CREDIT MANAGEMENT OF EVEREST BANK LIMITED

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RECOMMENDATION

This is to certify that the thesis

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

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And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the degree of

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DECLARATION

I hereby declare that the work reported in this thesis entitled "**Credit Management of Everest Bank Limited**" submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Asso. Prof. Ruchila Pandey** of Shanker Dev Campus, T.U.

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ABBREVIATIONS

ABBS	:	Anywhere Branch Banking System
AD	:	Anno Domini
ATM	:	Automatic Teller Machine
BOD	:	Board of Directors
BS	:	Bikram Sambat
CB’s	:	Commercial Banks
CIB	:	Credit Information Bureau
CIC	:	Credit Information Center
CRR	:	Cash Reserve Ratio
DGM	:	Deputy General Manager
DRT	:	Debt Recovery Tribunal
EBL	:	Everest Bank Ltd
ED	:	Executive Director
EPS	:	Earning Per Share
FI	:	Financial Institutions
FY	:	Fiscal Year
GDP	:	Gross Domestic Product
HO	:	Head Office
LC	:	Letter of credit
NBL	:	Nepal Bank Ltd
NGO	:	Non Government Organizations
NIBL	:	Nepal Investment Bank Ltd
NRB	:	Nepal Rastra Bank
P&L	:	Profit and Loss
PNB	:	Punjab National Bank
RBB	:	Rastriya Banijya Bank
SCT	:	Smart Choice Technology
TRs	:	Trust Receipts

CHAPTER - I

INTRODUCTION

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

Banking sector plays an important role in the economic development of the country. Commercial banks are one of the vital aspects of this sector, which deals in the process of channel zing the available resources in the needed sectors. It is the intermediary between the deficit and surplus of financial resources. Financial system contains two components viz., depository financial institutions and non-depository financial institutions. Commercial Banks and Finance companies (in Nepalese context) are the examples of depository financial institutions whereas

Employee Providence Fund, Development Bank, Insurance Companies etc, are the examples of non-depository financial institutions. All the economic activities are directly or indirectly channeled through these banks. People keep their surplus money as deposits in the banks and hence banks can provide such funds to finance the industrial activities in the form of loans and advances.

Integrated and speedy development of the country and its financial position of the people are possible only when competitive banking service with its effective credit management reaches nooks and corners of the country. In the developing country like Nepal, there is always lack of financial resources not only because of its real absence but because of the available resources not properly mobilized and not fully utilized for the productive purpose; in this course the commercial banks play a vital role. In modern times, commercial banks, which are facilitated, regulated and supervised by the Central bank, confined them and concentrated in their activities of fulfilling the financial needs of their customers. In the present scenario, Nepal banking system is evolving itself as a powerful instrument of planning and economic growth of all the developed and underdeveloped sectors. The scope and scale of banking too have undergone substantial change in response to the saving and credit needs of people.

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

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

1.12 **Evolution of Banking Sector**

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

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

1.13 Evolution of Banking Sector in Nepal

Banking service is the oldest service industry in Nepal. It has gone through the various stages of evolution and development since the Vedic times (2000 to 1400 B.C.). Though the modern banking institution has a very recent origin in Nepal, some crude bank operations were in practice even in the ancient times. In the Nepalese Chronicle, it was recorded that the new era known as Nepal Sambat was introduced by Shakhadhar, a Sudra merchant of Kantipur in 879 or 880 A.D. after having paid all the outstanding debts in the country. This shows the basis of money lending practice in ancient Nepal. Towards the end of 8th century, Gunkam Dev had borrowed money to rebuild the Kathmandu valley. In 11th century, during Malla regime there was an evidence of professional moneylenders and bankers. It is further believed that money-lending business, particularly for financing the foreign trade with Tibet, became quite popular during reign of Mallas. However, in the absence of any regulatory measures, the unscrupulous moneylenders were known to have charged exorbitant rates of interest and other extra dues on loans advanced. These inconveniences led the Prime Minister Ronoddip (1877-1885) to establish Tijarath in Kathmandu, which was a government financial institution supplying credit to the people at 5% rate of interest against security of gold, silver and ornaments. The government servants were also entitled to take loans from Tijarath, repayable from their salary at the source. During the time of Chandra Shamsher (1901-1929), credit facilities of Tijarath were extended to some other parts of the country by opening its branches. It is believed that the so-called well-to-do persons used to take loans from private money lenders even at higher rate of interest than those from the government institutions, for they were not prepared to disclose in public anything that was likely to affect their prestige. When they were approached by this type of clients, the professional money lenders used to raise loans in their own names from Tijarath at 5% rate of interest against gold and ornaments, which were not their own but brought to them by their clients as security for the loans to be financed from the funds raised from Tijarath itself. Thus, without any resources of their own and without any risks on their own part, the money lenders could manage very well to exploit their especial type of clients just playing the role of middlemen between their clients and the government institution. To control spurious rates of interest and also to curb unfair practice on the part of the unscrupulous moneylenders, legislative measures were also taken.

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

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

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

1.14 Nepal's Financial System

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

	Organization	No of Institutions
1.	Central Bank	1
2.	Commercial Bank	26
3.	Development Bank	63
4.	Finance Companies	77
5.	Micro Credit Development Banks	15
6.	Non Government Organizations (NGOs)	45
7.	Saving and Credit Co-operative	16

Details of Banks and Non Banks financial institutions as of mid July 2009

Commercial Bank

Commercial Banks are the major component in the financial system. They work as the intermediary between depository and lenders and facilitate in overall development of the economy, with major thrust in industrial development. The banking sector in Nepal stated with the establishment of Nepal Bank Limited. Today, we got 28 commercial banks in operation.

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

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

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

1.15 Introduction to Everest Bank Limited

Everest Bank Limited (EBL), which started operations from October 18, 1994 has been established with the objective of extending professionalized banking services to various sections of the society in the kingdom of Nepal and thereby contribute to the economic development of the country.EBL joined hands with Punjab National Bank (PNB), India as its joint venture partner in 1997. PNB is the latest nationalized bank in India having 110 years of banking history with more than 4500 offices all over India. Of which 1400 branches are interconnected. PNB has over 1000 ATMs spread across India. Drawing its strength from PNB, EBL has set up strong systems and procedures. EBL thus has the advantage of the banking expertise and financial strength of its partner.

EBL has one of the largest networks among the private sector banks in Nepal having 35 branches across the nation and over 250 correspondents across the globe. The branches are connected through Anywhere Branch Banking System (ABBS) through which the clients can withdraw and deposit money from any branches of EBL. Based on the audited financial results of FY 2065/066, the Bank's operating profit is Rs. 972.950 million and net profit is Rs.624.068 registering a growth of 35.35% over the previous year. The Bank's credit recorded a growth of nearly 28.30 % over the last year reaching a figure of Rs 10136.20 million. Similarly, the total deposits of the Bank posted a growth of 38.98 % amounting to Rs 33322.946 million over the preceding year. The bank has one of the lowest non-performing assets (NPA-1.96%) among the commercial banks in Nepal.

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

Not to be left behind in technological advancement and up gradation, EBL has taken conscious decision to keep pace with the latest technology applicable to the banking sector. It has introduced 365 days banking service and in association with Smart Choice Technology (SCT) is providing ATM services for its customers. EBL Debit Card can be accessed at more than 50 ATMs and over 250 Point of Sales across the nation. The bank has managed the SCT ATM at Tribhuvan International Airport for the convenience of the customers and the travelers, the first and the only bank in Nepal to place ATM outlet at the Airport.

EBL is playing a pivotal role in facilitating remittance to and from across globe. Being the first Nepalese bank to open a representative office in Delhi, India, the Nepalese in India can open account in Nepal from the designated branches of Punjab National bank and remit their savings economically through banking channels to Nepal. The bank has a Drafts Drawing Arrangement with 175 branches of PNB all over India.

With an aim to help Nepalese citizens working abroad, the bank has entered into arrangements with banks and finance companies in different countries which enable quick remittance of funds by the Nepalese citizens in countries like UAE, Kuwait, Bahrain, Qatar, Saudi Arabia, Malaysia, Singapore and U K.

1.4.1 Capital Structure

The paid-up capital of EBL is Rs 838.821 million (as at FY 2065/066) which includes Rs 200million convertible preference share. Issued capital is Rs 491.6

million. The dividend rate of the preference share is 9%p.a and maturity period is four years. The capital reserve is Rs 47.46 million and retained earning is Rs 108.60 million.

1.4.2 Share Holding Pattern

The present share holding pattern of EBL is as follows.

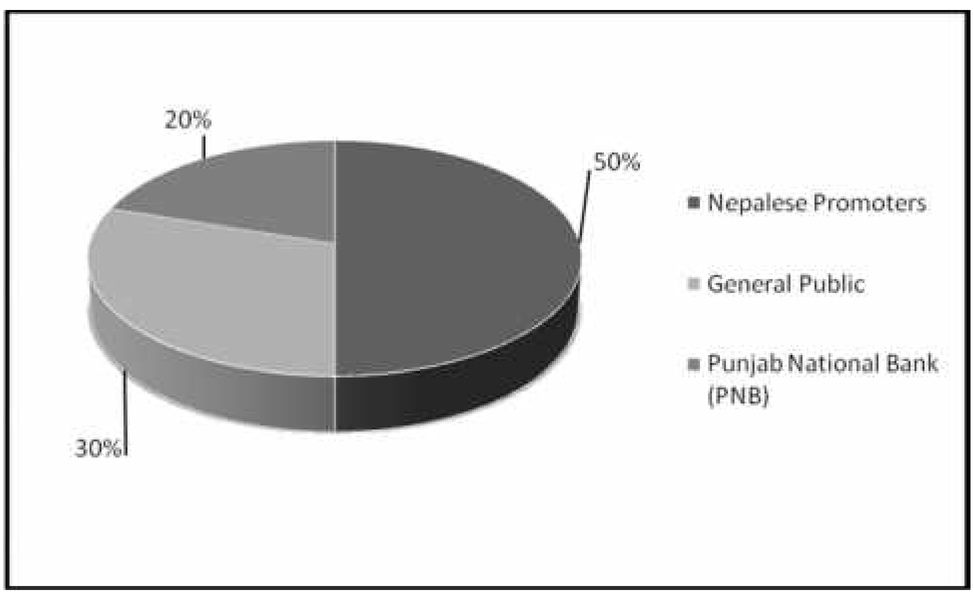
Table 2.1

Share Holding Pattern of EBL

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

Figure 1.1

Share Holding Pattern of EBL



1.16 **Statement of the Problem**

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

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

- **Portfolio or On- Balance Sheet Risks**

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

- **Off-Balance Sheet Risks**

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

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

The financial sector at present comprises the central bank, commercial bank, finance companies, co-operatives and (Non Government Organizations) NGOs with the limited banking activities. These banks and financial institutions have a nationwide network providing financial services. In spite of the fact that the financial sector has been enlarging rapidly in recent year, a large portion of credit demand is being met by unorganized sector i.e.: private money lender, merchant, traders, individuals, landlords at very high rate of interest which is 2-3 times higher than that of the institutional source.

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

Other Problem faced by banks can be pointed as follows:

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

1.17 Objectives of the Study

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

a. To examine the information procedure in controlling the credit policies and practices of Everest Bank limited
b. To identify norms laid by Nepal Rostra Bank with regard to loan/credit management of the bank.
c. To know in what extent of relationship between the deposits collected and loan flowed by the banks exist.
d. To identify the non-performing assets of EBL.
e. To know the performance of EBL

1.18 Significance of the Study

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

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

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

a) Individual

Any individual, interested to know about the banking sector of the nation, finds a variety of information in the study. The study will supply extremely valuable facts about the banks to the depositor, loan clients, and shareholders and even to the students.

b) Organization

Every organization is interested to know about the financial condition of the Everest bank before initiating any kind of deal. The corporate client of the respective banks must know the financial situation of the banks. Every bank has a keen concern with their competitor's financial statements as it plays a vital role in plan, policy and strategy formulation.

c) Society and Government

Every government's prime responsibility is to regulate directly and indirectly to the organization operating the territory of the nation. The government has to monitor that whether the organization are exploiting the society or not. For it, it has to go through the financial statement of the organization. The study, that has analyzed the financial data of the Everest Bank Limited bank, will be benefited to the society and the government to some extent.

1.19 Focus of the Study

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

1.20 Research Questions

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

1.21 Limitation of the Study

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

- The study mainly focuses on the importance and role of the credit management of Everest bank Limited.
- The study is associated only to the financial performance of Everest Bank Limited.
- In this study, only selected financial tools and techniques are used.

- The data of last five years i.e. FY 2061-2066 are taken for our purpose so the conclusions are drawn on basis of the period.
- The study is limited to only Everest Bank Limited. Findings or outcome of the study may not be generalized with any other banks.

1.22 Organization of the Study

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

Chapter – I Introduction

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

Chapter – II Literature Review

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

Chapter – III Research Methodology

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

Chapter – IV Data Presentation and Analysis

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

Chapter – V Summary, Conclusion and Recommendations

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

CHAPTER - II

LITERATURE REVIEW

The review of literature is a crucial aspect of planning of the study. The main purpose of literature review is to find out what works have been done in the area of research problem under the study and what has not been done in the field of the research study being undertaken. For review study the researcher uses different books, reports, journals, and research studies published by various institutions, unpublished dissertations submitted by master lever students have been reviewed. It is divided into two headings:

- Conceptual Review
- Review of related studies

2.2Conceptual Review

The review of textbooks and other references materials such as newspapers, Magazines, research articles, journals and past thesis have been included in this topic. Credit administration involves the creation and management of risk assets. The process of lending takes into consideration the people and system required for the evaluation and approval of loan requests, negotiation of terms, documentation, disbursement, administration of outstanding loans and workouts, knowledge of the process and awareness of its strength and weakness are important in setting objectives and goals for lending activities and for allocating available funds to various lending functions such as commercial, installment and mortgage portfolios.

2.1.1 Background

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

The business mainly borrows from the bank to acquire/create assets, to meet cash flow gap, to optimize return on shareholders' capital and to manage tax.

2.1.4 Types of Credit

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

- **Overdrafts/Cash Credit Accounts**

These are advances for financing current assets or advances against Bank's deposits, government securities, approved shares and debentures of companies, personal security etc. Generally the limit is fixed after assessment of the needs of the borrower, a minimum margin is prescribed and drawing power is allowed periodically to control the withdrawals in the account. The various types of securities against which cash credits/overdrafts are allowed are pledge/ hypothecation of goods or produce, pledge of documents of title to goods, mortgage of immovable property, book debts, trust securities, etc. In cash credit/overdrafts accounts the borrower is allowed to draw on account within the prescribed limit/drawing power, as and when required.

