explain about the liquidity position of any financial institutions. NRB, as a regulatory body, has directed to financial institutions to maintain certain percentage (%) of CRR. Further, NRB regularly analyze the financial statement submitted by financial institutions to know their financial health along with CRR. NRB will levy penalty in case of unable to maintain prescribed level of CRR.

**ii) NBB Balance to Total Deposit:**

NBB Balance to Total Deposit= NRB Balance/ Total Deposit

Every CB has to maintain their account in NRB and keep their surplus deposit at their nostro account maintained with NRB. The deposit maintained with NRB can be treated as liquid fund. Thus, the larger amount of deposit maintained with NRB account is preferable from the liquidity point of view.

**iii) Cash in Vault to Total Deposit:**

Cash in Vault to Total Deposit= Cash in Vault/ Total Deposit

The certain amount of cash should be maintained to meet immediate demand of customers and meet day to day expenses. The cash maintained at their vault are liquid fund and should be at optimum point. The maximum amount of cash in vault is preferable from liquidity point of view but it may be dangerous from the point of view of profitability and security.

**iv) Liquid Fund to Total Deposit:**

Liquid Fund to Total Deposit= Total Liquid Fund/Total Deposit

where Total Liquid Fund = Cash in hand NRBs + Foreign currency in hand + Balance with NRB + Balance with other domestic banks + Balance maintained at aboard and Call Money.

The ratio conveys about the overall liquidity position of any financial institutions. The higher ratio portrays that the particular financial institutions is maintaining heavy liquid fund and vice versa. Further, the ratio also gives the idea about the lending strategy of the particular financial institutions. The higher ratio means that the financial institutions is not aggressive in lending and vice versa.

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

**i) Total Credit to Total Deposit:**

Total Credit to Total Deposit= Total Credit/ 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:**

Total Credit to Fixed Deposit= Total Credit/ 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:**

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.

### **c) 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 evaluate by the use below mentioned ratios:

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

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:**

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:**

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.

**d) Deposit Composition:** Deposit structure enables to understand the deposit components and their portion on overall deposit. The study of the composition also provides feedback to top level management for formulating policy relating to deposit.

**i) Fixed Deposit to Total Deposit:**

Fixed Deposit to Total Deposit = Fixed Deposit / Total Deposit

The ratio provides the idea about the portion of fixed deposit in overall deposit of the particular FI. The maximum portion of fixed deposit enables financial institutions to outflow mid term & long-term loan to the loan seekers. The higher the ratio denotes higher portion of fixed deposit in overall deposit and vice versa.

**ii) Saving Deposit to Total Deposit:**

Saving Deposit to Total Deposit = Saving Deposit / Total Deposit

The ratio indicates the portion of saving deposit in the overall deposit accumulated by the FI. The higher ratio means higher portion of deposit and vice versa

**iii) Current Deposit to Total Deposit:**

Current Deposit to Total Deposit = Current Deposit / Total Deposit

The ratio gives the idea about the share occupied by current deposit in overall deposit of bank. The higher ratio indicates the higher portion of current deposit and vice versa.

**e) Credit Composition:** Credit structure is essential to top-level manager for formulating policy relating to credit. The credit portfolio should be monitored by the management because the flotation of loan in a single sector is dangerous as much as putting all the eggs in a single basket.

**i) Government Enterprise to Total Credit:**

Government Enterprise to Total Credit = Government Enterprise / Total Credit

The ratio provides the idea about the portion of loan provided to government enterprises in overall credit of the particular financial institutions. The higher the ratio denotes higher portion of fixed deposit in overall deposit and vice versa.

**ii) Private Sector to Total Credit:**

Private Sector to Total Credit = Private Sector / Total Credit

The ratio indicates that the portion of loan floated by financial institutions to private sector in the overall credit.

**f) Investment Composition:** The various ratios showing investment ratios are:

**i) Investment to Total Deposit:**

Investment to Total Deposit = Investment / Total Deposit

It is essential to know how much portion of deposit is allocated for investment purpose and it is known with the help of above ratio. The higher ratio ensures about higher liquid asset as investment. Investment in securities doesn't yield as much as loan & advances so the higher ratio will be seen if there is not the environment of credit outflow in the financial market.

**ii) Investment on Government Securities to Total Investment:**

Investment on Govt. Securities to Total Deposit= Investment on  
Govt. Securities/ Total Investment

Investment on government securities was compulsory before few years but at present, it is the matter of preference. The investment on government securities curtails the lending amount of those financial institutions so reducing their investment on these securities makes the higher lending. The higher ratio portrays that the financial institutions are making higher investment on govt. securities by reducing their lending in various sector and vice versa.

**iii) Share & Debenture to Total Investment:**

Share & Debenture to Total Investment= Share & Debenture /Total Investment

The ratio tells us about investment made on non-government securities out of total investment. The investment on these securities is riskier than govt. securities but yield greater return than later. Thus, the existence of higher ratio threats for investment risk.

**g) Other Ratios:** There are so many other ratios that are key indicator of the performance of any financial institutions. The other ratios are:

**i) Market Share in Term of Number of Branches:**

Market Share in term of no. of branches= Number of branches of the  
Particular CB/ Total no. branches of CBs

The ratio gives the idea about the market share of financial institutions operating in the nation. The commercial bank having higher number of branches will possess greater market share. The ratio having higher value is preferable.

**ii) Market Share in Term of Total Deposit:**

Market Share in term of total deposit= Deposit of the particular CB/ Total  
deposit of CBs.

The ratio expresses about the market share of the particular commercial banks in the overall nation wide market. The bank having greater amount of deposit will cover higher market share. The ratio with higher value is preferable.

**iii) Market Share in Term of Total Credit:**

Market Share in term of total credit=  $\frac{\text{Credit of the particular CB}}{\text{Total credit of CBs}}$

The ratio having higher value indicates that the market share of the particular CB possesses more credit outflow in comparison to other CBs. The profit of any CBs depend on credit out flowed by the CBs so the higher ratio ensures for the higher profit if the credit provided is secured and well enough.

**iv) Loan Loss Provision on Total Credit:**

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.

**v) Growth Rate:**

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.

**3.5.1 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.

### 3.5.2 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:

C- Capital Adequacy

A- Asset Quality

M- Management Quality

E- Earnings

L- Liquidity –SLR and CRR

S- Sensitivity to Risk.

**a) 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, the capital adequacy is measured by classifying capital in two levels: Primary Capital & Secondary Capital. The norms in term of capital laid by NRB are revised time to time.

**b) 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.

**c) 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.

**d) 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.

**e) 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

#### **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,

Composite Rating= (25%) Capital+ (25%) Asset+ (25%) Management  
+ (15%) Earning+ (10%) 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.

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.

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.

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

$$\text{Interest Spread Rate} = \text{WALR} - \text{WADR}$$

Where WALR= Weighted Average Lending Rate

WADR= Weighted Average Deposit Rate

## **CHAPTER IV**

### **DATA PRESENTATION & ANALYSIS**

#### **4.0 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 credit management 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 Credit Management of Everest Bank Limited.

#### **4.1 Types of Customers**

In a very broad sense all the persons are in the society falls 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

## **4.2 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 external 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.

- Inadequacy 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.

#### **4.2.1 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 Centre the credit risk covers the 60% of the 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:

**a.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.

**b.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.

**c. 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 Obligors.

**d. 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.

**e. Satisfactory:** Assets and cash flow protection are reasonable 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.

**f. 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.

**g. 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.

**h. 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.

**i. 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.

**j. 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.

**k. 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.

#### **4.2.2 Market Risk**

Market risks may be divided into interest rate risks, exchange rate risks ( including gold) , share price risks and commodity price risks, which refer to, respectively, the risks created by any adverse change in interest rates, exchange rates, share prices and commodity prices.

#### **4.2.3 Operational Risk**

Definition of operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events”. operational risk is the risk of loss resulting from inadequate or failed internal processes, people and IT system, or from external events. It includes legal risk but excludes strategic and reputational risk.

### **4.3 Credit Management of EBL**

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

Credit 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 guidelines.

#### **4.3.1 Pre Sanctioning Process of Credit 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 (**Anx-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 (Anx-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. Credit proposals received at Head Office will be handled and scrutinized by Credit Officer and entered in "Loan Application Receipt and Disposal Register" at Head Office. The proposal will be put up by Credit Officer to the Deputy General Manager, In-charge of Credit, who in turn will dispose off the proposals falling within his power and put-up higher proposals to the Executive Director (ED). Likewise, ED 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 ED, 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 Credit 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 credit 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" (**Anx-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 (Credit) 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.
- Asset and Liabilities Statement of promoter directors/partners/proprietor as on the latest financial year end.
- Assets and Liabilities Statement or Balance Sheet of any other person/firm/company proposed as guarantor.
- Copies of title deeds of immovable properties shown in Assets in any of the statements referred above.
- Profile of borrowers covering experience and qualification of promoters, industry/commodity profile, market and future prospects etc.
- Names of existing or other bankers and details of facilities sanctioned.

- Copy of registration certificate with Industries, Department or Department of Cottage and Small Industries, as the case may be.
- 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:

- 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.
- Copies of all approvals from HMG or Nepal Rastra Bank, if any.
- Copies of collaboration agreement, MOU etc., if any.
- 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.

#### **a. 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

#### **b. Income Source related Papers.**

- i. Last two years balance sheet and one year projected Balance sheet
- ii. Salary certificate if employed
- iii. Firm Registration with its renewal

iv. PAN/Vat certificate

v. Tax Clearance

**c. 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 borne by the customer itself. The charges to be borne 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 (Anx- IV).

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

<u>Aggregate Score</u>	<u>Rating</u>	<u>Rates of Interest</u>
- 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	A	0.5% over published rate
- 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 and should be recovered within one month's time. In case of non-recovery of interest within one month, such account will be treated as irregular account.

• **NRB Guidelines Regarding Single Obligator's Limit & Reporting to Credit Information Centre (CIC)**

NRB's regulations regarding single obligator 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 CIC to ensure that the borrower is not in the Black/Defaulters' list of CIC. 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, Thapathali, 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, Thapathali 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 credit proposal, it is desirable that initially only the credit 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.

#### **4.3.2 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.100.00 lac and above should be got approved from Bank's Legal Officer or Bank's approved counsel.

- 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.
- 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.
- 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.
- 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.
- 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 **(Anx-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.
- 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.

- 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 (**Anx-VI**) will be submitted to Head Office by Branches within 7 days from the close of the month.
- 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.
- Sanction letter will be issued to the borrower by the branch in duplicate 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:**

1. Foreign Exchange Risk Monitoring Statement.
2. Weekly Statistics on the Convertible Foreign Exchange Reserve.
3. Liquidity Report.
4. Weekly Key Parameters of Balance Sheet.
5. Loan outstanding of borrowers.

