

**CREDIT MANAGEMENT
OF
EVEREST BANK LIMITED**

A Thesis

**Submitted By:
KHADAK BAHADUR THARU
Nepal Commerce Campus
Campus Roll No.- 964/2064
T.U. Reg. No: 7-1-271-280-2002
Nepal Commerce Campus
Exam Roll No.- 250265**

Submitted to:
**Office of the Dean
Faculty of Management
Tribhuvan University**

**In Partial fulfillment for the requirement of the Degree of
Master of Business Studies (M.B.S.)**

**Kathmandu, Nepal
2014**

VIVA-VOCE SHEET

We have conducted the VIVA-VOCE examination of the thesis

Submitted By:

Khadak Bahadur Tharu

Entitled:

“CREDIT MANAGEMENT OF EVEREST BANK LIMITED”

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

VIVA- VOCE Committee

Head of Research Department

Member (Thesis Supervisor)

Member (External Expert)

Date:

Recommendation

This is to certify that the Thesis

Submitted by

KHADAK BAHADUR THARU

Roll No.: 964

T.U. Registration No: 7-1-271-280-2002

Entitled:

CREDIT MANAGEMENT OF 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.

.....
Prof. Dr. Sushil Bhakta Mathema

Head of Research Department
and
Thesis Supervisor

.....
Jyoti Pandey

Campus Chief

.....
Balan Kumar Rajbanshi

(Thesis Supervisor)

Date:

Declaration

I hereby declare that the work done in this thesis entitled “CREDIT MANAGEMENT OF EVEREST BANK LIMITED” has been submitted to Nepal Commerce Campus, Faculty of management, Tribhuvan University, is my own created work reported in the form of partial fulfillment of the requirement of Master’s of Business Studies (M.B.S.) course under the guidance and supervision of respected Professor Dr. Sushil Bhakta Mathema and Mr. Balan Kumar Rajbanshi Lecturer of Nepal Commerce Campus.

Khadak Bahadur Tharu

Researcher

Acknowledgement

The thesis entitled “CREDIT MANAGEMENT OF EVEREST BANK LIMITED” has been prepared for the partial fulfillment of requirements of Master’s of Business Studies (M.B.S) under the faculty of management, Tribhuvan University, is based on research models involving the use of quantitative as qualitative aspect of Credit Management. I express my sincere gratitude to all of the authors and learned personalities, whose writing have been cited in this study. I extended my deep sense of indebtedness to my respected Professor Dr. Sushil Bhakta Mathema and Lecturer Mr. Balan Kumar Rajbanshi for his precious guidelines, inspiration and suggestion thoroughly during the period of thesis research. Without his valuable insight, I would not think of accomplishment of this thesis Paper.

I would like to thank to the staffs members of T.U. Central Library, Nepal Commerce Campus Library and staff of Everest Bank Ltd. Who provided the references and reading materials during the period of research. I am also thankful to all my peers, friends and colleagues. I express my heart full gratitude to my parents and all my family members who always inspired and encourage me to complete this journey from the benchmark of my academic qualification. Their valuable encouragement and inspiration has attended me to this height. Lastly, I would like to offer sincere thank to my entire known and unknown person who helped me to prepare this thesis.

Khadak Bahadur Tharu
Researcher

ABBREVIATION

ADB/N	Asian Development Bank Nepal
BOK	Bank of Kathmandu Ltd.
EBL	Everest Bank Ltd.
GDP	Gross Domestic Product
L/C	Letter of Credit
MBS	Master of Business Studies
Nabil	Nabil Bank Ltd.
NBL	Nepal Bank Ltd.
NEPSE	Nepal Stock Exchange
NIDC	Nepal Industrial Development Co-operation
NRB	Nepal Rastra Bank
SEBON	Secutiry Board of Nepal

TABLE OF CONTENTS

Viva Voce Sheet	
Recommendation	
Declaration	
Acknowledgement	
List of Table	
List of figure	

CHAPTER –ONE

INTRODUCTION

1.1 Background	1
1.2 Introduction of Sample Organization under study	4
1.3 Focus of the study	4
1.4 Statement of Problem	5
1.5 Objectives of the Study	6
1.6 Significance of the Study	7
1.7 Limitation of the study	8
1.8 Organization of the Study	9

CHAPTER –TWO

LITERATURE REVIEW

2.1 Conceptual Review	11
2.1.1 Concept of Commercial Bank	12
2.1.2 Functions of Commercial Banks	13
2.1.3 Concept of Credit	15
2.1.4 Types of Credit	15
2.1.5 Objectives of the Sound Credit Policy	19

2.1.6 Lending Criteria	19
2.1.7 Principles of Sound Lending Policy	21
2.1.8 Some Important Banking Terms	24
2.1.9 Project Appraisal	29
2.1.10 Provision of NRB for Extending Advances & Investment in Productive, Priority and Deprived Sector	30
2.1.11 Pass	33
2.2 Review of Related Studies	39
2.3 Research Gap	45
CHAPTER- THREE	
RESEARCH METHODOLOGY	
3.1 Introduction	47
3.2 Research Design	47
3.3 Population and Sample	48
3.4 Sources of Data	48
3.5 Method of Data Analysis	48
3.5.1 Financial Tools	48
3.5.2 Statistical Tools	50
CHAPTER-FOUR	
PRESENTATION AND ANALYSIS OF DATA	
4.1 Financial condition of selected Nepalese commercial Banks	53
4.2 Credit Practices in Everest Bank Ltd.	54
4.2.1 Total loans to deposit ratio	54
4.2.2 Interest income to loans & advances	55
4.2.3 Non-Performing Loans to Total Loan and Advances Ratio	55
4.2.4 Loans and Advances to Total Assets Ratio	56
4.2.5 Loan and advances to current assets ratio	57

4.2.6 Loans loss provision to total loan and advances ratio	58
4.3 Credit efficiency in Everest Bank Limited.	59
4.3.1 Interest expenses to total deposit Ratio	59
4.3.2 Interest and expenses to total expense ratio	60
4.3.3 Non-interest bearing deposits to total deposit ratio	61
4.3.3 Interest income to total income ratio	62
4.3.4 Interest suspense to interest from loans & advances ratio	63
4.4 Relationship of loans and net profit	64
4.5 Relationship of loans and non-performing loans	65
4.5 Impact of loan and advances on net profit	67
4.6 Trend Analysis Least Square Method	68
4.7 Major Findings	69

CHAPTER –FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary and Conclusion	72
5.2 Recommendation	74

LIST OF TABLE

Table 4.1 Total loans of deposit ratio	55
Table 4.2 Interest in come to loan & advances	52
Table 4.3 Non-performing loan to total loan and advances	56
Table 4.5 Loan & advances to current assets ratio	58
Table 4.4 Loans & advances to total assets ratio	57
Table 4.6 Loan loss provision to total loan & advances	59
Table 4.7 Interest expenses to total deposit ratio	60
Table 4.8 Interest expenses to total expenses ratio	60

Table 4.9 Non-interest bearing deposits to total deposit ratio	62
Table 4.10 Interest income to total income ratio	63
Table 4.11 Interest suspense to interest income from loans & advances ratio	64
Table 4.12 Relationship of loans and net profit in EBL: Correlation Matrix	65
Table 4.13 Relationship between loan and non-performing loans in EBL:-Correlation Matrix	66
Table 4.14 Regression Analysis on loan and advance and net profit in EBL	67
Table 4.15 Everest Bank Limited	68

LIST OF FIGURE

Figure 4.1 Loan and advances Trend line of Everest Bank Limited	69
---	----

Bibliography

Appendix

CHAPTER –ONE

INTRODUCTION

1.1 Background

Nepal sandwiched between the two giant countries, India and china, is one of the land locked countries, and survives with her own natural beauty in Asia. Its half- century of experiments and efforts to raise the quality of life of its populace is defeated. Almost half of its population lies under absolute poverty line, especially living in the rural areas are deprived of even basic needs and facilitates like enough calories pure drinking water sanitation facilities, electricity, road facility etc. Some of the basic human indicators like life expectancy, literacy, nutrition level etc. also show that Nepal occupies among the nation to eliminate the massive poverty persisting in the country through gradual development of the total nation and by providing and availing basic needs to poor people. Actually slow pace of developing of Nepal is due to nothing but landlocked position, poor resources mobilization and its utilization, weak infrastructure development and more over unstable eco-political environment.

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

The concept of the banking has been developed from the ancient history with the effort of ancient goldsmiths who developed the practice of storing people's gold and valuables under such arrangement the depositors would leave their gold for safekeeping

would get back their gold and valuable after paying a small amount as fee for safekeeping and serving.

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

The financial institutions are:

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

Banks grants loan and advances to industries, people and companies that result in the increase in the productivity of nation. For example: The loan against to agricultural sector enhances the agricultural product on. The loan amount can be used by the farmers as per their need to produce their product that will promote the agriculture product on. Similarly the loan and advances to different people and corporate bodies help to increase their income and profits. They can use the amount as per their need at right place at the right time. Bank is a business organization where monetary transaction occurs. It creates fund from its clients saving and lends the same to needy person or business companies in

term loans, advances and investment. So proper financial decision making is more important in banking transactions for its efficiency and profitability. Most of the financial decision making loan management it plays the vital role in the business succession, so efficient management of lending policy is needed.

The source of finance is the most essential element for the establishment and operation of any profit and non-profit institutions. Profit oriented institutions usually obtain these sources through ownership capital, public capital through the issues of shares and through financial institutions such as banks, in the form of credits, overdrafts etc Commercial banks, others banking institutions (OBIs), Non Bank Financial Institutions occupy important role in mobilizing financial resources. There are about 25 insurance companies including deposit insurance and Credit Guarantee Corporation, one Employee Provident Fund and one Citizen Investment Trust belong to this type of financial institutions. Apart from this, securities such as corporate shares debentures and bonds.

Banking plays a significant role in the economic development of a country. Nepal Bank

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

The more developed financial systems of the world characteristically fall into three parts. The Central Bank, The Commercial Banks and other financial institutions.

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

1.2 Introduction of Sample Organization under study. Everest Bank Ltd.

Catering to more than 5 lacs customers today, Everest Bank Ltd. is name we can depend up on for professionalized and efficient banking services. With joint venture partner Panjab National Bank the Everest Bank Ltd. was established on 2057/07/01. Panjab National Bank is currently holding 20% equity of the bank. The bank has total paid up capital Rs. 1,60,11,26,410. Where as Authorized capital is Rs. 2,00,00,00,000/-.Currently the bank is providing customer friendly services like Any Banking Services (ABBS) with 50 branches, 73 ATM counter, 5 extension counter and 22 Revenue collection across the country making it a very efficient and accessible bank for its customers, any time, anywhere.

1.3 Focus of the study

Although the Everest Bank has managed credit than other commercial banks within short period of time, they have been facing cut throat competition against one another. In Nepal there are 31 commercial banks. The study focus on evaluating the deposits utilization of the bank in terms of loan, advances, investments and its contribution in the profitability of the bank. Commercial banks hold deposit of many persons, government establishment and business units. They make fund available through

their lending and investing activities to borrowing individuals business firms and government establishment.

Here researcher has focused this resource mainly to highlight and examine the credit management of the selected bank ignoring other aspects of bank transaction. To highlight the credit management of the bank, the research is based on the certain statistical tools i.e mean, standard deviation, coefficient of variance, coefficient of correlation, coefficient of determination and trend analysis with a view to find out the true picture of the bank. The main objective of this research is to analyze the credit management through the use of appropriate financial tools.

1.4 Statement of Problem

Most major banking problems have been caused by weakness in credit management. Banks should now have a keen awareness of the need to identify measure, monitor and control credit as well as to determine that they hold adequate capital against it. These risks that they are adequately compensated for risks incurred. So, to establish creditability position is a major issue in commercial banking sector during these days.