- **Demand Loans**

A demand loan account is an advance for a fixed amount and no debits to the account are made subsequent to the initial advance except for interest, insurance premium and other sundry charges. As an amount credited to a demand loan account has the effect of permanently reducing the original advance, any further drawings permitted in the account will not be secured by the demand promissory note taken to cover the original loan. Normally, demand loans are allowed against the Bank’s own deposits, government securities, approved shares and debentures of companies, life insurance policies, pledge of gold/silver ornaments, and mortgage of immovable property.

- **Term Loans**

Term loans are sanctioned for acquisition of fixed assets like land, building, plant/machinery, office equipment, furniture-fixture, etc., for purchase of transport vehicles and other vehicles, for purchase of agricultural equipment, machinery and other movable assets e.g. tractors, pump sets, cattle etc. under various schemes of agricultural advances introduced from time to time, for purchase of house, consumer durables, etc. and loans under Special Schemes introduced from time to time.

- **Bills Finance**

Advances against Inland Bills are sanctioned in the form of limits for the purchase of bills or discount of bills or advance against bills sent for collection, to borrowers for their genuine trade transactions. Bills are either payable on demand or after **usance** period. Demand Bills which are payable on demand or at sight, are purchased from the parties who are sanctioned bills purchase limits and Usance Bills which are payable on maturity after a certain period of time as per terms of contract are discounted for parties who are sanctioned discount of bills limit.

- **Packing Credit (Pre-shipment)**

Packing credit is an advance given to an exporter for financing the purchase, processing or packing of goods against an export letter of credit of an approved Bank received from the buyer. Packing credit advances are generally allowed separately for each Letter of Credit to comply with the guidelines issued by NRB/EBL.

- **Trust Receipts (TRs)**

Trust receipts are used to finance the import of goods wherein the Bank releases the Bill of Lading or Airway Bill to the customer for exchange of TR signed by a customer. By signing this document, the customer gives certain undertakings to the bank. Thus, he undertakes to hold the documents, the goods represented thereby and the net proceeds thereof as Trustee for the Bank; and also undertakes to pay the proceeds of all sales to the bank and to give to the bank on request authority receive from the buyers the sale proceeds of the goods.

- **Inland Letter of Credit**

Letter of credit (LC) is issued by the bank at the request of its customer in favor of a third party informing him that the Bank undertakes to accept the bills drawn on its customers up to the amount stated in the LC subject to the fulfillment of the conditions stipulated therein. When Bank issues a LC, it assumes responsibility to pay its beneficiary on production of bills drawn in accordance with the terms and conditions of the LC.

- **Bid Bonds**

Bank issues Bid Bonds in lieu of the security deposit/earnest money deposit/tender deposit to fulfill the requirements of the bids being made by the contractors. The terms and conditions of these Bid Bonds are based on the requirement of the tender document.

- **Guarantees**

Guarantee is a contract to perform the promise, or discharge the liability of a third person in case of his default. In the ordinary course of business, Bank often issues guarantees on behalf of its customers in favor of third parties. When Bank issues such a guarantee, it assumes a responsibility to pay the beneficiary, in the event of default made by the customer.

2.1.3 Objective of the Sound Credit Policy

The purpose of a written credit policy is:

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

2.1.4 Principle of Credit Policy

Good credit policy is essential to carry out the business of lending more effectively. Some policies are as follows:

- **Principle of Safety Fund**

Banks should look the fact that there is not any unproductive or speculative venture or dishonest behavior of the borrower.

- **Principle of Liquidity**

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

- **Principle of Security**

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

- **Principle of Purpose of Credit**

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

- **Principle of Profitability**

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

- **Principle of Spread**

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

- **Principle of National Interest**

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

2.1.5 Lending Consideration

The first step of lending consideration is the availability of supporting application and other relevant documents from the customer and then processing of credit file. Prior to processing the credit file questions such as given below must be raised to the perspective customer. This is the second step of lending consideration and is called "Interviewing the customer". While analyzing the loan application which should be include the assessment of the person(s) involved in the economy and the appraisal of the company's performance. The analysis should revolve around the below mentioned canons of lending considerations:

- **Character**

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

- **Ability**

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

- **Margin**

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

- **Purpose**

Purpose is to find why the facility/ies are needed. Are the reasons given satisfactory or need closer and deeper study. Example: working capital loan facility must be utilized to take care of the working capital requirement and not for financial fixed assets. To finance trading, identify specifically the loan is needed to finance more debtors, more stock, changing stock mix, slow moving stock etc. Traders who are involved in local trading only i.e. non-involvement of import/export activity mainly requires revolving credit which can be an Overdraft, a Pledge Loan or a Demand Loan.

- **Amount**

Amount must be related to purpose and repayment.

- **Repayment**

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

- **Insurance**

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

2.1.6 Project Appraisal

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

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

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

2.1.7 Credit Risk

Credit risk is the risk of default by borrower due to inability and/or unwillingness to repay his debts in accordance with the agreed terms and conditions. The credit risk of bank's portfolio depends on external as well as internal factors. The external factors can be economy wide as well as company specific. Some of the economy wide factors are:

- State of the economy
- Wide swings in commodity prices
- Fluctuations in foreign exchange rates and interest rates.

- Trade restrictions.
- Government policies, etc.

Some company external factors are

- Management expertise
- Company policies
- Labor relations

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

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

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

2.1.8 Management

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

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

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

- **Planning**

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

- **Organizing**

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

- **Controlling**

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

- **Directing**

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

Management can also be grouped into three hierarchical levels named as – top, middle and lower levels. Top management establishes the policies, plans and objectives of the organization as well as a budget framework under which various departments will operate. Middle or tactical management has the responsibility of implementing the policies and overall plans of the top management. Lower or operational management has the responsibility of implementing day-to-day operations and decisions of the middle management to produce goods and services to meet the revenue, profit and other goals, which in turn will enable the organization to achieve its overall plans and objectives.

Level of management is important because information needs tend to be different at different levels of management and amount of time required for any function varies considerably with each group.

2.1.9 Banking Tools

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

Performance Rating

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

CAMEL Rating

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

C- Capital Adequacy

A- Asset Quality

M- Management Quality

E- Earnings

L- Liquidity

S- Sensitivity to Risk.

a) Capital Adequacy

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

According to "The Basel Capital Accord" prepared by Basel Committee, the capital adequacy is measured by classifying capital in two levels: Primary Capital & Secondary Capital. The norms in term of capital laid by NRB are revised time to time.

b) Asset Quality

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

c) Management Quality

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

d) Earning

The earning & income status of any financial institution is indication of their success. The optimum utilization of the available fund, the recovery of principle and interest, return of the investment affects the earning position of financial organizations. The earning status also guarantee for the organizational stability. The earning position can be assessed by examination of the financial statement prepared at the end of the fiscal year. In this connection, the earning generation capacity and its future trend of various variables can be also evaluated from it. The earning ascertains dividend to shareholders, bonus to employee and tax to government. Every CB's are directed to allocate certain amount of income in General Reserve for the gradual increment in Capital fund.

e) Liquidity

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

2.1.10 Spread Rate

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

Method of Calculation of the Spread as prescribed by NRB

a. The interest spread has to be calculated on the basis of the interest paid on all deposits in Nepalese Rupee as well as Foreign Currency and Interest earned on Nepalese Rupee and Foreign Currency lending, investments, money at call as well as balance held in foreign nostro accounts.
b. For the purpose of obtaining average weighted deposit rate, the interest expenses for the particular period shall be divided by the monthly average deposit of the same period with the quotient multiplied by 100. Similarly, for the purpose of obtaining average weighted loan rate, the interest income from lending, investment, money at call and foreign nostro account for a particular period shall be divided by the monthly average balances (of loan, investment, money at call and foreign nostro accounts) of the same period with the quotient multiplied by 100.
c. The difference between the weighted average lending rate and the weighted average deposit rate is the Weighted Interest Spread. It can be expressed as:

Interest Spread Rate= WALR- WADR

Where WALR= Weighted Average Lending Rate

WADR= Weighted Average Deposit Rate

2.2 Review of Related Studies

2.2.1 Review of Articles

Bhandari (2003) says that in banking sector or transaction, and unavoidablenes of loan management and its methodology is regarded very important. Under this management, many subject matters are considered and thought. For example, there are subject matters like the policy of loan flow, the documents of loan flow, loan administration, and audit of loan, renewal of loan, the condition of loan flow, and the provision of security, the provision of the payment of capital and its interest and other such procedures. This management plays a great role in healthy Competitive activities.

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

Ghimire (2003), in his article titled "Credit sector reform and NRB" has tried to highlight the effects of change or amendment in NRB directives regarding loan classification and loan loss provisioning. "Although the circumstances leading to financial problem or crisis in many Nepali banks differ in many respects, what is common among most of the banks is the increased size of

2.2.2 Review of Master Level Thesis

Regmi (2005), submitted thesis named *“Credit Management of Commercial Banks with reference to Nepal Bangladesh Bank and Bank of Kathmandu”*.

Major findings:

- Both Nepal Bangladesh and Bank of Kathmandu have utilized most funds in the form of credit and advances. Almost 80% of total deposits of the bank have been forwarded to customers as a credit and advances.

- Provisions for credit loss have been increasing year by year for both the banks.
- Equity portion of total sources of the bank is slightly increasing in the recent years because NRB has issued directives to the entire bank to increase it paid up capital.

Recommendation:

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

Dahal (2009), entitled *"Credit Management of Nepal Credit and Commerce Bank"* is the study which revealed that NCC and its aspect. The objective behind the study were to:

- To analyse the lending process of commercial banks.
- To analyse the deposit utilization towards lending.
- To assess the impact of credit policy on liquidity.
- To assess the non performing assets and loan loss provision.

Recommendation:

- Decrease its volume of lending and invest the portion in other sectors of investment too.
- Make a loan portfolio and diversify the risk.
- Reduce the amount of Loan Loss Provision and Non Performing Assets.
- Lending is possible only when there is availability of sufficient amount of deposit. So bring the scheme to uplift the amount of deposit too.

Ghale (2007), thesis entitled *"A Study on Comparative Analysis of Financial Performance of Joint Venture Banks in Nepal: NABIL & NBBL"* was intended to evaluate the financial performance of NABIL and NBBL. The researcher has been able to find the mentioned facts relevant to those banks:

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

Silwal (2007), thesis entitled, *"Credit Management of Everest Bank Ltd."* was aimed to highlight the objectives of:

- To analyze the functions, objectives, procedures and activities of the
- Everest Bank.
- To analyze the lending practices and resource utilization of Everest Bank.
- To determine the impact of growth in deposit on liquidity and lending practices.
- To examine lending efficiency and its contribution to profit.

Recommendations

- Some percentage of the cash and bank balance should be invested somewhere in profitable sectors
- To provide more return bank should recover its credit on time. More facilities should be providing to credit department, so that credit officers will increase their effort to recover the credit of the bank.
- Some follow-up must be done to know the best utilization of loan.

2.3 Research Gap

The purpose of this research is to develop some expertise in one's area, to see what new contribution can be made and to receive some ideas, knowledge and suggestions in relation to credit management of Everest Bank. Thus, the previous studies can't be ignored because they provide the foundation to the present study. In other words, there has to continuity in research. This continuity in research is ensured by linking the present study with the past 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 that exact topic, i.e. Credit Management: A study on Everest 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 dissertations are followed as guideline 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 Everest Bank. Our main research problem is to analyze whether the Everest Bank limited 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, stock brokers, state of government etc

CHAPTER - III

RESEARCH METHODOLOGY

“Research Methodology refers to the various sequential steps to adopt by a research in studying a problem with certain objective in view” (Joshi, 2001). Methodology is the research method used to test the hypothesis. Every study is intended towards the analysis, discover and actual position of any situation. The findings are possible only with help of certain tools and techniques. The research oriented task ask for serious consideration on research design; sample size; sources of data; data collecting instruments and procedure; data tabulation; data analyzing techniques to be adopted and study limitation in term of tools unavailable. The basic objective of this study is to highlight the role and importance of credit management in Everest Bank Limited. This study tries to answer the following research questions;

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

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

3.2 Research Design

Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance (Wolff & Pant, 1999). It is the task of defining path for solution of the research problem. In other words, it is the outline of a plan to test the hypothesis and should include all the procedures that follow. The basic objective of research design is just to check the researcher for deviate from actual course of action. The basic objective of the study is to examine the existing policies and practices of credit management of Everest Bank Limited, its role, its effectiveness in decision making and to provide suggestion for better information system.

According to the type of the research design, this thesis falls under descriptive and analytical design. It lies under analytical design as it tries to analyze the financial data to reach at conclusion. At the sometime, it also represents descriptive research design as it describes much more about the efficiency of the understudied banks. The research will mainly base on the primary data and information provided by the bank. On the basis of qualitative and quantitative information the analytical framework will be drawn. After the evaluation of this information the interpretation will be presented as an outcome. The study after its conclusion, recommendation has been given in the end based on the findings.

3.2.1 Sample Size

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

There are twenty eight commercial banks operating in the political boundary of the nation. Among them, Everest Bank Limited has been selected as sample for the present study. Similarly, financial statements of EBL for 7 years i.e. FY 2059-2066 have been taken as samples for the same purpose.

3.2.2 Sources of Data

The sources of the information required for any study will be either primary or secondary data. The data possessing original character and collected from actual field by the researcher or through agent for the first time is known as primary data. The data are utilized when secondary data are not accessible easily. The data compiled by previous researchers for their purpose is known as secondary data. The use of secondary data reduces the considerable amount of time and tension of collecting information from the actual workplace. The data obtained from these sources are unstructured. Secondary data is collected or applied for the study will be obtained from journals, books, web sites, newspapers and other sources. Official records and publications on related field are also used for the study. The sources of data selected are authentic and reliable and cross checking of data has been done. The secondary data used are internal reports, annual reports and published materials of EBL, Nepal Rastra Bank directives and other sources.

3.2.3 Data Analysis Tools & Techniques

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

3.2.3.1 **Financial Analysis**

Financial analysis is the process of analyzing various items of financial statements of a firm to ensure its comparative strengths and weakness. There are various tools and techniques available for the analysis of any financial data obtained.