- **On monthly basis:**

1. Assets and liabilities report
2. Position of big borrowers and depositors
3. Profit & Loss Account and Balance Sheet
4. Priority, Non Priority and Deprived sector lending position

5. Interest rate yield on advances and deposits
6. Sector wise loan outstanding
7. Security wise loan and advances
- **On quarterly basis:**
  1. Credit concentration of single sector of economy
  2. Liquidity risks
  3. Loan and advances provisioning
- **On yearly basis:**
  1. 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.

##### **1. Processing of Loan Application**

###### **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.

## **2. Transfer of Industries outside Kathmandu Valley**

With a view to bring positive impact on environment, it has been the Government policy to encourage transfer of industries currently situated within Kathmandu Valley to elsewhere. Accordingly, banks are also requested to consider positively for extension of loan for the purpose to such industries.

## **4.5 Test of Compliance of 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.

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

(Circular No.Bai.Bya.Pa.Pa. 64/057 dated 2057.12.2/March 15, 2001, revised by Circular No.Bai.Bya.Pa.Pa.71/058 dated 2058.5.29/Sept, 14, 2001)

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

<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	4.50%	9.00%
For FY 2063/64	5.00%	10.00%
For FY 2064/65	5.50%	11.00%
For FY 2065/66	5.50%	11.00%
For FY 2066/67	6.00%	10.00%

Sources: NRB Directives Manual.

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 four years are presented as below:

**Table 3 - Showing Capital Adequacy Test of EBL**

**Rs in Thousands**

For CoreCapital (% of Total Risk Assets)	Time Table			
	2063/64(5.50%)	2064/65(5.5%)	2065/66(6.0%)	2066/67(6.0%)
Required Core Capital as per NRB	505,757.00	621,013.00	1,537,185	1,814,425
Actual Core Capital	815,567.00	927,550.00	1,981,579	2,537,092
Result	Complied	Complied	Complied	Complied
For Overall Capital	11.0%	11.0%	10.0%	10.0%
Required Total Capital as per NRB	1,011,515.00	1,24,20,25.00	2,561,975	3,024,042
Actual Capital Fund	1,247,562.00	1,39,13,39.00	2,703,870	3,257,141
Result	Complied	Complied	Complied	Complied

Source: Everest Bank Annual Report.

While examining capital adequacy of any banks, it can be further classified into core capital and overall capital.

**For Core Capital:**

$$\text{Capital Adequacy Ratio} = \frac{\text{Core Capital}}{\text{Sum of risk-weighted assets}} \times 100$$

Where Core Capital= Paid Up Capital+ Share Premium+ Non-Redeemable Preference shares+ General Reserves Fund+ Accumulated Profit and Loss Account . However, where the amount of Goodwill exists, the same shall be deducted for the purpose of calculations of Core Capital.

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 earning. The reason behind it is that the profit of the bank in increasing trend. EBL had issued preference shares i.e. Non –Redeemable Preferences shares.

**For Overall Capital:**

$$\text{Capital Adequacy Ratio} = \frac{(\text{Core Capital} + \text{Supplementary Capital})}{\text{Sum of risk-weighted assets}}$$

where Supplementary Capital= General Loan Loss provision+ Exchange Equalization Reserve+ Assets Revaluation Reserve+ Hybrid capital Instruments+ Unsecured subordinated Term Debt+ Other Free Reserves not allocated for a specific purpose.

**(a) General Loan Loss Provision**

Under this head, provision made against the pass Loan shall be included and where the banks provide for loan loss provisioning in excess of the proportion as required under the directives of NRB, the whole amount of such additional provision may be included in General Loan Loss Provision under the Supplementary Capital. Similarly, except the priority sector credits, in respect of rescheduling, restructuring or swapping of all other kinds of credits, if such credit falls under Pass loan according to NRB directives, loan loss provisioning has to be provided and such provisioning amount is to be included under General Loan Loss Provisioning.

**(b) Assets Revaluation Reserve**

The amount of Assets Revaluation Reserve can be included for the purpose of calculating Supplementary Capital subject to 2% of the Total Supplementary Capital, inclusive of the amount of this Reserve.

### **(c) Hybrid Capital Instruments**

This includes the following instruments that have the characteristics of both debt and equity:

1. Unsecured, fully paid up instruments issued by the bank which are subordinated to (priority of payment after) depositors and creditors, and available to absorb losses as well as convertible into ordinary capital.
2. Instruments which are non-redeemable at the option of the holder except with the approval of Nepal Rastra Bank.
3. Perpetual or long-term preference stock (shares) convertible into common stock if the profit and loss account becomes negative.

### **(d) Unsecured Subordinated Term Debt**

Unsecured and subordinated debt instruments (priority of payment after the depositors) issued by bank with a minimum maturity term of over five years and limited life redeemable preferences shares. To reflect the diminishing value of these instruments, a discount (amortization) factor of 20 percent during the last five years shall be applied. The issue of these instruments by banks shall not exceed 50 percent of their core capital. The overall capital fund of any bank is the summation of core capital and supplementary capital held by them.

### **(e) Total Weighted Risk 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 weightage. Accordingly, for determining the Total Risk-Weightage Assets, the amount as exhibited in the balance sheet assets shall be multiplied by their respective risk-weights and the added together.

**Table 4 On-Balance Sheet Risk-weighted Assets**

<b>On Balance Sheet Assets</b>	<b>Risk Weightage %</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
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
Loan against the guarantee of internationally rated*/foreign Banks	20
Other investments with internationally rate*/foreign banks	20
Inter-bank lending	20
Investments in Shares, Debentures and Bonds	100
Other investments	100
Loan, Advances and Bills Purchased/Discounted**	100
Fixed Assets	100
Other net interests amount to be received	100
All Other Assets(except advance income tax payment)	100
Real estate/residential housing loans exceeding the limits	150

Source: NRB Directives Manual. Ashad 2067

**(ii) Off-Balance Sheet Risk-Weighted Items.**

For the purpose of calculation Capital Fund, the Off-Balance Sheet items are divided as follows with assignments of separate risk weightage. 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 5 Off Balance Sheet Risk-weighted Assets**

<b>Particulars of Off-Balance sheet items</b>	<b>Risk Weight age %</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	50
Performance Bond	50
Advance payment Guarantee	100
Financial Guarantee	100
Other Guarantee	100
Irrevocable Loan Commitment	100
Possible liabilities for income tax	100
All types of possible liabilities including acceptance	100
Unpaid guarantee claims	200

Source: NRB Directives Manual Ashad 2067

EBL are authorized to have transaction in foreign currency so that they 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 CBs 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 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 in 8.88% FY 2063/064, 8.21% in FY 2064/065, 7.73% in FY 2065/066 and 8.39% 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 13.57% in FY 2063/064, 12.32% in FY 2064/065, 10.55% in FY 2065/066 and 10.77% in fiscal years 2066/067 respectively. The actual capital funds of EBL were more than prescribed by NRB in four 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 Four year are also discussed as below:

**Table 6 Showing Capital Adequacy Ratios**

Rs. in Thousand

Particulars	EBL			
	Ashad 2064	Aashad 065	Ashad 2066	Ashad 2067
Core Capital	815,567	92,75,50	1,981,579	2,537,092
Capital Fund	1,24,75,62	1,39,13,39	2,703,870	3,257,141
Total risk Assets	9,195,588	11,29,11,37	25,619,753	30,240,428
Core Capital/Total risk Assets	8.88%	8.21%	7.73%	8.39%
Capital/ total Risk Assets	13.57 %	12.32%	10.55 %	10.77%
Excess in Total Capital Fund	2.57%	1.32%	0.55%	0.77%
Excess in Core Capital	3.38%	2.71%	1.73%	2.39%

Source: EBL's Annual Report

In table#2, CAR (Capital Adequacy Ratio) in Core Capital of EBL has been found 8.88%, 8.21%, 7.73% & 8.39% of total risk asset in Aashad 2064-Aashad 2067 respectively whereas the Capital Adequacy Ratio in terms of capital fund has been found 13.57%, 12.32%, 10.55% and 10.77% of total risk asset in Aashad 2064- Aashad 2067. Nepal Rastra Bank earlier provided that the Capital Adequacy ratio should be 8%. This has since been increased to 11% which is further modified to 10% from the financial year 2066/067. The EBL Capital Adequacy ratio stands at 12.32%, inclusive of provision of 20% dividend as bonus share. In order to improve Capital Adequacy ratio, the board of EBL decided to issue debentures of Rs 30 crore. This was subscribed overwhelmingly and allotment completed. These debentures are also listed on the Nepal Stock Exchange Ltd. It clearly gives sense that EBL has complied NRB directive of capital adequacy ratio in all four year.

**4.5.2 Directives relating to loan classification and provisioning (Directive no.2/067)**  
(Circular No. Bai.Bya. Pa.Pa. 64/057 dated 2057.12.2/March 15, 2001 and revised by Circular No.Bay.Bya Pa.Oa. 71/058 dated 2058.5.29/Sept. 14, 2001 under section 79 NRB Act 2002)

### **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. There 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:

<u>Classification of Loan</u>	<u>Loan Loss provision</u>
➤ Pass	1 Percent
➤ Substandard	25 Percent
➤ Doubtful	50 Percent
➤ Loss/ the loan extended to black listed person, firms company or corporate body	100 Percent

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. In respect of rescheduling or restructuring of deprived sector loan and guaranteed or insured priority loan, the requisite provisioning is 25%.
- c. 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).**

- a. For all NBA acquired by the bank up to FY 2059/60, where the assets are not disposed off in three years after the FY 2059/60 i.e., up to Fy 2062/63, provisioning for loss on such NBA is provided at one hundred percent within three fiscal years, follows:

<b>Fiscal Year</b>	<b>Provisioning for loss</b>
FY 2064/65	33.33%
FY 2065/66	66.67%
FY 2066/67	100.00%

- b. For all NBA acquired by the bank from 066/67 provisioning at 100% is provided.

**Table 7 The classification and provisioning of Non-performing Assets of Everest Bank limited for the period of 5 years (FY 2062-2066) as per the NRB guidelines is as under.**

S. No.	Particulars	Ashadh 2063			Ashadh 2064			Ashadh 2065		
		Amount	%age	Provision	Amount	%age	Provision	Amount	%age	Provision
1	Pass Loan	97265.03	95.96		137098.23	97.35		185331.29	98.38	
	Bills Purchased	306.95	0.30		408.00	0.30		221.39	0.12	
	Hotel Oriental		0.00		0.00				0.00	
		97571.98	96.26	975.71	137506.23	97.65	1375.06	185552.68	98.50	1855.52
2	Sub-Standard Loan	106.69	0.11	26.67	42.18	0.03	10.55	63.07	0.03	15.76
3	Doubtful Loan	6.84	0.01	3.42	23.53	0.02	11.76	7.46	0.01	3.73
4	Loss Loan	1178.83	1.16	1178.83	1066.07	0.75	1066.07	1202.58	0.64	1202.58
	Total NPA :-	1292.36	1.27	1208.92	1131.78	0.80	1088.38	1273.11	0.68	1222.07
5	Rescheduled Loan	2498.24	2.45	312.28	2188.84	1.55	273.60	1538.52	0.82	192.31
		Additional prov.		844.12	Additional prov.		1448.99	Additional prov.		1703.64
	Total of (2+3+4+5)	3790.60		2365.32	3320.62	2810.97	2025.91	2811.63		1414.38
	GRAND TOTAL	101362.58	100		140826.9	100		188364.31	100	

S. No.	Particulars	Ashadh 2066			Ashadh 2067		
		Amount	%age	Provision	Amount	%age	Provision
1	Pass Loan	242485.90	99.09	2424.85	280308.39	99.55	2803.08
2	Sub-Standard Loan	13.61	0.01	3.40	54.89	0.02	13.72
3	Doubtful Loan	285.14	0.12	142.57	126.33	0.04	63.17
4	Loss Loan	881.10	0.36	881.10	256.03	0.09	256.03
	Total NPA :-	1179.85	0.48	1027.07	437.25	0.16	332.92
5	Rescheduled Loan	1029.79	0.42	128.72	818.54	0.30	102.32
	Total of (2+3+4+5)	2209.64		1155.79	1255.79		435.24
	GRAND TOTAL	244695.55	100.00		281564.18		

Source: EBL's Annual Report.