It is no debate that high profitable or successful organization can easily fulfill the every need of the organization, customers and can serve the society. To improve the profitability situation of the bank, it is necessary to establish the higher creditability position of the bank. Thus, the creditability is the major source and building better creditability position is the major strategy of every commercial bank. Credit is the most effective and sincere area in commercial bank. It is regarded as the heart of every commercial bank. But the banking sector is far from this fact. Thus, Credit management is considered as the heart issues in Nepalese Commercial banking sector.

Credit management concept has appeared as a major research gap in Nepalese Commercial banking sector. There is lack of such scientific and empirical research that could identify the issues of credit management in Nepalese commercial banks. In this regard, the performance of Nepalese commercial banks is to be analyzed in terms of their

credit. Some research questions regarding to the credit practices, credit efficiencies, liquidity position, industrial environment, management quality, organization climate, are considered as a clear evident in present situation.

Economic condition of the country is degrading due to conflict since 2052 B.S. Overall economic sectors either manufacturing or commercial sectors have undergone heavy losses. However the financial institutions are increasing regularly. Liquidity is maximum with the financial institutions. Hence the banks and financial institutions are competing among themselves to advance credit to limited opportunity sectors. Due to unhealthy competition among the banks, the recovery of the banks credit is going towards negative trends. Non- performing credits of the banks are increasing year by year. To control such type of state, the regulatory body of the banks and financial institutions NRB has renewed its directives of the credit loss provision. Therefore it is necessary to analyze the 'Credit Management' or credit disbursement recovery provision for loss and write off the Credit. As the samples of commercial banks, EBL has been selected. The problems faced by the banks can be pointed out as follows:

- Liquidity position is fluctuating.
- Credit rating company is not available therefore the bank is providing credits on the basis of on their own judgment.
- Due to the lack of enough investment sectors, bank is competing unfairly in the limited area.
- Due to poor credit administration, the credit recovery process is slow.
- Clear – cut objectives and policy of the credit management is lacking.
- The legal process in the recovery of credit is lengthy and ineffective.
- There are the major research issues being enquired in this study.

1.5 Objectives of the Study

It is no doubt that the role of the commercial banks is significant in the development of the country. Banks help in development of the country by providing credit to the necessary sectors. The main objective of the study is to find out the credit management position of the Everest Bank. The specific objectives of the study are as follows:-

- To analyze the functions, objectives, procedures and activities of the Everest Bank.
- To analyze the lending practices and resource utilization of EBL.
- To determine the impact of growth in deposit on liquidity and lending practices.
- To examine lending efficiency and its contribution to profit.
- To make suitable suggestions based on the findings of this study.

1.6 Significance of the Study

There are few researches in commercial banking and especially on their Lending practice, insufficient books for the study. Lending is one of the essential and main functions where the whole banking business is rested upon. Commercial banking sector is considered as successful area in financial sector of

Nepal. In today's context, commercial banks have to be more organic and sincere to establish better creditability position due to vast competing among them. The present concept deals with how commercial banks managed credit position and how do it affect to the organizational effectiveness. Present study is very important from the point of view of bank management. The main strategy of every commercial bank is to establish its better creditability position, which has directly impacted the financial performance of and organization besides, it helps to build positive attitude and perception on customers that help to make the organizational success in terms of better transaction, better turnover, and better profitability most of the earlier researches were focused on financial performance of bank but few researches were focused on creditability position of bank. From view point of bank credit is the most important and sincere area. Thus, a study on the commercials banks and especially in their Lending and investment practices carry a great

significant to various groups but in particular is directed to a certain groups of people/organization,.

Which are:

- Importance to shareholders.
- Importance to the management bodies of these banks for the evaluation of the performance of their banks and in comparison with other banks.
- Importance to “outsiders” which are mainly the customers, financial agencies, stock exchanges
- Importance to the government bodies or the policy makers such as the central bank.
- This study would be important for the students as it provides theoretical as well as conceptual frame work of different aspect of credit management.

1.7 Limitation of the study

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

- The study mainly concentrates only on those factors related with credit Practices.
- This research study largely depends on published documents such as balance sheet, Profit & Loss A/C. Which are circulated at the close of the financial year.
- The study is associated only to the financial performance of Everest bank
- In this study, only selected financial and statistical tools and techniques are used.

- The other limitation is lack of sufficient time and resources because the purpose of this thesis is only to fulfill the partial requirement for the masters of Business Studies (MBS) of the management faculty, Tribhuwan University.

- The study deals mainly with secondary data.

1.8 Organization of the Study

The present study is organized in such way that the stated objectives can easily be fulfilled. The structure of the study will try to analyze the study in a systematic way. The study report has presented the systematic presentation and finding of the study. The study will be organized in to five chapters, which are:-

Chapter I: Introduction of the study

Chapter one deals with introduction, problem of the study, and objective of study, limitation of study, significance of the study, research methodology and method of analysis. It is oriented for readers for reporting giving them the perspective they need to understand the details information about the coming chapter.

Chapter II: Review of Literature

Chapter two consists of review of literature. This chapter is subdivided into various sections such as conceptual framework, review from different studies, review from journal, article and magazine and review from master's thesis for the concerned topic.

Chapter III: Research Methodology

Chapter three present methodologies adopted for the research. It comprises research design sources of data method of analysis and its descriptive presentation.

Chapter IV: Presentation and Analysis of Data

Chapter Four deals with the techniques used in analyzing the collected data and its presentation in the descriptive and analytical manner.

Chapter V: Summary, Conclusions and Recommendations

Chapter Five consists of summary, conclusion and recommendation about the topic concerned.

CHAPTER –TWO

LITERATURE REVIEW

The review of literature is a crucial aspect because it denotes planning of the study. The main purpose of literature review is to find out what works have been done in the area of the research problem under study and what has not been done in the field of books, repots, journals and research studies published by various institution 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 textbook and other reference materials such as: newspaper, 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 in to consideration about the people and system required for the evaluation and approval of loan requests, negotiation of terms, documentation, disbursement, administration of outstanding loans and workouts, knowledge of the process and awareness of its strength and 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 (Johnson, 1940:132).

Bajracharya (1991), in his article “Monetary policy and deposit mobilization in Nepal” has concluded that mobilization of the domestic saving is one of the prime objectives of the monetary policy in Nepal. And commercial

banks are the most active financial intermediary for generating resources in the form of deposit of private sector and providing credit to the investors in different sectors of the economy.

Book named “Banking Management” say that in banking sector or transaction, an unavailability of loan management and its methodology is regarded very important.

Under this management , many subject matters like the policy of loan flow, the documents of loan flow , loan administration , audit of loan, the condition of loan flow the provision of security, this management plays a great role in healthy competitive activities (Bhandari 2003:170).

It is very important to be reminded that most of the bank failures in the world are due to shrinkage in the value of loan and advance. Hence, risk of non-payment of loan is known as credit risk default risk (Dahal, 2002:114). Portfolio management helps to minimize or manage the credit risks by spreading over the risk to various portfolios. This method of managing credit risk is guided by the saying do not put all the eggs in a single basket (Bhandari, 2004:300).

2.1.1 Concept of Commercial Bank

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

& Shekher, 1999:4). Paget (1987) states that no one can be a banker who does not take deposit account stake current accounts, issue and pay cheque of crossed and uncrossed, for his customers. He further adds that if the banking business carried on by any person is subsidiary to some other business; he cannot be regarded as a banker (Page, 1987:2). Goods and services. There fore commercial view point. They perform all kinds of banking functions as accepting deposit, advancing credits, credit creation and agency functions. They provide short-term credit, medium term credits and long terms credit to trade and industry. They also operate off balance sheet functions such as issuing guarantee, bonds, letter of credit, etc.

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

Commercial banks are organized as a joint stock company system, primarily for the purpose of earning profit. They can be either of the branch banking types as we see in most of countries, with a large network branches like in Nepal or of the unit banking type, as we see in the United States where a banks operations are confined to a single office or to a few branches within a strictly limited area (Shekher & Shekher,1999:4).

2.1.2 Functions of Commercial Banks

The business of commercial bank is primarily to hold deposit and make credits and investments with the object of securing profits for its shareholders. Its primary motive is profit; other consideration is secondary (Sudharsanam, 1976:123).The major functions of commercial banks are as follows:

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

□ **Assist in Foreign Trade:**

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

□ **Offers Investment Banking and Merchant Banking Services**

Banks today are following in the footsteps of leading of financial institutions all over the globe in offering investment banking and merchant banking services to corporations. These services include identifying possible merger targets, financing acquisitions of other companies, dealing in security underwriting, providing strategic marketing advice and offering hedging services to protect their customers against risk from fluctuating world currency prices and changing interest rates, (Vaidhya, 1999:29). Further, they support the overall economic development of the country by various modes of financing.

2.1.3 Concept of Credit

Credit is the amount of money lent by the creditor (bank) to the borrower (customers) either on the basis of security or without security. Sum of the money lent by a bank, is known as credit (Oxford Advanced Learners Dictionary 1992:279). Credit and advances is an important item on the asset side of the balance sheet of a commercial bank. Bank earns interest on credits and advances, which is one of the major sources of income for banks. Bank prepares credit portfolio, otherwise it will not only add bad debts but also affect profitability adversely, (Varshney and Swaroop, 1994:6)

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

- Overdraft
- Cash Credit
- Direct Credit
- Discounting of Bills

2.1.4 Types of Credit

Overdraft:

It denotes the excess amount withdraw over their deposits.

Cash Credit:

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

Term Credit:

It refers to money lent in lump sum to the borrowers. It is principal form of medium term debt financing having maturities of 1 to 8 years. Barely and Myers urge that bank credits with maturities exceeding 1 years are called term credits. The firm agrees to pay interest based on the bank's prime rate and to repay principal in the regular installments. Special patterns of principal payments over time can be negotiated to meet the firm's special needs (Richard, 1996:80).

Working Capital Credit:

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

Priority or Deprived Sector Credit:

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

- Advances to poor/downtrodden /week/ derived people u p to Rs. 30,000 for generating income or employment.
- Institutional Credit to Rural Development Bank.
- Credit to NGOs those are permitted to carryout banking transaction for lending up to Rs. 30, 000.

Hire-purchase Financing (Installment Credit)

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

Housing Credit (Real Estate Credit)

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

Project Credit

Project Credit is granted to the customers as per project viability. The borrowers have to invest certain proportion to the project from their equity and the rest will be financed as project credit. Construction credit is short- term credits made to develops for the purpose of completing proposed projects. Maturities on construction credits range from 12 months to as long as 4to5 years , depending on the size of the specific project (Johnson,1940:242).The basic guiding principal involved in disbursement policy is to advance funds corresponding to the completion stage of the project. Hence, what percent of the credit will be disbursed at which stage of completion must be spelled in disbursement policy? Term of credit needed for project fall under it.

Consortium Credit

No single financial institution grant credit to the project due to single borrower limit or other reasons and two or more such institution may consent to

grant credit facility to the project among them. Financiers bank equal (or Likely) charge on the project's assets.

Credit cards and Revolving lines of Credit

Banks are increasingly utilizing charge cards and revolving lines of credit to make unsecured consumer credit. Revolving credit line lowers the cost of making credit since operating and processing cost are reduced. Due to standardization, centralized, department processes revolving credits resulting reduction on administrative cost. Continued borrowing arrangement enhances cost advantages. Once the credit line is established, the customer can borrow and repay according to his needs and the bank can provide the fund to the customer at lower cost. Charge cards and credit lines tied to demand deposit accounts are the two most common revolving credit agreements. It can be further divided into credit cards, automatic overdrafts lines and large credit lines.

Off- Balance Sheet Transaction

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

Bank Guarantee

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

Letter of credit (L/C)

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

2.1.5 Objectives of the Sound Credit Policy

The purposes of a written credit policy are

- To assure compliance by lending personnel 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.