"Ratio, in general, refers to the quantitative relationship between two sets of arithmetical data" (Rana, 2000). Although there are various ratios relating to the evaluation of firm's performance, few ratios are merely taken into consideration for our purpose. The study covers those ratios that are relating to our subject matter. Financial ratios can be grouped into following types:

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

a) Liquidity Ratios

Liquidity ratios measure the firm's ability to meet term financial obligation out of current or liquid assets. These ratios basically concentrate on current assets and liabilities and used to ascertain immediate commitments made by the firms.

i) Cash Reserve Ratio (CRR)

$$\text{Cash Reserve Ratio} = \frac{\text{Cash in Vault} + \text{NRB Balance}}{\text{Total Deposit}}$$

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

ii) NRB Balance to Total Deposit

NRB Balance to Total Deposit= $\frac{\text{NRB Balance}}{\text{Total Deposit}}$

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

iii) Cash in Vault to Total Deposit

Cash in Vault to Total Deposit= $\frac{\text{Cash in Vault}}{\text{Total Deposit}}$

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

b) Credit Ratio

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

i) Total Credit to Total Deposit

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

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

ii) Total Credit to Fixed Deposit

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

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

iii) Total Credit to Saving Deposit

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

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

c) Stability Ratio

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

i) Capital to Total Deposit

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

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

ii) Capital to Total Credit

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

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

iii) Capital to Total Risk Asset

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

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

d) Other Ratios

There are so many other ratios that are key indicator of the performance of any financial institutions. The other ratios are:

i. Earning Per Share(EPS)

EPS is one of the most widely quoted statistics when there is a discussion of a company's performance or share value. It is the profit after tax figure that is divided by the number of common shares to calculate the value of earnings per share. This figure tells us what profit the common shareholders for every share held have earned. A company can decide whether to increase or reduce the number of shares on issue. This decision will automatically affect the earnings per share. The profits available to the ordinary shareholders are represented by net profit after taxes and preference dividend. Symbolic expression of EPS is given belo0w.

$$\text{EPS} = \frac{\text{Net Profit After Tax}}{\text{Number of Common Stock Outstanding}}$$

ii. Price Earning Ratio (P/E Ratio)

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

$$\text{P/E Ratio} = \frac{\text{Market Price Per Share}}{\text{Earning Per Share}}$$

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

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

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

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

4.2 Types of Customers

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

i. **On the basis of Depositors**
- Individual depositor
- Business organization depositors
- Other institutional depositors

ii. **On the basis of Lending**
- Manufacturers
- Traders
- Export oriented business
- Multinational business
- Business houses/groups
- Consumer banking

4.2 Risks in Banking Business

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

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

Some company external factors are:

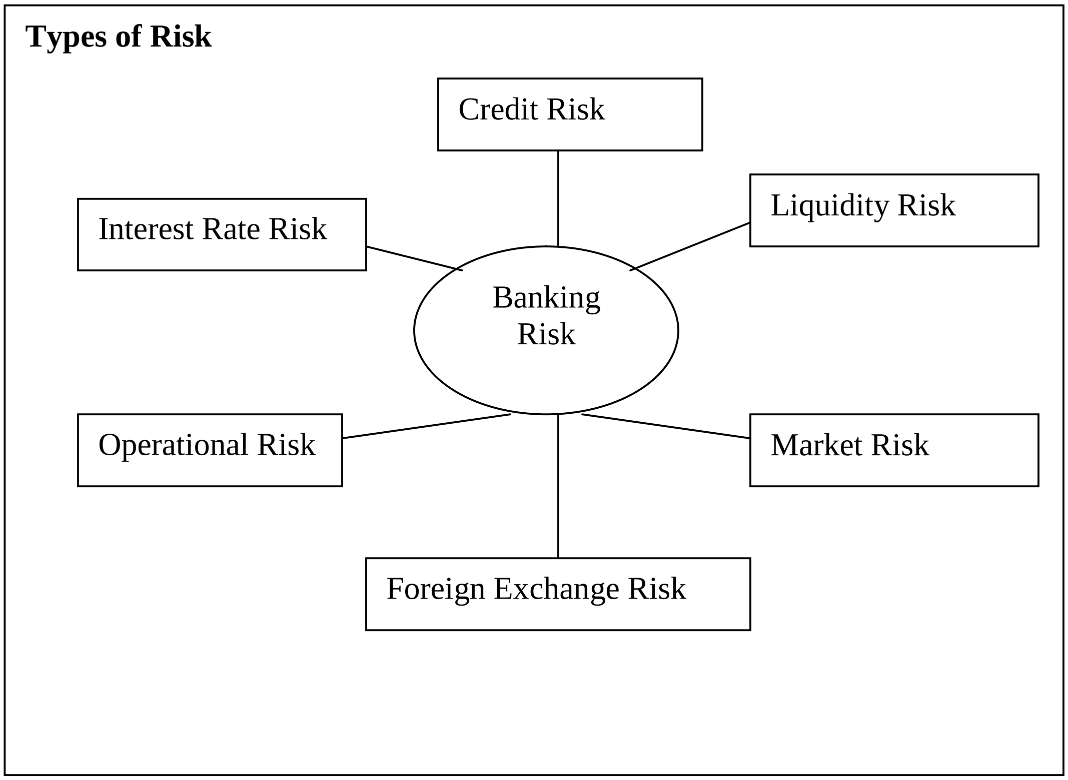
- Management expertise
- Company policies
- Labor relations

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

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

Figure 4.1

Types of Banking Risk



Source: KFA Research & Training Centre

4.2.1 Credit Risk

Credit risk is the risk that the borrower fails to meet the obligation on agreed terms. It is the combined outcome of default and exposure risk. The element of credit risk also includes concentration risk, transaction risk and migration risks

4.2.2 Need for Credit Risk Management

- The liberalization of economy has brought about sweeping changes in the economic environment and has induced new anticipated and unforeseen risks in lending. The assessment of these risks is essential to facilitate prudent credit decisions.

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

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

4.2.3 Credit Risk Rating

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

- **Whether to lend to a Borrower or Not**

The Credit rating of a borrower determines the appetite of the bank in determining exposure level. A bank would be willing to lend to highly rated borrowers but would not like exposure to borrowers with very poor credit risk rating.

- **Pricing**

The risk premium to be charged to a borrower should be determined by its credit risk rating. Borrowers with poor credit rating should be priced high. Credit rating, however, is just one amongst inputs to pricing.

- **Risk Mitigates**

The extent of collateral security required and the need to step up margin requirements are linked to credit risk rating of a borrower. The higher the risk category of a borrower, the greater should be value of collateral and/or the margins.

- **Level of Decision-Making**

The delegation of loan sanction/approval powers can be linked to the credit risk rating of a borrower. For low risk borrowers, higher power of approval can be at the lower level to facilitate faster sanctioning of loans thereby ensuring better customer service. For higher risk borrowers, approval from higher level may be considered.

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

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

a. Exceptional

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

b. Excellent

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

c. Strong

Strong market and financial position with history of successful performance but more susceptible to economic or market changes. Stability substance and diversity are still characteristics but some exceptions may exist. Has access to financial markets under normal market conditions. An A/A-rating would be typical of these Obligors.

d. Good

Comfortable assets coverage and cash flow protection but may be susceptible to cyclical change. An A-/B plus rating would be typical of these obligors.

e. Satisfactory

Assets and cash flow protection are reasonable sound. Risk elements exist and more likely to be reflected in volatility of earnings and overall performance.

Alternative financing is available but may be limited to private or institutional sources. A BBB rating could be used for these obligors.

f. Adequate

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

g. Marginal

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

h. Special Mention

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

4.12 Credit Management of EBL

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

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

4.3.1 Prior to the Approval of Credit Facilities

Incumbent In-charge of branches will exercise the loaning powers vested in them subject to compliance of these guidelines and subsequent circulars to be issued from time to time.

These guidelines will be applicable for advances of Rs. 1.00 lac and above.

A. Disposal of Loan Applications at Branch/HO Level

i. Borrowers will be required to fill the prescribed loan application form **(Anx-i)** at the branch where the facilities are proposed to be availed, giving complete information. No column of the application form is to be left blank and in case nothing is to be reported against any column, NIL or NA is to be mentioned. Application received will be entered in "Loan Application Receipt & Disposal Register" and date of receipt recorded therein.

ii. Detailed appraisal note as per **(Anx-ii)** will be prepared by Branch and proposals falling within the powers of the Branch Manager will be sanctioned by him at the recommendation of another officer in Branch. Proposals falling beyond the powers of the Branch will be forwarded to Head Office for consideration.

iii. Credit proposals received at Head Office will be handled and scrutinized by Credit Officer and entered in "Loan Application Receipt and Disposal Register" at Head Office. The proposal will be put up by Credit Officer to the Deputy General Manager, In-charge of Credit, who in turn will dispose off the proposals falling within his power and put-up higher proposals to the Executive Director (ED). Likewise, ED will dispose off the proposals within his powers and mark the proposals beyond his power to the Management Committee or the Board, as the case may be. In the absence of ED, DGM (Credit) will mark the proposals to the Management Committee/Board.

iv. The following time frame has been laid down for disposal of the loan applications and delays beyond the prescribed period will have to be explained both at Branch as well as Head Office Level:

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

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

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

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

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

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

Application for Working Capital Facilities

- Memorandum & Articles of Association or Partnership deed duly attested by the borrower.
- Last three year's audited Profit and Loss Account and Balance Sheet/current year's estimated and following year's projected P&L and Balance Sheet.
- Asset and Liabilities Statement of promoter directors/partners/proprietor as on the latest financial year end.
- Assets and Liabilities Statement or Balance Sheet of any other person/firm/company proposed as guarantor.

- Copies of title deeds of immovable properties shown in Assets in any of the statements referred above.
- Profile of borrowers covering experience and qualification of promoters, industry/commodity profile, market and future prospects etc.
- Names of existing or other bankers and details of facilities sanctioned.
- Copy of registration certificate with Industries, Department or Department of Cottage and Small Industries, as the case may be.
- Copy of Income Tax registration certificate.

Application for Term Loans

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

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

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

a. Land Papers

i. Lal Purja

ii. Char Killa

iii. Rajinama Paper

iv. Blue Print

v. House Map and Its Approval.

vi. Citizenship certificate

vii. Bio Data

viii. Estimation of Building

b. Income Source Related Papers

i. Last two years balance sheet and one year projected Balance sheet

ii. Salary certificate if employed

iii. Firm Registration with its renewal

iv. PAN/Vat certificate

v. Tax Clearance

c. For Educational Loan

i. Academic certificate of the student

ii. Two references from the college

iii. Fee structure of the university

iv. Offer letter from university

iv. Photocopy of Passport with Visa

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

i. Registration Pass at Malpot

ii. Insurance premium up to Loan period to be paid by customer.

iii. Valuation charges

iv. Loan Processing Charge as prescribed by the bank.

4.3.2. Broad Financial Parameters for Considerations of Loan Proposals

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

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

ii. Current Ratio

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

iii. Profitability Ratio

Profitability ratio should be in keeping with the industry trend.

iv. Debt Service Coverage Ratio

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

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

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

4.3.3. Rate of Interest

Bank will publish its lending rate at the beginning of each quarter and the rates to be charged from the borrowers will be within a band of A1% depending upon the credit rating of the borrower on the basis of compliance of the parameters as given in **(Anx- IV).**

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

Aggregate Score	Rating	Rates of Interest
Compliance of 7 out of 7 parameters	AA1%	less than the published rate
Compliance of 6 out of 7 parameters	A+	Published rate
Compliance of 5 out of 7 parameters	A	0.5% over published rate
Compliance of 4 and less out of 7 parameter	B	1% over published rate

Note:-

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

ii. Interest will be charged on quarterly basis and should be recovered within one month's time. In case of non-recovery of interest within one month, such account will be treated as irregular account.

4.3.4 NRB Guidelines Regarding Single Obligator's Limit & Reporting to Credit Information Bureau (CIB)

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

Fund based facilities--35% of Bank's capital fund.

Non-fund based facilities -- 50% of Bank's capital fund.

Note:

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

4.3.5 Obtaining Credit Information of the Customer

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

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

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

4.3.6 Collateral Security

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

4.3.7 Post Sanction Monitoring

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

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

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

4.3.8 Reporting to Higher Authorities

Reporting is made from the branch level to its Head Office. Beside these the bank also reports to NRB as per the requirements. The Head Office reports the overall financial standing position of the customers and borrowers to NRB on the basis of information provided by the various branches.

From the branch level the bank makes the reports on weekly, monthly, quarterly and yearly basis and such other reports as prescribed by the higher authorities. The same report is presented in the consolidated form by Head Office after collecting information from the branch and is forwarded to NRB.

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

- **On Weekly Basis:**

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

- **On Monthly Basis:**

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

- **On Quarterly Basis:**

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

- **On Yearly Basis:**

  i. Financial directives

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

4.13 Processing of Loan Applications

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

1. Processing of Loan Application

A. Time Frame

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

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

B. Notification of Rejection of Application

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

C. Return Regarding Rejections of Application

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

Particulars	No.	Amount	Remarks
Approved credit			
Rejected credit			
Reasons for rejection			
1. Insufficient documents/ information			
2. Budgetary constraints			
3. Not within bank's credit line activities			
4. Commercially non-feasible			
5. Technically non-feasible			
6. Insufficient collateral			
7. Others (Specify)			

2. Transfer of Industries outside Kathmandu Valley

Government policy to encourage transfer of industries currently situated within Kathmandu Valley to elsewhere. Accordingly, banks are also requested to consider positively for extension of loan for the purpose to such industries.

4.14 Test of Compliance of NRB Directives

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

4.5.1 Capital Adequacy Norms for Commercial Banks

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

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

Table 4.1

Required Capital Fund on the basis of weighted Risk Assets

Time Table	Required Capital Fund on the basis of weighted Risk Assets (in percentage)	
	Core Capital	Capital Fund
For FY 2061/62	4.50%	9.00%
For FY 2062/63	5.00%	10.00%
For FY 2063/64	5.50%	11.00%
For FY 2064/65	5.50%	11.00%
For FY 2065/66	5.50%	11.00%

Sources: NRB Directives Manual

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

Table 4.2

Showing Capital Adequacy Test of EBL

(Rs in Thousands)

For core Capital (% of Total Risk Assets)	Time Table			
	2062/63 (5%)	**2063/64 (5.50%)**	**2064/65 (5.50%)**	**2065/66 (5.50%)**
Required Core Capital as per NRB	285,351.00	380,864.00	505,757.00	621,013.00
Actual Core Capital	597,009.00	663,269.00	815,567.00	927,550.00
Result	***Complied***	***Complied***	***Complied***	***Complied***

For Overall Capital	**10.0%**	**11.0%**	**11.0%**	**11.0%**
Required Total Capital as per NRB	570,703.00	761,729.00	1,011,515.00	1,24,20,25.00
Actual Capital Fund	684,163.00	766,879.00	1,247,562.00	1,39,13,39.00
Result	**Complied**	**Complied**	**Complied**	**Complied**

Source: Everest Bank Annual Report

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

For Core Capital:

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

Where Core Capital= Paid Up Capital+ Share Premium+ Non-Redeemable Preference shares+ General Reserves Fund+ Accumulated Profit and Loss Account.