- The Gross Non performing Assets excluding rescheduled accounts is 0.16% for the year ended Aashad 2067, 0.48% for the year ended Aashad 2066, 0.68% for the year ended Aashad 2065, 0.80% for the year ended Aashad 2064 and 1.27% for the year ended Aashad 2063. This shows that the percentage of non-performing assets of the total credit is in decreasing trend and low.

- Against the non performing Assets of Rs 1292.36 Lacs the provision have made of Rs 1208.92 Lacs i.e. 93.54% for the period of Aashad 2063. Non performing Assets of Rs 1131.78 Lacs the provision have made of Rs 1088.38 Lacs i.e. 96.16 % for the period of Aashad 2064. Non performing Assets of Rs 1273.11 Lacs the provision have made of Rs 1222.07.Lacs i.e. 95.99 % for the period of Aashad 2065. Non performing Assets of Rs 1179.85 Lacs the provision have made of Rs 1027.07 Lacs i.e. 87.05 % for the period of Aashad 2066 and Non performing Assets of Rs 437.25 Lacs the provision have made of Rs 332.92 Lacs i.e. 76.14 % for the period of Aashad 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.
- The Ebl has made provision of Rs 99.79 Lacs for Non Banking Assets as per NRB guidelines (i.e. Total Non Banking Assets=Rs 316.83 Lacs, provision =Rs 99.79 Lacs).

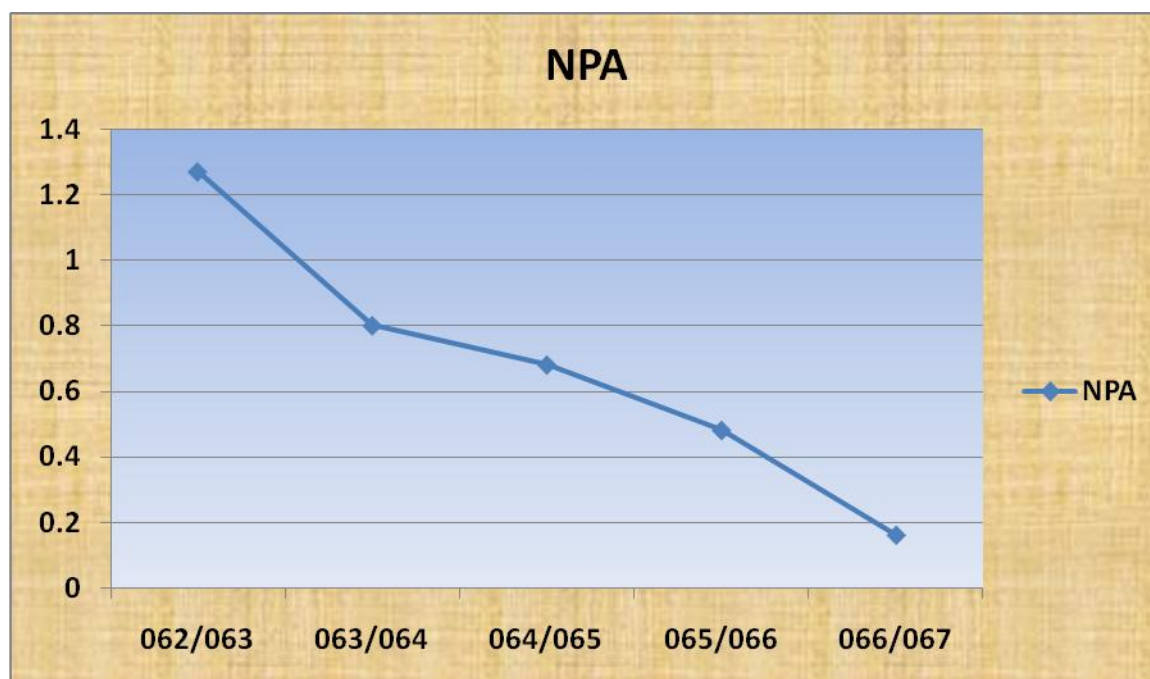
As per NRB guidelines the NBA's booked within Ashad 2060 to be fully provided within 3 years & other accounts after 2060 will be within 4 years.

**Graph 1 Non Performing Loans & Provision**

**Rs in Lacs**



**Graph 2 Gross NPA excluding reschedule account**



On the basis of unaudited financial result Ashadh end 2067. Gross NPA % of different banks is as under:-

**Table 8 Gross NPA of different banks**

S.N	Name of Commercial Bank	Ashadh end 2066 NPA % (Gross)	Ashadh end 2067 NPA % (Gross)
1	Machhapuchhre Bank Ltd	0.28	1.10
2	Laxmi Bank Ltd.	0.65	0.40
3	Kumari Bank Ltd.	0.9	0.70
4	Nabil Bank Ltd	1.25	1.10
<b>5</b>	<b>Everest Bank Ltd</b>	<b>0.48</b>	<b>0.16</b>
6	Siddhartha Bank Ltd	1.34	0.30
7	Standard Chartered Bank Nepal Ltd.	2.12	1.80
8	Nepal Investment Bank Ltd.	2.3	2.10
9	Bank of Kathmandu Ltd	2.52	2.20
10	NIC Bank Ltd.	2.6	1.10
11	Himalayan Bank Ltd.	6.14	3.50
12	Nepal SBI Bank Ltd.	6.32	0.50
13	NCC Bank Ltd.	11.09	30.60

14	Nepal Bangladesh Bank Ltd	12.27	35.10
15	Nepal Bank Ltd	25.11	14.60
16	Lumbini Bank Ltd.	31.97	19.90
17	Rastriya Banijya Bank	45.34	26.40

Source: NRB Publications.

#### **4.5.3 Requirement to Extend Advances To Productive and priority sector (Including Deprived Sector)**

##### **1. Required Lending**

Commercial Banks are required to extend advances in the productive priority, and deprived sector as follows:

The Total Advances:

- 40% to Productive Sector, including
- 12% to Priority Sector, including Deprived Sector.
- 3% to Deprived Sector

Proportion of Deprived Sector lending as follows:

**Table 9 Total credit % to be invested in Deprived Sector**

Fiscal Year		Minimum Percent of Total Credit to be invested in Deprived Sector
2063/64	2006/07	3%
2064/65	2007/08	3%
2065/66	2008/09	3%
2066/67	2009/10	3%

Source: NRB Directives Manual.

Effective from FY 2065/66, investment in Priority sector shall not be compulsory.

During FY 2057/58, the commercial banks, shall compulsorily extend advances to the deprived sector in the proportion mentioned below:

<u>Name of the Banks</u>	<u>Deprived Sector Credit Limit (Of total Outstanding credit)</u>
a. Nepal Bank Limited	3.00 percent
b. Rastriya Banijya Bank	3.00 percent
c. Nepal Arab Bank Limited	3.00 percent
d. Nepal Investment Bank Limited	3.00 percent
e. Nepal Grindlays Bank Limited	3.00 percent
f. Himalayan Bank Limited	3.00percent
g. Everest Bank Limited	3.00 percent
h. Nepal SBI Bank Limited	2.50 percent
i. Nepal Bangladesh Bank Limited	2.50 percent
j. Bank of Kathmandu Limited	2.50 percent
k. Nepal Bank of Ceylon Limited	1.25 percent
l. Nepal Industrial and Commercial Bank Ltd.	0.75 percent
m. Lumbini Bank Limited	0.75 percent
n. New Banks to be opened	0.25 percent

**Effective FY 2058/59**, except for the notice or directives otherwise issued by Nepal Rastra Bank, for those banks whose deprived sector credit has not reached 3.00 percent, the requirement shall increase by 0.50 percentage point each year on previous year's limit till it reaches 3.00 percent. Further, in the case of those banks whose limit has already reached and whose ceiling would reach 3.00 percent in the later years, the limit for each year shall remain to the same level. (3.00 percent)

## **2. Exceptions For Inclusion in Loan Portfolio**

- a) Effective 2050.4.1/July 16, 1993, for this purpose, the amount of lending against Credit Card shall not form part of Total Advances. (Circular No. Bai. Le.61 Karja 38/050 dated 2050.5.6/August 19,1993)
- b) Inter bank lending amount will not be included in the total loan portfolio for the purpose of calculation of total outstanding credit against which priority sector credit target has to be fulfilled (Circular Ref: Bai.Le.61 Karja 1131 dated 2047.8.27/Dec 10, 1990)

- c) Advances against Fixed Deposit Receipts not to be construed as Priority Sector Credit (Circular Ref: Bai.Bya.Pra. 70 (NBL 86/041) dated 2041.2.25/June 8, 1984).

### **3. Definitions**

#### **a) Productive Sector**

Productive Sector includes advances to Priority Sector and Other Productive Sector. Priority Sector, in turn, includes Deprived Sector.

#### **b) Priority Sector and Priority Sector Credit**

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

#### **c) Deprived Sector**

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

#### **d) Other Productive Sector**

- Advances to, and investment in shares and debentures of Small, Medium and Large Industries as defined in industrial Enterprises Act. In other words, all advances made to the industries, including investments made in their shares and debentures are included under Productive Sector lending.

- Pre-shipment Credit, which includes loan extended for purchase of merchandise processing, assembling, packaging etc. for export under an irrevocable export letter of credit.
- Export bill financing, which includes Export documentary Bills purchase and loans under ABC or LBC)
- Advances for purchase of public transport means (truck, bus, tempo, minibus etc.), and Agriculture/Farm equipment (Power Tiller, Tractor etc.);
- Investments in shares and debentures of government/ Semi government or private Agricultural, Insurance, Godown, or Banking or like companies.

#### 4. Time Frame for satisfaction or Priority/Deprived Sector Lending:

Banks are required to fulfill their lending in Priority Sector/deprived Sector as directed by NRB, failing which they are liable to pay penalty.