2.1.6 Lending Criteria

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

1. Character

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

- Memorandum and Articles of Association

- Registration certification
- Tax registration certificate (Renewed)
- Resolution to borrow
- Authorization- person authorizing to deal with the bank

2. Capacity

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

- Certified balance sheet and profit loss account for at least past 3 years.
- In case of the personal loan they have to submit the proof source of income.
- References or other lenders with whom the applicant has dealt in the past or bank A/C.

3. Capital

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

4. Collateral

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

5. Conditions

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

2.1.7 Principles of Sound Lending Policy

Lending constitutes the main business of a banking company. A major chunk of the profits of a bank comes out of this function. But no lending can take place without some inherent risks. As bankers are trustees of the depositors' money, they cannot take undue risks. A banker has to follow a cautious policy and conduct the business of lending on the basis of certain sound principles. Here are some of the important principles of sound lending.

1. Safety

The main business of banking consists in borrowing various types of deposits such as current, saving and fixed deposits and lending such deposits to needy borrowers in the form of advances and discounting of bills. This obviously implies that safety of such funds should be ensured. Otherwise the banker will not be in a position to repay his deposits and once the confidence of the depositors is shaken, he cannot carry on the banking business.

If the banker has to ensure safe lending, he has to look to the three C's of the borrower namely Character, Capacity and Capital. Character of the borrower is important because that determines his willingness to repay the loan. His capital and capacity to run the business successfully determine his capacity to pay. The safety of the loan depends on both his capacity to repay and willingness to repay.

Banks will have to keep a portion of the deposits received for honoring the demands made by the customers. Only the balance can be safely. The bank's endeavor is of course to lend as much of the deposits as possible, without which he will not be in a position to meet his interest, obligations and the maintenance of establishment. Therefore, he has to lend with a view to earn interest but lend it safe.

2. Liquidity

By liquidity is meant the readiness with which the bank can convert the assets into cash. Liquidity means short-term solvency of the borrower. A banker is essentially the lender of short-term funds because he knows that the bulk of his deposits are repayable on demand or at short notice. As the banker's deposits are subject to the legal obligation of being repayable on demand and at short notice, he must ensure liquidity also while lending, so that in times of need, he will be able to convert the assets into cash.

Bank can ensure high liquidity by keeping all deposits in the form of cash only. In such a case, he will not be in position to meet the interest obligations and expenditure of the establishment. From experience, he has learnt that he can safely lend out a substantial portion of the funds. But while lending he should try to ensure liquidity, i.e. in times of need, he must be able to obtain repayment of the money within a reasonably short time. Liquidity also implies that the assets can be sold without any loss. Thus the concept of liquidity has twin aspects namely quick sale ability or convert ability of the assets and the absence of risk of loss in such conversion.

3. Profitability

Commercial banks obtain funds from shareholders and naturally if dividend is to be paid on such shares it can only be paid by earning profits. Even in the case of public sector banks although they are service motivated they will have to justify their existence by earning profits. This is not possible unless the funds are employed profitably. From out of the revenue earned, the banker has to pay interest on deposits, salary to the staff, meet other establishment expenses, build-up reserves and the balance must permit the payment of dividend to shareholders. So for the bank to sustain on a long run, it has to seek many profitable sectors where it can mobilize its collected fund. Before lending, a banker has to see that the advance and credit is on the whole profitable. Lending rates are affected by banks' internal policy like credit rating of the borrower, bank rate of NRB, inter-bank competition and NRB's guidelines on lending rates.

4. Purpose of Loan

Nowadays, the purpose for which loans are granted has acquired precedence over the principle of security. If a loan is required for a non-productive or speculative purpose, a banker will be reluctant to entertain the proposal. Loans for social functions, ceremonies, pleasure trips or for repayment of prior loans are not favored by a banker, as they are unproductive in nature. But it is very difficult for the bank to ensure that the advance has been used for the purpose for which it was taken. A person may take a loan obviously for a productive use, but may spend it on speculation. The central bank through its directives, also determines the policy to be followed by the banks with regard to the purpose for which advances may not be granted. So a banker should enquire the purpose for which it is taken for safe lending.

5. Security

Traditionally, bankers have been security oriented. The security offered against a loan can be of various types. It may vary from a piece of land or a building to a commercial paper or bullion. Whatever may be the security, a banker has to realize that it only a cushion to fall back upon in case of need and its adequacy alone should not form the sole consideration for advance. It must be ensured that the security when accepted must be adequate, readily marketable, easy to handle and free from encumbrances.

6. Diversification of Loans

There is a very familiar saying that “Do not put all the eggs in the same basket.”

Banker should try to diversify loans as far as possible, so that he may minimize his risks in lending. If the banker lends only to one industry or only to few big firms or concentrates in a certain geographical area, the risk is great. He should diversify lending, so that he may not affected by the failure of one industry or of a few big borrowers. A banker who puts all his eggs in one basket is not a prudent banker.

7. National Interest and Suitability

Bankers must ascertain on what type of business the customer is involved whether it serves the national interest or not, whether the firm is acting responsibly towards the society that it is operating in like brick industry or the cement industry and the precautions taken by it against environment pollution. Central bank issues directives, prohibiting banks to invest in various sectors such as the import of arms and ammunitions etc. Also bankers must remain vigilant of the law and order situation where borrower carries its business.

2.1.8 Some Important Banking Terms

The study in this section comprises of some important banking terms for which efforts have been made to clarify the meaning, which are frequently used in this study, which are given below.

A. Deposits

Deposit is the most important source of liquidity for a commercial bank. It is also the main source of fund that a bank usually uses for the generation of profit. Therefore, the efficiency depends on its ability to attract deposits. Banks collect the scattered savings of the public through various accounts type like saving, current, fixed etc. Deposit being the borrowed amount from the depositors or from general public and institutions, it constitutes the liability of a bank. The management of a bank is always influencing it through deliberate policy action; the deposits of a bank are affected by various factors. They are as follows.

- Types of customers
- Physical facilities of bank
- Management accessibility of customers
- Types and range of services offered by the bank.
- Interest rate paid on deposits.
- Goodwill and financial position of the bank

In addition to the above, the prevailing economic conditions exert a decisive influence on the amount of deposit the bank receives.

B. Loan and Advances

"Loan, advance and overdraft are the main sources of income for a bank. Bank deposits can cross beyond a desired level but level of loans, advances and overdraft will never cross it. The facilities of granting loan, advances and overdrafts are the main services in which customer of the bank can enjoy.

Fund borrowed from bank are much cheaper than those borrowed from unorganized money lenders. The demand for loan has excessively increased due to cheaper interest rate. Furthermore, an increase in an economic and business activity always increases the demand for the fund. Due to limited resources and increasing loans, there is some fear that commercial banks and other financial institutions too may take more preferential collateral while granting loans causing unnecessary trouble to the general customers.

In addition to this, some portion of loan advances and overdraft includes that amount which is given to staff of the bank for house loan, vehicle loan, personal loan and others. In mobilization of commercial banks fund, loan advance and overdrafts have occupied a large portion.

C. Investment on Government Securities, Share and Debenture

"Though a commercial bank can earn some interest and dividend from the investment of government securities, share and debenture, it is not the major portion of income, but it is treated as a second source of banking business. A commercial bank may extend credit by treating it as a second source of banking business. A commercial bank may extend credit by purchasing government securities bonds and shares for several reasons.

Some of them are given as:

- It may want to space it matures so that the inflow of cash coincide with expect withdrawals by depositors or large loan demands of its customers.
- It may wish to have high grade marketable securities to liquidate if its primary reserve becomes inadequate.
- It may also be forced to invest because the demand for loans has decreased or is

not sufficient to absorb its excess reserves.

However, investment portfolio of commercial bank is established and maintained primarily with a view of nature of banks liabilities that is since depositors may demand fund in great volume without previous notice to banks. The investment must be of a type that can be marketed quickly with little or no shrinkage in value.

D. Investment on other Company's Share and Debentures

Most of commercial banks invest their excess fund to the share and debenture of the other financial and non-financial companies. Due to excess funds but least opportunity to invest those funds in much more profitable sector and to meet the requirement of NRB directives, the commercial banks purchase shares and debenture of regional development bank, NIDC and other development banks.

E. Liquidity

Liquidity is the ability of bank to meet its obligations on time, especially in relation to repayment of inter-bank borrowings and customer deposits. Liquidity management is a very crucial job of commercial bank and the bank should maintain adequate amount of cash in its vault and NRB for its daily operation and administrative purpose. As per the arrangement of NRB effective from fiscal year 2004/05, the commercial banks are required to maintain cash reserve of 5% with NRB of its total deposit liability with NRB. The previous provision of cash in vault maintenance has been withdrawn now.

F. Capital Adequacy

Capital is the blood of any business without which business cannot be run or established. In financial term, capital is the excess of assets over liabilities and can be defined as the wealth, which is employed for the production. Capital is required by a bank as a cushion to absorb losses, which should be borne by shareholders rather than depositors and to finance the infrastructure of the business. Capital adequacy is to maintain adequate amount of capital or fund to safeguard the

money of the depositors against any possible loss. NRB requires banks to maintain a certain capital adequacy ratio based on the total risk weighted assets and the banks are supposed to meet the minimum requirement of CAR.

F. Off-Balance Sheet Activities

Off balance sheet activities involve contracts for future purchase or sale of assets and all these activities are contingent obligations. These are not recognized as assets or liabilities on balance sheet. Some examples of these items are letter of credit, letter of guarantee, bills of collection etc. These activities are very important, as they are the good source of profit of bank though they have risk. Nowadays, some economists and finance specialists to expand the modern transactions of a bank stressfully highlight such activities.

G. Banking Risks

Normally, banks confront different kinds of risks, which are categorized as follows:

❖ Credit Risk

Credit risk arises whenever another party enters into an obligation to make payment or deliver value to the bank. This risk is mostly associated with the lending.

❖ Liquidity Risk

Liquidity risk arises when bank itself fail to meet its obligation. The bank required to make payments to the different parties at different times, when they fall due to other parties, it is the liquidity risk.

❖ Yield Risk

It is the risk that bank's assets may generate less income than expense generated by its liabilities.

❖ Market Risk

The risk of loss resulting from movements in the market price of financial instruments in which the bank has a position is the market risk. Such instruments include bonds, equities, foreign exchange and associated derivative products.

❖ **Operational Risk**

The risk of failure in the banks procedures or controls, whether from external or internal causes or as a result of error or fraud within the institution is the operational risk.

❖ **Ownership/Management Risk**

The risk that shareholders directors or senior management be unfit for their respective positions or dishonest.

2.1.9 Project Appraisal

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

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

Generally, the project appraisal involves the investigation from the following aspects (Gautam, 2004: 258):

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

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

Productive Sector

Productive Sector include advances to Priority Sector and Other Productive Sector which includes advances and investment in shares and debentures of small, medium and large industries as defined in industrial enterprises act; pre-shipment credit like purchase of merchandise, processing, assembling, packaging etc.; export bill financing, advances for purchase of public transport like truck, bus, tempo etc. and agricultural/farm equipment; investments on shares and debentures of government/semi-government or private sector agricultural insurance, godown, banking or like companies etc. As per NRB regulation, commercial banks are required to extend 40% of the total advances to productive sector, which also includes 12% to priority sector including deprived sector.

- **Priority Sector Credit Program**

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

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

Deprived Sector Lending

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

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

Lending in Deprived Sector will be included in Priority Sector for the purpose of compliance test for 12% credit to Priority sector. Deprived sector credit is advances up to Rs.30, 000 per borrower family meant for weak, poor and deprived people extended in the following manner by the commercial banks shall qualify to be included under deprived sector credit:

- Direct investment made by the commercial banks themselves in income generating employment oriented programs.
- Investments made by commercial banks in share capital of Rural Development

Banks, Rural Micro Finance Development Center and other Development Banks established with an objective to extend credit to deprived sector.