However, where the amount of Goodwill exists, the same shall be deducted for the purpose of calculations of Core Capital.

Sum of risk-weighted assets = Total on-balance sheet risk-weighted assets+ Total off-balance sheet risk-weighted items.

The general reserve of EBL has found to be increasing every year. The core capital of EBL is in positive figure and increasing every year compared to Last Fiscal Year due to higher positive amount in retained earning. The reason behind it is that the profit of the bank in increasing trend. EBL had issued preference shares i.e. Non –Redeemable Preferences shares.

For Overall Capital

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

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

(a) General Loan Loss Provision

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

(b) Assets Revaluation Reserve

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

(c) Hybrid Capital Instruments

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

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

(d) Unsecured Subordinated Term Debt

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

The overall capital fund of any bank is the summation of core capital and supplementary capital held by them.

(e) Total Weighted Risk Assets

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

1. On- Balance Sheet Risk-Weighted Assets

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

Table 4.3

On-Balance Sheet Risk-Weighted Assets

On Balance Sheet Assets	Risk Weightage %
Cash Balance	0
Gold(Tradable)	0
Balance with Nepal Rastra Bank	0
Investment in Govt. Securities	0
Investment in NRB Bonds	0
Fully secured loan against own Fixed Deposit Receipt	0
Fully secured loan against Govt. Securities	0
Balance with Domestic banks and Fin. Institutions	20
Fully secured FDR Loan against Fixed Deposit Receipt of Other banks	20
Balance with foreign banks	20
Money at Call	20
Loan against the guarantee of internationally rated*/foreign Banks	20
Other investments with internationally rate*/foreign banks	20
Investments in Shares, Debentures and Bonds	100
Other investments	100
Loan, Advances and Bills Purchased/Discounted**	100
Fixed Assets	100
All Other Assets	100

Source: NRB Directives Manual

(i) Off-Balance Sheet Risk-Weighted Items

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

Table 4.4

Off Balance Sheet Risk-Weighted Assets

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

Source: NRB Directives Manual

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

a) Trading gain

b) Revaluation gain

In earning obtained from second type of gain, every CBs have to allocate 25% of its earning in Exchange Equalization Reserve. Such reserve of EBL is in increasing trend which portrays that EBL is efficiently handling the foreign currency. NRB has instructed & compelled to allocation certain amount on loan loss provision fund on basis of ageing of interest payment made by the loan party. The banks having lower amount of loan loss provision is due to lower and decreasing amount of bad loan and NBA. Loan loss provision fund is maintained to compensate the banks from possible default of loan floated. It is the fact that loan loss provision fund contribute in building capital and amplifies the capital base of banks but it also indicates that the greater amount of the loan provided by those banks are in non performing situation. The free reserves are those reserves that are not allocated for specific purpose prescribed by NRB. The greater amount of free reserve improves the solvency position of bank as it magnifies the capital base of the bank.

The core capital of CBs must be at least up to 5.50% of total risk asset held by them. As per the requirement, EBL has maintain Rs.597009 thousands in FY 2062/063, 663269 thousands in FY 2063/064, 815567 in FY 2064/065 and 927550 thousands in FY 2065/066 core capital respectively. It portrays that EBL has complied NRB requirement of core capital adequacy.

Another requirement relating to capital adequacy is the overall capital. CBs must maintain its overall capital at least 10% of total risk assets. The actual overall capital fund of EBL is more than as specified by NRB. The actual capital funds have been found to be Rs. 684163 thousands in FY 2062/063, Rs 766879 thousands in FY 2063/064, Rs. 1247562 thousands in FY 2064/065 and Rs.1391339 thousands in fiscal years 2065/066 respectively. The actual capital funds of EBL were more than prescribed by NRB in four years. It portrays that EBL has complied NRB requirement of capital adequacy.

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

Table 4.5

Showing Capital Adequacy Ratios

(Rs. in Thousand)

Particulars	Aashad 2062	Ashad2063	Aashad 2064	Ashad 2065
Core Capital	597,009	663,269	815,567	92,75,50
Capital Fund	684,163	766,879	1,24,75,62	1,39,13,39
Total risk Assets	5,707,030	6,924,807	9,195,588	11,29,11,37
Core Capital/Total risk Assets	10.46%	9.58%	8.88%	8.21%
Capital/ total Risk Assets	11.99 %	11.07 %	13.57 %	12.32%
Excess in Total Capital Fund	1.99%	0.07%	2.57%	1.32%
Excess in Core Capital	5.46%	4.08%	3.38%	2.71%

Source: EBL's Annual Report

In table 4.2 CAR (Capital Adequacy Ratio) in Core Capital of EBL has been found 10.46%, 9.58%, 8.88% & 8.21% of total risk asset in Aashad 2062-Aashad 2065 respectively whereas the Capital Adequacy Ratio in terms of capital fund has been found 11.99%, 11.07%, 13.57% and 12.32% of total risk asset in Aashad 2062- Aashad 2065.Nepal Rastra Bank earlier provided that the Capital Adequacy ratio should be 8%. This has since been increased to 11% (which is further increased to 12% from the financial year 2063/064). The EBL Capital Adequacy ratio stands at 12.32%, inclusive of provision of 20% dividend as bonus share. In order to improve Capital Adequacy ratio, the board of EBL decided to issue debentures of Rs 30 crore. This was subscribed overwhelmingly and allotment completed. These debentures are also listed on the Nepal Stock Exchange Ltd. It clearly gives sense that EBL has complied NRB directive of capital adequacy ratio in all four year.

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

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

Classification of Loans and Advances

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

1. Pass

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

2. Substandard

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

3. Doubtful

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

4. Loss

All Loans and advances which are past due for a period of more than 1 (one) year as well as advances which have least possibility of recovery or considered unrecoverable and those having thin possibility of even partial recovery in future shall be included in this category.

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

Classification in Respect of Term Loan

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

Classification in Respect of Reschedule and Restructured Loan

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

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

Loan Loss Provisioning

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

Classification of Loan	Loan Loss provision
Pass	1 Percent
Substandard	25 Percent
Doubtful	50 Percent
Loss	100 Percent

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

Provisions on Restructured or Rescheduled Loans are made as follows:

a. A minimum of 12.5% provision is to be made on rescheduled or restructured loans.
b. In respect of rescheduling or restructuring of deprived sector loan and guaranteed or insured priority loan, the requisite provisioning is 25%.

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

Loan Loss Provision Related to Non Banking Assets (NBA)

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

Fiscal Year	Provisioning for loss
FY 2060/61	33.33%
FY 2061/62	66.67%
FY 2062/63	100.00%

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

Table 4.6

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

S. No.	Particulars	Ashadh 2062			Ashadh 2063		
		Amount	%age	Provision	Amount	%age	Provision
1	Pass Loan	37493.55	92.71	374.94	46284.17	91.66	462.84
2	Sub-Standard Loan	157.41	0.39	39.33	254.70	0.50	63.67
3	Doubtful Loan	175.83	0.43	87.91	140.94	0.28	70.47
4	Loss Loan	79.77	0.20	79.77	346.72	0.69	346.72
5	Rescheduled Loan	2535.72	6.27	316.96	3469.26	6.87	499.92
	Total of (2+3+4+5)	2948.73	100.00	**898.91**	4211.62	100.00	**1443.62**
	Grand Total	**40442.28**		**1273.85**	**50495.79**		**1906.46**

S. No.	Particulars	Ashadh 2064			Ashadh 2065			Ashad 2066		
		Amount	**%age**	**Provision**	**Amount**	**%age**	**Provision**	**Amount**	**%age**	**Provision**
1	Pass Loan	55834.36	91.59	558.34	74235.70	93.97	742.35	97265.03	95.96	
	Bills Purchased	0.00	0.00	-	296.35	0.38	2.96	306.95	0.30	
	Hotel Oriental	142.09	0.23	1.42	162.16	0.21	0.00		0.00	
		55976.45	91.83	559.76	**74694.21**	94.55	745.31	**97571.98**	96.26	**975.71**
2	Sub-Standard Loan	110.83	0.18	110.83	44.09	0.06	44.09	106.69	0.11	31.69
3	Doubtful Loan	404.95	0.66	404.95	19.77	0.03	19.77	6.84	0.01	6.84
4	Loss Loan	531.78	0.87	531.78	1224.22	1.55	1224.21	1178.83	1.16	1178.83
	Total NPA :-	1047.56	1.72	**1047.56**	1288.08	1.63	**1288.07**	1292.36	1.27	**1217.36**
5	Rescheduled Loan	3934.40	6.45	491.80	**3018.61**	3.82	**377.32**	**2498.24**	2.45	**312.28**
		Additional prov.		18.06	Additional prov.		**403.48**	Additional prov.		**844.12**
	Total of (2+3+4+5)	**4981.96**	**100**	**1557.42**	**4306.69**	**100**	**2068.87**	**3790.60**	**100**	**2373.76**
	Grand Total	**60958.41**		**2117.18**	**79000.90**		**2814.18**	**101362.58**		**3349.47**

Source: EBL's Annual Report

- Gross non-performing assets (including substandard, doubtful, loss and rescheduled accounts) constitute 3.74% of the total credit as against 5.45% of Aashad 2065, 8.17% of Aashad 2064, 8.34% of Aashad 2063, 7.29% of Aashad 2062, 6.80% of Aashad 2061. This shows that the percentage of non-performing assets of the total credit is in decreasing trend and low.
- The Gross Non performing Assets excluding rescheduled accounts is 1.27% as against 1.63% for the year ended Aashad 2065, 1.72% for the year ended Aashad 2064, 1.47% for the year ended Aashad 2063, 1.02% for the year ended Aashad 2062 and 5.95% for the year ended Aashad 2061.
- Against the non performing Assets of Rs 413.01 Lacs the provision have made of Rs 207.01 Lacs i.e. 50.12% for the period of Aashad 2062. Non performing Assets of Rs 742.36 Lacs the provision have made of Rs 480.86 Lacs i.e. 64.77 % for the period of Aashad 2063. Non performing Assets of Rs 1047.56 Lacs the provision have made of Rs 1047.56 Lacs i.e. 100 % for the period of Aashad 2064. Non performing Assets of Rs 1288.08 Lacs the provision have made of Rs 1288.07 Lacs i.e. 100 % for the period of Aashad 2065 and Non performing Assets of Rs 1292.36 Lacs the provision have made of Rs 1217.36 Lacs i.e. 94.20 % for the period of Aashad 2066. As per the NRB guidelines Loan loss provision of 25% on Substandard Loan, 50% on Doubtful Loan and 100% on Loss Loan, the figure shows that Ebl has followed the NRB guidelines.
- The ratio of Net-Non performing Assets (All NPA-provision) and Net-credit (total credit-provision) was 1.45 %(including rescheduled accounts) in FY 2066, 2.94% in FY 2065 and 5.82% in FY 2064.
- The EBL has made provision of Rs 402.25 Lacs for Non Banking Assets as per NRB guidelines (i.e. Total Non Banking Assets=Rs 476.61 Lacs, provision =Rs 402.25 Lacs).

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

Figure 4.2

Non Performing Loans & Provision

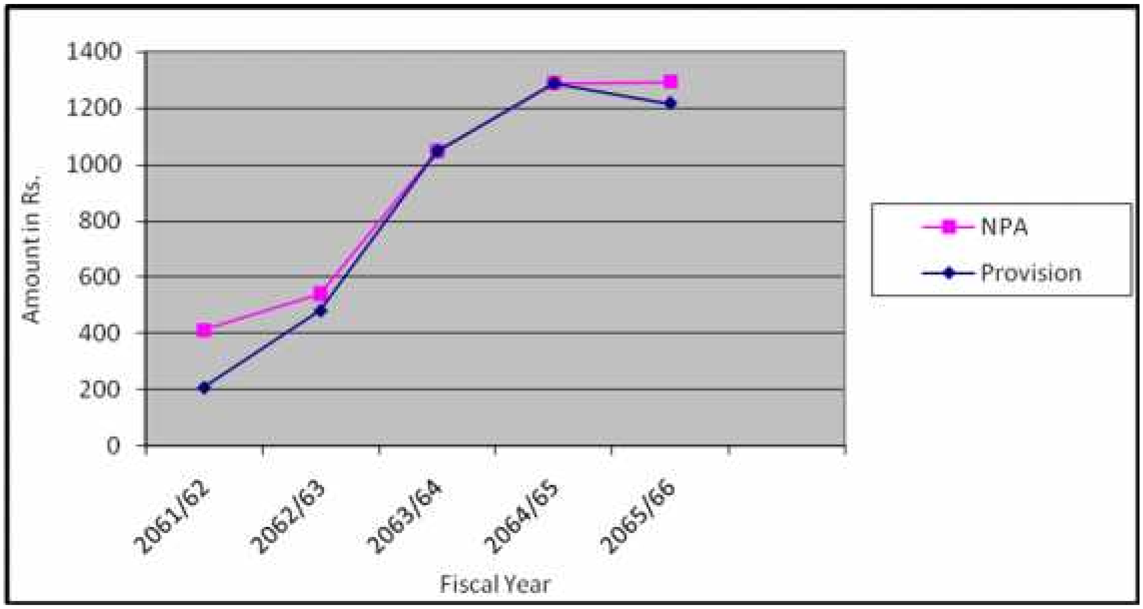
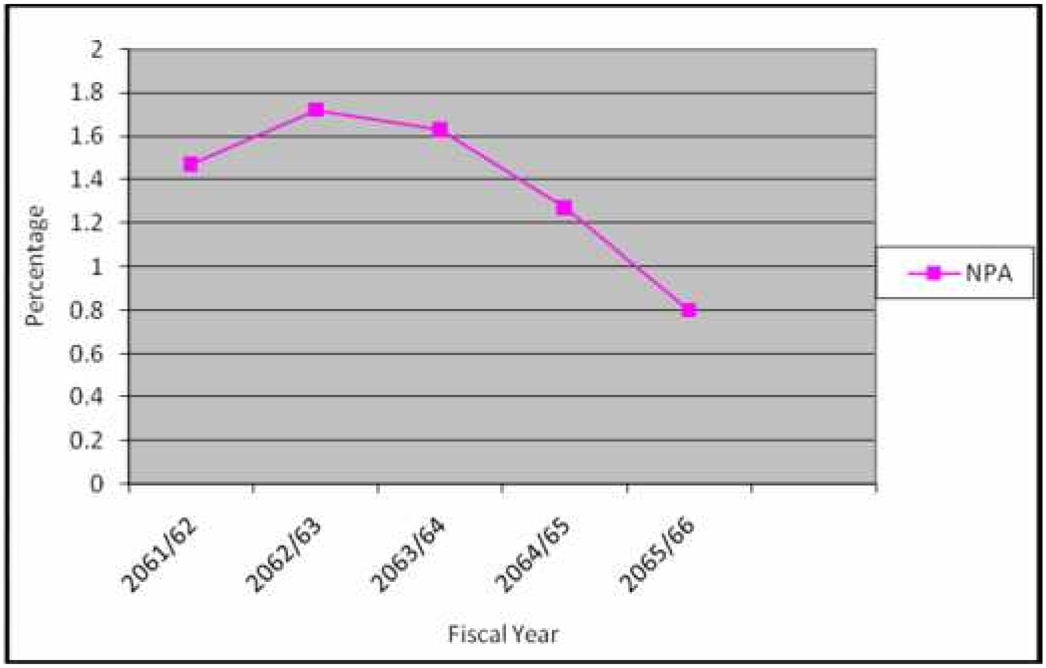