#### 5 .Liability on failure to fulfill Priority/Deprived Sector Lending

Where the banks do not extend credit as per above or fall short of the requirement, penalty on such short fall amount at the maximum prevailing lending rate of the bank during the examination period shall be imposed under Sub-section 2 of Section# 81 of Nepal Rastra Bank Act, 2058.

**Table 10 Priority Sector Lending and Deprived loans of EBL on FY 2063 to FY 2067**

Rs in lacs	062/063		063/064		064/065		065/066		066/067	
	No	Amount	No	Amount	No	Amount	No	Amount	No	Amount
<b>Priority Sector</b>	<b>887</b>	<b>8506.32</b>	<b>984</b>	<b>12591.33</b>	<b>821</b>	<b>1638.64</b>	-	-	-	-
(A) Direct										
Investment	873	5688.88	968	8916.51	815	6510.06	-	-	-	-
.Agriculture	15	67.16	41	205.36	71	328.64	-	-	-	-
Age Industries	242	2216.57	276	3695.02	242	3582.25	-	-	-	-
Services	614	3393.66	651	5016.13	501	2595.04	-	-	-	-
Energy base	0	0	0	0	0	0	-	-	-	-
Machine & Import of Raw materials	2	11.49	0	0	1	4.13	-	-	-	-
(B) Indirect	14	2817.44	16	3674.82	14	5128.58	-	-	-	-

Investment										
<b>Deprived Loans</b>	<b>158</b>	<b>3208.44</b>	<b>115</b>	<b>3705.82</b>	<b>88</b>	<b>5237.64</b>	<b>59</b>	<b>7169.05</b>	<b>49</b>	<b>695.07</b>
(A) Direct										
Investment	144	391	99	31.00	74	109.64	44	1002.40	28	5.94
Agriculture	56	213.38	41	21.14	16	57.46	0	139.10	3	3.06
Age Industries	0	0	0	0	0	2.66	1	272.02	0	0.81
Services	88	177.62	58	9.86	58	48.94	43	591.28	25	2.07
(B) Indirect										
Investment	14	2817.44	16	3674.82	14	5128.58	15	6166.65	21	689.13
<b>Total</b>	<b>1045</b>	<b>1714.76</b>	<b>1099</b>	<b>16297.5</b>	<b>917</b>	<b>6876.28</b>	<b>53</b>	<b>7169.05</b>	<b>045</b>	<b>695.07</b>

Source: EBL, Head Office, Credit Department.

- The Priority Sector Lending of EBL was Rs.8506.32 Lacs in Ashadh 2063. It was Rs. 12591.33 Lacs in FY Aashad 2064, Rs. 11638.64 Lacs in FY Aashad 2065 and there was no any provision of lending in priority sector according to NRB directives 2066 and 2067. EBL has fulfilled their lending in Priority Sector as directed by NRB.
- The Deprived Sector Lending of EBL is in increasing trend compared to Ashadh 2063. It has increased by 15.50% in FY Aashad 2064, 41.33% in FY Aashad 2065, 36.88% in FY Aashad 2066 and 21.29% in FY 2067. EBL has fulfilled their lending in Deprived Sector as directed by NRB.

**Table 11 Test of priority & Deprived Sector Lending on Aashad 2063 to Aashad 2067**

Particulars(Rs in Lacs)	062/063	063/064	064/065	065/066	066/067
Priority sector lending	8506.32	12591.33	11638.64	-	-
Deprived sector lending	3208.44	3705.82	5237.64	7169.05	8695.07
Total Loan & Advances	101362	140826	188364	244695	281564
Prescribed % of Lending	by NRB : 12% on Priority Sector and 3% on Deprived Sector				
Actual % of lending on Priority sector lending	11.55	11.57	12.00	-	-
Actual % of lending on Deprived sector lending	3.17	2.63	2.78	2.92	3.09

Source: EBL financial publications.

Prescribed % of lending by NRB till 2064/65 was 12% on priority sector & 3% on deprived sector of their total lending of commercial bank and according to NRB Directives No. 17/066 and 17/067 the " A "class licensed institution are required to lend

at least 3% of their total outstanding loan and advances. The above table shows that EBL has floated 3.09% of lending in deprived sector. In both cases, EBL has complied the standard directed by NRB. Therefore the NRB target for Priority sector advances and Deprived Sector lending was achieved by EBL.

#### 4.6 Retail lending position of Everest Bank as on Ashad end 2067.

The performance of the Everest Bank in the area of retail lending as on Ashad end 2067 is as under:

**Table 12 Retail lending position of EBL**

**Rs in Lac''**

Retail Lending Schemes	Asad 063/064		Asad 064/065		Asad 065/066		Asad 066/067		Yield in %		
	No	Amt.	No	Amt.	No	Amt.	No	Amt.	Ash 63	Ash 64	
Housing Loan	676	3490	1036	6879	1383	1059 3	1801	15464	9.4	9.12	
Car Loan	265	1561	401	2210	584	3524	849	5727	8.78	8.29	
Education Loan	71	260	113	484	194	905	342	1605	10.29	10.15	
Future lease rental	4	36	3	31	6	124	7	117		10.09	
Professional Loan	Na	Na	7	38	8	38	12	75		9.87	
Flexi Loan	Na	Na	45	702	225	3981	446	8986	8.75	8.82	
Home Equity	Na	Na	7	64	37	192	87	366	8.1	8.56	
Total Retail Lending	1016	5347	1612	1040 8	2437	1935 7	3544	32340			
									Average Yield	9.17	8.94
Gross Credit	50533		60991		79000		101362				
% of Retail lending	10.58 %		17.06 %		24.50%		31%				

Total retail lending of Everest Bank as per above table is Rs 32340.00 Lac as on Ashadh end 2066 against total loan portfolio of Rs 101362.54 Lacs. It is 31.00% to total loan portfolio of the bank. The amount wise net retail lending was Rs 12983.00 Lacs during the fiscal year 2066/067 as against Rs 8951.00 Lac in FY 2065/066. There is growth of

145% compared to last fiscal year's net growth of Rs 8951.00 Lacs. There is net growth of 46.00% in housing loan, 62.00% in Vehicle Loan, 77% in Education Loan & 125.00% in Flexi Loan respectively.

#### **4.7 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 below 6 % and again in July 1998, NRB gave directive to CBs to lower their weight 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, Priority sector lending program, NPAs of the banking system etc. The interest-spread rate can be studied on two heads.

- 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. Those banks are termed as efficient bank that has lower weighted interest spread rate.

The table 14 shows the cost of deposit, lending rate and weighted spread interest rate of Everest Bank Limited for five years from FY 062-63 to FY 066-67.

**Table 13 Showing cost of deposit of EBL**

<b>(Rs in million)</b>					
Basis	062/063	063/064	064/065	065/066	066/067
Deposit	13802	18186	23976	33323	36932
Interest Expenses	401	517	632	987	1537
Cost of Deposit (%)	2.91%	2.84%	2.63%	2.96%	4.16%
Lending	10136	14082	18836	24469	28156
Interest Income	903	1144	1548	1852	2801
Cost of Lending (%)	8.91%	8.12%	8.22%	7.57%	9.95%
WACD (%)	6.00%	5.28%	5.59%	4.61%	5.79%

Source: EBL Financial Report

The figure portrays that the deposit rate and lending rate of EBL had reduced to some extent. 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 except in FY 066-067 which was little increased to 5.79%. 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 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 some 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.

#### **4.8 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 14 Showing deposit & Loan position of Everest Bank Ltd.**

**Rs in Million**

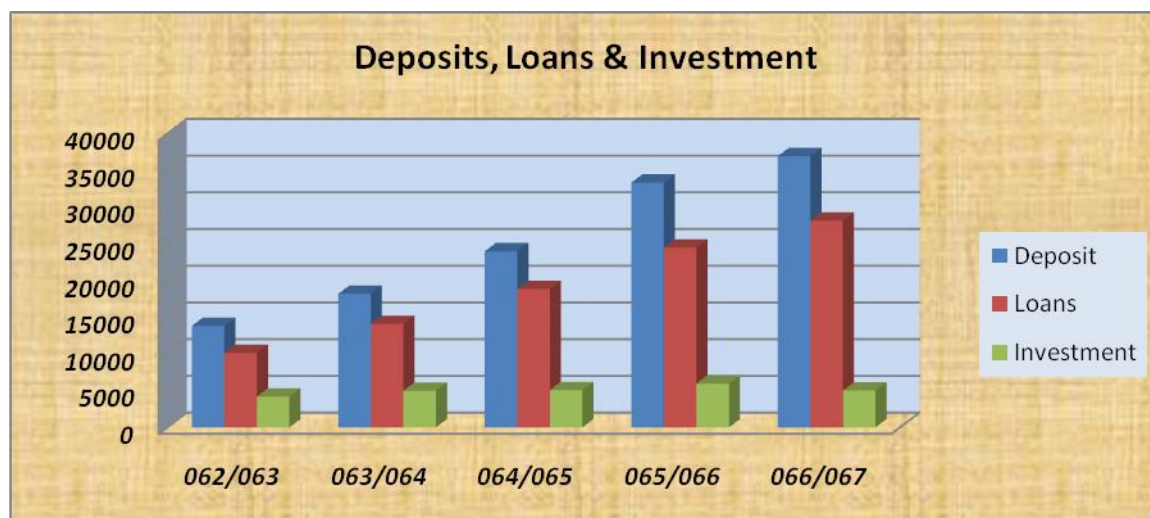
<b>Year</b>	2062/063	2063/064	2064/065	2065/066	2066/067
<b>Deposit</b>	13802.40	18186.20	23976.29	33322.95	36932.31
<b>Loan &amp; Advances</b>	10136.20	14082.70	18836.43	24469.55	28156.40
<b>Investments</b>	4200.50	4984.30	5059.56	5948.48	5008.31

Source: EBL Financial Report

The Deposit, Loan & Advances and Investment of EBL are rising over the studied period as shown in table#15. Its deposit rose from Rs. 13802.40 million in 2062/063 to Rs. 36932.312 million till 2066/067 which was increased by Rs.23129.91 million in five years. The lending of the bank also regularly increased from Rs. 10136.20 million to Rs. 28156.40 million till 2066/067 which was increased by Rs. 18020.20 million in five years. Similarly the investments are also rising from Rs 4200.50 million in 2062/063 to Rs. 5008.31 million till 2066/067. The Deposit, Loan & Advances and Investment of EBL are in increasing trend despite the recession in prevailing economy.

**Graph 3 Bar Diagram of Deposit, Loans & Advances and Investment Position of EBL**

**Rs in million**



The above bar diagram, drawn on basis of table#15, reveals the comparative position of deposit and lending of EBL in respective years.