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

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

□ Regulation relating to Loan Classification and Loan Loss Provisioning

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

Classification of Outstanding Loan and Advances on the Basis of Aging

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

Classification of Loans and Advances

Loan and advance shall be classified into the following 4 categories:

2.1.11 PASS

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

Substandard

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

Doubtful

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

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. Loans and advances failing in the category of sub-standard doubtful and loss are classified and defined as **Non-Performing Loan.**

Note:

- If it is appropriate in the views of the Bank management there is not restriction in classifying the loan and advances from low risk category. For instance, loan falling under sub-standard may be classified into Doubtful or loss and loans falling under Doubtful may be classified into loss category.
- The term loan and advances also includes Bills purchased and Discounted.

Submission of Return Relating to Classification of Loan and Advances

Bank shall, as of the Mid of October, January, April and July, prepare the statement of outstanding loans & advances classified on the basis of aging & submit the particulars as per the enclosed Directives Form No.3 to the Banking Operation Department & Inspection & Supervision Department of Nepal Rasta Bank within 1(one) month from the end of each quarter.

Classified Loans and Advances under the currently existing arrangement are required to be classified as per the Time Table in four phases:

Relating to Collateral

All collateral used back loan & advance shall be adequate to cover up the principal and interest and shall also be legally secured. In the event of non-realization of principal and interest of loan, there must be no difficulty in acquiring the title of the collateral asset.

Additional Arrangement in Respect of Pass Loan

Loans & advances fully secured by gold, silver, fixed deposit receipts and NG securities shall be included under “**pass**” category.

However, where collateral of fixed deposit receipt or NG securities or NRB Bonds is placed as security against loan for other purposes, such loans has to be classified on the basis of aging per clause 2.

Additional Arrangement in Respect of “Loss Loan”

Even if the loan is not past due, loans giving any or all of the following discrepancies shall be classified as “**Loss**”.

- No security at all or security that is not in accordance with the borrower’s agreement with the bank,
- The borrower has been declared bankrupt
- The borrower is absconding or cannot be found,
- Purchased or discounted bills are not realized within 90 days from the due date.
- The credit has not been used for the purpose originally intended.
- Owing to non- recovery, initiation as to auctioning of the collateral has passed six months and if the recovery process is under litigation.
- Loans provided to the borrowers included in the black list and where the **Credit**
- **Information Bureau** blacklists the borrower.
- Additional Arrangement in Respect of Term Loan

In respect of term loans, the classification shall be made against the entire outstanding loan on the basis of the past due period of over due installment In the event of conversion of contingent liabilities of the bank e.g. letters of credit, unmatured guarantees, in to the liability of the bank, such amount becomes recoverable from the customers. Hence, such amount shall also be classified as per the classification norms applicable to loans & advances & accordingly be provided with requisite provisioning. Prohibition to Recover Principal and Interest by Overdrawing the Current Account & Exceeding the Overdraft Limit Principal and interest on loans & advances shall not be recovered by overdrawing the borrower’s current account or where overdraft facility has been extended, by overdrawing such limit. However, this arrangement shall not be construed as prohibitive for

recovering the principal & interest by debiting the customer’s account & recovery is made as such resulting in overdraft, which is not settled within one month, such overdrawn principal amount shall also be liable to be included under the outstanding loans & such loans shall be liable to be included under the outstanding loan and such loan shall be downgraded by one step from its current classification. In respect of recognition of interest, the same shall be as per the clause relating to income recognition mentioned in Directives No.4.

Loan Loss Provisioning

The Loan loss provisioning, on the basis of the outstanding loans & advances and purchase classified as per this Directives, shall be provided as follows:

Classification of Loan	Loan Loss Provision
Pass	1 percent
Substandard	25 percent
Doubtful	50 percent
Loss	100 percent

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

Additional Provisioning in the case of Personal Guarantee Loans

Where the loan is extended only against personal guarantee, a statement of the assets equivalent to the personal guarantee amount not claimable by any other shall be obtained. Such loans shall be classified as per above and where the loans fall under the category of Pass, Substandard and Doubtful, in addition to the normal loan loss provision applicable for the category, an additional provision by

20% point shall also be provided. Classification of such loans and advances shall be prepared separately.

Rescheduling and Restructuring of Loan

In respect of loans & advances falling under the category Substandard, Doubtful or

Loss, banks may reschedule or restructure such loans only upon receipt of a written

Plan of Action from the borrower citing the following reason:

- The internal and external causes contributing to deterioration of the quantity of loan.
- The reduced degree of risk inherent to the borrower/enterprise, determined by analyzing its balance sheet and profit & loss account in order to estimate recent cash flows & to project future ones, in addition to assessing market conditions.
- Evidence of existing of adequate loan documentation.
- An evaluation of the borrower/ enterprise's management with particular emphasis on efficiency, commitment & high standards of business ethics.

In addition to written Plan of Action for rescheduling or restructuring of loan per Clause (13.1) above, payment of interest according to the loan contract as originally specified should have been collected. The loan loss provisioning, in respect of rescheduled, restructured and swap loans, shall be provided at minimum 12.5%. Separate statement shall be prepared for loans classified & provision made as per Clause 13.3 above.

Provisioning against Priority Sector Credit

Full provisioning as per clause (11) shall be made against the uninsured priority and deprived sector loans. However, in respect of insured loans; the requisite provisioning shall be 25% of the percentage state under clause (11).

Adjustment in Provisioning

Except in the following cases, banks are prohibited from making any adjustments in their loan loss provision amount:

- The loan has been completely written off
- The principal amount of loan and interest has been fully settled by the borrower.
- Loan has been classified or reclassified and vision for loan loss is made.

However, no such adjustments shall be made in the case of reclassified loan by way of rescheduling or restructuring.

Action to be taken in cases of Noncompliance

In cases where a bank has been found not complying the regulations in respect of loan classification and provisioning, Nepal Rastra Bank may ask for clarification. If the bank's response is not satisfactory, Nepal Rastra Bank shall initiate following action in exercise of its authority under section 23(1) of Nepal Rastra Bank Act. 2012. Require reclassification of loan and advances and accordingly adjust the loan loss provisioning within 3 months. If the banks do not comply to the directive issued as per Sub-Clause 16.1 above, the following additional action shall be initiated in exercise of the authority under section 32 of Nepal Rastra Bank Act 2012 with amendment:

- Suspend declaration and distribution of dividends (including bonus shares)
- Suspend extension of loans
- Suspend acceptance of deposits

All earlier circulars issued by Nepal Rastra Bank relating to loan classification and loan loss provisioning have been repealed.

2.2 Review of Related Studies

Shrestha, (1998) in her article "Lending operations of commercial banks of Nepal and its impact on GDP" presented the objectives to make an analysis of contribution of commercial banks' lending to the Gross Domestic Product (GDP) of Nepal. She has set a hypothesis that there has been a positive impact of lending of commercial banks to the GDP. In research methodology, she has considered GDP as the dependent variable and various sectors of lending viz. agriculture, industrial, commercial, service, general and social sectors as independent variables. A multiple regression technique has been applied to analyze the contribution. The multiple analyses have shown that all the variables except service sector lending have positive impact on GDP. Thus in conclusion, she has accepted the hypothesis, i.e. there has been positive impact on GDP by the lending of commercial banks in various sectors of economy, except service sector investment." Bhattarai, (2002) in his article "Something is rotten with the state of commercial banking in Nepal" starts with words like NPA, conflict of interest, merky offshore ownership, well connected defaulter, loan swapping and political obstruction to describe the commercial banks in Nepal. Mr. Bhattarai quoted the words of the Governor to describe the state of banking sector as 'terrible'. Also, he quotes one of the donor representatives involved in financial reform as "Nepal has the weakest central bank in the developing world." As per the author, bankers with patronage could get away with getting anything they wanted approved by the regulator. He quotes Mr. Investment SJB Rana, the first governor of NRB, "only 3 out of 12 Governors actually completed their five year terms in its entire history because they were sacked for undefined exigencies." He also quotes Mr. Shovan Dev Pant, the then Executive Director of Nabil, "The financial sector is in

appalling state." Mr. Bhattarai says that all the evidences gathered for his article point to one direction the regulatory body, NRB not doing its job properly. He explains that the malaise with the financial sector was deep. As an instance, he presents Nabil Bank and its ownership. He bets on the fact that even Nabil Bank Shareholders do not know of the Bank's owners of the major block of shares. The author expects NRB to disclose this fact if they know about it. Another example Mr. Bhattarai presents is on the profitability of the banks in the very first year. He questions their profit figures with the given state of ailing economy, where each sector is showing heavy losses. Also, the increasing trend of Nonperforming Assets (NPAs) is explained by him is a result of scam. A scam process as explained to him by an NRB official goes like this, "You put in Rs.50 million to promote a bank and then borrow Rs.500 million from it. They are not opening banks to do banking but to siphon loans for themselves." However, the author is of a view that the new directives issued on October 2001 shall improve the situation. Here, the author has not clearly mentioned of the research methodology. The conclusions are not well supported by data. The article reflects a one sided biased view of the author and the view of NRB on this has not been taken. The conclusion made by the author has not been tested. Aryal (2003) has submitted a thesis entitled to, "A Evaluation of credit investment and Recovery of Financial Public Enterprises in Nepal" a case study of ADB/N. His research statement of problem was as; because of high interest rate of non institutional sources, people are unable to pay their credit at fixed time. These institutions compel them to transfer their property to the moneylender resulting himself or herself as a landless person. ADB/N is one of the major financial institutions supporting for the people for the different purpose like agro, industries, tea, coffee, livestock farming etc. ADB/N. provides the credit for individual and cooperative sector to all collection amounts is not good. However, ADB/N has increased its effort to collect its credit.

It is said that those people who really need do not receive sufficient amount of credit from ADB/N.

His major findings are actual credit disbursement, collection and outstanding are increasing in decreasing rate. Yearly increase in credit disbursement is higher than that of collection. Positive relation between credit disbursement and collection that is 0.996

Targeted credit collection and disbursement fixed by planning and project department is not significantly different than the actual. Most of the customers are unaware of the policy of the bank. He recommends the borrowers should be about the credit, its use and its payment procedures and schedule; Greater attention should be given to increase the credit collection and to collect old outstanding amount of credit and renewal of it. To accelerate the collection, credit should be followed continuously in a regular interval of time. The 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 personal. Gautam (2000) has submitted thesis entitled to, "Investment Analysis of Finance Company of Nepal" her research major objectives relevant to my research are to analyze the interest rate structure of credit. To analyze the repayment of the credits. Her findings are use of funds towards the hire purchase credit is decreasing rapidly. As the direct data of good and bad credit was not available, the credit loss provision used to analyze the credit quality. Credit loss is increasing every year significantly and should be controlled. The loss provision of some company is more alarming on individual analysis. The company having above average credit loss provision should rethink on their investment and repayment policy Chand (1988) has submitted his thesis entitled "Credit Disbursement and Repayment of Agriculture Development Bank Nepal. His research statement of problems are The Bank does not benefit small farmers (j.e. problem of balance

development).The collection of credit is slow, so it hinders the flow of capital required to development economic growth. Objectives of the study are to see the repayment situation. To find out the growth rate of investment. To explain possible causes of non and delay repayment. He finds that there is systematic relationship between credit disbursement and repayment. The coefficient of correlation value as calculated is 0.94 which shows significance relationship. Repayment situation is satisfactory on production and agrobased industry, warehouse and farm mechanization, irrigation, tea horticulture, livestock, poultry and fisheries is satisfactory.-As a recommendation given by Chand, ADB/N should play a significant role in such direction as to fulfill the credit demands of rural areas. For effective credit recovery from the borrowers or clients, credit should be channeled through the borrower groups Joshi (1999) has studied on “Lending policy of Commercial Banks in Nepal” The main objectives of this study is to examine the role of commercial bank in its functions as well as performance: to show the relationship between deposit and loan advance, to identify major weakness of lending policy of the commercial banks and to suggest lending policy to process the utilization of the resources and they are still lazy to pay active role to utilizes these sources collected from different sectors accordance with the need of the economy. He recommended that Nepal Rastra Bank have significant role in the overall economic policy of the country NRB must take safe of lending policy and role to solve various problems, which have been arising in the banking development. Pant (2001) has studied on “A study of Deposit and its utilization by Commercial Bank in Nepal.” The main objective of the study is to test whether lending process is significant and to find out the way to encourage lending by increasing bank deposit The finding of the study are: commercial banks in Nepal are not able to satisfy the financial need of the economy, commercial banks in Nepal are not playing an active role to utilize their resources collected from

different sector, according to the need of the economy. He has recommended the new branches should be open.