Figure 4.3

Gross NPA Excluding Reschedule Account



On the basis of unaudited financial result Ashadh end 2066. Gross NPA % of different banks is as under:-

Table 4.7

Gross NPA of Different Banks

S.N	**Name of Commercial Bank**	**Ashadh end 2063 NPA % (Gross)**	**Ashadh end 2064 NPA % (Gross)**
1	Machhapuchhre Bank Ltd	0.28	1.10
2	Laxmi Bank Ltd.	0.65	0.40
3	Kumari Bank Ltd.	0.9	0.70
4	Nabil Bank Ltd	1.25	1.10
5	**Everest Bank Ltd**	**1.27**	**0.80**
6	Siddhartha Bank Ltd	1.34	0.30
7	Standard Chartered Bank Nepal Ltd.	2.12	1.80
8	Nepal Investment Bank Ltd.	2.3	2.10
9	Bank of Kathmandu Ltd	2.52	2.20
10	NIC Bank Ltd.	2.6	1.10
11	Himalayan Bank Ltd.	6.14	3.50
12	Nepal SBI Bank Ltd.	6.32	0.50
13	NCC Bank Ltd.	11.09	30.60
14	Nepal Bangladesh Bank Ltd	12.27	35.10
15	Nepal Bank Ltd	25.11	14.60
16	Lumbini Bank Ltd.	31.97	19.90
17	Rastriya Banijya Bank	45.34	26.40

Source: NRB Publications

4.5.4 Requirement to Extend Advances To Productive and Priority Sector (Including Deprived Sector)

(Circular Ref:Bai.Le.61Karja 1082 Dated: 2046.11.3/February 14,1990)

1. Required Lending

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

Of the Total Advances:

- 40% to Productive Sector, including
- 12% to Priority Sector, including Deprived Sector.
- Each banks are specified with the requisite amount for extension of advances to Deprived Sector

Circular No.Bai.Bya.Pa.Pa. 92/059 dated 2059.9.8/December 23, 2002 has provided the requisite proportion of Priority Sector lending (Deprived Sector remains unchanged) as follows:

Table 4.8

Total Credit % to be invested in Priority Sector

Fiscal Year		**Minimum Percent of Total Credit to be invested in Priority Sector**
2061/62	2005/06	7%
2062/63	2006/07	6%
2063/64	2007/08	4%
2064/65	2008/09	2%
2065/66	2009/10	2%

Source: NRB Directives Manual

Effective FY 2064/65 (2007/08), investment in Priority Sector shall not be compulsory. Required Lending to Deprived Sector (Amended by Circular No.Bai.Bya.Pa.Pa. 58/057 dated 2057.3.5).

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

Name of the Banks	Deprived Sector Credit Limit (Of total Outstanding credit)
a. Nepal Bank Limited	3.00 percent
b. Rastriya Banijya Bank	3.00 percent

c.	Nepal Arab Bank Limited	3.00 percent
d.	Nepal Indosuez Bank Limited	3.00 percent
e.	Nepal Grindlays Bank Limited	3.00 percent
f.	Himalayan Bank Limited	3.00 percent
g.	Everest Bank Limited	2.50 percent
h.	Nepal SBI Bank Limited	2.50 percent
i.	Nepal Bangladesh Bank Limited	2.50 percent
j.	Bank of Kathmandu Limited	2.50 percent
k.	Nepal Bank of Ceylon Limited	1.25 percent
l.	Nepal Industrial and Commercial Bank Ltd.	0.75 percent
m.	Lumbini Bank Limited	0.75 percent
n.	New Banks to be opened	0.25 percent

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

2. Exceptions For Inclusion in Loan Portfolio

a. Effective 2050.4.1/July 16, 1993, for this purpose, the amount of lending against Credit Card shall not form part of Total Advances. (Circular No. Bai. Le.61 Karja 38/050 dated 2050.5.6/August 19,1993)

b. Inter bank lending amount will not be included in the total loan portfolio for the purpose of calculation of total outstanding credit against which priority sector credit target has to be fulfilled (Circular Ref: Bai.Le.61 Karja 1131 dated 2047.8.27/Dec 10, 1990).

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

3. Definitions

a) Priority Sector and Priority Sector Credit

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

b) Deprived Sector

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

c) Other Productive Sector, include:

(As specified in Circular ref: Bai.Le.61 Karja 656/061 dated 2041.4.23/Aug 6, 1984)

- Advances to, and investment in shares and debentures of Small, Medium and Large Industries as defined in industrial Enterprises Act. In other words, all advances made to the industries, including investments made in their shares and debentures are included under Productive Sector lending.
- Pre-shipment Credit, which includes loan extended for purchase of merchandise processing, assembling, packaging etc. for export under an irrevocable export letter of credit.
- Export bill financing, which includes Export documentary Bills purchase and loans under ABC or LBC)
- Advances for purchase of public transport means (truck, bus, tempo, minibus etc.), and Agriculture/Farm equipment (Power Tiller, Tractor etc.);
- Investments in shares and debentures of government/ Semi government or private Agricultural, Insurance, Godown, or Banking or like companies.

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

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

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

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

Table 4.9

Priority Sector Lending and Deprived Loans of EBL on FY 2062 to FY 2066

Rs in Lacs

	Ashadh 62		Ashadh 63		Ashadh 64		Ashadh 65		Ashadh 66	
	No	**Amount**	**No**	**Amount**	**No**	**Amount**	**No**	**Amount**	**No**	**Amount**
Priority Sector	**1003**	**4982.84**	**1178**	**5506.1**	**1028**	**6199.5**	**965**	**7186.01**	**887**	**8506.32**
(A) Direct Investment	**993**	**3965.84**	**1167**	**4313.84**	**1017**	**4682.9**	**953**	**5249.81**	**873**	**5688.88**
.Agriculture	220	285.64	224	368.87	139	237.82	73	180.47	15	67.16
Cottage Industries	223	1583.44	222	1734.66	244	2020.3	219	1822	242	2216.57
Services	544	2077.73	712	2178.88	634	2424.8	661	3247.34	614	3393.66
Energy base										
Machine & Import of	6	19.03	9	31.43					2	11.49
Raw materials										
(B) Indirect Investment	**10**	**1017**	**11**	**1192.26**	**11**	**1516.6**	**12**	**1936.2**	**14**	**2817.44**
Deprived Loans	**299**	**1136.29**	**309**	**1310.19**	**306**	**1728.5**	**204**	**2251.24**	**158**	**3208.44**
(A) Direct Investment	289	119.29	298	117.93	295	211.74	193	315.04	144	391
Agriculture	156	42.56	142	30.48	123	30.82	72	115.61	56	213.38
Cottage Industries	6	0.91	1	0.16	1	0.3	2	0.38	0	0
Services	127	75.82	155	87.29	171	180.62	119	199.05	88	177.62
(B) Indirect Investment	10	1017	11	1192.26	11	1516.8	11	1936.2	14	2817.44
Total	**1302**	**6119.13**	**1487**	**6816.29**	**1334**	**7928**	**1169**	**9437.25**	**1045**	**11714.76**

Source: EBL's Financial Publications

- The Priority Sector Lending of EBL is in increasing trend compared to Ashadh 2062. It has increased by 10.50% in FY Aashad 2063, 24.42% in FY Aashad 2064, 44.22% in FY 2065 and 70.71% in FY 2066. EBL has fulfilled their lending in Priority Sector as directed by NRB.
- The Deprived Sector Lending of EBL is in increasing trend compared to Ashadh 2062. It has increased by 15.30% in FY Aashad 2063, 52.12% in FY Aashad 2064, 98.12% in FY Aashad 2065 and 182.36% in FY 2066. EBL has fulfilled their lending in Priority Sector as directed by NRB.

Figure 4.4

Priority and Deprived Lending of EBL

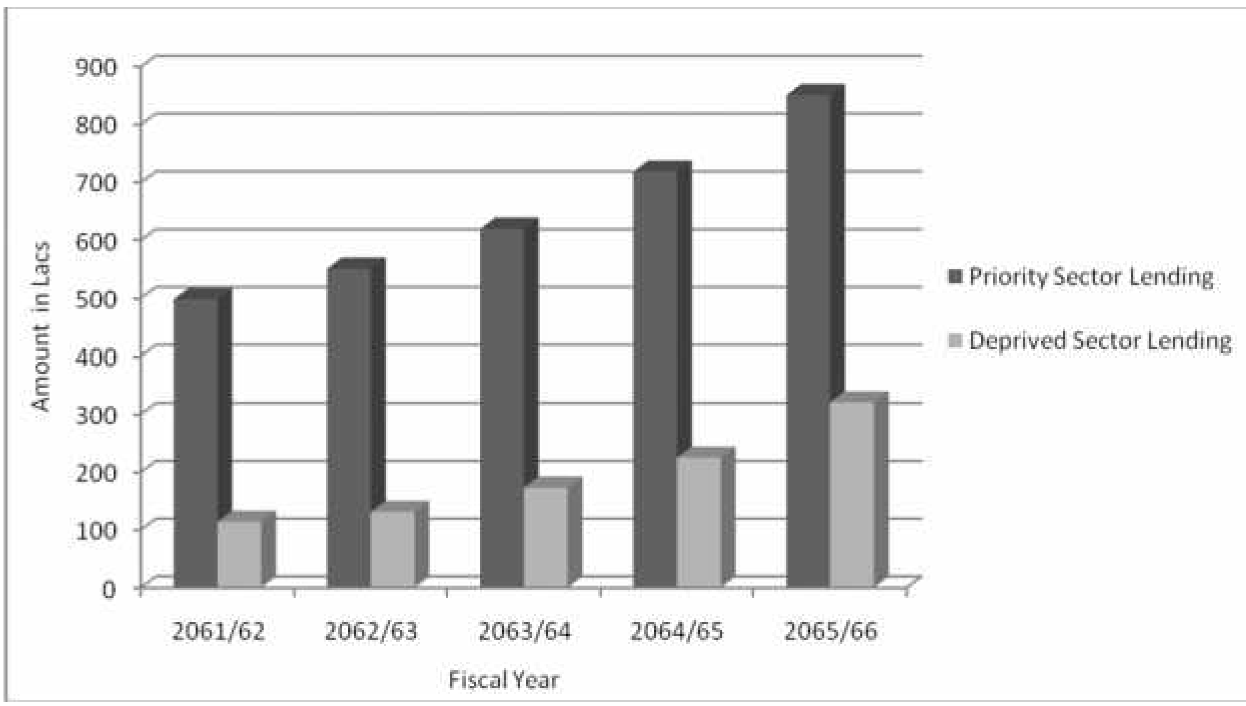


Table 4.10

Test of Priority & Deprived Sector Lending on Aashad 2062 to Aashad 2066

Particulars(Rs in Lacs)	FY 2062	FY 2063	FY 2064	FY 2065	FY 2066
Priority sector lending	6119.13	6816.29	7927.98	28558.33	11714.77
Deprived sector lending	1136.29	1310.19	1728.52	2251.24	3208.44
Total Loan & Advances	40442	50496	60958	79000	101362
Actual % of lending on	15.13	13.50	13.01	36.15	11.56
Priority sector lending	12%	12%	12%	12%	12%
Actual % of lending on	2.81	2.59	2.84	2.85	3.17
Deprived sector lending	3%	3%	3%	3%	3%

Source: EBL Financial Publications

The Prescribed % of Lending by NRB: on Priority Sector and 3% on Deprived Sector. The above table shows that EBL has floated merely 11.56% of its lending on priority sector and 3.17% of lending in deprived sector. In both cases, EBL has compile the standard directed by NRB. Therefore the NRB target for Priority sector advances and Deprived Sector lending was achieved by EBL.

4.15 Retail Lending Position of Everest Bank as on Aashad end 2066 (15.07.2009)

The performance of the Everest Bank in the area of retail lending as on Aashad end 2066 is as under.

Table 4.11

Retail Lending Position of EBL

Rs in Lac

Retail	**Ashadh 62-63**		**Ashadh 63-64**		**Ashadh 64-65**		**Ashadh 65-66**		**Yield in %**	
Lending Schemes	**No**	**Amt.**	**No**	**Amt.**	**No**	**Amt.**	**No**	**Amt.**	**Ash 62**	**Ash 63**
Housing Loan	676	3490	1036	6879	1383	10593	1801	15464	9.4	9.12
Car Loan	265	1561	401	2210	584	3524	849	5727	8.78	8.29
Education Loan	71	260	113	484	194	905	342	1605	10.29	10.15
Future lease rental	4	36	3	31	6	124	7	117		10.09
Professional Loan	Na	Na	7	38	8	38	12	75		9.87
Flexi Loan	Na	Na	45	702	225	3981	446	8986	8.75	8.82
Home Equity	Na	Na	7	64	37	192	87	366	8.1	8.56
Total Retail Lending	**1016**	**5347**	**1612**	**10408**	**2437**	**19357**	**3544**	**32340**		
Gross Credit	**50533**		**60991**		**79000**		**101362**			
% of Retail lending	**10.58%**		**17.06%**		**24.50%**		**31%**			
							Average Yield		**9.17**	**8.94**

Source: EBL Financial Publications

Total retail lending of Everest Bank as per above table is Rs 32340.00 Lac as on Ashadh end 2066 against total loan portfolio of Rs 101362.54 Lacs. It is 31.00% to total loan portfolio of the bank. The amount wise net retail lending was Rs 12983.00 Lacs during the fiscal year 2065/066 as against Rs 8951.00 Lac in FY 2064/065. There is growth of 145% compared to last fiscal year's net growth of Rs 8951.00 Lacs. There is net growth of 46.00% in housing loan, 62.00% in Vehicle Loan, 77% in Education Loan & 125.00% in Flexi Loan respectively.

