"THE COMPARATIVE STUDY OF CREDIT POLICY AND ITS IMPLEMENTATION OF NABIL BANK, EVEREST BANK AND NIC BANK"

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VIVA – VOCE SHEET

We have conducted the viva – voce examination of the thesis presented by

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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

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<u>VIVA – VOCE COMMITTEE</u>

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RECOMMENDATION

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

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DECLARATION

I hereby declare that the work in this thesis entitled, **“The Comparative Study Of Credit Policy And Its Implementation of Nabil bank, Everest bank and NIC bank”** submitted to Thakur Ram Multiple Campus, Faculty of Management, Tribhuvan university, is my orginal work done in the form of partial fulfillment of the requirement for the Master’s Degree in Business Studies under the supervision of Mr. Rajeshwar Pd. Acharya, Lecturer, T.R.M. Campus, Birgunj.

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ABBREVIATION

ABBS	:	Any Branch Banking System
ATM	:	Automatic Teller Machine
B.S	:	Bikram Sambat
C.V	:	Coefficient of Variance
CB	:	Commercial Bank
CT Loan	:	Calcutta Transit Loan
EBL	:	Everest Bank Limited
EMI	:	Equated Monthly Installment
FD	:	Fixed Deposit
FDBP	:	Foreign Document Bills Purchase
FDR	:	Fixed Deposit Receipt
FY	:	Fiscal Year
GDP	:	Gross Domestic Product
GNP	:	Gross National Product
ICC	:	International Chamber of Commerce
IMF	:	International Monetary Fund
INGOs	:	International Non Government Originations
JVBs	:	Joint Ventures Banks
L/C	:	Letter of Credit
NGOs	:	Non Government Organizations

NIC	:	Nepal Industrial and Commercial Bank
NIDC	:	Nepal Industrial Development Corporation
NPA	:	Non Performing Assets
NPR	:	Nepalese Rupee
NRB	:	Nepal Rastra Bank
OD	:	Over Draft
OMO	:	Open Market Operation
PAD	:	Payment Against Document
PCR	:	Project Completion Report
PIS	:	Project Information Sheet
PNB	:	Punjab National Bank
RBB	:	Rastrya Banijaya Bank
S.D	:	Standard Deviation
SAARC	:	South Asian Association for Regional Co-operation
TL	:	Term Loan
TR Loan	:	Trust Receipt Loan
UAE	:	United Arab Emirates
UCPDC	:	Uniform Customs and Practice for Documentary Credits

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CHAPTER -ONE

1. General Background

1.1 History of Economic Activity and Banks in Nepal

Economic development in Nepal, in real sense, started only after Rana regime. In the late period of Rana regime, some positive attempts were made. As a result, '*Udyog Parishad*' got its existence in 1935 AD, Biratnagar Jute Mill in 1936 AD, and Raghupati Jute Mill in 1946 AD. Just before the break of Second World War, a twenty-year plan was announced and National Planning committee was set up in 1949 AD. But the plan never came into the notice by the people and this idea disappeared with the dissolution of National Planning Committee.

Nepal, in early 1950s, began the process of economic and social development in spite of the lack of modern institutions and infrastructures. Budgetary system was introduced in 1952 AD. In the same year, a separate ministry for Planning and Development was established for uplifting the nation. (Ibid: 10)

It is forty-four years since the first five year plan was executed. Up to now, nine successive plans has already been implemented. A cursory look at these plans shows that the major focus has been laid on agro-sector, industrial sector and in the field of infrastructure development.

Economic stabilization program, adopted in 2042 BS with the assistance of International Monetary Fund (IMF), can be taken as the beginning of economic liberalization in Nepal. Structural adjustment program brought in 2044 BS with the structural adjustment facility from IMF can be considered as the continuation of same policy. After the restoration of multiparty system, the first elected government (2047 BS) encouraged the process of globalization. In order to accelerate the process of economic liberalization and globalization, the government enforced the foreign Investment and Technology Transfer Act 2049 and Foreign Investment and one window policy 2049. As per the arrangement in policies, license should be taken from the related department for technology transfer. Technology can be transferred in case of cottage industries with the fixed asset constituting up to twenty million rupees. Foreign investors should pay 15% tax on earning. (Ibid: 10)

Similarly the government enforced ‘Industrial Enterprises Act 2049’, formulated new ‘Industrial Policy 2049’ and ‘Commercial Policy 2049’. The policies include one window provision for internal and foreign investors, non-nationalization of new industries, implementation of full convertibility of Nepalese currency on current account etc. Non requirement of license for the establishment of the industries other than having social cost was another aspect of the policy.

In the similar way, the government enforced the ‘Privatization Act 2050’ including its regulations and guidelines. The government developed various criteria for promoting private sector organizations. They include management contract, partial privatization, and lease contract, asset selling and selling of shares. In case, the public enterprises are to be privatized, the government has the policy of selling 5% of shares to the employees of enterprise, 25% to the general public and management shares to the competent party or individuals.

Those policies have certainly contributed in the initial stage of globalization in the country. Their effectiveness can be measured in near future in terms of economy generating issues and enhancing overall Gross National Product (GNP) and Gross Domestic Product (GDP) of the country. Since last decade, there has been a considerable growth in service sector activities in Nepal, including a sharp increase in banking, insurance, transportation, airlines, finance companies, co-operatives societies, hydro power centers etc. A growing number of Non Government Organizations (NGOs) and International Non Government Organizations (INGOs,) multinational companies are mushrooming in Nepal.

The concept of financial institutions in Nepal dated back more than sixty years. “In 1994 BS, first commercial bank, Nepal Bank limited was established under the ‘Banking Act 1993’. The government provided 51% equity of the bank and the promoters shared the rest. Nepal Rastra Bank, the central bank emerged in 2013BS under ‘Rastra Bank Act-2012’.Since then, it has been providing policies and guidance to the financial sectors in one hands and is monitoring and controlling them in the other. Realizing the need of adequate banking services for the integrated and speedy development of industrial sector, Rastriya Banijaya Bank came into existence in 2022 BS with 100% government equity.” (NRB Report 1987: 3)

“After the establishment of Agricultural Development Bank in 2024 BS, growth of banking institutions remained almost stagnant till 2040BS. No new banks opened in this period though some branches of previously established bank were extended.