Acharya (2001) has studied on “Deposit mobilization of commercial bank in Nepal”.

The main objective is to impact of interest rate on deposit mobilization as well as credit ratio increase or decrease as the change in interest rate. Besides this, the objective is to know the efficient utilization of the accumulated deposits. She has found out that the commercial bank have not been successful in the mobilization of the deposits collected by the commercial banks have not been successful in the mobilization of the deposits collected by the commercial banks. Its is because of the fact, the commercial banks have not able to motivate and facilitate to their cents except at change in the rate of interest. The problems are to attracting the savings to the maximum possible extent to channeling these savings into those sectors of the economy where there are most needed and to extending banking facilities in the country to unbanked areas. The changes of intrest rates in loan are also recommended. Commercial banks should extend long term and medium term credit in addition to short term credit. Panta (2001) in his thesis paper “A study of commercial banks deposit and its utilization” got to notice that the percentage of the total credit supplied by commercial banks within five years period (1995-2000) is more or less same while in the collection of deposits. The percentage has increased too much. Thus, the increasing gap between collection and utilization shows economic requirement and to contribute the economic upliftment of the country, commercial bank should a fair sector wise and planned policy.

The purpose of this research is to develop some expertise in one’s to see what new can be made and to receive some ideas, knowledge and suggestions in relation to credit management of NB bank. Thus, the previous studies can’t be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the

present study with the past research studies. Here, it is clear that the new research cannot be found on those exact topics, j e. Credit Management: A study on Nepal Bangladesh Bank Limited. Therefore, to fulfill this gap, this research is selected. To complete this research work: many books, journals, articles, and various published and unpublished dissertation are followed as guidelines to make the research easier and smooth. In this regard, here we are going to analyze the different procedure of credit management, which is considered only on NB bank. Our main research problem is to analyze whether the NB bank has right level of liquidity as well as is able to utilize its resources effectively or not. To achieve, this main objective, various financial and statistical tools are used. Similarly, trend analysis of investment and profit are reviewed to make this research complete. Therefore, this study is useful to the concern bank as well as different persons: such as shareholders, investors, policy makers, stockbrokers, state of government etc.

Khadka (2002) has conducted a research study on “Investment Policy of Commercial Banks” with reference to NBL, Nabil, Nepal Grindlays Bank (former name of Standard Chartered Bank) and NIBL, with an objective to evaluate liquidity, assets management and profitability position of NBL in comparison with other CBs and also to find out the relationship between deposit and total investment, deposit and loan & advances and net profit and outside assets. Joshi (2005), on her thesis, “Investment Policy of Commercial Banks of Nepal”, has made an attempt to know and understand fund mobilization and investment policy of EBL, Nabil and BOK. The thesis work was performed with an objective of analyzing the trend of deposit utilization towards total investment and loan & advances and also to evaluate the growth ratios with other financial variables.

From the study, she has concluded the following findings:

- The liquidity position of EBL is comparatively better than other banks.
- The total investment of EBL is in between in compared to other two banks.

- Total interest earned to total outside assets of EBL is lowest of all.
- The total investment of EBL is in between in compared to other two banks.
- Total interest earned to total outside assets of EBL is lowest of all.
- EBL has higher capital risk ratio but average credit risk ratio compared to Nabil and BOK.

On the basis of the findings, she has recommended EBL to mobilize excess idle cash and bank balance in some profitable and productive sector. She also emphasized on investing more on shares and debentures as it encourages financial and economic development of the country. She has suggested the bank to make continuous efforts to explore new, competitive high yielding investment opportunity to optimize their investment portfolio. She has also recommended bank to adopt innovative approach to marketing. In the light of growing competition in the banking sectors, the business of bank should be customer oriented. The bank should develop an innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient and satisfactory way by optimally utilizing the modern technology and offering new facilities to the customers at competitive prices.

2.3 Research Gap

Since the above mentioned studies offer limited findings, more extensive testing , and adjustment of necessary variables are needed in ordered to be more conclusive about the credit Management. Previous studies were directed to find the effect of the credit management of different commercial banks. Similarly, Joshi's study is unable to present the exact condition of credit management in Nepalese banking sector Nepal. Presently, this study aims to attempt to study about credit

management of Nepalese commercial banks in Nepal. The previous relevant literature related to banking business has just reviewed to support the study. In Joshi's study, he failed to study the perfect credit management of Nepalese commercial banks. This study tries to fulfill this weakness. And there is also less research made in this topic especially in banking sector.

Credit Management has very big role to sustain any banking business. It is equally important to identify the relation of performance of the banking business. So, it tries to assess the credit management of banking sector and by providing the proper atmosphere for the banking market in our country. The present study is based on five years data of commercial banks, which tries to achieve its objectives by analyzing secondary source of data. Thus, the earlier studies on these issues need to be updated and validated because of the many changes taking place in Nepalese banking sector. The current study is a supplement to overcome the weakness and limitation of previous studies.

CHAPTER- THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research simply means to search again and again. It is a systematic activity to achieve truth or finding solution to a problem. It is a process of a systematic and in-depth study or research of any particular topic, subject or area of investigation backed by the collection, compilation, presentation and interpretation of relevant details or data. Methodology is the research method used to test the hypothesis. So the research methodology refers to the overall research process, which a researcher conducts during his/her study. "The purpose of research is to discover answers to questions through the application of scientific procedures. The main aim of research is to find the truth which is hidden and which has not been discovered at yet." (Kothari, 1990:7)

The basic framework of this study is descriptive as well as exploratory. In order to reach and accomplish the objectives of this study, different activities are carried out and different stages are crossed during the study period. For this purpose, the chapter aims to present and reflect the methods and techniques those are carried out and followed during the study period.

3.2 Research Design

Research Design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variances. There are many methods of research design and this study will be based on recent historical data. Mostly, secondary data and information to be collected, evaluated, verified and synthesized to reach a conclusion. To achieve the objective of this study descriptive data different journals and articles relevant with the study, annual reports of different fiscal years of concerned banks, NRB Directives, banking and financial statistics report published by NRB and other related materials are collected and studied. With the help of descriptor and research design, the study evaluates the Credit Management of Commercial Banks.

3.3 Population and Sample

There are altogether 31 commercial banks functioning all over the country at present, which are taken as a population of this study work. Among them, this study comprises only two commercial banks namely; Bank of Kathmandu Ltd and Investment Bank Ltd, which have been selected as a sample for this research study.

3.4 Sources of Data

These are secondary data and secondary data are extracted from published annual reports of the bank, published articles, journals, reports, previous related studies etc.

3.5 Method of Data Analysis

In this study, various financial, mathematical as well as statistical tools have been used to make the analysis more convenience, reliable and authentic too.

3.5.1 Financial Tools

Financial tools are used to examine the financial strength and weakness of the bank. In this study, following financial tools are used:

□ Loan Classification and Provisioning:

The amount of loans in the various categories has been calculated by using the models of NRB. Likewise, for each category, the actual loan loss provisioning amount has also been calculated according to the directions laid down by NRB.

□ Liquidity Ratio:

Liquidity ratios measure the firm's ability to meet current obligations. In fact, analysis of liquidity needs the preparation of cash budgets and cans and fund flow statements; but liquidity ratios, by establishing a relationship between cash and other current assets to current obligations, provide a quick measure of liquidity. A firm should ensure that it does not suffer from lack of liquidity, and also that it does not have excess liquidity.

According to the NRB requirement, the bank has to maintain at least 5% of its total deposit liability as a balance with NRB. The prior provision of Statutory Liquidity Ratio (SLR) and vault reserve has been fully removed now.

The following ratios are evaluated under liquidity ratio:

1. Current Ratio:

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

2. Cash & Bank Balance to Current Assets Ratio:

$$\frac{\text{Cash \& Bank Balance}}{\text{Current Assets}}$$

3. Loans & Advances to Current Assets Ratio:

$$\frac{\text{Loan and Advances}}{\text{Current Assets}}$$

4. Investment on Govt. Securities to Current Assets Ratio:

$$\frac{\text{Investment on Govt. Securities}}{\text{Current Assets}}$$

□ **Investment Portfolio and Policy:**

In order to make profits, banks must invest the funds collected from depositors in various productive sectors and different form of earning assets. Though the bank may have its own policy and theory of investment, it also has to look upon the criteria or requirement defined by NRB before making any investment decisions. Just like minimum requirement of investment to be made in productive, priority and deprived sector, regulation relating to investment in shares and securities by commercial banks etc. The following ratios are evaluated for finding out investment portfolio and investment policy of subjected banks:

1. Total Investment to Total Deposit Ratio:

$$\frac{\textit{Total Investment}}{\textit{Total Deposits}}$$

2. Loan & Advances to Total Deposit Ratio:

$$\frac{\textit{Loan \& Advances}}{\textit{Total Deposit}}$$

3. Loan & Advances to Total Working Fund:

$$\frac{\textit{Loan \& Advances}}{\textit{Total Working Fund}}$$

4. Total Investment to Working Fund Ratio:

$$\frac{\textit{Total Investment}}{\textit{Total Working Fund}}$$

3.5.3 Statistical Tools

Several numbers of statistical tools can be employed to examine the financial data of Everest Bank Ltd. Some of the statistical tools that are used for the purpose of this study are presented below;

Arithmetic Mean:

Most of the time when we refer to the “average” of something, we are talking about its arithmetic mean. To find out the arithmetic mean, we sum the values and divided by the number of observations. The mean can be calculated as:

$$\bar{X} = \frac{\sum X}{n}$$

Where,

\bar{X} = Arithmetic Mean

$\sum X$ = Sum of values of all observation

n = Number of elements in the sample

Standard Deviation:

The standard deviation is the square root of the average of the square distance of the observations from the mean enables us to determine with a great accuracy, where the value of a frequency distribution are located relation to the mean. To compute the sample standard deviation we use the following formula.

$$\text{S. D. , } \sigma = \frac{\sum(x - \bar{x})^2}{n}$$

Where,

S.D. = Standard Deviation

x = Value of each of the “observation”

\bar{x} = Mean Value of Sample

n = number of observations in the sample minus 1

Karl Pearson's Correlation Coefficient:

Karl Pearson's correlation coefficient is one of the widely used mathematical methods of calculating the correlation or relationship between two different variables. The method summarizes in one figure the degree of relationship as well as direction. It is simply denoted by "r" and it can be calculated by using the following formula;

$$r = \frac{N \sum xy - (\sum x)(\sum y)}{\sqrt{N \sum x^2 - (\sum x)^2} \sqrt{N \sum y^2 - (\sum y)^2}}$$

Where,

N= Number of pairs of x & y observed

x= Value of Credit & advances

y= Value of total assets

r= Karl Pearson's Coefficient Correlation

CHAPTER-FOUR

PRESENTATION AND ANALYSIS OF DATA

Presentation and analysis of data is very important stage of research study. Its main purpose is to change the unprocessed data into understandable form. It is the process of organizing the data by tabulating and then placing that data in presentable form by using various tables, figures and sources. Credit management is one of the most important factors that have been developed to facilitate effective performance of bank management. Credit management is the formal expression of the commercial banks goals and objectives stated in financial term for specific future period of time. Credit is the very basic indicator for determining profit.