4.16 **Analysis of Cost of Deposit Fund**

The interest rate spread is one of the indicators of financial intermediation efficiency of any CB's. Every financial institution pays certain prevailing interest rate on deposits and receive higher rate of interest from lending. The differential interest margin is basic incentive to FI's to cover their operational costs and contribute to the worth of equity holders. The determination of interest rate of the deposits and lending used to determine by government before 1989. Nowadays, these interest rates are more or less governed by the market forces. But it can't be neglected the fact that the differential rate is mostly influenced by operational efficiencies and profit margin of FI's. NRB had issued various directives relating to interest rate spread to be maintained by CB's. In Sept. 1993, NRB directed the CB's to keep the spread below 6 % and again in July 1998, NRB gave directive to CBs to lower their weight interest rate spread within 5 %. The interest rate spread shows the efficiency of CB's in term of cost of capital, Operational cost, Profit margin mentality etc. The higher interest rate spread indicate that depositors were getting low interest rate while borrowers were being punished with high interest charge curtailing the flow of loans to the export and industrial sectors or other productive projects. This situation retards the pace and process of economic development. The level of the spread also portrays the structural characteristics of the financial system of the nation. The structural characteristics comprise prudential norms laid by

NRB such as CRR, Priority sector lending program, NPAs of the banking system etc.

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

a. Unweighted interest spread rate
b. Weighted interest spread rate

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

b. Weighted interest spread rate: The weighted interest spread rate is the basis for the comparison of efficiency of any CB's. Generally, spread rate means weighted interest spread rate. Those banks are termed as efficient bank that has lower weighted interest spread rate.

Table 4.12

Showing Cost of Deposit of EBL

(Rs in million)

Basis	2061-062	2062-063	2063-064	2064-065	2065-066
Deposit	6695	8064	10098	13802	18186
Interest Expenses	308	316	300	401	517
Cost of Deposit (%)	**4.60**	**3.92**	**2.97**	**2.91**	**2.84%**
Lending	5050	6096	7900	10136	14082
Interest Income	520	657	719	903	1144
Cost of Lending (%)	**10.30**	**10.78**	**9.10**	**8.91**	**8.12%**
WACD (%)	**5.70**	**6.86**	**6.13**	**6.00**	**5.28%**

Source: EBL Financial Publications

The table 4.11 shows the cost of deposit, lending rate and weighted spread interest rate of Everest Bank Limited for five years from FY 061-62 to FY 065-66.

The figure portrays that the deposit rate and lending rate of EBL had reduced to some extent. On comparison of cost of deposit & cost of lending of EBL, the weighted average interest rate spread has been found to be in decreasing trend except in FY 062-063 which was little increased to 6.86%.From general public's point of view, it is better situation when FIs provide higher interest rate in deposit and charging lower interest rate on loan & advances. In fact, it is idle situation that is desired by society & government. NRB on behalf of government attempted to do on this regard. But now, the matter of interest-spread rate has been completely deregulated by NRB since our economy is facing toward market economy. It is believed that FIs will be in severe difficult situation when they charge higher interest on lending & provide lower interest on deposit i.e. higher interest spread rate.

4.17 Analysis of Deposit, Loan & Advances and Investments

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

Table 4.13

Showing Deposit & Loan Position of Everest Bank Limited

(Rs in Million)

Year	2061/062	2062/063	2063/064	2064/065	2065/066
Deposit	6694.96	8063.90	10097.69	13802.40	18186.20
Loan & Advances	5049.58	6095.84	7900.00	10136.20	14082.70
Investments	1653.98	2535.66	2128.93	4200.50	4984.30

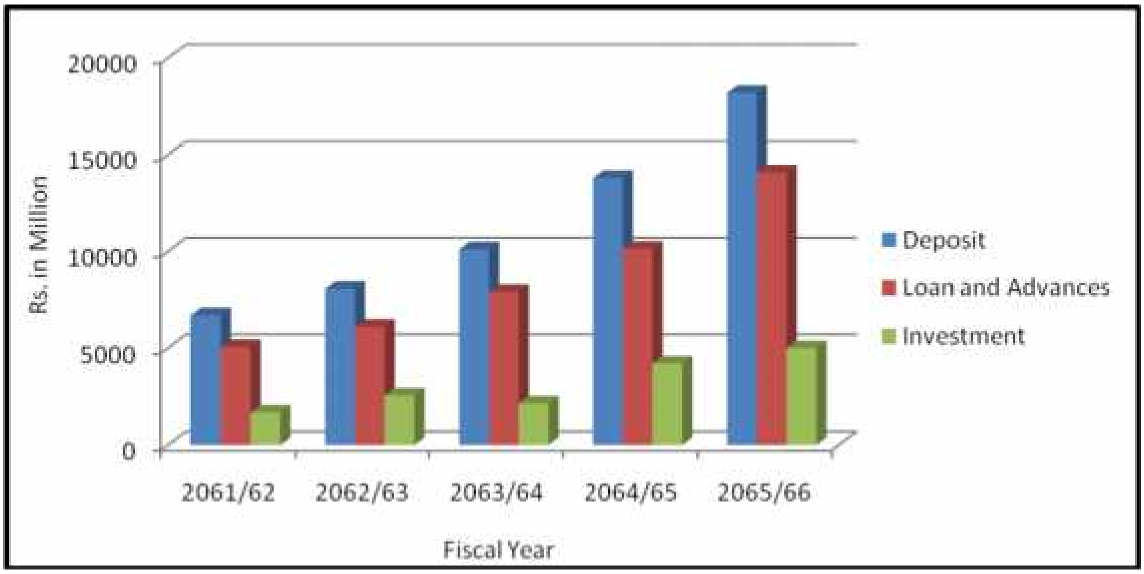
Source: EBL Financial Publications

The Deposit, Loan & Advances and Investment of EBL are rising over the studied period as shown in table 4.13. Its deposit rose from Rs. 6694.96 million in 2061/062 to Rs. 18186.20 million till 2065/066 which was increased by 11491.24 million in five years. The lending of the bank also regularly increased from Rs. 5049.58 million to Rs. 14082.70 million till

2065/066 which was increased by 9033.12 million in five years. Similarly the investments are also rising from Rs 1653.98 million in 2061/062 to Rs. 4984.30 million till 2065/066 which was increased by Rs 3330.32 million in five years. The Deposit, Loan & Advances and Investment of EBL are in increasing trend despite the recession in prevailing economy.

Figure 4.5

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



The above bar diagram, drawn on basis of table 4.12, reveals the comparative position of deposit and lending of EBL in respective years.

4.18 Analysis of Growth Rate of Deposit, Loan & Investments

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

Table 4.14

Showing Deposit & Loan and Advances Growing Rate of EBL

(in million)

	2061/062	**2062/063**	**2063/064**	**2064/065**	**2065/066**
EBL's Deposit (Rs.)	6694.96	8063.90	10097.69	13802.40	18186.20
Growth Rate	**22.47%**	**20.45%**	**25.22%**	**36.69%**	**31.76%**
EBl's Loan & Advances	5049.58	6095.84	7900.00	10136.20	14082.70
Growth Rate	**24.86%**	**20.72%**	**29.60%**	**28.31%**	**38.93%**

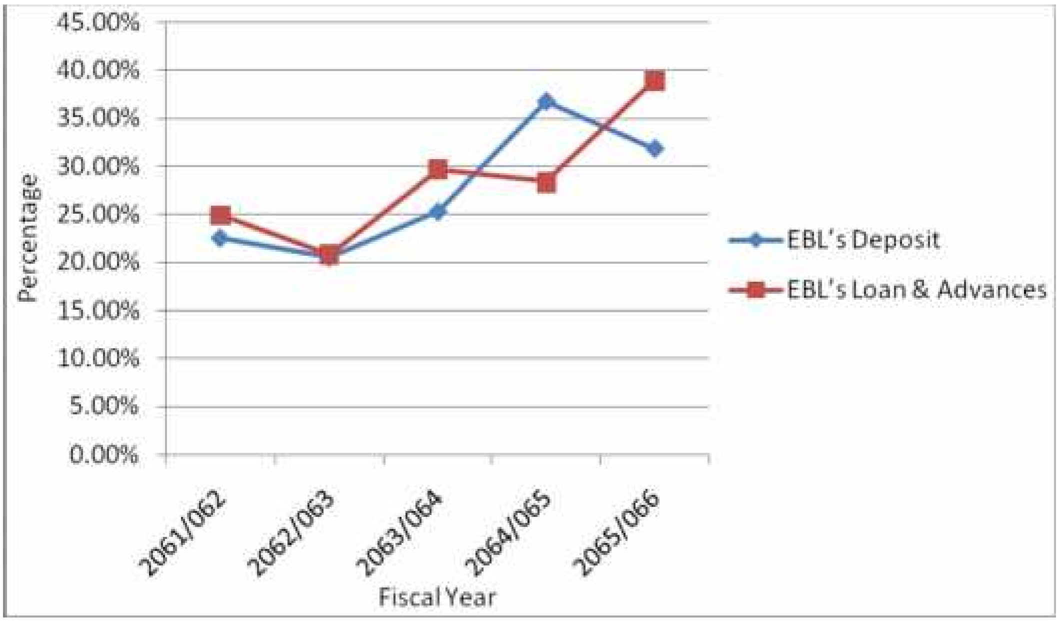
Source: EBL Financial Publications

The deposit of EBL is growing steadily in the above studied period of time. Its growth rate in 2064/065 found highest i.e. 36.69% and lowest in 2062/063 i.e. 20.45%. It seems that EBL has performing best in terms of Deposit and satisfy their depositors and performing above the average performance of the banking sector in this regard. Thus, EBL's deposit is increasing at higher in rate than the overall banking sector. As against the system's growth of 16.23% during the FY 2064/065, EBL's growth was 36.69%.

The amount of loan & advances of EBL is increasing per year and its rate of increment is fluctuating over the period of time. The rate is highest in 2065/066 i.e. 38.93% whereas the lowest in 2062/063 i.e. 20.72%. The aggregate loan & advance of banking sector is increasing per year and its rate is fluctuation over the period of time. As against the system's credit growth of 10.47% during the 2065/066, EBL's credit growth was 28.13% has got great success to increase its deposit, in another hand is has incresed its loan and advances.

Figure 4.6

Growth of Deposit and Loan & Advances of EBL



The growth rate of EBL is in fluctuating trend. The growth rate loan and advances is higher than deposit in F/Y 065/066.

4.19 **Ratio Analysis**

4.10.1 Credit Ratio

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

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

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

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

Table 4.15

Showing Credit Ratios of Total Credit and Total Deposit

(Rs in Millions)

Fiscal Year	Total Loan& Advances	Total Deposit	Ratio(%)
2061/062	5049.58	6694.96	75.42
2062/063	6095.84	8063.9	75.59
2063/064	7900.0	10097.69	78.24
2064/065	10136.2	13802.4	73.44
2065/066	14082.7	18186.2	77.44
Total	43264.32	56845.15	76.10

Source: EBL Financial Publications

The CD ratios found higher in EBL over the studied period. EBL has floated more than 70% of its deposit as loan & advances .The highest ratio in EBL was 78.24% in FY 2061/062 and lowest 73.44% in FY 2062/063. In general, 70%-80 % credit deposit ratio is assumed to be appropriate considering in to market demand and internal strength of a particular bank. So the EBL CD ratios as per the standard prescribed. Thus, EBL is efficiently deploying its deposit fund so that it could earn more profit.

Table 4.16

Showing Credit Ratios of Total Credit and Fixed Deposit

(Rs in Millions)

Year	Total Loan & Advances	Fixed Deposit	Ratio(times)
2061/062	5049.58	2788.48	181.09
2062/063	6095.84	2902.85	210.00
2063/064	7900.00	3403.96	232.08
2064/065	10136.20	4242.35	238.93
2065/066	14082.70	5626.70	250.28
Total	43264.32	18964.34	228.13

Source: EBL Financial Publications

The credit as a ratio of fixed deposit is higher in EBL in each year. It shows the credit floated in relative to fixed deposit collected is higher in EBL. It also furnish that growth rate of credit outflow is higher in comparison to fixed deposit growth in EBL. In case of EBL, the ratio recorded lowest in FY 2061/062 i.e. 181.09 times and highest in FY 2065/066 i.e. 250.28 times.

Table 4.17

Showing Credit Ratios of Total Credit and Saving Deposit

(Rs in Millions)

Fiscal Year	Total Loan & Advances	Saving Deposit	Ratio (times)
2061/062	5049.58	2757.95	183.09
2062/063	6095.84	3730.61	163.40
2063/064	7,900.00	4806.83	164.35
2064/065	10136.20	4242.35	238.93
2065/066	14082.70	9029.30	155.97
Total	43264.32	24567.04	176.10

Source: EBL Financial Publications

The **credit as a ratio of saving deposit** is higher in every studied period. The growth rate of credit outflow is higher than the growth rate of saving deposit in EBL. The highest ratio recorded in FY 2064/065 and lowest at FY 2065/066.

4.20 Stability Test

Table 4.18

Showing Stability Ratios of EBL

Ratios	**Everest Bank Limited (EBL)**				
	061/062	062/063	063/064	064/065	065/066
Capital to Total Deposit	10.22	9.51	12.35	10.08	10.54
Capital to Total Credit	13.55	12.58	15.79	13.73	13.91

Source: EBL Financial Publications

Stability test of any bank is carried to ascertain the sustaining capacity in long run. The test is carried by studying capital position in relative to various variables. Capital to total deposit ratio of EBL is found decreased in 062/063 & 064/065 and increased in 063/064. It means that both the capital's position in relative to deposit is improving and maintaining around 10.54% average in four year and enhancing its stability position.