Liberalization policy of government formulated in 2038 BS allowed private sectors to open joint venture banks in foreign collaboration. Nepal Arab Bank limited (now it is known as Nabil bank limited) became the first commercial bank to register under new arrangement. The bank started its operation since 2041BS. It is an associate of Dubai Bank Limited, United Arab Emirates (UAE) and Nepalese promoters. Nepal Indosuez Bank Limited (now is also known as Nepal Investment Bank) and Nepal Grindlays Bank Limited (now it is known as Standard Chartered Bank Limited) were other joint venture Banks established afterwards." (NRB Report 1997: 12)

After restoration of multiparty democracy in the country, the government formulated new policies along with the amendment of existing policies so as to accelerate the process of economic liberalization and globalization. As a consequence, other fourteen Joint Venture Bank's (JVBs) came in existence. Sidhartha Bank has been the youngest one till now few other banks like Bank of Asia, Citizen Bank International, Global Bank etc. are on pipeline of establishment. Relating to the commercial banks, they have been altogether seventeen in number. These banks attempted to introduce foreign management skills, technical know-how and foreign capital. This situation created an environment of healthy competition among the existing financial institutions.

"The Nepalese financial system comprises of commercial banks, Development banks, finance companies, co-operatives societies, non government organizations (permitted to perform limited banking activities), insurance companies, Nepal stock exchange, citizen investment trust, employee's provident find and postal saving service. However, information in this thesis is necessary about the effort that the commercial banks are contributing for the up boost of the Nepalese economy which is under the direct regulation of Nepal Rastra Bank (NRB).

The total capital fund of the whole financial system was Rs. 20, 0031.00 million in the mid- July 2003 where as this figure stands to be Rs. 1,474.30 in July 2005. the negative figure for July 2004 is because of Rastriya Banijaya Bank's total negative retain earnings, which was not include in previous figures. Out of the total capital fund, commercial banks' share stand at 692.00% (negative) of the total capital find, followed by development banks 327.40% (positive)." (NRB Quarterly Bulletin no 44:11)

"A rising trend in deposit of financial system has been observed during the period mid-July 2003 to mid- July 2003. Total deposits have increased by 13.21% and reached Rs. 2,85,009.50 million and mid July 2004 from Rs. 2,51,742.30 million mid July 2003. Out of the total deposits, market shares of commercial banks, development banks, finance companies and co-operatives are 82%, 6.80% and 0.60% respectively." (Ibid:11)

"The liquid fund of the system have increased by 21.70% and reached Rs. 55,761.40% million in mid July 2004 as compared to 45,817.00 million in mid July 2003. Out of the total liquid funds in mid July 2004, commercial banks have the highest share of 83.00% followed by development banks (8.30%), finance companies (8.00%) and co-operatives (0.70%)." (Ibid:12)

"Investments of the financial system have shown a rising trend. Total investment was recorded at Rs. 51,457.90 million in mid July 2003, which is increased by 8.60% and reached Rs. 55,903.20 million in mid July 2004. Commercial banks have the highest stake (88.80%) followed by development banks (6.30%) and finance companies (4.50%). Co-operatives societies have a very small investment portfolio." (Ibid:12)

"A rising trend in loans and advances of financial system has been observed during the period mid- July 2003 to mid – July. Total loans and advances of the system is Rs. 1,73,913.80 million and in mid-July 2003, which increased by 11.30% and have reached Rs. 1,93,610.30 million in mid- July 2004. Out of the total loans and advances, market share of commercial banks, development banks, finance companies are 72.30%, 17.90%, 9.10% and 0.70% respectively." (Ibid:12)

"There are 17 commercial banks in the country as of mid- July 2004. The number of commercial banks branches as of mid July 2004 is 423 of which 375 are branches of commercial banks and 44 Agriculture Development Bank's branches performing commercial banking activities." (Ibid:12)

Table No: - 1

List of Licensed Commercial Banks

S.N.	Commercial Banks	Established Date (B.S)	Operation Date (B.S)	*Head Office*
1.	Nepal Bank Lid	1994/07/30	1994/07/30	Kathmandu
2.	Rastriya Banijaya Bank	2022/10/10	2022/10/10	Kathmandu
3	Nabil Bank Ltd	2041/03/29	2041/03/29	Kathmandu
4	Nepal Investment Bank Ltd	2042/11/16	2042/11/16	Kathmandu

5	Standard Chartered Bank Ltd	2043/10/16	2043/10/16	Kathmandu
6	Himalayan Bank Ltd	2049/10/05	2049/10/05	Kathmandu
7	Nepal SBI Bank Ltd	2050/03/23	2050/03/23	Kathmandu
8	Nepal Bangladesh Bank Ltd	2050/02/23	2050/02/23	Kathmandu
9	Everest Bank Ltd	2051/07/01	2051/07/01	Kathmandu
10	Bank of Kathmandu	2051/11/28	2051/11/28	Kathmandu
11	NCC Bank	2053/06/28	2053/06/28	Siddharthnagar
12	Lumbini Bank Ltd	2055/04/01	2055/04/01	Narayanghat
13	NIC Bank Ltd	2055/04/05	2055/04/05	Biratnagar
14	Machhapuchhre Bank Ltd	2057/06/17	2057/06/17	Pokhara
15	Kumari Bank Ltd	205/08/24	2057/12/21	Kathmandu
16	Laxmi Bank Ltd	2058/06/11	2058/12/21	Birgunj
17	Siddhartha Bank Ltd	2058/06/12	2059/09/09	Kathmandu

Source NRB Quarterly Bulletin No. 31

"Capital fund of these banks have reduced to Rs.-10,201.70 million (186.30% decreased) in mid- July 2004 from Rs. 11,814.60 million in mid July 2003. The drastic decrease in total capital fund in mid – July 2004 as compared to mid July 2003 is due to Rastriya Banijaya Bank's negative retained earning. The retained earnings figure of Rastriya Banijaya Bank was not included in mid – July 2003. The total capital fund consist of Rs. 8,350.00 million paid up capital, 3,385.00 million Statutory Reserves, Rs. 3,119.40 million Other Reserve and Rs. 25,056.10 Retained earning loss. Over the period, Paid Up capital, Statutory reserves and other reserves have increased by 8%, 20%, and 161.50% where retain earning decreased by quite a large percentages." (Ibid:12)

"Deposit have reached Rs. 2,33,811.20 million and mid July 2004 from Rs. 2,03,879.30 million in mid – July 2003 with a growth of 14.70%. Of the total deposits in mid July 2004, current deposit constitutes Rs. 33,729.90 million (14.40%). Saving deposit constitutes Rs. 1,14,137.20 million (48.80%), fixed deposit constitutes Rs. 65,130.90 million (27.90%) and other (call deposit and others) constitutes Rs. 20,813.20 million (8.90%). Deposit on average, grew at an annual rate of 14.71% during the period of 1998 to 2004, in which the highest growth rate (23.98%) is recorded in the year 1999 and the lowest (1.85%) in the year 2002." (Ibid:12)