#### **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 15 Showing deposit & Loan and advances grossing rate of EBL**

**Rs in millions**

	2062/063	2063/064	2064/065	2065/066	2066/067
EBL's Deposit (Rs.)	13802.40	18186.20	23976.29	33322.95	36932.31
Growth Rate	36.69%	31.76%	31.84%	38.98%	10.83%
EBI's Loan & Advances	10136.20	14082.70	18836.43	24469.55	28156.40
Growth Rate	28.30%	38.93%	33.76%	29.91%	15.07%

Source: EBL Financial Report

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. 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 2066/067 i.e. 15.07%. The aggregate loan & advance of banking sector is increasing per year and its rate is fluctuation over the period of time.

## 4.10 Ratio Analysis

### 4.10.1 Credit Ratio:

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

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

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

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

**Table 16 Showing credit ratios of total credit and Total Deposit**

**Rs in Millions**

<b>Credit and Advances to Total Deposit Ratio</b>			
<b>Year</b>	<b>Everest Bank Limited</b>		
	<b>Total Loan &amp; Advances</b>	<b>Total Deposit</b>	<b>Ratio (times)</b>
2062/063	10136.2	13802.4	73.44
2063/064	14082.7	18186.2	77.44
2064/065	18836.43	23976.29	78.56
2065/066	24469.55	33322.95	73.43
2066/067	28156.40	36932.31	76.24
Total	95681.28	126220.15	75.81

Source: EBL Financial Report

The **CD ratios** 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 in to market demand and internal strength of a particular bank. So the EBL CD ratios as per the standard prescribed. Thus, EBL is efficiently deploying its deposit fund so that it could earn more profit.

**Table 17 Showing credit ratios of total credit and Fixed Deposit**

**Rs in Millions**

<b>Credit and Advances to Total Fixed Deposit Ratio</b>			
<b>Year</b>	<b>Everest Bank Limited</b>		
	<b>Total Loan &amp; Advances</b>	<b>Fixed Deposit</b>	<b>Ratio (times)</b>
2062/063	10136.2	4242.35	2.39
2063/064	14082.7	5626.66	2.50
2064/065	18836.43	6446.18	2.92
2065/066	24469.55	7049.98	3.47
2066/067	28156.40	10440.28	2.70
Total	95681.28	33805.45	2.83

Source: EBL Financial Report

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 in EBL. It also furnish that growth rate of credit outflow is higher in comparison to fixed deposit growth in EBL. In case of EBL, the ratio recorded lowest in FY 2062/063 i.e. 2.39 times and highest in FY 2065/066 i.e. 3.47 times.

**Table 18 Showing credit ratios of total credit and saving deposit****Rs in Millions**

<b>Credit and Advances to Total Saving Deposit Ratio</b>			
<b>Year</b>	<b>Everest Bank Limited</b>		
	<b>Total Loan &amp; Advances</b>	<b>Saving Deposit</b>	<b>Ratio (times)</b>
2062/063	10136.2	6929.22	1.46
2063/064	14082.7	9029.26	1.56
2064/065	18836.43	11883.86	1.59
2065/066	24469.55	14782.33	1.66
2066/067	28156.40	13360.04	2.11
Total	95681.28	55984.71	1.71

Source: EBL Financial Report

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 recorded in FY 2066/067 and lowest at FY 2062/063.

#### 4.11 Stability Test

**Table 19 Showing stability ratios of EBL**

<b>Ratios</b>	<b>Everest Bank Limited (EBL)</b>				
	062/063	063/064	064/065	065/066	066/067
Capital to Total Deposit (%)	6.97	6.61	8.01	6.61	7.47
Capital to Total Credit (%)	9.50	8.53	10.20	9.00	9.80

Source: EBL Financial Report

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 in 063/064 & 065/066 and increased in 064/065. It means that both the capital's position in relative to deposit is improving and maintaining around 7.13% average in five years and enhancing its stability position. Another ratio "**Capital to total Credit**" found stable in EBL in all four years. EBL has maintained around 9.40% in average Capital to total Credit in five 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.

#### 4.12 Position of Major Financial Indicators in Everest Bank Limited for FY 2062/63 to 2066-067.

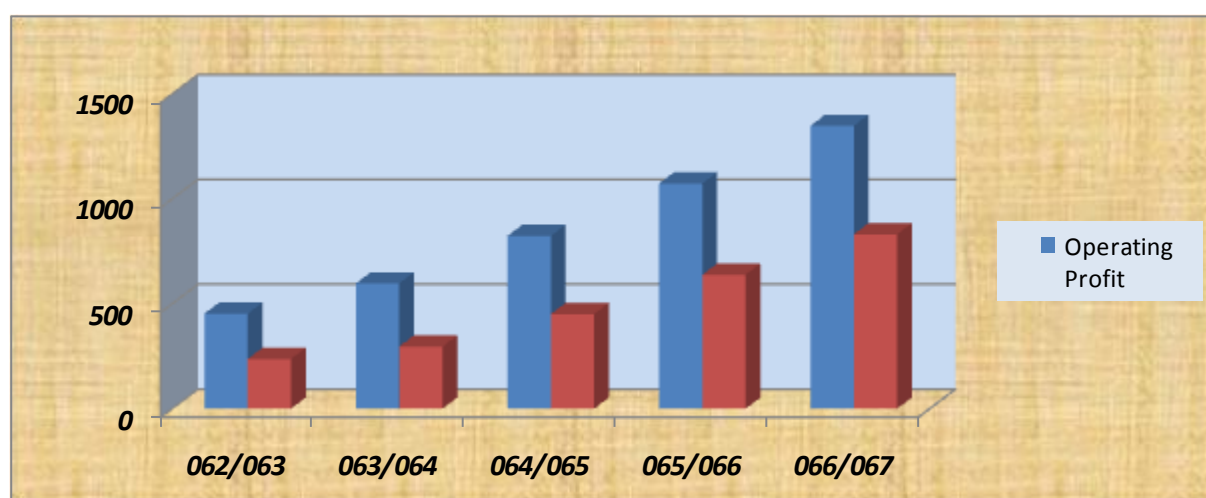
**Table 20**  
**Major Financial Indicators of EBL**

‘Rs. in million’

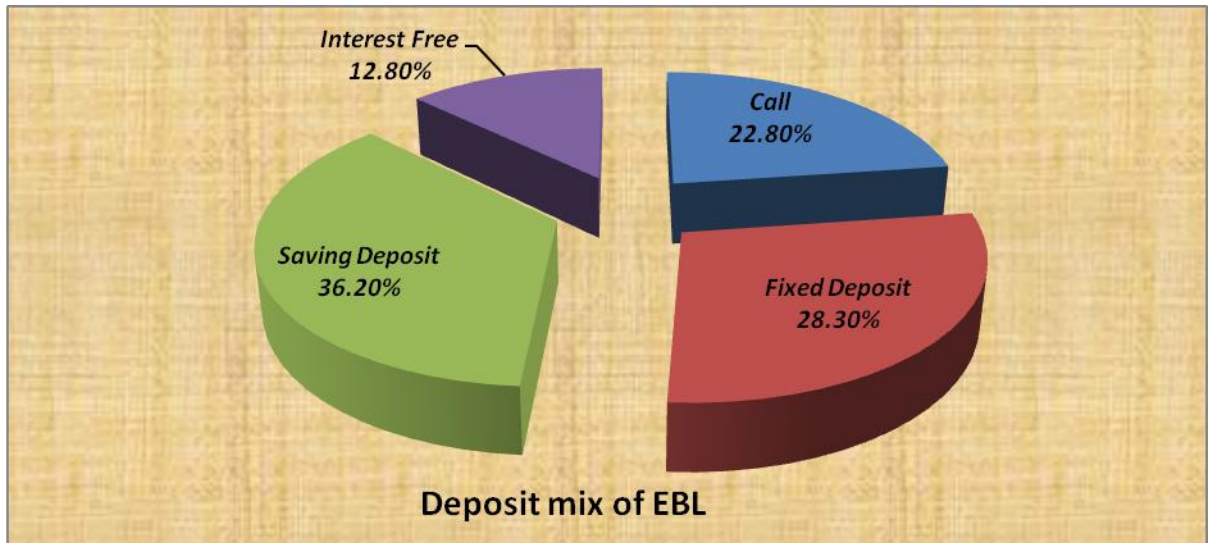
Particulars	062/063	063/064	064/065	065/066	066/067
Loan & Advances	10136.20	14082.70	18836.43	24469.55	28156.40
Deposit	13802.40	18186.20	23976.29	33322.95	36932.31
Interest on Loan & Advances	903.00	1144.00	1548.00	1852.00	2801.00
Total Income	1066.5	1370.7	1848.2	2565.3	3500.8
Total Expenditure	613.4	772.8	1024.3	1491.8	2151.7
Operating Profit	453.1	597.9	823.9	1073.5	1349.1
Net Profit	237.2	296.4	451.2	638.7	831.8
Non Performing Loan	129.23	113.18	127.31	117.98	43.70
Ratio of NPL to L & Advance	1.27%	0.80%	0.67%	0.48%	0.15%

Source: EBL Financial Report

**Graph 4 Operating Profit and Net Profit of EBL**



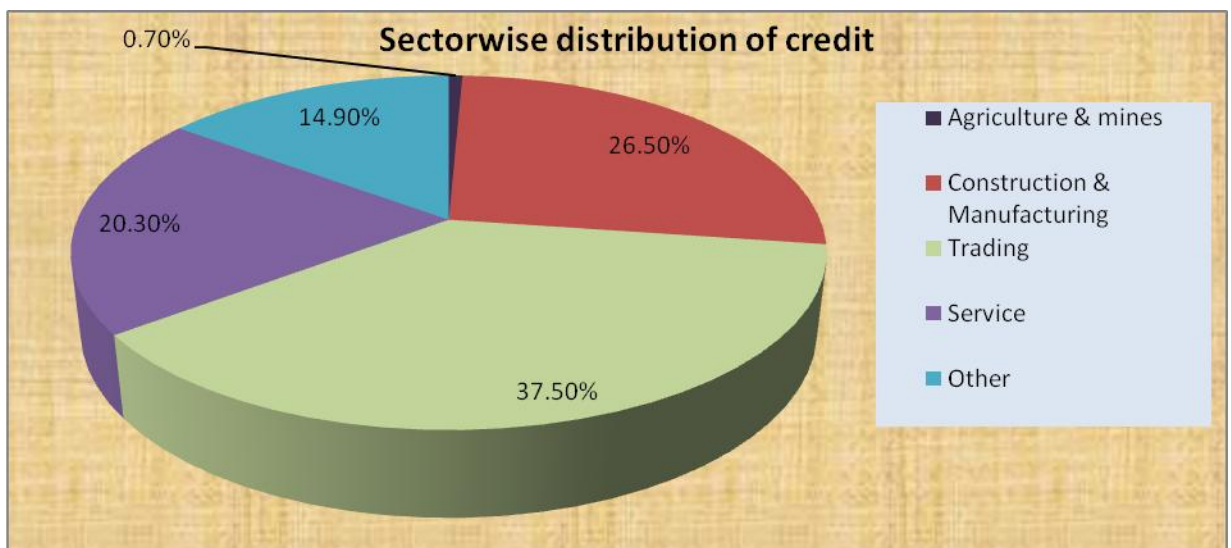
**Graph 5 Deposit Mix of EBL in FY 2066/067**



**Sector wise distribution of Credit as on Fiscal Year 2066/67**

Out of total loan & advances EBL has made lending in Trading by 37.50%, Construction & Manufacture 26.50%, Service 20.30%, Agriculture & Mines 0.70% and Others 14.90%.