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

4.1 Financial condition of selected Nepalese commercial Banks

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

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

4.2 Credit Practices in Everest Bank Limited

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

4.2.1 Total loans to deposit ratio

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

Table 4.1
Total loans of deposit ratio (in lacs)

FY	Total Deposit	Loan & Advances	Ratio
2008/009	333229	244696	0.73
2009/010	369323	281564	0.76
2010/011	411279	316618	0.77
2011/012	500061	366168	0.73
2012/013	577205	441978	0.77
Mean			0.75

Source: Annual reports of the companies

The table 4.1 shows that the ratio of credit deposit ratio in EBL was 0.73, 0.76, 0.77, 0.73 & 0.77 respectively. It has the highest ratio in F/Y 2010/011 and 2012/013 i.e. 0.77 and the lowest ratio in F/Y 2008/09 with 0.73.

For mean point of view, EBL has maintained higher loan & advances to total deposit. In this way, it shows that EBL seems to be strong to mobilize its total deposit as loan & advances.

However higher ratio does not mean it is always better from the point of liquidity. EBL is more capable to use more than 50% of deposit on loan and advances. If maintained this, it helps to make consistency on the profitability of the banks.

4.2.2 Interest income to loans & advances

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

Table 4.2

Interest income to loan & advances (in Lacs)

FY	Interest	Loan & Advances	Ratio
2008/009	21868.14	244696	0.09
2009/010	31024.51	281564	0.11
2010/011	43310.26	316618	0.14
2011/012	49599.98	366168	0.14
2012/013	49369.24	441978	0.11
Mean			0.12

Source: Annual reports of the companies

Table 4.2 shows the ratio of interest income to loan and advances of the selected companies over the study period. Interest income to loan and advances ratio of EBL ranges from the highest of 0.14 and to the lowest of 0.09 in the fiscal year 2010/011 and 2008/09 respectively. The mean ratio is 0.12, ratio of first two years and last year are less than mean and the ratio of fiscal year 2010/011 and 2011/012 are above the average. The mean interest income to loan and advances ratio during FY has its best performance.

4.2.3 Non-Performing Loans to Total Loan and Advances Ratio

NRB has directed all the commercial banks to create loan loss provision against the doubtful and bad debts. But our concerned bank has not provided data on non-performing loan in Balance Sheet and Profit & Loss A/C. To measure the volume of non-performing loan to total loan & advances the main indicator of EBL has been used. This ratio shows the percentage on non-recovery loans in total loan & advances.

Table 4.3
Non-performing loan to total loan and advances (in lacs)

FY	Non-Performing Loan	Loan & Advances	Ratio
2008/009	1179.85	244696	0.005
2009/010	1255.60	281564	0.004
2010/011	1085.12	316618	0.003
2011/012	3074.92	366168	0.008
2012/013	2761.98	441978	0.006
Mean			0.005

Source: Annual reports of the companies

Table 4.3 shows the Non- performing loan to total loan and advance over the study period.

Ratio ranges highest of 0.008 and lowest 0.003, it does not shows decreasing trend in subsequent year. The mean Non-performing loan to loan and advances 0.0054. FY 2010/011 is best performance is best, Banking sector is seriously affected by the non-performing loan. EBL is also not far from this above fact. If non-performing loan increases, the overall banking business will be affected. So provisioned amount will increase and profit will decrease. So, it is suggested that (EBL) to be sincere while granting loan and to do effective follow up for recovery of non-performing loan.

4.2.4 Loans and Advances to Total Assets Ratio

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

Table 4.4

Loans & advances to total assets ratio (in lacs)

FY	Loan & Advances	Total Assets	Ratio
2008/009	244696	369168.48	0.66
2009/010	281564	413827.60	0.68
2010/011	316618	462362.12	0.68
2011/012	366168	558131.29	0.66
2012/013	441978	657411.50	0.67
Mean			0.67

Source: Annual reports of the companies

Table 4.4 shows that the ratio of loans & advance to total assets in five yrs for the selected company. Loans and advances to total assets ratio of EBL ranges the highest of 0.68 in the fiscal year 2009/010 & 2010/011 and the lowest 0.66 in the fiscal year 2011/012. Here this ratio does not show any clear direction. From the mean point of view, it can be said that mean ratio of EBL is very good. It can be concluded that higher the mean ratio it indicates good lending performance.

4.2.5 Loan and advances to current assets ratio

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

current assets funds and may lose earnings. So commercial banks provide loan & advances in appropriate level to find out portion of current assets, which is granted as loan & advances.

Table 4.5

Loan & advances to current assets ratio (in lacs)

FY	Loan & Advances	Current Assets	Ratio
2008/009	244696	60,157.16	4.07
2009/010	281564	76,733.00	3.67
2010/011	316618	60,731.46	5.21
2011/012	366168	96,709.07	3.79
2012/013	441978	108,227.37	4.08
Mean			4.16

Source: Annual reports of the companies

Table 4.4 shows the loan and advances to current assets of selected companies over the study period. Loans and advances to current assets ratio of EBL ranges highest of 5.21 times in the fiscal year 2010/011 and lowest 3.67 in the fiscal year 2009/010. Loan and advances to current assets ratio of EBL in all fiscal year is below the average except FY 2010/011. This shows the mixture trend on loan and advances to current assets ratio of EBL. EBL should focus to increase loan and advances to current assets ratio to increase short term lending performance.

4.2.6 Loans loss provision to total loan and advances ratio

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

quality of assets in total volume of loan & advances. High ratio indicates move risky assets in total volume of loan & advances.

Table 4.6

Loan loss provision to total loan & advances (in lacs)

FY	Loan Loss Provision	Loan & Advances	Ratio
2008/009	5848.81	244696	0.02
2009/010	6000.43	281564	0.02
2010/011	6041.51	316618	0.02
2011/012	7058.56	366168	0.02
2012/013	8045.75	441978	0.02
Mean			0.02

Source: Annual reports of the companies

Above table 4.6 shows the loan loss provision to total loan and advances of selected over the study period. Ratio of EBL is same in selected fiscal years. Average ratio of EBL is also same. The ratio gives the clear trend. Higher ratio indicates the increased volume of non-performing loans and vice versa. Whereas decreasing loan loss ratio indicates efficient credit policy and gradual increment on the performance of the company. We can say this is due to the ineffective credit policy and poor performance of the company.

4.3 Credit efficiency in Everest Bank Limited.

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

4.3.1 Interest expenses to total deposit Ratio

This ratio measures the percentage of total interest paid against total deposit. A high ratio indicates higher interest expenses on total deposit. Commercial Banks are dependent

upon its ability to generate cheaper fund has moves the probability of generating loans and advances and vice versa.

Table 4.7

Interest expenses to total deposit ratio			(in lacs)
FY	Interest Expenses	Total Deposit	Ratio
2008/009	10129	333229	0.03
2009/010	15728	369323	0.04
2010/011	25359	411279	0.06
2011/012	28733	500061	0.06
2012/013	21792	577205	0.04
Mean			0.05

Source: Annual reports of the companies

Above table 4.7 shows the cost of deposit of selected bank over the study period. The Ratio of EBL ranges highest 0.06 in the fiscal year 2010/011 and 2011/012 and lowest 0.03 in the fiscal year 2008/09. Average ratio of EBL is 0.05, ratio in fiscal year 2008/09, 2009/010 and 2012/013 are below the average and ratio in fiscal year 2010/011 and 2011/012 are above the average. The ratio shows the clear trend over the study period. Higher ratio indicates the increased cost of deposit.

4.3.2 Interest and expenses to total expense ratio

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

Table 4.8

Interest expenses to total expenses ratio			(in lacs)
FY	Interest Expenses	Total Expenses	Ratio

2008/009	10129	14918	0.68
2009/010	15728	21517	0.73
2010/011	25359	32121	0.79
2011/012	28733	36927	0.78
2012/013	21792	31514	0.69
Mean			0.73

Source: Annual reports of the companies

Above table 4.8 shows the interest expenses to total expense ratio of selected companies over the study period. Ratio of EBL ranges highest 0.79 in the fiscal year 2010/011 and lowest 0.68 in the fiscal year 2008/09. Average ratio of EBL is 0.73, ratio in fiscal year 2008/09 and 2012/013 are below the average and ratio in the fiscal year 2010/011 and 2011/012 are above the average. So, this shows the clear trend of the ratio. Low interest expenses to total expenses ratio shows that decrease in cost of deposit.

4.3.3 Non-interest bearing deposits to total deposit ratio

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

Table 4.9
Non-interest bearing deposits to total deposit ratio

FY	Non-interest bearing deposit	Total Deposit	Ratio
2008/009	51966.31	333229	0.16
2009/010	47191.91	369323	0.13
2010/011	54768.21	411279	0.13
2011/012	67771.68	500061	0.14
2012/013	87948.63	577205	0.15
Mean			0.14

Source: Annual reports of the companies

Above table 4.9 shows non- interest bearing deposits to total deposit ratio of selected company over the study period. Ratio of EBL is fluctuating trend, ranges the highest 0.16 in the fiscal year 2008/09 and the lowest 0.13 in the fiscal year 2009/010 & 2010/011. Average ratio is 0.14, ratio of fiscal year 2009/010 & 2010/011 are below the average and ratio of 2008/09 and 2012/013 is above the average. From the mean point of view, it can be said that EBL has fluctuating ratios. In this way; the deposit mixture of EBL carries the highest level of interest bearing deposits in its deposit mixture. This major portion of non-interest bearing deposit consists of current deposits and this deposit is particularly maintained by business enterprises.

4.3.3 Interest income to total income ratio

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

Table 4.10

Interest income to total income ratio

FY	Interest Income	Total Income	Ratio
2008/009	21868.14	25653	0.85
2009/010	31024.51	35355	0.88
2010/011	43310.26	47745	0.91
2011/012	49599.98	56586	0.88
2012/013	49369.24	55605	0.89
Mean			0.88

Source: Annual reports of the companies

Table 4.10 shows the interest income to total income ratio of selected companies over the Study period. The ratio of EBL ranges highest 0.91 in the fiscal year 2010/011 and lowest 0.85 in the fiscal year 2008/09. This ratio does not show any clear direction. The average ratio is 0.88, ratio in fiscal 2009/010 and 2011/012 are equal to the average and ratio in fiscal year 2008/009 is below the average. The highest ratio of EBL indicates greater dependency on fund-based activities.

4.3.4 Interest suspense to interest from loans & advances ratio

Interest suspense means the interest due but not collected. This ratio measures the composition of due but uncollected interest in the total interest income from loan & advances.

The high degree of this ratio indicates the low interest turnover and low degree of this ratio indicates high interest turnover. This ratio also helps to analyze the capacity of the bank in collecting the repayments of the loans & advances.

Table 4.11

Interest suspense to interest income from loans & advances ratio

FY	Interest suspense	Total Deposit	Ratio
2008/009	83340	333229	0.003
2009/010	686.00	369323	0.002
2010/011	552.05	411279	0.001
2011/012	886.05	500061	0.002
2012/013	1318.77	577205	0.002
Mean			0.002

Source: Annual reports of the companies

Table 4.11 shows the interest suspense to total income from loans and advances ratio of selected company over the study period. Ratio of EBL ranges highest 0.003 in the fiscal year 2008/09 and the lowest 0.01 in the fiscal year 2010/011. This ratio does not show any clear direction. Average ratio is 0.002. The lowest ratio of EBL indicates its low dependency in fund-based activity.