“The borrowing by commercial banks has shown a mixed trend over the period 1998 to 2004. The total amount borrowing, which was Rs, 887.00 million in mid – July 1998 has increased to Rs. 3,346.60 million and mid- July 2000. it again decreased to Rs. 2,308.70 million in mid- July 2001 and then showed an increasing trend up to mid July 2003 and decreased to Rs. 3,023.60 million in mid July 2004.” (Ibid:12)

“Of the total borrowing in mid – July 2004, borrowings from NRB, inter bank borrowings and borrowings from foreign banks constitute 24.20%, 58.60% and 17.20% respectively.” (Ibid:12)

“Liquid funds continuously increased from 1998 to 2001 and reached Rs. 55,583.30 million from Rs. 33,184.10 million. It declined to Rs. 49,937.20 million in mid – July 2002, and further declined to Rs. 30,762.80 million in mid – July 2003 and increased to Rs. 46,252.80 million in mid – July 2004.” (Ibid:13)

“Continuous rising trend in investment has been observed since 1998. Total investment have reached to Rs. 49,668.60 million in mid – July 2004 from Rs. 46,386.30 million in mid – July 2003 – registering a growth of 9.30%.” (Ibid:13)

“Loans and advances on averages, have registered an annual growth rate of 12.62% for the period mid – July 1998 to mid – July 2004. Compare to mid – July 2003, loan and advances went up by 12.45% and reached Rs. 1,40,031.40 million in mid – July 2004.” (Ibid:13)

“Out of the total loan and advances in mid – July 2004, lending to the private sector and claims on Government enterprises constitute Rs. 1,36,403.50 (97.40%) and Rs. 2,519.40 million (1.80%) respectively – registering a growth rate of 13.93% in private sector where as the claim on Government enterprises decreased by 12.15% in mid-July 2004 compare to mid – July 2003.” (Ibid:13)

“Interest accrued on average, has increased by 21.68% annually between mid – July 1998 to mid – July 2004, recording Rs. 34,485.50 million in mid – July 2004 from Rs. 10.” (Ibid:13)

1.2 An Introduction of the Private Banks in Nepal

Everest Bank Limited, Nabil Bank Limited and Nepal Industrial and Commercial (NIC) Bank are three joint venture banks out of seventeen joint venture banks operating within tertiary of Nepal. These banks are established in different time period. Nabil bank is first

JVB in the history of Nepal where as Everest Bank is established as the joint venture of Punjab National Bank (India) which directly helps with those business men and individuals who have direct relation with India and NIC bank deal with Nepalese business men whose business area lies within the territory of Nepal. So, it was clear that these sample banks with difference service can cover all information for the thesis and make meaningful.

A. Nabil Bank Limited

"Nabil Bank Limited (erstwhile Nepal Arab Bank Limited) was established on 12 July 1984 under a technical service services agreement with Dubai Bank Limited, Dubai, which was later merged with Emirates Bank Ltd., Dubai. Nabil bank is the first and major joint venture bank in the country with key points of representation all over the Kingdom of Nepal. The bank is managed by a team of qualified and highly experienced professionals." Nabil bank's Annual report 2005

Shareholdings are distributed as follows: -

- 50% by N.B International Limited, Ireland
- 20% by local financial institution and
- 30% by the Nepalese.

Nabil has been a pioneer in introducing modern banking and numerous innovative products into Nepal. It also was the introduce consortium finance in Nepal and has had the privilege of rendering comprehensive banking services (including trade finance)to leading Government institution like Nepal Telecom Ltd., Nepal Electricity Authority, Nepal Oil Corporation, Nepal Television, Water Supply and the Royal Nepalese Army. By virtue of the range of services provided by the banks and its strength in the market, Nabil is also a significant player in financing entities involved in various infrastructure products. (Nabil Bank Annual Report, 2005)

The bank is a major player in facilitating import export activities with modern and efficient trade finance and international trade support services, to large multinationals as well as established business conglomerates in the private sectors. Nabil bank rank among the top three financial institutions in Nepal terms of market shares of handling Nepal's trade.

Nabil is the sole bankers to a multitude on international Aid Agencies, Non-Government Organizations, Embassies and Consulates in the Kingdom. The bank has a dominant market share in these consumer segments which is a compliment to its image and servicing capabilities.

“Nabil is almost the most successful joint venture organizations in Nepal registering strong growth in balance sheet footing as well as profits year after year. The initial capital of Rs. 30.00 million, invested in 1984, has grown to Rs. 1.314.00 million in mid – July 2004. During this period, the Bank has paid cash dividends totaling Rs. 1268.00 million.” (Ibid:7)

“Nabil Bank’s Capital Adequacy Ratio stood at 13.06% as at mid – July 2004 against statutory minimum requirement of 10%. The bank’s financial performance is detailed further in this report.” (Ibid:7)

“The bank provide a complete range of personal, commercial and corporate banking and related financial services through its 20 branches and 2 counters. The largest number no amongst any joint venture in Nepal. Two branches are expected to added in this year,” (Ibid:7)

B. Everest Bank Limited

“Everest Bank Ltd. (EBL) started its operation in 1994 with the view and objective of extending professionalized and efficient banking services to various segment \s of the society. EBL joined hands with Punjab National Bank (PNB) India as its joint venture partner in 1997. PNB is the largest nationalized bank having 110 years of banking history with more than 4500 offices all over the India. Of which 1400 branches are interconnected. PNB has over 1000 Automatic Teller Machines (ATM) spreads across India. As on 31 March 2005, PNB had a total business of 163000 crores and posted a net profit of INR 1410 crores. Drawing its strength from its joint venture partner, EBL has been steadily growing in its size and operations, establishing itself as a lending Private sector Bank. EBL is ranked as No. 2 bank by NRB as per CALES.” (EBL Annual report 2005)

“Despite fragile law and order situation especially during last 3-4 years, the Bank has recorded spectacular performance. As per audited accounts of Fiscal Year (FY) 2004/2005, the Bank’s operating profit was Rs. 375.20 million registering a growth of 18.9% over the previous year. The Bank’s credit recorded a growth of nearly 30% over the last year reaching a figure of Rs 7900.09 million. Similarly, the total deposits of the Bank posted a growth of 25.22% amounting to Rs 10097.69 million over the preceding year. This sustained growth of the Bank is attributable to its strong systems and procedures, professional approach, quality lending and highly motivated staff members." (Ibid:5)

"The bank is providing its services through a wide network of 18 branches across the nation and over 250 correspondents across the globe. All the major branches of the bank are connected through Anywhere Branch Banking System (ABBS), a facility which enables a customer to do banking transaction from any of the branches irrespective of their having accounts in other branch. The Bank in association with Smart Choice Technology (SCT) is providing ATM services to its customers. EBL Debit Card can be accessed at more than 50 ATMs and over 500 Points of Sales across the nation. The bank is also managing the SCT ATM at Tribhuvan International Airport for the convenience of its customers and the travelers, the first and the only bank in Nepal to place ATM outlet at the Airport." (EBL Monthly Bulletin march 2005 Edition)