**Graph 6 Sectorwise Distribution of credit of EBL in FY 2066/067**



The above mentioned Table 20 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 – 33.76%, in FY 2065/66 – 29.90% and in FY 2066/67 -15.07%.

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 scrutinized 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 0.15% for the year ended Ashad 2067 in comparison to other commercial banks.

The total deposit of the EBL is also in increasing trend. In fiscal year 2063/64 the deposit has increase by 31.76% compared to the corresponding period of Last fiscal year, in FY 2064/65 -31.84%, in FY 2064/65 -38.98% and in FY 2066/67 -10.83% amounting to Rs 36932.31millions.

The total operating profit and net profit is also in increasing trend. In fiscal year 2063/64 the operating profit has increased by 31.95% compared to the corresponding period of Last fiscal year, in FY 2064/065 -37.80%, in FY 2065/066-30.29% and in FY 2066/067 - 25.67%. Likewise the net profit of EBL is also in increasing trend. In fiscal year 2063/064 the net profit has increased by 24.96% compared to the corresponding period of Last fiscal year, in FY 2064/065 -55.23%, in FY 2065/066 -41.55%, in FY 2066/067 - 30.23%. This shows the positive growth of the bank as a whole.

#### **4.13 Major Findings from Secondary Data Analysis**

1. Capital to total deposit ratio of EBL is found decreased in 063/064 & 065/066 and increased in 064/065. It means that both the capital's position in relative to deposit is improving and maintaining around 7.13% average in five year and enhancing its stability position.

2. 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 in EBL. It also furnish that growth rate of credit outflow is higher in comparison to fixed deposit growth in EBL.
3. 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.
4. The Deposit, Loan & Advances and Investment of EBL are rising over the studied period. The Deposit, Loan & Advances and Investment of EBL are in increasing trend despite the recession in prevailing economy.
5. 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 except in FY 066/067 which was little increased to 5.79%. 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
6. EBL has floated merely 3.09% of lending in deprived sector. EBL has complied the standard directed by NRB. Therefore the NRB target for Deprived Sector lending was achieved by EBL
7. CAR (Capital Adequacy Ratio) in Core Capital of EBL has been found 8.88%, 8.21%, 7.73% & 8.39 % of total risk asset in Aashad 2064-Aashad 2067 respectively whereas the Capital Adequacy Ratio in terms of capital fund has been found 13.57%, 12.32%, 10.55% and 10.77% of total risk asset in Aashad 2064-Aashad 2067. Nepal Rastra Bank earlier provided that the Capital Adequacy ratio should be 8%. This has since been increased to 11% which is further modified to 10% from the financial year 2066/067). The EBL Capital Adequacy ratio stands at 12.32%, inclusive of provision of 20% dividend as bonus share. In order to improve Capital Adequacy ratio, the board of EBL decided to issue debentures of Rs 30 crore. This was subscribed overwhelmingly and allotment completed. These debentures are also listed on the Nepal Stock Exchange Ltd. It clearly gives sense that EBL has complied NRB directive of capital adequacy ratio in all four year.

8. In earning obtained from second type of gain, every CBs 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
9. 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 earning
10. Development of effective risk assessment and monitoring systems will help in improving the quality of credit decisions thereby reducing loan losses on an ongoing basis and thus gradually improving the quality of loan portfolio which is adopted by the EBL in effective way.

## **CHAPTER V**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

#### **5.1 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 deal 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.

EBL has started its operation from October 18, 1994 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 has been promoted by well established business/industrial house of Nepal as a joint venture with PNB of India, one of the largest commercial banks in India having more than 4400 branches 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.

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 credit 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.

## **5.2 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.

Credit activity is the integral part of banking business. Detailed information on various aspects of 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 credit management banking system and information flows.

- Everest Bank Limited 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 from the loan and advances. Any loose measures control found 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 credit management of the Everest Bank Limited. The bank complies 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.

### **5.3 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 credit 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 26.50% on construction and manufacturing sector. Other sectors are far behind as compared to lending made in construction and manufacturing. 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 trading sector of the economy. As the import turnover of the economy is greater than the export turnover of the country.

- The bank should introduce the credit card facility to its customers. It helps to increase the lending portfolio of the bank.
- As the bank is fully computerized system it should take the full advantage of it. The support module of the financial System has not been fully utilized by the bank. The module should be made in operation in order to grasp the business of the changing technological business of the banking system.
- The yield on advances are declining as no fresh investments are coming & due to low cost of deposits in major banks like Himalayan bank, Nepal Investment Bank & Nabil etc, they are attracting/canvassing quality credit customers with lower rate of interest. Hence in order to be competitive in the market it is pertinent to lower the cost of deposit of the bank.
- 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 notified the concerned customer incase of loan is rejected duly assigning the reasons for such rejection.

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# APPENDICES

## Appendix-I

**Everest Bank Limited**

**ANX- I**

**APPLICATION FORM FOR CREDIT FACILITIES**

**OF OVER RS. 1 LAC & ABOVE**

---

**(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)
- ii. Father's/Husband's name
- iii. Relation with Directors of the Bank,  
if any, or Share holding of the unit/  
Director/Partner/Proprietor in Everest Bank
- iv. Income Tax clearance upto
- v. Background of Proprietor/Partners/Directors

## **3. Brief Description of the Activity**

- i. Existing
- ii. Proposed

## **4. Past Performance**

(For existing unit only)

(Rs. in Lac)

<u>Particulars</u>	<u>Last year</u>	<u>Last but one year</u>	<u>Last</u>
--------------------	------------------	--------------------------	-------------

but two years

- i. Turnover
- ii. Net Profit
- iii. Retained Profit

**5. Arrears in Statutory Payments (if any)**

Income Tax, P/F, Others

**6. Name of the Associate Concern(s) if any**

**7. Management**

**Present**

**Proposed**

Executives

Supervisory

Office Staff

Skilled Labour

Unskilled labour

**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	<u>Existing</u>	<u>Proposed</u>	<u>Security</u>	<u>Offered</u>
<u>Margin</u>				
i.				
ii.				
iii.				
iv.				

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

- In case facilities are also enjoyed from other Banks

Complete details thereof should also be furnished.

**15. Guarantors**

<u>Name</u>	<u>Details of Assets</u>	<u>Details of</u>
<u>Liabilities</u>		

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  
Amount sanctioned)**

**Applicant's Signature:**

**Date:**

**Office Seal:**

## Appendix-II

**Everest Bank Limited**

**ANX-II**

**Reg : Loan Proposal A/C**

**ASSETS CLASSIFICATION :**

**(AA/A+/A/B)**

### **LIST 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:



**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**

<u>Name of the Bank</u>	<u>Facility</u>	<u>Amount</u>
	<u>Outstanding</u>	

**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**

### Appendix-III

**Everest Bank Limited**

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

**ANX-III**

**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>Sanctioni ng Authority</b>

## **Appendix-IV**

**Everest Bank Limited**

**ANX- IV**

### **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.

## **Appendix-V**

**Everest Bank Limited**

**B/O**

**ANX-V**

### **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)*

Limit Natu re of Facility	Sanctioned	Value of Security	D. P.	Balance	Irregulari ty 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)

# List of Banks and Non-bank Financial Institutions

As of Mid-July 2010

[Class A: Commercial Banks](#)

[Class B: Development Banks](#)

[Class C: Finance Companies](#)

[Class D: Micro Credit Development Banks](#)

[Savings and Credit Co-operatives\(Limited Banking\) \(Licensed by NRB\)](#)

[Non-Government Organizations \(NGOs\) \(Licensed by NRB\)](#)

## Class A: Commercial Banks

S.No.	Names	Operation Date (A.D.)	Head Office	Paid up Capital (Rs. In Million)
1	Nepal Bank Limited	1937/11/15	Kathmandu	380.40
2	Rastriya Banijya Bank	1966/01/23	Kathmandu	1172.30
3	Agriculture Development Bank Ltd.	1968/01/02	Kathmandu	10777.50
4	NABIL Bank Limited	1984/07/16	Kathmandu	965.75
5	Nepal Investment Bank Limited	1986/02/27	Kathmandu	2407.10
6	Standard Chartered Bank Nepal Limited.	1987/01/30	Kathmandu	932.00
7	Himalayan Bank Limited	1993/01/18	Kathmandu	1216.20
8	Nepal SBI Bank Limited	1993/07/07	Kathmandu	874.50
9	Nepal Bangladesh Bank Limited	05/06/1994	Kathmandu	1822.70
10	Everest Bank Limited	1994/10/18	Kathmandu	838.80
11	Bank of Kathmandu Limited	1995/03/12	Kathmandu	844.40
12	Nepal Credit and Commerce Bank Limited	1996/10/14	Siddharthanagar,Rupendehi	1399.50
13	Lumbini Bank Limited	1998/07/17	Narayangadh,Chitawan	1096.10
14	Nepal Industrial & Commercial Bank Limited	1998/07/21	Biaratnagar,Morang	1140.50
15	Machhapuchhre Bank Limited	2000/10/03	Pokhara, Kaski	1479.10
16	Kumari Bank Limited	2001/04/03	Kathmandu	1186.00
17	Laxmi Bank Limited	2002/04/03	Birgunj, Parsa	1098.10
18	Siddhartha Bank Limited	2002/12/24	Kathmandu	952.20
19	Global Bank Ltd.	2007/01/02	Birgunj, Parsa	1000.00

20	Citizens Bank International Ltd.	2007/6/21	Kathmandu	1000.00
21	Prime Commercial Bank Ltd	2007/9/24	Kathmandu	700.00
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu	1337.50
23	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu	1000.00
24	Development Credit Bank Ltd.	2001/01/23	Kamaladi, Kathmandu	1655.30
25	NMB Bank Ltd.	1996/11/26	Babarmahal, Kathmandu	1424.60
26	Kist Merchant Banking & Finance Ltd.	2003/02/21	Kamalpokhari, Kathmandu	2000.00