Another ratio "Capital to total Credit" found stable in EBL in all four years. EBL has maintained around 13.91 in average Capital to total Credit in all four years. It means both the capital and total credit are increasing in EBL; the improvement made by EBL in building up its stability position is remarkable. It is due to higher growth rate of capital in comparative to growth rate of credit floated

E. Other Ratio

i. Shareholder's Income Per Share

Table 4.19

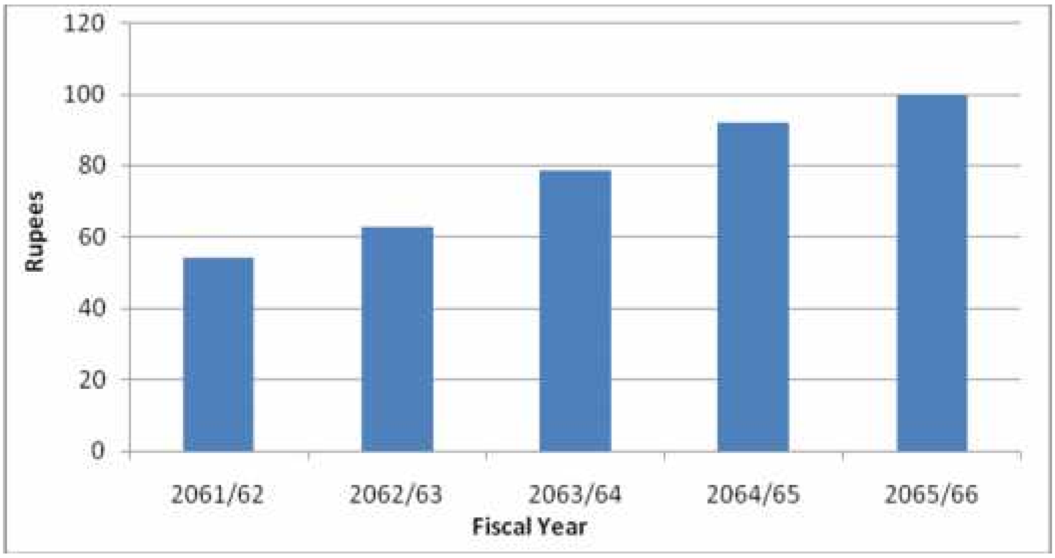
Shareholder's Income Per Share

Fiscal Year	Earnings Per Share (Rs.)
2061/62	54.22
2062/63	62.78
2063/64	78.42
2064/65	91.82
2065/66	99.99

(Sources: Annual Report of EBL)

Figure 4.7

Earning per Share of EBL



The above graph shows that the earning pershare of EBL is in incresing trend as it has increased Rs 54.22 to 99.99 in five years. That's EBL has been able to satisfy its shareholders.

ii. Price Earning Ratio

Table 4.20

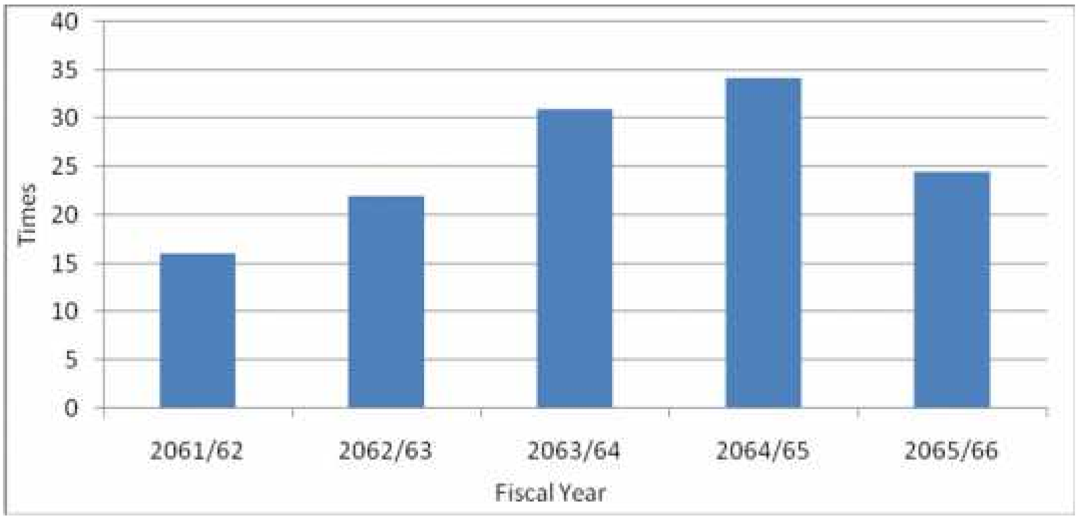
Showing Price Earning of EBL

Fiscal Year	Price Earning Ratio
2061/62	16.04
2062/63	21.97
2063/64	30.99
2064/65	34.11
2065/66	24.55

(Sources: Annual Report of EBL)

Figure 4.8

Price Earning of EBL



The above table and graph show, the Price Earning Ratio of EBL has increased up to 34.11 in the year 2064/65, but in 2065066 it has decreased to 24.55 times. The change in the economy and the whole sharemarkt influence by global economy and national political unstabiliy played the main role for caused the decrease in P/E ratio of the F/Y 2065/66,

iii. Operating and Net Profit of EBL

Table 4.21

Operating Profit and Net Profit of EBL

Rs in Million

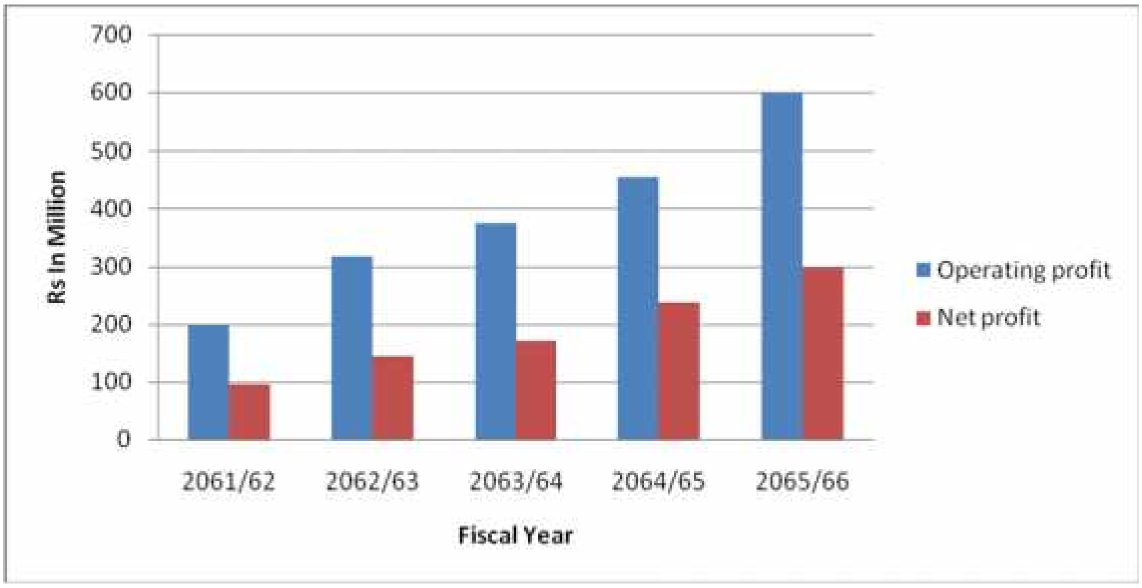
Fiscal Year	Operating Profit	Net Profit
2061/62	196.7	94.2
2062/63	316.4	143.6
2063/64	375.1	170.8
2064/65	453.1	237.2
2065/66	597.5	296.4

(Sources: Annual Report of EBL)

The operating profit and the net profit is increasing trend. In F/Y94.2 Million net profit where as is has reached to 296.4 Million on 065/066. Therefore it has increased more than 200% increment in last four year's net profit.

Figure 4.9

Operating Profit and Net Profit of EBL



4.12 Statistical Analysis

i. Coefficient of Correlation Analysis

The statistical tool, coefficient of correlation has been studied to find out whether the two available variables are inter-correlation or not. If the result falls with in the correlated point, the two available variables are inter-correlated otherwise not. Now to find out the correlation coefficient between total loan and advances and total deposit the widely used method of Karl Pearson's Coefficient of correlation has been used.

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

Here,

N = Number of pairs of x and y observed.

x =Total Loan and Advances

y = Total Deposit

r = Karl Pearson's Coefficient of Correlation

Table 4.22

Computation of Correlation Coefficient between Total Loan and Advances and Total Deposit of EBL

(Rs in Billion)

Fiscal Year	**Total Loan and Advances (X)**	**Total Deposits (Y)**	**x^2**	**Y^2**	**XY**
2061/62	7.9	10.1	62.41	102.01	79.79
2062/63	10.14	13.8	102.8196	190.44	139.932
2063/64	14.08	18.19	198.2464	330.8761	256.1152
2064/65	18.84	23.98	354.9456	575.0404	451.7832
2065/66	24.47	33.32	598.7809	1110.222	815.3404
N=5	$\sum X$=75.43	$\sum Y$=99.39	$\sum X^2$=5689.6849	$\sum Y^2$=9878.372	$\sum XY$=7496.988

Here

N=5, $\sum X$=75.43, $\sum Y$=99.39, $\sum X^2$=5689.6849, $\sum Y^2$=9878.372,$\sum XY$=7496.988,

Now,

Coefficient of Correlation (r) = $\frac{N\sum xy-(\sum x)(\sum y)}{\sqrt{N\sum x^2-(\sum x)^2}\sqrt{N\sum y^2-(\sum y)^2}}$ = 0.698662

Thus this evaluations show that the Total Loan and Advances and Total deposits are positively correlated in the period of 2061/62 to 2065/66.

4.14 Position of Major Financial Indicators in Everest Bank Limited for FY 2061-62 to 2065-066

Table 4.23

Major Financial Indicators of EBL

Rs. in million

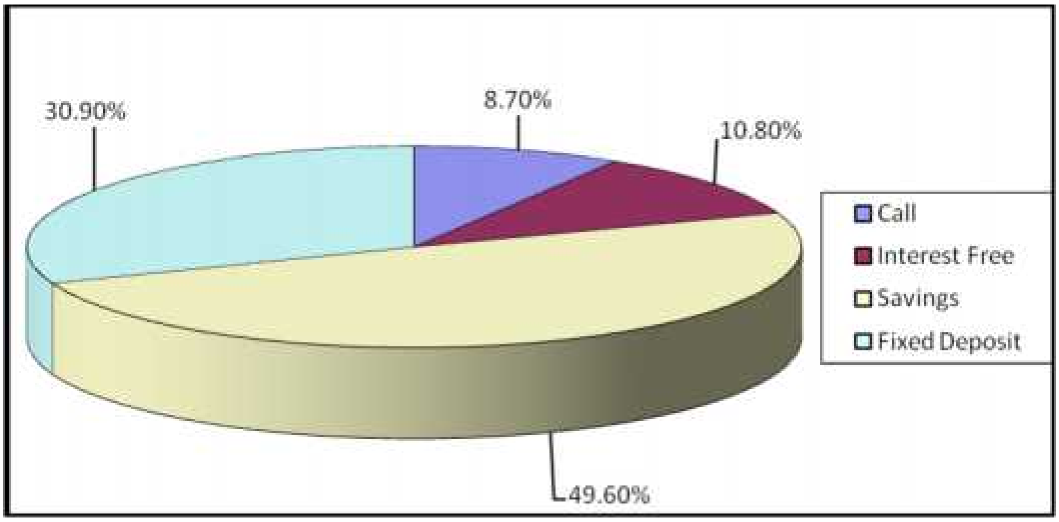
Particulars	2061/62	2062/63	2063/64	2064/65	2065/66
Loan & Advances	5049.58	6095.84	7900.00	10136.2	14082.7
Deposit	6694.96	8063.90	10097.69	13802.4	18186.2
Interest on Loan & Advances	464.76	563.14	633.62	770..83	967.17
Total Income	635.33	785.06	858.96	1066.50	1370.7
Total Expenditure	438.6	468.7	483.8	613.4	772.8
Operating Profit	196.7	316.4	375.1	453.1	597.9
Net Profit	94.2	143.6	170.8	237.2	296.4
Non Performing Loan	111.19	104.75	128.77	128.72	112.66
Ratio of NPL to L & Advance	2.20%	1.72%	1.63%	1.27%	0.80%

(Sources: Annual Report of EBL)

Some Present Scenarios of EBL

Figure 4.10

Deposit Mix of EBL in FY 2065/066

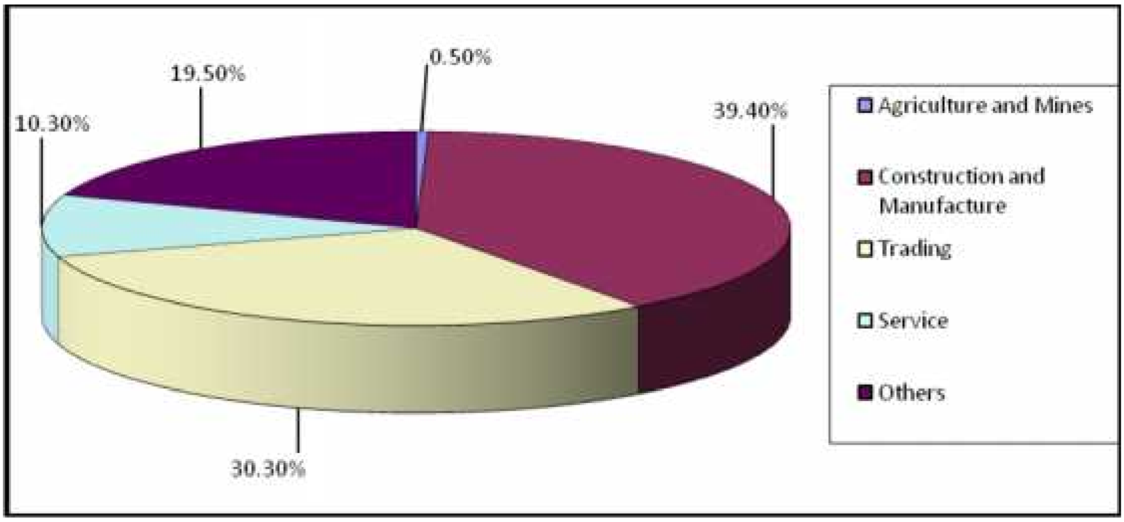


Sector wise Distribution of Credit as on FY 2065/66

Out of total loan & advances EBL has made lending in Trading by 30.30%, Construction & Manufacture 39.40%, Service 10.30%, Agriculture & Mines 0.50% and Others 19.5%.

Figure 4.11

Sector wise Distribution of Credit of EBL in FY 2065/066



The above mentioned table highlights the increasing trend of loan and advances of Everest Bank Limited as a whole. In fiscal year 2062/63 the loan and advances has increased by 20.72% compared to the corresponding period of Last fiscal year, in FY 2063/64 – 29.59%, in FY 2064/65 – 28.31% and in FY 2065/66 -38.93%.

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

There is high chance of increase in the non performing loan as the loan and advances of the bank increases. In this regard the bank has to monitor the loan closely and scrutinized the loan proposal meticulously and strictly. The non performing loan of the bank is in decreasing trend however the loan and advances is increasing. The bank has maintained the lowest gross non performing loan ratio of 0.91% for the year ended Aashad 2066 in comparison to other commercial banks.