"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 saving economically through banking channels to Nepal. The bank has channels to Nepal. The bank has Draft Drawing Arrangements with 175 branches of PNB all over India. With an aim to facilitate the remittance of Nepalese citizens working abroad, the bank has entered into arrangements with renowned banks and exchange companies across the globe." (EBL Boucher)

The Bank recognized the value of offering a complete range of services. EBL have pioneered in extending various customer friendly products such as Home Loan, Education Loan, EBL Flexi Loan, EBL Property Plus (Future Lease Rentals), Home Equity Loan, Car Loan, Loan Against Shares, Loan Against Life Insurance Policies and Loan for Professionals. We at EBL have always endeavored in delivering innovative products suiting the consumer's requirements and needs thus enriching, enabling and beautifying their lives

C. Nepal Industrial and Commercial (NIC)Bank Limited.

"Nepal Industrial & Commercial Bank Ltd. (NIC Bank) was incorporated on 30th May 1997 (Jestha 17, 2054) and commenced business on 21st July 1998 (Shrawan 5, 2055). NIC Bank is one of the banks with the largest capital base with authorized capital of Rs. 1,000 million and paid up capital of Rs. 500 million." (NIC Annual Report 1999). The Bank was promoted by some of the renowned business houses in the country along with Rastriya Banijaya Bank (RBB). The Bank had been successful to register operating profit in the very first year of its operations, which is indeed historical. Within 7 years of commencement of business the Bank has established 8 branches, 2 in Kathmandu and 1 each in Biratnagar, Dharan, Birtamod, Birgunj, Jankapur and Pokhara.

However, rapidly progressing Nepal offers tremendous potential outside the Capital, as well. In order to provide the necessary impetus to the economic progress of Nepal, through banking support of international standards, NIC Bank established it's Head Office at Biratnagar, the "Commercial Capital" of Nepal.

"NIC Bank has an Authorized Capital of Rs. 1,000 million with paid-up capital of Rs. 500 million. The promoter group holds 65% of issued capital amounting to Rs.325 million, which includes 5% holding by Rastriya Banijaya Bank. The remaining 35% of paid-up capital amounting to Rs.175 million is held by the general public. The shares are listed with Nepal Stock Exchange. NIC Bank is one of the banks with largest public shareholders with close to 33,000 shareholders." (NIC Annual report 2002)

"NIC Bank has been able to record substantial increments in balance sheet size and profit since last couple of years. In the financial year ended 15 July 2004, the Bank registered an impressive growth of 163% in net profit amounting to Rs. 68.26 million compared to Rs 25.94 million in the previous year." (NIC Annual report 2005).

1.2 Statement of Problem

Joint venture banks are helping to finance and support the industrial development and business houses in the country. It is because industrialization is one of the alternatives which help to develop the economy of a nation. But it has been common to signal out "Under-development" as one of the major hindrances of the industrial development. It is true to a greater extent and it is also true that land-lockedness has been one of the strong factors in this case. Lack of infrastructural supports has been strongly believed to be another set of reasons. Apart from that, joint venture banks for the safe lending of the public saving are faced with a number of problems.

Nepal could never cultivate a culture of “National priority, sincerity and commitment”. Often times economists, industrialists and even politicians think that the economic policies pursued by the post political regime have been the culprit of less development, they may be true but who is to be blamed for this? There were evaluations, studies and experts' recommendation for the corrections of our economic policies. They are not unique to Nepal but a general solution followed by every one. There have been positive results and even miracles in certain countries of the Asian – Pacific region, and Korea Singapore, Thailand, Taiwan and New Indonesia and Malaysia. Indo-Chinese nations will shortly follow this. Why Nepal has been only exception to this? Even Bangladesh and Bhutan are going ahead.

In summary, the major reasons of Nepalese problem of non - industrialization is the part of economic failure and misuse of resources without proper utilization.

Nepal primarily being agricultural country its base of industrialization also lies on agriculture. The first sets of industries established are all agro industries. Therefore, it would not be out of context to mention agro industry playing a major role in this process.

Agriculture has still been the dominating sector in Nepal with around 54.25% share of GDP and it being the major source for raw materials. A cursory view at Nepali industries that occupy around 9.56% of GDP delineates agro-industry as a major contributing sector. Out of 2,987 total industrial establishments, there were 572 industries classified as Agro industries in Fiscal Year 2004/05 (tentatively around 23.71%). This is further confirmed by the fact that joint venture banks and Nepal Industrial Development Corporation (NIDC) are major industrial financing institutions in the country, holds around 36% of the total portfolio directly under Agro- sector.

The policy of promoting import substitution and indigenous raw material based industries was the target and the guiding factor during 1970s. Previously the closed economic policy constrained in harnessing the natural resources. Poverty, illiteracy and shy entrepreneurship were also responsible for the dismal growth of modern banking sector and industrial sector too. The present status and its factors, therefore, provide the base as well as guide to future course of industrial development in Nepal.

In the context of the shy private sector role in the industrial development, public enterprises played important roles in the initial stages of development.

Agriculture is the backbone of the economy and the livelihood of more than 80 percent of total population associated with this sector. Manufacture industries and big trading business are the best choices of the joint venture banks for the investment but these sectors are small in quantity. The growth of the trading business and manufacturing industries means the economy growth and side by side it helps in reduction of under and unemployment problem. But these industries and business houses are not doing progress in their own field current situation of the economy are not in their favor, as the result these big business are moving towards the liquidation. The basic objective of the joint venture is to collect small saving and make huge investment is not fulfilling as the result new concept of the lending has emerged in the Nepalese market like housing loan, vehicle loan, flexi loan, education loan, professional loan etc. these retail lending is not productive for the nation, in this type lending only the borrower is benefiting.

With the prevailing economic condition of the country, the investment in agriculture, manufacturing and industrial sectors has not grown satisfactorily. Hence the joint venture banks also not succeeding perfectly to swift the deposit in profitable sectors. Competitions, being the burning issues at present the related JVBs are at the high time to focus their eye for the better management for the survival and growth.

From all the above, it can be concluded that effective and persistent investment towards the most benefiting sector is one of the prerequisite for the development of the nation. The quality and return of the investment depends upon the existing credit policy and its proper implementation. Thus, how far these things are applied in the banks and financial institutions and whether the existing credit policy is suitable as per the requirement of the country becomes a prominent issue in the present context.

The problem of the study has been laid on the issues related to the comparative strengths and weakness of some banks pertaining to their respective credit policies and their implementation. For the sake of simplicity, and due to limited time allocated for the research only three banks- Nabil Bank limited, Everest Bank Limited and NIC Bank- has been taken for the study.