### Class B: Development Banks

S.No.	Names	Operation Date (A.D.)	Head Office	Paid up Capital (Rs. In Million)
1	Nepal Industrial Development Corporation	1959/06/15	Durbar Marg, Kathmandu	415.8
2	Nepal Development Bank Ltd.	1999/01/31	Kamaladi, Kathmandu	320.0
3	Uddyam Development Bank Ltd.	1999/02/22	Tandi, Chitawan	35.0
4	Malika Development Bank Ltd.	1998/12/27	Dhangadhi, Kailali	125.8
5	Siddhartha Development Bank Ltd.	1998/08/20	Butawal-11, Rupandehi	645.0
6	United Development Bank Ltd.	2002/03/16	Jeetpur, Bara	48.2
7	Nepal CSI Development Bank Ltd.	2001/06/19	Heritage Plaza, Kathmandu	700.0
8	Narayani Development Bank Ltd.	2001/10/17	Ratna Nagar-1, Chitawan	35.0
9	Pashimanchal Development Bank Ltd.	2003/3/2	Butawal-8, Rupandehi	110.0
10	Sahayogi Bikas Bank Ltd.	2003/10/21	Janakpurdham, Dhanusha	36.0
11	Pashupati Development Bank Ltd.	2004/01/01	Banepa, Kavre	200.0
12	Karnali Bikash Bank Ltd.	2004/02/14	Nepalgunj, Banke	31.6
13	Triveni Development Bank Limited	2004/07/26	Bharatpur, Chitawan	58.5
14	Annapurna Development Bank Limited	2004/08/23	Banepa, Kavre	210.0
15	Bhrikuti Bikas Bank Limited	2004/08/19	Butawal, Rupandehi	70.5
16	Shubhechchha Bikas Bank Limited	2004/09/14	Narayangadh, Chitawan	46.1
17	Bageshowri Bikas Bank Limited	2004/10/19	Nepalgunj, Banke	49.5
18	Sanima Bikas Bank Limited	2004/11/26	Nagpokhari, Kathmandu	786.8

19	Gaurishankar Bikas Bittiya Sanstha Ltd.	2004/11/29	Kawasoti, Nawalparasi	125.0
20	Gorkha Bikas Bank Limited	2004/12/01	Putalisadak, Kathmandu	597.0
21	Gandaki Bikas Bank Ltd.	2005/01/19	Pokhara, Kaski	100.0
22	Infrastructure Development Bank Ltd.	2005/04/29	Banepa, Kavre	320.0
23	Business Development Bank Ltd.	2005/05/10	Pokhara, Kaski	210.0
24	Biratlaxmi Bikas Bank Limited	2005/05/11	Biratnagar, Morang	55.0
25	Excel Development Bank Ltd.	2005/07/21	Anarmani, Jhapa	20.0
26	Western Development Bank Ltd.	2005/09/15	Tribhuvannagar, Dang	27.0
27	Himchuli Bikas Bank Limited	2005/11/07	Pokhara, Kaski	106.3
28	Arniko Development Bank Ltd.	2006/07/06	Dhulekhel, Kavre	27.1
29	Nepal Dev. and Employment Promotion Bank Ltd.	2006/07/17	Kamaladi, Kathmandu	475.0
30	Clean Energy Development Bank Ltd.	2006/09/06	Sitapaila, Kathmandu	320.0
31	Mitery Development Bank Ltd.	2006/10/13	Mahendrapath-5, Dharan	31.6
32	Tinau Bikas Bank Ltd.	2006/10/13	Sangampath, Butwol	62.6
33	Rising Development Bank Ltd.	2006/12/18	Navalparasi, Gaidakot	67.1
34	Muktinath Bikas Bank Ltd.	2006/12/18	Pokhara, Kaski	65.0
35	Sewa Bikas Bank Ltd.	2007/2/25	Butawal, Rupandehi	60.0
36	Kankai Bikas Bank Ltd.	2007/5/4	Damak, Jhapa	28.0
37	Public Development Bank Ltd.	2007/6/7	Birjunj, Parsa	60.0
38	Mahakali Bikas Bank Ltd.	2007/8/18	Mahendranagar, Kanchanpur	11.8
39	Ace Development Bank Ltd.	1995/08/15	Narayanchaur, Kathmandu	750.5
40	Sangrila Bikas Bank Ltd.	2007/8/26	Pokhara, Kaski	39.9
41	Bhargab Bikas Bank Ltd.	2007/8/30	Nepalgunj, Banke	12.0
42	Vibor Bikas Bank Ltd.	2007/10/4	Tripureshwor, Kathmadu	414.8
43	Resunga Bikas Bank Ltd.	2007/9/26	Tamghas, Gulmi	21.4
44	Rara Bikas Bank Ltd.	2007/9/30	Birendranagar, Surkhet	10.0
45	Diyalo Bikas Bank Ltd.	2007/10/01	Banepa, Kavre	63.0
46	Country Development Bank Ltd.	2007/10/04	Banepa, Kavre	121.2
47	Kasthamandap Development Bank Ltd.	2007/10/25	New Road, Kathmandu	224.0

48	Alpine Development Bank Ltd.	2007/10/05	Hetauda, Makawanpur	33.5
49	Nilgiri Bikas Bank Ltd.	2007/10/25	Beni, Maygdi	35.0
50	Corporate Development Bank Ltd.	2007/10/25	Birjung, Parsa	70.0
51	Kamana Bikas Bank Ltd.	2007/9/29	Lekhnath, Kaski	26.0
52	City Development Bank Ltd.	2007/10/19	Pokhara, Kaski	140.0
53	Garima Bikas Bank Ltd.	2007/11/23	Sangja	106.0
54	Biswo Bikas Bank Ltd.	2007/11/21	Pokhara, Kaski	73.2
55	Pathibhara Bikas Bank	2007/11/21	Urlabari, Morang	25.5
56	Professional Bikas Bank Ltd.	2007/10/17	Banepa, Kavre	35.0
57	Kabeli Bikas Bank Ltd.	2007/11/15	Dhankuta	12.0
58	Purnima Bikas Bank Ltd.	2008/5/20	Sidhardhanagar, Rupandehi	35.0
59	Jyoti Development Bank Ltd.	2008/8/25	Kamalpokhari, Kathmandu	259.0
60	Shine Development Bank Ltd.	2009/2/22	Butawal, Rupandehi	60.0
61	Bagmati Development Bank Ltd.	2009/3/23	Hariwon, Sarlahi	14.0
62	Hamro Bikas Bank Ltd.	2009/4/19	Nuwokot	21.0
63	Kakre Bihar Bikas Bank Ltd.	2009/5/15	Surkhet	14.0

### Class C: Finance Companies

S.No.	Names	Operation Date (A.D.)	Head Office	Paid up Capital (Rs. In Million)
1	Nepal Housing Development Finance Co.Ltd.	1992/03/08	Naya Baneshwor, Kathmandu	145.0
2	Nepal Finance Co.Ltd.	1993/01/06	Kamaladi, Kathmandu	67.5
3	NIDC Capital Markets Ltd.	1993/03/11	Kamaladi, Kathmandu	101.2
4	National Finance Co.Ltd.	1993/05/07	Pako Newroad, Kathmandu	217.4
5	Annapurna Finance Co.Ltd.	1993/09/30	Chipledhunga, Pokhara	262.1
6	Nepal Share Markets and Finance Ltd.	1993/10/19	Ramshahapath, Kathmandu	432.0
7	Peoples Finance Ltd.	1993/04/15	Tripureshwor, Kathmandu	202.1
8	Mercentile Finance Co. Ltd.	1994/11/10	Birgunj, Parsa	18.0
9	Kathmandu Finance Ltd.	1994/11/10	Putalisadak, Kathmandu	75.9

10	Himalaya Finance Co.Ltd.	1993/11/11	Sundhara, Kathmandu	48.0
11	Union Finance Ltd.	12/12/1995	Ganeshwor, Kathmandu	159.9
12	Narayani Finance Ltd.	1995/03/08	Narayangadh, Chitwan	213.7
13	Gorkha Finance Ltd.	1995/03/12	Hattisar, Kathmandu	59.6
14	Paschhimanchal Finance Co.Ltd.	1995/04/09	Butawal, Rupendehi	100.0
15	Nepal Housing & Merchant Finance Co.Ltd.	1995/04/11	Dillibazar, Kathmandu	160.7
16	Universal Finance Co.Ltd.	1995/04/27	Kantipath, Kathmandu	131.4
17	Samjhana Finance Co. Ltd.	1995/05/03	Banepa, Kavre	72.7
18	Goodwill Finance Ltd.	1995/05/16	Dillibazar, Kathmandu	115.5
19	Siddhartha Finance Co. Ltd.	1995/05/25	Siddharthanagar, Rupendehi	86.9
20	Shree Investment & Finance Co. Ltd.	1995/06/01	Dillibazar, Kathmandu	100.8
21	Lumbini Finance & Leasing Co. Ltd.	1995/06/26	Thamel, Kathmandu	120.0
22	Inbesta Finance Ltd.	1995/07/17	Birgunj, Parsa	24.0
23	Yeti Finance Co. Ltd.	1995/07/23	Hetauda, Makawanpur	62.5
24	Standard Finance Ltd.	1995/07/23	Pautalisadak, Ktm.	667.9
25	International Leasing & Finance Co. Ltd.	1995/10/31	Naya Baneshwor, Ktm.	648.0
26	Mahalaxmi Finance Co. Ltd.	1995/11/26	Birgunj, Parsa	116.0
27	Lalitpur Finance Co. Ltd.	1995/12/12	Lalitpur	113.9
28	Bhajuratna Finance & Saving Co. Ltd.	1996/01/09	Kantipath, Kathmandu	38.5
29	United Finance Ltd.	1996/1/25	Kamaladi, Kathmandu	165.0
30	General Finance Ltd.	1996/02/02	Chabahil, Kathmandu	24.2
31	Nepal Shreelanka Merchant Bank Ltd.	1996/02/04	Kamaladi, Kathmandu	100.0
32	Merchant Finance Co. Ltd.	1996/01/02	Kathmandu	33.4
33	Alpic Everest Finance Ltd.	1996/07/16	Baghbazar, Kathmandu	102.9
34	Nava Durga Finance Co.Ltd.	1997/02/09	Itachhe, Bhaktapur	45.6
35	Janaki Finance Ltd.	1997/03/07	Janakpurdham, Dhanusha	50.0
36	Pokhara Finance Ltd.	1997/03/16	Pokhara, Kaski	60.0
37	Central Finance Co. Ltd.	1997/04/14	Kupondole, Lalitpur	126.9
38	Premier Finance Co. Ltd.	1997/05/08	Manbhavan, Lalitpur	97.1