4.4 Relationship of loans and net profit

Effective loans directly affect net profit volume of the organization. It is regarded as the most important profit indicator. It helps to increase the net profit volume of the company whereas weak level of loans is the signal of lower level of profit. Thus, it is logical to review the relation of loans and net profit. For the research proposes, net profit and loans during study period (5 yrs) are averaged to get profit and loans variable. After getting profit and loans variable, then data are analyzed using person's correlation coefficient. The following table presents the correlation coefficient of the profit and loans during study period.

Table 4.12

Relationship between loan and advance and net profit in EBL: Correlation Matrix

		LONS	NET PROFIT
LOANS	Person Correlation	1	0.9066
	N	5	5
Net Profit	Person Correlation	0.9066	1
	N	5	5

The table 4.12 presents the correlation coefficient between loans and net profit during study period. The calculated Person's Correlation Coefficient was found 0.9066, which shows high degree of correlation. It indicates that loans and net profit were found highly related with each other. That means, increasing loans helps to increase the net profit whereas decrease in loans decreases in net profit similarly. Coefficient of determination was found to be 0.8219 which indicates that 82.19% of total change in profit has been determined by the loans. Loans have high influence on net profit of the EBL. Effective loans management helps to increase and stable the net profit of the EBL. No exception is found in case of EBL. Thus, it is logical to review the impact of various components of credit in net profit of the EBL.

4.5 Relationship of loans and non-performing loans

Effective non-performing loans directly affect the volume of the loans of the EBL. It is regarded as the most important indicator. It helps to increase the risky in loans management of the EBL whereas weak level of non-performing loans is signal of the better performance of the loans management. Thus, it is logical to review the valuation of non-performing loans & loans management.

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

Table 4.13

Relationship between loan and non-performing loans in EBL:-Correlation Matrix

		LONS	Non-performing loans
LOANS	Person Correlation	1	-0.666
	N	5	5
Non-performing loans	Person Correlation	-0.666	1
	N	5	5

The table 4.14 presents the correlation coefficient between non-performing loan and loans during study period. The calculated Person's correlation coefficient was found - 0.666, which shows moderate, negative correlation. It indicates that non-performing loans and loans were moderately, negatively related with each other. That means, decreasing on performance in loans management. Coefficient of determination was found 0.4436 which indicates that

44.36% of total change in loans management has been negatively determined by nonperforming loans. Loan management has been negatively influenced by non-performing loans. Effectively loans management helps to decrease the non-performing

loans. No exception is found in case of EBL. Thus it is logical to review the impact of various components of working in loans management.

4.5 Impact of loan and advances on net profit

Loans have high implication for determining net profit. Effective loans directly affect the net profit of the banks. It means that the net profit of the banks is largely depended by the loans management. Thus, it is more significance to know the impact of loans in net profit. To find out the result the five year data (study period) of net profit, loans are averaged to get a variable of net profit & loans. Thereafter, simple regression analysis is used for computation. The following table presents the regression analysis of the independent variable loans on dependent variables net profit of the EBL.

Table 4.14

Regression Analysis on loan and advance and net profit in EBL

Model	R	R Square	Adjusted R Square	Std. Error of Estimate
1	0.954(a)	0.910	0.880	35.85023

(a) predictors: (Constant), Loan

Regression	Constant(a)	Coefficient (b)
Y=a+bx	-2.499	0.25

Table 4.16 shows the dependency of Net profit on loans. The calculated R was found 0.954 indicates that there is high relationship dependent variable profit on independent variable loans. After considering the error term, the adjusted R square value was found .880 which indicates that 8.8% of the total variation in the dependent variable net profit has been explained by the independent variable loans. Thus, it can be concluded that

loans is a strong determinant of net profit. Therefore management loans should seriously be taken to achieve the goal of the EBL.

The value of b is found to be 0.25, which means that, on average, 1 rupee change in total loan would result in 1.25 paisa change in the Net profit of EBL. Given the Net profit of the EBL for coming years, we can use the above Equation to estimate what the consumer loan of the EBL would likely to be in the coming years.

4.6 Trend Analysis Least Square Method

Trend analysis is a statistical tool, which will highlight the previous trend of the financial performance and helps in forecasting the future financial results of these banks. Trend analysis shows the trend of loan and advances of seven banks for eight years. Loan and advances shows a bank's efficiency in performance of efficient utilization of the same indicates its success and profitability.

The trend analysis on loan and advances for coming year is following.

The value of Y (loan and advance) when financial is 6th year (2008/09), 7th year (2009/010) and 8th year (2010/011).

Now, Regression equation $Y = a + b X$

Loan and advances on the 6th year

$$Y = 483.54 + 2396.75 * 6 \\ = 14864.04$$

Loan and advances for 7 th year

$$Y = 483.54 + 2396.75 * 7 \\ = 17260.79$$

Loan and advances for 8 th year

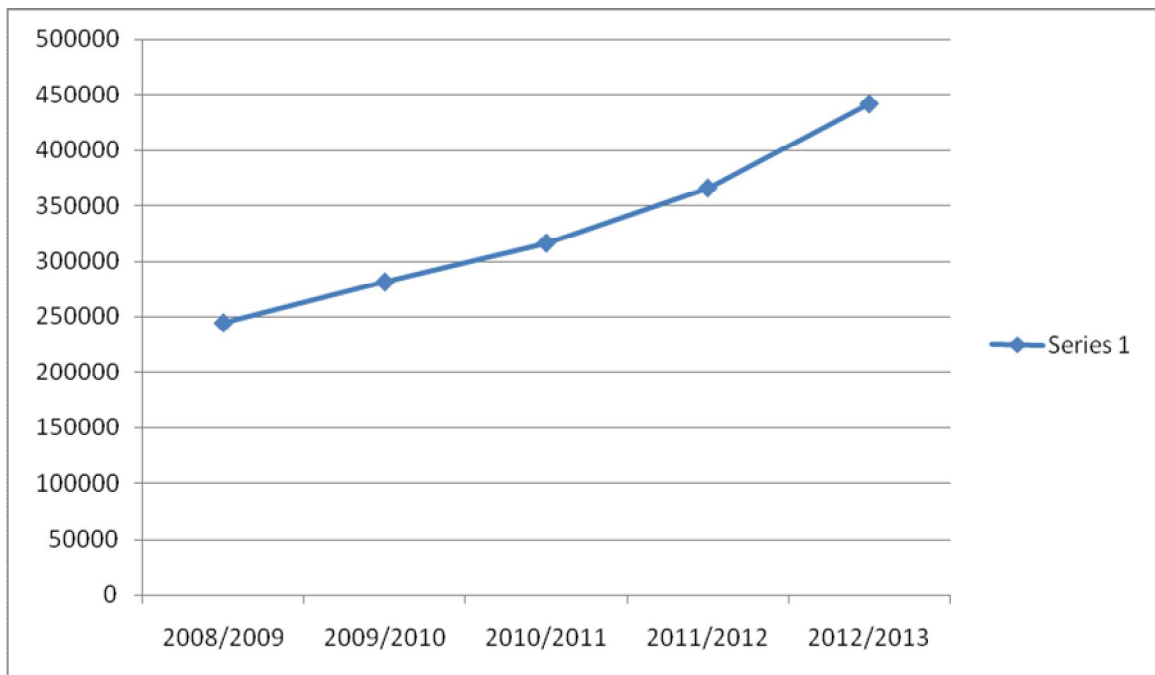
$$Y = 483.54 + 2396.75 * 8 \\ = 19657.54$$

Table 4.15
Everest Bank Limited

Fiscal Year	2008/009	2009/010	2010/011	2011/012	2012/013
Loan & advance	244696	281564	316618	366168	441978

Figure 4. 1

Loan and advances Trend line of Everest Bank Limited



Based on analysis presented table that concludes loan and advances has been increasing by 19728.2 million on financial year 2012/013 in comparison with financial year 2008/2009.

4.7 Major Findings

- ❖ Average loan and advances ratio of EBL is 0.67. EBL has maintained higher loan & advances to total deposit. In this way, it shows that EBL seems to be strong to mobilize its total deposit as loan & advances. However higher ratio does not mean

it is always better from the point of liquidity. The bank is capable to use more than 50% of deposit on loan and advances. If maintained this, it help make consistency on the profitability of the banks.

- ❖ The Average interest income to loan and advances of the EBL is 0.12. Ratio of EBL does not show clear direction. In fiscal year 2011/012 the bank has best performance.
- ❖ EBL has lowest 0.003 non performing loan to total loan and advances, this is the best performer than the EBL. Banking sector is seriously affected by the non-performing loan. The bank is not far from this above fact. If non-performing loan increases, the overall banking business will be affected. So provision amount will increase and profit will decrease. So, it is suggested that EBL to be sincere while granting loan and to do effective follow up for recovery of non-performing loan.
- ❖ Average loan and advances to total assets of EBL 0.67. It can be concluded that the higher mean ratio indicates the good lending performance. Here EBL should focus to increase loan and advances to total asset ratio to increase lending performance.
- ❖ Loan and advances to current assets ratio of EBL is in an increasing trend. Average ratio of EBL is 4.16. It can be concluded that the higher mean ratio indicates the good short term lending performance. Here EBL should focus to increase loan and advances to current assets ratio to increase short term lending performance.
- ❖ Increase ratio indicates the increased volume of non-performing loans and vice versa. Loan loss provision of EBL is same 0.02 in the selected fiscal year, It indicates efficient credit policy and no increment on the in risk premium.
- ❖ Average interest expenses to total expenses ratio of EBL is 0.05. it shows that decrease in cost of deposit as decrease in the interest expenses to total expenses ratio decrease.
- ❖ Total income of EBL, interest income contributes 12%. The lower ratio of EBL indicates its low dependency in fund-based activity and vice versa.
- ❖ Correlation Coefficient between the loans and advances to net profit of EBL is 0.9066; it indicates high degree of positive relationship between loans and net

profit. This means. Increasing loans helps to increase the net profit. Loans have high influence on net profit of the EBL. Effective loans management helps to increase and stable the net profit of the EBL.

- ❖ Correlation coefficient between non-performing loan and loans during of EBL is - 0.666, which shows moderate, negative correlation. It indicates that non-performing loans and loans were moderately, negatively related with each other. That means, decreasing on performance in loans management. Effectively loans management helps to decrease the non-performing loans.
- ❖ Coefficient of determination of N value was found .880 which indicates that 8.8% of the total variation in the dependent variable net profit has been explained by the independent variable loans. Thus, it can be concluded that loans is a strong determinant of net profit. Therefore management loans should seriously be taken to achieve the goal of the EBL The value of b is found to be 0.25, which means that, on average, 1 rupee change in total loan would result in 1.25 paisa change in the Net profit of EBL.
- ❖ Least square trend line shows the loan and advances of EBL have been increasing with a constant growth rate of 2396.75. The expected loan and advances is 14864.04 million, 17260.79 million and 19657.54 million in the fiscal year 2012/013, 2013/014 and 2014/015.

CHAPTER –FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

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

5.1 Summary and Conclusion

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

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

At present, 31 commercial banks have been operating in Nepal. After the adaptation of liberal policy by the government in 1990 number of banks and financial institutions are increasing day by day. They have been rendering high quality banking services to the people. There is cut throat competition between banks and financial intuitions.

This research has been undertaken to evaluate the credit management of commercial banks.

Two banks Bank of Kathmandu Limited and Investment Bank Limited banks are under study and five year financial statements of respective banks have been used for the study. The study has been divided into five chapters which include introduction, review of literature, research, data presentation and analysis and summary, conclusion and recommendation.

This study mainly based in secondary data, with include published annual report and other publication of banks. Other related information was gathered from the concerned banks, Nepal Rasta Bank, Nepal Stock Exchange, Securities Board of Nepal, different websites. The data have been analyzed by using financial and statistical tools like ratio analysis, correlation coefficient, regression analysis trend analysis etc.

The study shows that over the period, Average loan and deposit ratio of EBL is 0.75. The bank is capable to use more than 50% of deposit on loan and advances. If maintained this, it help make consistency on the profitability of the banks.