To solve such type of problems the investment policy of banks should be effective. The purpose of the study is to analyze and examine how far the present investment policy and procedure of joint venture banks is effective in encouraging the entrepreneurs to invest in different industrial and business sectors in different regions. In this regard however experience of banks reveals not encouraging relationship between investment policy and industrial development of the country.

1.3 Objective of the Study

The main objective of this research is to get information about the credit policy of Everest Bank, NIC Bank and Nabil Bank. And the procedure of the lending / advancing of loan and advances and also we talk about the sources of collection of fund. Besides these some other objective are listed below: To analyze the short, mid and long-term credit provided to public.

- To draw out the problem regarding credit / lending procedure.
- To find out the share of credit provided out of total deposit of bank.
- To find out the ratio of credit amount investment in different sectors.
- To find out whether a bank is contributing to the betterment of various sector of the country by providing the credit facility to the general public.
- To find out whether direct or indirect investment of the bank is beneficial to the bank itself and country as the whole.

1.4 Significance of the Study

In this present era, joint venture bank are going a wide popularity through their efficient management and professional service and playing an eminent role in the economy. Considering the economic structure of the country, the banks do not have sufficient investment opportunities. Rapidly increasing financial institutions are creating threats to the joint venture banks. In this context, the study would analyze strengths, weaknesses, opportunities and threats of selected joint venture bank. The research will be helpful for joint venture banks to formulate strategies to face the increasing competitions. Beside it also helps to identify the importance of shareholder, policy formulators academically professional and outside investors.

1.5 Limitation of the study

The present study is not free from the limitations. The limitations of this study are as follows;

- Basically, secondary data is used in this study.
- Due to the small sample size, it may not fully represent complete banking credit concept as a whole.
- The analysis period of research covers only five years. (FY 2001to FY 2005)

- ❖ The study mainly focuses on the loan & advances and doesn't cover other banking services and facilities provided by the banks.
- ❖ In this study only limited financial and statistical tools and techniques of credit analysis is used.

1.6 Scheme of Study

This study has organized in five chapters. The first chapter is introduction chapter which includes General Background, Statement of Problem, Objectives, Scope and Limitation of Study.

Second chapter is about the Review of Literature through different relevant books, journals, unpublished dissertations.

The third chapter is Research Methodology which includes Types of Research, Research Design, Population and Samples, Nature and Source of Data, Data Collection Procedure and Data Processing and Analysis Procedure.

The four chapters is the main body of research which is data presentation and analysis. The data from the selected companies namely Nepal Arab Bank Ltd (Nabil). Everest Banks Limited, NIC Bank Ltd. has been taken into reference. Tables, Bar Graph, Pie Chart, line Graph etc are used for presentation of data. Various statistical tools have been used for analysis of data. At the time of presenting the data this chapter is divided into two parts, the first part defines primary data collected from the interview with the concern personnel at the banks and field visit report prepared by the researcher. And finally, discussed with major findings.

Finally, fifth chapter contains summary, conclusion and recommendation for further improvement. Besides these, bibliography and annex are also included.

* * * * *

CHAPTER-TWO

REVIEW OF LITERATURE

2. Background

This chapter highlights the literature available related to the present study, this chapter includes review of the following relevant literature to the commercial banks. Concept of commercial banks along with historical preview is already mentioned in the earlier chapter.

So far none of the researcher has concluded study in the topic. Most of them has done in the lending of the commercial banks. However, efforts have been made to gather information from all available arenas as possible.

Some of master's degree dissertation related to lending activity of joint venture banks has also been reviewed. In addition, independent studies carried out by well- known export and other also taken into consideration. As the research is made on the credit policy so the researcher has also gone through the review of NRB act, commercial bank act, and Industrial act.

Thus, this chapter tries to view the third man's thoughts which have been given them through various books, article, journals, papers, periodicals, other related books and booklets.

2.1 Conceptual Framework

Joint venture banks now a days playing a very dominant role for the development of industrial sector, business sector and individual live standard too. Due to open market policy and liberalization policy the establishment and growth of JVB's has boost the economy of the country.

JVB's are currently viewed as catalyst and the key factor in the development of the economy by mobilization of domestic resources. The government in turn is required to regulate their activities and policies such as lending to the private sector, lending to the unemployed people, and creation of entrepreneurship in the society.

2.1.1 Review from Books

"Banking means the accepting for the purpose of lending or investing, the deposits of money from the public, repayable by cheque, drafts, order of otherwise." (Mali Ram, 1969 Currency & Banking, Agra Books State)

The above definition is too narrow and incomplete. However Dr. Mali Ram has tried to make the concept and function of bank to some extent border, since today's banking function cannot be confined only activities as said by the definition.

American Institute of Banking defines commercial Banks, as "Commercial Bank is a corporation which accepts demand term loans to business, enterprise, regardless of the scope of its other service."

American Institute of Banking Principal of Bank Operation, USA 1972

Commercial Bank Act 2031 was formulated to facilitate the smooth run of commercial Banks. All the commercial Banks are ones which exchange money, accepts deposits, grants loans and advances.

The Commercial Bank Act 2031 also pointed the function of commercial banks

Commercial banks provide short-term debts necessary for trade and commerce. They take deposits from the trade and commerce. They take deposits from the public and grant loans in different forms. They purchase and discount the bill of exchange, promissory notes and exchange foreign currencies. They discharge the various functions on behalf of their customers provided that they are paid for their services.

"Banks and financial institutions are the vehicles through which public deposits are mobilized in various development activity i.e. Agricultural, Industry. Trade, Commercial Institution like commercial banks, development banks, financial companies and various micro-financing institution with different model."(Timalsina, 1999: 30)

This thesis mainly focuses on the lending practice and Procedure of Nepal three joint venture commercial banks (i.e. Everest Bank, Nabil Bank And NIC Bank) Hence it is rational to state these articles and reports those may make a clear concept to understand the said topic.

"The investor or whether banks, financial institutions, individuals, private or government sector, most not took the proposal by making decision making without having adequate judgment because sometimes they perform out of norms, related studies, policies and techniques. A project appraisal will best viable only if it has accessed through conscious analysis as well as through thoroughly investment decisions to make its macro and micro level viability effective. (Lamichhane 46th anniversary of NRB, 2058: 125)

He added some test of tips before and after financing:

- Rationality of short fall of funds (requirement of the funds) and goodness of the project proposal.
- The banker also before making any funding should prepare appraisal report by analyzing and assessing the components of project cost and the overall viability.
- The gravity of the capital.
- The banker should try to receive the appropriate financial segments (Loan characteristic) i.e. through overdraft, acceptance facilities, mortgage, and syndicate of through personal efforts.
- The Loan may be secured with the project itself or with clean collateral of on guarantee. The financial task may be facilitated in one currency or number of currencies.
- The interest rate in the loan may be fixed floating or simple calculated or discounted rate based.
- Borrowings and lending activities are based on the rate of cash flow coming from the assets, from financed funds and based also on general strength, security cleanliness and on credit worthiness.
- The borrowers should fulfill some convenience such as to safety the regulation of lenders, to maintain a certain financial rations or to produce essential information on time for the lenders.