The total deposit of the EBL is also in increasing trend. In fiscal year 2062/63 the deposit has increase by 20.45% compared to the corresponding period of Last fiscal year, in FY 2063/064 -25.22%, in FY 2064/65 -36.69% and in FY 2065/066 -31.76% amounting to Rs 1818.62 millions.

The total operating profit and net profit is also in increasing trend. In fiscal year 2062/63 the operating profit has increased by 60.85% compared to the corresponding period of Last fiscal year, in FY 2063/064 -18.55%, in FY 2064/065-20.79% and in FY 2065/066 -31.95%. Likewise the net profit of EBL is also in increasing trend. In fiscal year 2062/063 the net profit has increased by 52.44% compared to the corresponding period of Last fiscal year, in FY 2065/066 -18.94%, in FY 2064/065 -38.88%.

This shows the positive growth of the bank as a whole

4.14 Findings of the Study

- The total deposit of the EBL is in increasing trend. In fiscal year 2062/63 the deposit has increase by 20.45% compared to the corresponding period of Last fiscal year, in FY 2063/064 -25.22%, in FY 2064/65 -36.69% and in FY 2065/066 -31.76% amounting to Rs 1818.62 millions.
- The total operating profit and net profit is also in increasing trend. In fiscal year 2062/63 the operating profit has increased by 60.85% compared to the corresponding period of Last fiscal year, in FY 2063/064 -18.55%, in FY 2064/065-20.79% and in FY 2065/066 -31.95%. Likewise the net profit of EBL is also in increasing trend. In fiscal year 2062/063 the net profit has increased by 52.44% compared to the corresponding

period of Last fiscal year, in FY 2065/066 -18.94%, in FY 2064/065 -38.88%.

- EBL has become successful to compile the NRB lending and deposit directives laid to the commercial banks.
- Overall EBL is having profits year by year. Now a day it is one of the best commercial bank all over the Nepal. Comparatively there is more strength than weakness.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.4 Summary

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

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

EBL has been promoted by well established business/industrial house of Nepal as a joint venture with PNB of India, one of the largest commercial bank in India having more than 4400 branches and over 200 foreign correspondents around the globe. At present EBL has been success to operate 32 branches all over in Nepal, which has recorded to have large number of networks within Nepal among other commercial banks.

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

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

The basic objectives of the study are to examine the existing policies and practices of credit management during the loan processing and appraisal of the loan. The research is based on a case study and is descriptive in nature. Being a case study, the research is mainly focused on the primary data and the information provided by the Bank. The data was obtained through various interviews, experience and formal and informal discussion with the personal of EBL. Secondary data was also used for the study. The secondary sources include data obtained through journals, annual reports, bulletins, web sites and various other sources.

5.5 Conclusion

Bank is a resource mobilizing institution, which accepts deposit from the various sources and invest such accumulated resources in the fields of agriculture, trade, commerce, industry, tourism etc. The commercial bank has its own role and contribution and it is a source for economic development. It maintains economic confidence of various segments and extends credit to people. Now the role of bank is not only limited to the lending. It has also extended its business to remittance - non fund based business where the bank can generate income without lending to borrowers. However, the income generated from the fund based business cannot be ignored as it covers more than 70% of the total income of the bank.

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

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

EBL has followed the information procedure in controlling the credit policies and practices by its own credit control procedure and norms laid by the NRB. Which are as follows:

Own practice

1. Approval of Credit facilities by branch and HO level
2. Proper Documentation for working capital and term loan facilities
3. Board Parameters for considerations of loan parameters
4. Interest rate rating according to the compliance parameters
5. Reporting to the higher authorities on weekly, monthly quarterly and yearly basis.

NRB Norms

1. EBL has compiled the capital Adequacy norms for commercial banks laid by NRB.

2. The lending on priority sector and deprived sector, EBL has complied on lending on priority sector but on deprived sector it is little behind on compiling the norms.

- Under the research period of five years, the deposit collection and loan flowed by the bank is in increasing trend. The deposit has been increased by 11491.24 million in five years and lending has been increased by 9033.12 million. Therefore, despite the period of recession in economy, the deposit and lending of EBL shows the positive growth.
- The NPL of EBL is in decreasing trend and has decreased up to 0.80% of total loan and advance disbursed by the bank in F/Y 2065/066.
- In total deposit of EBL, almost 50% of deposit is saving and 40% of lending has been disbursed to construction and manufacturing in F/Y 2065/066.
- The operating profit of EBL is increasing trend. In comparision to the last four years EBL achieved more than 200% increase in net profit.
- Despite in increase in number of commercial banks, the growth of loan and advances of EBL is in increasing trend besides maintaining the low non performing loans among the other commercial banks. This shows the good result of credit management of the Everest Bank Limited. The bank complies strict rules and regulation considering the NRB directives while processing the loan appraisal of the borrower. All possible steps are taken to strengthen the pre sanction appraisal of the loan – “Prevention is better than Cure”.
- Everest Bank Limited is more focused on fund based income rather than non fund based and others. The major portion of the bank’s income is generated through the interest earned from the loan and advances. Any lose measures control found in the appraisal of the loan proposal will directly effect the interest income of the bank.

- The loan proposal processed and the lending criterion of the bank is found as per the rules and regulations prescribed by NRB.

5.6 Recommendations

In market-oriented economy, customer will not prefer those FIs that have high interest spread. If any CBs try to gain by maintaining higher interest spread rate, they will find difficult to sustain in the competitive money market. In fact, maintaining lower interest spread rate means possessing higher competitive position and higher financial intermediation efficiency. In money market, there are same CB's those are forced to maintain higher spread interest rate because of higher cost of capital and large position of NPA level. In a situation where the level of non- performing asset of the bank is quite large, all the bad debts get translated in to higher interest rate for the borrowers & lower interest rate for the depositors. It is a clear symptom of financial & commercial inefficiency. In sum up, Darwin’s principle of “Survival of Fittest” also fits in the banking sector. Our money market is being much more competitive and only those fittest FIs can only sustain or exist in the prevailing situation. It is no doubt to say that CB's having lower interest spread rate can only survive in financial environment otherwise it has to lose its existence.

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

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

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

- The bank has made the lending of 39.4% on construction and manufacturing sector. Other sectors are far behind as compared to lending made in construction and manufacturing. The bank should increase its lending in service sector area, the sector where the lending is more secured. Further the bank should also give more emphasis on trading sector of the economy. As the import turnover of the economy is greater than the export turnover of the country.
- The bank should introduce the credit card facility to its customers. It helps to increase the lending portfolio of the bank.
- As the bank is fully computerized system it should take the full advantage of it. The support module of the financial System has not been fully utilized by the bank. The module should be made in operation in order to grasp the business of the changing technological business of the banking system.
- The yield on advances are declining as no fresh investments are coming & due to low cost of deposits in major banks like Himalayan bank, Nepal Investment Bank & Nabil etc, they are attracting/canvassing quality credit customers with lower rate of interest. Hence in order to be competitive in the market it is pertinent to lower the cost of deposit of the bank.
- In order to be competitive in the market and provide better facility to the customer the bank should speedily process the loan application received and notified the concerned customer incase of loan is rejected duly assigning the reasons for such rejection.

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APPENDICES

Appendix-I

Everest Bank Limited

ANX- I

Application Form for Credit Facilities

OF OVER RS. 1 LAC & ABOVE

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

1. <u>Details of the Unit</u>

i. Name and Address

ii. Constitution

(Sole proprietorship, Partnership firm, Private Limited, Public Limited Company, Co-op. Society etc.)

iii. Name of the business house (group)

iv. Date of Incorporation/ Commencement of business

v. Registration with /No.

vi. Registered Office

vii. Administrative Office

viii. Factory

ix. Telephone No/ fax No.

2. <u>Details of the Promoter/s</u>

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

ii. Father's/Husband's name

iii. Relation with Directors of the Bank,

if any, or Share holding of the unit/
Director/Partner/Proprietor in Everest Bank

iv. Income Tax clearance upto

v. Background of Proprietor/Partners/Directors

3. Brief Description of the Activity

i. Existing

ii. Proposed

4. Past Performance

(For existing unit only)

(Rs. in Lac)

Particulars	Last year	Last but one year	Last but two years
i. Turnover			
ii. Net Profit			
iii. Retained Profit			

5. Arrears in Statutory Payments (if any)

Income Tax, P/F, Others

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

7. Management	**Present**	**Proposed**
Executives		
Supervisory		
Office Staff		
Skilled Labour		
Unskilled Labour		

8. Technical Feasibility

i. Name of the Product(s) Including

By-product & its (their) use

ii. Manufacturing process in brief

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

<u>Capacity for each Product</u> <u>Licensed</u> <u>Installed</u> <u>Operating</u>

iv. Location advantages, if any

(Please indicate availability of power,

Water, Labour, Transport, Raw materials etc.)

v. Whether clearance has been obtained from the pollution control authority

9. <u>Land & Building</u>

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

10. <u>Particulars of Machinery & Other Fixed Assets</u>

11. <u>Utilities</u>

Power

Sanctioned Load

Connected Load

Future Power Consumption

Stand By Arrangements

Water

Fuel

Other

12. <u>Economic Feasibility</u>

Marketing Strategy

Name of the major Customers

Extent of Competition

Nature and volume of order/enquiries on hand

13. FOR TERM LOAN ONLY

i. Cost of Project and Means of Finance:

ii. Repayment period & Projected Profit & Loss and Balance Sheet, Funds Flow for the period of repayment (to be enclosed)

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

14. Facilities Sanctioned/Proposed (Rs. in lacs)

Nature of facilities Existing Proposed Security Offered Margin

i.

ii.

iii.

iv.

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

- Incase facilities are also enjoyed from other Banks Complete details thereof should also be furnished.

15. Guarantors

Name Details of Assets Details of Liabilities

i.

ii.

iii.

16. Details of Collateral Security

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

(With names & Address of their Bankers)

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

Applicant's Signature: **Date:**

Office Seal:

Appendix-II
Everest Bank Limited

ANX-II

Reg : Loan Proposal A/C **Assets Classification :**

(AA/A+/A/B)

List of the Proposal :

1. **About The Borrower**

Name of the Unit:

Established:

Dealing with EBL since:

Activity:

Constitution :

Name of the Director/Proprietor/Partner:

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

2. **Financial Structure (Last 3 years)** (Rs. in Lacs)

	. .	. .	. .
Liabilities			
Capital			
Reserve & Surpluses			
Long Term Sources -TL			
Others			
Sub-Total			
Sundry Creditors			
Bank Borrowing			
Other Current Liabilities			
Sub-Total			
Total Liabilities			
Assets			
Fixed Assets:			
Net Block			

Investments

Intangible & Misc. Exp.

Sub-Total

Current Assets:

Inventory

Receivables

Advances to Allied/

Sister Concerns

Cash & Bank Balance

Other Current Assets

Sub Total

Total Assets

Debt Equity Ratio

Current Ratio

3. Operations

Sales

PBT

4. Limit Sanctioned/Proposed (Rs. in Lacs)

Facility	Existing	Proposed	Recommended

5. Date of Last Sanction

6. Borrowers' Worth NM (AS ON)

I. P.

7. Guarantors' NM (AS ON)

I.P

i)

ii)

iii)

8. Collateral Security, If Any

9. Limits Sanctioned to Allied/Associate Concerns/Family Concerns (With Names & Address of Their Bankers)

10. Limit Sanctioned by Other Banks to the Party

Name of the Bank	Facility	Amount	Outstanding

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

12. General Comments

Brief Background/History

Promoters/Management

Industry/Commodity Profile

Comments on Important Financial Indicators

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

13. Assessment of MPBF

i. (For Working Capital Limits)

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

14. Justification for Non-Fund Based Limits

15. Comments on Past Conduct and Value of A/C

16. Recommendations

Appendix-III

Everest Bank Limited

B/O ………………..

ANX-III

B/O ……………………………………………….

Statement of Limits Sanctioned for the month of ………

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

Appendix-IV

Everest Bank Limited

ANX- IV

Application of Parameters for ascertaining Rate of Interest on
Working Capital & Term Loan advances above Rs. 1 lakh

1. Interest rates on Working Capital & Term Loan advances over Rs. 1 lakh are to be fixed on the basis of compliance of 7 parameters:-

   i. Satisfactory Current Ratio i. e. 1.33:1

   ii. Satisfactory Debt Equity Ratio which normally should not exceed 2:1

   iii. Punctual submission of information like Quarterly information of Sales/ Profit, Monthly Stock Statement/ Book Debt Statement.

   iv. Timely submission of renewal papers (latest within 12 months from the date of last sanction/review/renewal).

   v. Reasonableness of inventory holding (Stock Management).

   vi. Timely Repayment of Term Loan.

   vii. General compliance of terms & conditions of sanction.

2. In order to determine the applicable category of the borrower (AA, A+, A, B) branch should work out average compliance out of seven parameters. For example, for a borrower to whom say 5 parameters are applicable and the

borrower is complying with 3 out of 5 applicable parameters category is to be worked out as follows:

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

I.e. actual compliance: 4

Category of borrower: B

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

3. The basis of determining parameters shall preferably be the latest audited balance sheet of the borrower. In case of inability of the borrower to furnish the latest audited balance sheet, a provisional balance sheet signed by the Chief Executive of the borrowing Organization may be taken into consideration for determining the parameters.

4. All Working Capital accounts and Term Loans are to be reviewed annually for the application of interest rate.

5. For downward revision of rates, in case of change in the category of borrower, the case may be referred to the sanctioning authority.

Appendix-V

Everest Bank Limited

B/O

ANX-V

<u>Review for Quarter Ended</u>

1. Name of the Borrower:

2. Date of last sanction &
Sanctioning authority

3. Give the details of the terms and conditions which have not been complied with and reasons thereof. The steps being taken for compliance of pending terms be given.

4. i) Date of Documents

ii) Whether all necessary documents have been obtained?

iii) Whether mortgage created with Malpot Karyalaya?

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

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

(Rs. in lacs)

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

6. <u>Stock Statement</u>

i. Whether received/verified as per sanction

ii. Date of last stocks statement

iii. Date of last verification/visit to the unit

iv. Value of stock older than one year hypothecated

v. BM's comments on the turnover of stocks

vi. Whether the stocks are fully insured
(Amount of insurance cover & its validity be given)

7. Is the BM satisfied with
<u>Operational Turnover:</u>

8. <u>Financial Information</u>

Whereas full efforts should be made to get the latest information, however if the information for the Current quarter is not available, the same for the earlier quarter/s be indicated.

(Rs. in Lacs)

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

9. BM's Comments
(on overall performance and adverse features in the account)