39	Arun Finance & Saving Co. Ltd.	1997/08/17	Dharan, Sunsari	11.0
40	Multipurpose Finance Co. Ltd	1998/3/25	RajbiRaj, Saptari	6.0
41	Butwal Finance Co. Ltd.	1998/06/21	Butawal, Rupendehi	97.7
42	Shrijana Finance Ltd.	1999/12/14	RajbiRaj, Saptari	28.0
43	Om Finance Ltd.	2000/09/17	Pokhara, Kaski	105.0
44	Cosmic Merchant Banking & Finance Ltd.	2000/11/20	Lal Durbar Marg, Ktm.	75.1
45	World Merchant Banking & Finance Ltd.	2001/08/10	Hetauda, Makawanpur	72.0
46	Capital Merchant Banking & Finance Ltd.	2002/02/01	Battisputali, Kathmandu	374.0
47	Crystal Finance Ltd.	2002/02/13	Bag Durbar, Kathmandu	49.0
48	Royal Merchant Banking & Finance Ltd.	2002/02/14	Durbarmarg, Kathmandu	134.3
49	Guheshworil Merchant Banking & Finance Ltd.	2002/06/13	Jawalakel, Lalitpur	109.8
50	Patan Finance Ltd.	06/23/2002	Man Bhawan, Lalitpur	50.0
51	Fewa Finance Ltd.	2003/04/30	Pokhara, Kaski	91.0
52	Everest Finance Co. Ltd.	2003/07/02	Bhairahawa, Rupendehi	20.0
53	Birgunj Finance Ltd.	09/28/2003	Birgunj, Parsa	180.8
54	Prudential Bittiya Sanstha Ltd	2003/06/06	Dillibazar, Kathmandu	100.0
55	ICFC Bittiya Shanstha Ltd.	2003/06/15	Bhatbhateni, Kathmandu	299.4
56	IME Financial Institution Ltd.	2005/08/01	Panipokhari, Kathmandu	249.5
57	Sagarmatha Merchant Banking and Finance Co. Ltd	2005/08/29	Maanvawan,Lalitpur	50.0
58	Shikhar Bittya Sanstha Ltd.	2005/09/15	Thapathali,Kathmandu	50.0
59	Civil Merchant Bittiya sanstha Ltd.	2005/09/18	Kuleshwor,Kathmandu	80.0
60	Prabhu Finance Co. Ltd.	2006/02/16	Lainchur,Kathmandu	160.0
61	Imperial Finance Ltd.	2006/03/08	Thapathali,Kathmandu	100.0
62	Kuber Merchant Bittiya sanstha Ltd.	2006/03/24	Putalisadak,Kathmandu	81.2
63	Nepal Express Finance Ltd.	2006/05/04	Sundhara, Kathmandu	98.3
64	Valley Finance Ltd.	2006/05/11	Maharajganj,Kathmandu	27.5
65	Seti Bittiya sanstha Ltd.	2006/06/07	Tikapur, Kailali	5.2
66	Hama Merchant & Finance Ltd.	2006/06/16	Tripureshwor, Kathmandu	82.9
67	Reliable Finance Ltd.	2006/09/06	Sundhara, Kathmandu	121.1

68	Loard Buddha Financial Institutions Ltd.	2006/11/19	Newroad, Kathmandu	75.0
69	Api Finance Ltd.	2007/4/25	Lekhanath Chock, Kaski	60.0
70	Nameste Bitiya Sanstha Limited.	2007/07/07	Ghorai, Dang	10.1
71	Kaski Finance Limited	2007/7/30	Pokhara, Kaski	50.0
72	Suryadarshan Finance Co. Ltd.	2007/7/30	New Baneshor, Kathmandu	30.0
73	Zenieth Finance Ltd.	2007/10/08	Newroad, Kathmandu	63.0
74	Unique Financial Institution Ltd.	2007/10/12	Putalisadak, Kathmandu	60.0
75	Manjushree Financial Institution Ltd.	2007/10/15	New Baneshor, Kathmandu	70.0
76	Swostik Merchant Finance Company Ltd.	2007/10/16	Kichapokhari, Kathmandu	34.8
77	Subhalaxmi Finance Ltd.	2007/11/11	Naxal, Kathmandu	70.0

#### Class D: Micro Credit Development Banks

S.No.	Names	Operation Date (A.D.)	Head Office	Paid up Capital (Rs. In Million)
1	Purbanchal Grameen Bikas Bank	1993/03/28	Biratnagar, Morang	60.0
2	Sudur Pashimanchall Grameen Bikas Bank	1993/03/28	Dhangadhi, Kailali	58.5
3	Pashimanchall Grameen Bikas Bank	1995/04/01	Butawal-8, Rupendehi	60.0
4	Madhya Pashimanchal Grameen Bikas Bank	1995/04/01	Nepalgunj, Banke	60.0
5	Madhymanchall Grameen Bikas Bank	1996/07/08	Janakpur, Dhanusha	60.0
6	Nirdhan Utthan Bank Ltd.	1999/04/13	Bhairahawa, Rupandehi	100.0
7	Rural Microfinance Development Centre	1996/12/06	Putalisadak, Kathmandu	320.0
8	Deprosc Development Bank Ltd.	2001/07/03	Ratnanagar, Chitwan	28.3
9	Chhimek Development Banks Ltd.	2001/12/10	Hetauda -4, Makawanpur	51.0
10	Shawalamban Laghu Bitta Bikas Banks Ltd	2002/02/22	Janakpur, Dhanusha	63.5
11	Sana Kisan Vikas Bank Ltd.	2002/03/11	Bijulibazar, Kathmandu	119.8
12	Nerude Laghu Bitta Bikas Bank Ltd.	2007/06/07	Biratnagar, Morang	14.0
13	Naya Nepal Laghu Bitta Bikas Bank Ltd.	2009/03/20	Dhulekhel, Kavrepalanchok	14.0
14	Mithila Laghu Bitta Bikas Banks Ltd	2009/04/29	Dhanusha	14.0
15	Shamit Microfinance Development Bank Ltd	2009/05/20	Jhapa	14.0

**Saving and Credit Co-operatives (Limited Banking)**

(Licensed by NRB)

S.No.	Names	Operation Date (A.D)	Head Office	Paid up Capital (Rs. In Million)
1	Nabajivan Co-operative Ltd.	1993/12/15	Dhangadi, Kailali	18.6
2	Sagun Co-operative Society Ltd.	1994/10/9	Kathamandu	11.8
3	Nepal Co-operative Society Ltd.	1994/12/30	Kathamandu	36.8
4	The Sahara Loan,Savings & Investment Co-op.Soc. Ltd.	1995/04/15	Sarlahi	29.2
5	Bindabasini Saving Fund Co-operative Society Ltd.	1995/06/21	Khopasi, Kavre	29.1
6	Mahila Co-operative Society Ltd.	1995/09/27	Kathmandu	14.3
7	Bahooddeshya Saving & Loan Co-op.Society Ltd.	1995/12/25	Jhapa	34.2
8	Rajshree Saving & Invest.Co-op Society Ltd	1996/02/19	Sarlahi	35.8
9	Sahakari Bittiya Sanstha Ltd.	1696/6/16	Nepalgunj, Banke	8.3
10	Manakamanal Sahakari Sanstha Ltd.	1997/02/18	Banepa, Kavre	11.5
11	Very Co-operative Sanstha Ltd.	1997/12/25	Kathmandu	7.7
12	Viccu Saving & Loan Co-operative Sanstha	1997/02/18	Banepa, Kavre	6.5
13	Kisan Bahoo-uddesyiya Co-op. Sanstha Ltd.	1997/08/11	Lamki,Kailali	7.2
14	Himalaya Co-operative Ltd.	1998/12/29	Old Baneshowar, Ktm	49.6
15	Star Bahoo-Uddesyiya Saving & Credit Co-op Ltd.	1998/02/13	Biratnagar, Morang	7.1
16	Upakar Savings & Credit Co-operative So. Ltd.	1998/04/14	Walling, Sanja	21.0

**Non-Government Organizations (NGOs)**

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S.No.	Names	Operation Date (A.D)	Head Office	Fund & Reserves (Rs.In Thousand)
1	Nepal Grameen Bikas Sanstha	2000/06/05	Kathmandu	-
2	Nepal Sikara Grameen Bikas Karyakram	2000/06/05	Chitwan	701
3	Chartare yuba Club	2000/06/05	Baglung	110
4	Mahuli Samudyik Bijkas Kendra	2000/06/12	Saptari	4320

5	United Youth Community (UNYC NEPAL)	2000/06/29	Bardiya	-
6	Samudayik Mahila Bikas Kendra	2000/07/14	Saptari	-
7	Grameen Samudayako Lagi yojana Pratavuti, Nepal	2000/08/23	Dhankuta	-
8	Grameen Jagaran Manch (Programm Co-ordination Office)	2000/09/11	Baglung	156
9	Sarbodaya Grameen Bikas Sangh	2000/09/26	Saptari	-
10	Jan Jagaran Manch	2000/10/26	Rasuwa	111
11	Rastriya Shaichik Tatha Samajik Bikas Sanstha	2000/10/01	Parbat	-
12	Dhaulagiri Community Researh Dev. Centre	2000/10/21	Baglung	-
13	Nepal Enviroment & Pollution Eradication UNESCO Nepal	2001/07/05	Gangabu	127
14	Society of Local Volunteers Efforts Nepal (Solve)	2001/07/10	Dhankuta	774
15	Women Enterprises Association of Nepal	2001/09/24	Kathmandu	1146
16	Center for Women's Right and Development	2002/04/30	Kathmandu	-
17	MANUSHI	2002/05/03	Kathmandu	3216
18	Life Development Society	2002/06/18	Morang	-
19	Women Development and Child Care Foundation	2002/07/02	Saptari	-
20	Mahila Adarsha Sewa Kendra	2002/07/02	Kthmandu	620
21	Patan Buisiness and Professional Women	2002/07/02	Lalitpur	-
22	Women Development Centre	2002/07/02	Chitwan	-
23	Womens Self -Relient Society	2002/07/14	Chitwan	-
24	Women Development Centre of Nepal	2002/07/12	Lalitpur	650
25	Bhagawan Youth Club, Alapot, Ktm.	2002/07/23	Kathmandu	35
26	Creative Women Environment Development Association.	2002/07/24	Kathmandu	730
27	Srijana Community Development Center,Siraha	2002/07/25	Siraha	-
28	Shreejana Development Center,Kaski	2002/08/22	Kaski	2090
29	Cottage & Small Industries Organization,Kathmandu	2002/09/02	Kathmandu	-
30	Rural Area Dev. & Research Programme,Parbat	2002/09/03	Parbat	-
31	Adarsha Yuba Club,Bhaktapur	2002/09/06	Bhaktapur	-
32	Society Welfare Action Nepal (SWAN),Dang	2002/10/25	Dang	-
33	Social Upgrade in Progress of Education Region (SUPER)	2002/10/29	Dang	-

34	Nepal Women Community Service Center,Dang	2002/10/30	Dang	-
35	Forum for Rural Women Ardency Development,(FORWARD)	2002/12/30	Sunsari	-
36	Gramin Mahila Bikash Sanstha	2003/04/23	Dang	-
37	Ama Samaj Shangh,Chitawan	2003/04/29	Chitwan	15
38	Gramin Mahila Utthan Kendra,Dang	2003/06/18	Dang	-
39	Khurkot Youba Club ,Parbat	2003/09/14	Parbat	-
40	Gramin Sewa Nepal	2003/09/18	Kailali	247
41	Nari Avudya Kendra	2003/10/24	Chitwan	-
42	Mahila Upakar Manch	2003/10/29	Banke	2131
43	Sawabalamban Bikash Kendra	2004/11/01	Kathmandu	57390
44	Bikash Aayojana Sewa Kendra	2004/11/01	Kathmandu	72500
45	Gramin Swayam Sewak Samaj	2005/11/20	Hariwon,Sarlahi	1955

Source:NRB Report