"A Loan is Financial Assets resulting from the delivery of cash or to the assets by a lender to a borrower in return for an obligation repay on specified date or dates or on demand."

Usually Loan Comprise:

- Consumer installments, overdrafts and credit card loan.
- Residential mortgages.

- Non personal loans such as commercial loans to business, financial institution, governments and their agencies.
- Direct financing lease
- Other financial arrangements that are in substance loans.

A web site report of Basel Committee- A banking supervision committee, the group of ten countries established in 1975 AD.

The Base Committee adds "when a bank becomes a party to the contractual terms comprising a loan and as consequence has legal right to receive principal and interest on the loan, it controls the economic benefits associated with loan. Normally, a bank become a party to the contractual provision that comprise a loan (i.e. acquire legal ownership of the loan) or the date of the advances of funds or repayment to a third party. As a result, a commitment to lend funds neither is nor recognized as an asset on the balance sheet. In certain jurisdictions, the acquisition of legal ownership is viewed more as a process than a discrete event. However providing consideration (the advancement of funds) is typically one of the more important factors constituting ownership."

Khatiwada stated in 1987 that the organized financial system is only a small segment of the overall financial system and in the informal financial system interest rates are neither determined by the free market forces, nor by the authorities but by the monopoly market condition where there exit a few suppliers of credit in relation to a large number of borrowers. Since interest rates are administered and have remained sticky for quite a long period, the statistical relationship between demand for money and the interest has remained insignificant in Nepal (Khatiwada, 1994, p. 4; S. Poudyal, 1987; G. Sharma, 1987).

Atreya M. describes in 2005 that the regulatory framework in South Asian Association for Regional Co-operation (SAARC) countries. Author says that the financial systems across the SAARC region show considerable diversity calling the need for harmonization of policies. The author efforts made towards harmonizing the banking policy has explored. The aim his paper is to describe the regulatory framework in SAARC countries.

The author from his academic analysis concluded that the effectiveness of intermediation role played by the banking sector ultimately contributes to the economic development of a country. No doubt, the monetary and regulatory policies adopted by central banks to regulate and supervise the banks and financial institutions determine the extent of banking sector development. The trend thus far has been towards a more open and liberal policies that help the banking sector grow and flourish. Results visualized are increased competition, internationalization of banking business, economic cooperation and innovation in financial instruments. Banking is no longer a national phenomenon now. The banking business has crossed the national boundaries and this has created more risks and challenges to the regulatory framework in the SARRC countries and this call the needs for harmonization of banking policies to mange the banking business in this globalizes world.

The establishment of SARRC, economic cooperation initiatives through SAPTA and SAFTA, establishment of SAARC Finance, the concepts of SADB and SAEU are all geared towards building mutual cooperation and development in the SARRC countries. Although some efforts have been made in this direction, more efforts are needed to strengthen the banking environment in SARRC countries. SARRC countries must develop their human resources to make them capable to implement Basel Accord II, strengthened corporate governance system, develop regulatory framework to manage cross-boarder banking operations, forge partnerships and economic cooperation for better understanding and development and establishment and establish system for learning from the rich experience of each other.

Professor Bonomo and Schotta stated in 1970 that presented evidence on the nature of open market operations. Bonomo and Schotta used regression analysis to determine the fraction of changes in factors affecting free reserves and total reserves which have been offset by defensive open market operations. The principal hypothesis of their study is based on the feeling among the monetary economists that Open Market Operations (OMO) have had the effect of increasing the variation in reserves or in monetary base[1]. The authors take the sample period September, 1931 to August 1968.The estimating procedure employed in their study makes use of the following equations.[2]

$$\Delta R = \alpha_1 + \beta_1 \, \Delta R^* + \omega_1 \ \ and \ \ \Delta FR = \alpha_2 + \beta_2 \ + \beta_2 \, \Delta FR^* + \omega_2$$

[1] The usual defined monetary base is the sum of member bank reserves and currency held outside all banks.
[2] For a complete derivation of the equations, see: Bonomo and Schotta, pp.660-661.

Where $\Delta R =$ week-to-week change in total reserves,

$\Delta FR =$ week-to-week change in free reserves,

$\Delta R^* =$ week-to-week change in factors affecting total reserves other than open market operations,

$\Delta FR^* =$ week-to-week change in factors affecting free reserves other than open market operations,

$\alpha_1, \alpha_2 =$ estimates, allegedly, of net of other factors influencing open market operations, i.e., dynamic objectives; and

$\hat{\beta}_1, \hat{\beta}_2 =$ estimates of ($1+k_1$) and ($1+k_2$)

The authors' findings on their investigation are:

The authors find that proper characterization of OMO as defensive or dynamic should occur on the basis of free reserves and not total reserves. In addition, the authors find no support for the view that the net effect of OMO has been to increase the variation in the monetary base. This latter finding was based on a year-by-year comparison of the actual variance of reserves and free reserves with the estimates of the variance in these series which would have been obtained in the absence of OMO.

The study finds that the variance effect of OMO over the sample period examine indicates that the variance reduction attributable to OMO is quite sizable.

The results show the relative magnitudes of the variances of the series, illustrating the variance reduction effects of OMO. Moreover, the more favorable results with respect to an objective of reducing the variability of free reserves rather than of total reserves suggest an interpretation that the Federal Reserve has viewed short-run control of free reserves as its proximate objective in its quest for control of the cost and availability of credit.

The authors have claimed that the findings of their study with respect to reserves and free reserves would, in general, apply to the usual and the extended monetary base since week-to-week changes in reserves and free reserves constitute the dominant element of week-to-week changes in the other base measures. Extended monetary base is equal to usual monetary plus imputed reserves released (or bound) by reduction (or increases) in the reserve requirement against member bank deposit liabilities.

Hendershott and Leeuw stated in 1970 dealt with central bank operation and money stock of commercial bank. Their principal hypothesis of their study is that the economic implications of both deposits and short-term interest rates respond promptly to open-market operations, but that even bank behavior alone is sufficient to dilute the interest-rate effect somewhat as time passes. All of the varied forms of the relationship between central bank actions and the money stock that have been investigated can be traced back to a free reserves equation and the basic reserves identity. Short-term interest rate equations and commercial bank deposit "supply" functions (stock and flow) can be derived by solving the free-reserves equation or the free-reserves equation supplemented by either the first difference or level of the reserves identity for one's preferred dependent variable. Thus, the criterion for choosing among the various empirical results must be statistical in nature, not theoretical. By simple algebraic transformation, the authors show how the free-reserve equation and the banking-system identity are equivalent to:

- An equation "explaining" the level of short-term interest rates,
- An equation explaining the change in bank deposits, and
- An equation explaining the level of deposits.