Banking sector is seriously affected by the non-performing loan. Both banks are not far from this above fact. If non-performing loan increases, the overall banking business will be affected. So provision amount will increase and profit will decrease. So, it is suggested that the bank EBL to be sincere while granting loan and to do effective follow up for recovery of non-performing loan. Average loan and advances to total assets of EBL is 0.67. It can be concluded that the higher mean ratio indicates the good lending performance. Here EBL should focus to increase loan and advances to total asset ratio to increase lending performance. Loan and advances to current assets ratio of EBL is in increasing trend. Here EBL should focus to increase loan and advances to current assets ratio to increase short term lending performance. Loan loss provision of EBL is in same ratio in the selected fiscal years, so the loan loss ratio indicates efficient credit policy and no increment on the performance of the company. Total income of EBL, interest income contributes 12% respectively. The lowest ratio of EBL indicates its low dependency in fund-based activity. Correlation Coefficient between the loans and advances to net profit of EBL is 0.9066. Correlation coefficient between non-performing loan and loans during of EBL is -0.666. Effectively loans management helps to decrease the non-performing

loans. The value of b is found to be 0.25, which means that, on average, 1 rupee change in total loan would result in 1.25 paisa change in the Net profit of EBL. Least square trend line shows the loan and advances of EBL have been increasing with a constant growth rate of 2396.75. Least square trend line shows the loan and advances of EBL have been increasing with a constant growth rate of 1388.23.

5.2 Recommendation

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

- a) Both banks should try to increase the loan and advances to deposit; here they have maintained more the 50%. High ratio shows the capability of bank on mobilizing its total deposit as loan and advances.
- b) Banking sector is seriously affected by the non-performing loan. EBL is not far from this above fact. If non-performing loan increases, the overall banking business will be affected Banks should sincere while granting loan and to do effective follow up fro recovery of non- performing loan.
- c) Average loan and advances to total assets of EBL is below 67%. So, EBL should focus to increase loan and advances the same level to total asset ratio to increase lending performance.
- d) Banks should do lot exercise in more credit creation and reducing the interest rate for loan and advances. This will help them to maintain more competitive.
- e) Banks could do better by offering modern banking facilities and new product for the development of banking industry.
- f) Provision on doubtful loan should to be maintained as per the directives of Nepal Rastra bank.
- g) Other recommendation for the achievement of target goals and objective of commercial banks.

From above study, analysis and observation with facts we must conclude with a reasonable realistic solution. Some of important and valuable suggestion for strength of commercial bank establishment, sustainable growth.

Commercial banks have to channelize fund by gradually shifting priorities from consumer loan to the productive sector to help for capital formation in the country.

Commercials banks have to improve their quality of services. They have to shift their focus from urban areas to rural areas, where they can implement the banking services for better world.

BIBLIOGRAPHY

Books

- Baidhya, S. (1997). **Banking Management**. Kathmandu: Monitor Nepal
- Bajracharya, B. C. (1998). **Basic Statistics**. Kathmandu: M.K. Publishers and Distributors.
- Bhandari, D. R. (2003). **Banking and Insurance Management**. Kathmandu: Ayush Prakashan.
- Dahal & Kumar. (1999). **A Handbook to Banking**. Kathmandu: Time Graphics Printers
- Johnson, E. (1985). **Commercial Bank Management**. New York: The Dryden Press.
- Khubchandani, B. S. (2000). **Practice and Law of Banking**. New Delhi: Macmillan India Ltd.
- Kothari, C. R. (1990). **Research Methodology: Method and Techniques**. New Delhi: Wiley Eastern Limited.
- (1992). **Quantitative Techniques for Management**. New Delhi: Chaitanya Publishing House.
- Pant, Y. P. (1970). **Problem in Fiscal and Monetary Policy**. Kathmandu: Sahayogi Prakashan
- Parker J. S. (1973). **Teach Your Self Book Banking**. London: St. Poul Publication
- Radhaswami & Vasudevan. (1987). **A Textbook of Banking**. New Delhi: S. Chand & Co. Pvt. Ltd.
- Vaidya, S. (1999). **Banking Management**. Kathmandu: Monitor Nepal.
- (2001). **Banking Management**. Kathmandu: Monitor Nepal.
- Wolff, H. K. and Pant, P. R. (2000). **Social Science Research and Thesis Writing**. Kathmandu: Buddha Academic Enterprises.

Journals, Articles & Reports

- Everest Bank Limited: **Annual Reports. (2008/09 to 2012/013)**. Kathmandu
- Nepal Rastra Bank: (2005) **Banking and Financial Statistics**, Kathmandu:

Nepal Rastra Bank **Banks and Financial Institutions Act** (2006). NRB, Kathmandu:

Nepal Rastara Bank **Economic Review**. (April 2005). Kathmandu.

Joshi, S. (2006). *Healthy Banking Sector Fuels Economic Growth*. The **Himalayan Times**

NRB (2005) **Macro-Economic Indicators of Nepal**. Kathmandu.

Shrestha, S. (1998). *Lending operations of commercial banks of Nepal and its impact on GDP*. **The Business Voice of Nepal**.

Thesis

(i) Acharya, N.B (2001). **Deposit mobilization of commercial bank in Nepal**. An Unpublished Master's Thesis, submitted to Central Department of Management, Tribhuvan University.

(ii) Aryal, K.N (2003). **A Evaluation of credit investment and Recovery of Financial Public Enterprises in Nepal** a case study of ADB/N. An Unpublished Master's Thesis, submitted to Central Department of Management, Tribhuvan University.

(iii) Chand, G. B (1988). **Credit Disbursement and Repayment of Agriculture Development Bank Nepal**. An Unpublished Master's Thesis, submitted to Central Department of Management, Tribhuvan University.

(iv) Gautam, R. (2000). **Investment Analysis of Finance Company of Nepal**. An Unpublished Master's Thesis, submitted to Central Department of Management, Tribhuvan University.

(v) Joshi, J. (2005). **Investment Policy of Commercial Banks of Nepal**. An Unpublished Master's Thesis, submitted to Central Department of Management, Tribhuvan University.

(vi) Joshi, R. (1999). **Lending policy of Commercial Banks in Nepal**. An Unpublished Master's Thesis, submitted to Central Department of Management, Tribhuvan University.

(vii) Khadka, A. (2002). **Investment Policy of Commercial Banks**. Unpublished Master's Thesis, submitted to Central Department of Management, Tribhuvan University.

(viii) Pant U. R (2001) .**A study of Deposit and its utilization by Commercial Bank in Nepal**. An Unpublished Master's Thesis, submitted to Central Department of Management, Tribhuvan University.

(ix) Panta, R. P (2001) .**A study of commercial banks deposit and its utilization**. An Unpublished Master's Thesis, submitted to Central Department of Management, Tribhuvan University.

Websites

www.nrb.org

www.everestbankltd.com

Appendix-I
Comparative Balance Sheet of Everest Bank Ltd.

Capital and Liability	FY 2008/2009	FY 2009/2010	FY 2010/2011	FY 2011/2012	FY 2012/2013
Share capital	838,821,000.00	1,279,607,490.00	1,391,570,439.00	1,761,126,410.00	1,921,239,051.00
Reserve & Surplus	1,364,804,055.00	1,479,530,365.00	1,721,975,617.00	2,416,176,477.00	2,906,605,621.00
Debenture and Bonds	300,000,000.00	300,000,000.00	300,000,000.00		468,845,000.00
Loan & Borrowing	312,000,000.00	404,600,000.00	482,000,000.00		402,360,000.00
Deposit Liabilities	33,322,946,246.00	36,932,310,008.00	41,127,914,339.00	40,006,100,272.00	57,720,464,632.00
Bills Payable	148,655,592.00	145,514,679.00	49,716,572.00	692,398,816.00	393,056,902.00
Proposed and unpaid dividend	230,524,766.00	276,252,832.00	576,897,427.00	30,646,879.00	820,190,186.00
Income Tax Liabilities	20,522,280.00	(1,136,458.00)	26,900,414.00	9,297,074.00	23,932,525.00
Other Liabilities	378,574,715.00	566,081,795.00	559,237,454.00	897,383,129.00	1,084,456,540.00
Total Liabilities	36,916,848,654.00	41,382,760,711.00	46,236,212,262.00	41,635,826,170.00	65,741,150,457.00
Assets					
Cash in Hand	944,695,793.00	1,091,500,407.00	1,048,998,721.00	1,700,991,770.00	1,723,208,985.00
Balance with NRB	4,787,163,541.00	5,625,113,849.00	4,706,320,590.00	8,159,753,523.00	8,205,090,425.00
Balance with other bank and financial Inst.	432,511,829.00	1,102,200,747.00	367,543,641.00	502,561,014.00	1,287,494,550.00
Money at call and short notice					
Investment	5,948,480,273.00	5,008,307,589.00	7,743,928,321.00	7,863,627,165.00	9,263,858,419.00
Loan, Advance and bill purchased	23,884,673,616.00	27,556,356,032.00	31,057,691,462.00	35,910,974,673.00	43,393,187,065.00
Fixed Assets	427,157,451.00	463,094,391.00	460,258,735.00	547,925,679.00	631,182,801.00
Non-banking Assets					
Other Assets	492,166,151.00	536,187,696.00	851,470,792.00	1,127,295,233.00	1,237,128,209.00
Total Assets	36,916,848,654.00	41,382,760,711.00	46,236,212,262.00	55,813,129,057.00	65,741,150,454.00

Appendix -2

Main Indicator

S.N.	Particular	Indicator	2008/09	2009/10	2010/11	2011/12	2012/13
1	Net Profit/Total Income	%	24.92	16.49	14.27	14.36	17.69
2	Per Share earning (after tax income)	Rs.	99.99	100.16	83.18	88.55	91.55
3	Market price per share	Rs.	2455	1630	1094	1033	1591
4	Price/Earning ratio	Ratio	24.55	16.27	13.15	11.67	17.32
5	Dividend on share- Bonus share	%	30	30	10	30	10
6	Cash dividend	%	30	30	50		50
7	Interest/Loan Advance	%	7.57	9.95	12.22	13.3	10.49
8	Employee Expenses/Total operating expenses	%	12.43	10.52	9.13	9.53	14.66
9	Interest Expenses/Total deposit & Borrowing	%	2.98	4.18	6.05	4.75	3.72
10	Exchange Income/ Total Income	%	2.44		0.05		0.08
11	Staff Bonus/Total Employee Expenses	%	47.68	52.48	45.41	44.26	45.49
12	Net Profit/ Loan & Advnces	%	2.61	2.95	2.94	2.98	3.33
13	Net Profit/ Total Assets	Ratio	1.73	2.09	2.1	2.11	2.39
14	Total Loan & Advance/Total Deposit	%	73.43	76.24	76.98	73.22	76.57
15	Total Operating Exp./Total Assets	%	4.04	5.2	6.95	6.62	4.79
16	Capital Adequacy Ratio:	%					
a	Core Capital	%	8.52	8.39	8.46	9.61	9.31
b	Supplimentary Capital	%	2.82	2.38	1.97	1.41	2.28
c	Total Capital	%	11.34	10.77	10.43	11.02	11.59
17	Cash Reserve Ratio	%	14.26	4.53	9.55	17.22	15.19
18	NPAs/ Total Loan & Advance	%	0.48	0.16	0.34	0.84	0.062
19	Weighted Average Interest Rate Spread	%	4.4	4.78	4.6	5.32	4.68
20	Book Net Worth (Rs. In Lacs)	Rs.	22054	27591	36407	40173	46678
21	Total Share	%	6388210	6304673	11193095	12316357	16011264
22	Total Employee	%	434	568	486	625	643
23	Others						
-	Per Employee Business (Rsin Lacs)	Rs.	1082	1146	1242	1386	1585
-	Employee Expenses/Tota Income	%	7.29	4.5	4.49	4.65	5.56