The authors say that each of these derived equations, as well as the initial free- reserve equation, has been the subject of a body of recent empirical work. The authors estimates on non-seasonally adjusted quarterly data for the 1954 **=** mid-67 period. Their empirical work constitutes a genuine test of their model which takes the following form:

- *Free Reserves Equation*

$$\Delta Rf = \lambda\beta_1 + \lambda\beta_2 rdis - \lambda rtb + \lambda Rf_{-1} + \alpha_1 \Delta Rue - \alpha_2 \Delta CL.$$

- *Interest rate equation*

$$rtb = \frac{\beta_1}{\beta_2} + \frac{\beta_2}{\beta_3} rdis - \frac{1}{\lambda\beta_3} \Delta Rf - \frac{1}{\beta_3} Rf_{-1} + \frac{\alpha_1}{\lambda\beta_3} \Delta Rue - \frac{\alpha_2}{\lambda\beta_3} \Delta CI$$

- *Demand change equation*

$$\Delta D = -\lambda\beta_1 \frac{1}{q} - \lambda\beta_2 \frac{rdis}{q} + \lambda\beta_3 \frac{rtb}{q} + \lambda \frac{Rf_{-1}}{q} + (1-\alpha_1)\frac{\Delta Rue}{q} + \alpha_2 \frac{\Delta CL}{q}$$

- *Level of Deposit Equation*

$$D = \frac{Ru}{q} - \lambda\beta_1 \frac{1}{q} - \lambda\beta_2 \frac{rdis}{q} + \lambda\beta_3 \frac{rtb}{q} - (1-\lambda)\frac{Rf_{-1}}{q} - \alpha_1 \frac{\Delta Rue}{q} + \alpha_2 \frac{\Delta CL}{q}$$

Where

- ΔRf is the change in the free reserves
- *Rf* is the free reserves
- Δ *Rue* is the change in effective un-borrowed reserves
- Δ *CL* is the change in commercial and industrial loan from commercial bank
- *rtb* is the three month Treasury bill rate
- *rdis* is the discount rate at Federal Reserve Bank
- *q* is average reserve requirement ratio
- Δ *D* is the change in the level of deposits
- *D* is level of deposits in the member commercial banks
- all other variables are the coefficient of the independent variables

The findings imply that a billion-dollar open-market purchase, holding income and deposits constant, lowers the Treasury bill rate by about three percentage points during the first quarter. Allowing for the response of deposits and income would, of course, reduce the bill-rate effect; in fact as time passes the lagged banking system response alone reduces the effect to about minus two. This reduction is attributable to their relatively low estimate of the banking system's quarterly speed of adjustment, 0.35.The short-run deposit multiplier is in the neighborhood of five; that is, holding interest rates constant, a dollar open-market purchase increases deposits by about five dollars.

The authors say that not too surprisingly, given that the relationships are simple algebraic transformations of one another, the ordinary least-squares estimates of the free- reserve and deposit-change and level equations are quite similar. The authors also apply a two –stage procedure for correcting a likely source of the great discrepancy between these estimates and those obtained in the short-term interest rate equation. The authors claim that a two- stage procedure for correcting the bias is successful in eliminating most of the discrepancy. Thus, authors suggest that not only are the four equations identical theoretically, but they yield very similar statistical estimates when a two-stage procedure is carefully applied in the investigation.

2.3 Review from Previous thesis

Tussing's (1966) study focused on the increasingly accepted statement that orthodox central bank policy exercises an influence over something called "the availability of credit." Author puts forward results of the study to indicate the meaning of credit availability as "one of the main variables on which monetary policy operates." He points out that though this objective can be called "modest," inasmuch as it is clearly only a preliminary step in the formulation of a rigorous availability-of-credit theory. The study deals with the two approaches of monetary policy most commonly offered in the name of credit availability are

- Availability doctrine and
- Credit creation doctrine[3]

The author further states that his study is possible only to suggest some elements any such theory will have to contain, elements policy-makers will have to take immediate account of, if they do indeed operate on the assumption that they are influencing the availability of credit.

The author presents theoretical results of his investigation, which are given below:

There is no doubt about the ability of the monetary authorities' using conventional techniques, to control money-creation by the Commercials Bnaks (CBs). There is considerably more doubt about their ability to control the transfer of money from money-

[3] For the definition of availability doctrine and credit creation doctrine, see: Tussing, pp. 1-13.

holders to deficit units (either directly or through intermediaries) in exchange for newly created non-money financial instruments.

The availability doctrine is best interpreted, to be consistent with the view taken in the study of the availability of credit, as an allegation that the volume of such transactions is limited as a byproduct of the exercise of conventional monetary techniques. If, for instance, CBs were to find money-holders willing to buy government securities, the lending capacity of banks would be enhanced, and banks, without “creating credit” in the conventional sense could nonetheless finance deficits unmatched by a corresponding volume of *ex ante* surpluses. But if the banks were to be locked in, some potential borrowers would be frustrated.

The study points out the fact that monetary policy may have perverse effects on the availability of credit. For instance, it has often been noted that the same tight-money policies of the central bank which limit the ability of JVBs to “create credit” may, through the inducement of higher interest rates, bring money-holders to desire to hold interest-earning assets instead of money, thereby permitting the achievement of deficits in excess of e*x ante* surpluses.

Author claims that his study adds little to knowledge to point out that *ex ante* deficits in excess of *ex ante* surpluses can be financed through money creation plus attempts at reduction of money balances by money-holders. To control the availability of credit sufficiently so that no excess demand can be financed would seem to require influencing both these two types of financing operations. Thus the credit-creation doctrine, in the more modest interpretation must be a part of an overall availability-of-credit theory. Unfortunately, it is only a part, and a small part at that.

Rangarajan and Severn stated in1965 that presented the results of their examination of the impact of monetary policy on commercial bank demand deposits in America. The hypothesis that is to be tested in their study is that changes in demand deposits of the banking system during any given period[4] are the result of the change in aggregate un-borrowed reserves of that period, as well as such changes in earlier periods. Thus, their principal hypothesis is that variations in non-borrowed reserves introduce, both currently and with a lag, variations in demand deposits. The distinctive feature of their study turns on their choice of behavioral unit. The authors chose to examine separately the behavior of Central Reserve City, Reserve City, and Country banks in America.

[4] The authors define the term “period” as an interval of two weeks or half a month in their study.

The authors examine

- The time lag involved between changes in un-borrowed bank reserves and subsequent changes in demand deposits, and
- The magnitude of the eventual deposit multiplier using the data for the period 1954-1963. Their evaluations are computed separately for the periods 1954-59 and 1960-63. Their empirical work constitutes a genuine test of their model which takes the following form:

$\Delta D_t = f(\Delta R_t,\ \Delta R_{t-1,}\ i, \ldots, \Delta R_{t-n}, i,\ \Delta B_t, B_{t-1})$

Where

ΔD = change in demand deposits per period

ΔR_t =: change in un-borrowed reserves of the given period

ΔR_{t-1} = change in un-borrowed reserves of the preceding period

i = rate of interest

ΔB_t = changes in borrowings per period

B_{t-1} = level of borrowing in previous period

The word ‘Bank’ commonly refers to the commercial banks. The Oxford Dictionary defines banks as ‘As establishment for keeping money and values safely, the money being paid out on the customer’s order (by means of cheque)’.

2.4 Type, Nature and Feature of Loans

This report mainly focuses on the Lending Practice and Procedure of Everest Bank Ltd., Nabil Bank and NIC Bank. So, it is rational to present the type, nature and feature of loan provided these Banks as the researcher has consulted from the books, information provided by the officers of the concern Bank

1. Term Loan

Term loan is money lent to the borrowers in a lump sum. Generally subsequent debt in the loan account is not allowed except by way of interest, incidental charges, insurance premiums, expenses incurred for the protection of the security. Term loans are generally granted for long period to finance fixed assets and are repayable on installments over the period of loan.

2. Project loan

Project loan is granted to customers on the basis of the nature of the project. The financial institution asks the borrower to invest certain portion to the project from their equity and the rest will be financed as project loan. The debt equity ration in case of project loan is generally 60:40. The project loan includes the term loan and working capital loan required by the project.

3. Working Capital Loan

Working capital is the difference between current assets and current liabilities. This type of loan is granted to the customer to meet their working capital gap. Working capital can be divided into fixed working capital and variable working capital. Fixed working capital is financed by way of short-term loan while variable working capital is financed by overdraft.

4. Loan against Fixed Deposit Receipt

Fixed deposits are kept for a specified period by the depositor. If a depositor needs money before its maturity, he/she can obtain loan against the security of such deposits. Generally financial institutions allow up 90% of the fixed deposits as loans.

5. Priority/ Deprived Sector Loan

Commercial banks are required to extend advances to priority sector and deprived sector. Out of the total credit facility of the commercial bank, 12% must be extend towards priority sector loan including deprived sector. Loan granted to agricultural sector and service sector up to Rs. 2 Millions and cottage industry up to Rs 2.5 Millions (for single borrowers) falls in the priority sector. Institutional credit to Agricultural Development Bank and Rural Development Banks also fall in this category. Similarly, advance for the purchase of Captive Generators and Export Credit upto Rs. 5.00 Millions are also considered as priority sector loan. Deprive Sector Loan include: -

- Advances to the poor/ weak/deprived people unto Rs. 30,000.00 for income generation or employment oriented schemes.
- Institutional credit to Rural Development Banks.
- Loans to NGOs those are permitted to carry on banking transaction for lending less than Rs. 30,000.00

6. Overdraft

Overdraft facility is a kind of working capital loan. This facility is allowed in current accounts. Overdraft is an agreement by which the banker allows the customers to draw over and above the current account balance. The borrower can not exceed the limit sanctioned to him. In this account, the balance will be fluctuating because of withdrawal and repayment of money by the borrower. Interest on overdraft is charged on debit balance on daily basis. Overdraft is generally granted to the businessmen for the fulfillment of their short term needs. This type of loan is renewed every year if necessary.

7. Cash Credit

Cash credit is similar to the overdraft amount by which the consumer is allowed to overdraw his account. The borrower may operate the account within stipulated limit and when required. Cash credit is provided against the pledge or hypothecation of stock in trade, goods, machinery, land and building etc.

8. Hire Purchase Financing

Hire purchase is a type of installment credit under which the hire purchaser, called the hirer, agrees to take the goods on hire at a stated rental which is inclusive of repayment of principal as well as interest, with an option to purchase. Goods for the purchase of hire purchase may be bus, truck, car, jeep, machinery etc. Hire purchase facility can be granted to the person having fixed source of income. The facility can also be granted to the institutions.

9. Bill Purchase and Discount

Purchasing of bill of exchange of customers in whose favor limit is sanctioned is called purchasing of bills. Bills may be either documentary bills or clean bill. If a bill is accompanied documents of title to the goods (for example, Railway Receipt, Truck Receipt, Airway Bill, Bill of Lading) it is called documentary bill. In the absence of such documents, it is called clean bill. Although the term “bill purchased” seems to imply that the bank becomes the purchaser/ owner of such bills, the bank holds the bills (even if they are endorsed in its favor) only as security for the advance. In additions to any right the banker may make against the parties liable on the bills, the bank can also fully exercise a pledge’s right over the goods covered by the documents. Bank for regular parties discount the usance / time bills. The banks also purchase cheques of approved customers. At he time of purchase of cheque, the amount is credited to the party’s account by debiting bills purchased account and on receipt of the proceeds of the cheques, after collection, the bills purchased account is liquidated.

10. Bridge-Gap Loan

If a term loan is approved to some customers and the approving institution can not disburse the facility because of incompletion of legal and other formalities. In this situation customer may ask as bridge gap loan.

11. Consortium Loan

While a single financial institution cannot grant credit to a project because of single borrower limit or other reasons, two or more such institutions may agree to grant credit facility to the project. Such kind of loan is called consortium loan. Financial institutions may also go on consortium financing to share the risk of project between them selves. In case of consortium loan, the financiers will have ***paripassu*** charge on project assets.

12. Housing loan

Financial institutions also extend housing loan to their customers. Housing loans may be of different nature, e.g. residential building, commercial complex, construction of warehouse etc. Housing loans are granted to the customer if they have regular source of income or if they earn revenue from the housing project itself.

13. Off Balance Sheet Transaction

The Bank provides the facilities to the client being the guarantor in some transaction. This facility provided to the client mainly in two ways.

- Bank Guarantee
- Letter of Credit.

This transaction is also called Off Balance Sheet Transaction. Such type of liability called contingent liability. Contingent liability is such type of liability which may or may not arise during the transaction. It is possible liability but on happening of a certain event it may become actual liability. It is not usual to record contingent liabilities in the Books of Account but the reference is made to them by way of foot notes in the Balance Sheet. Because of that it is also known as Off Balance Sheet Transaction.

In the same for bank it is non-funded based remunerative facilities but more risky than the funded until sufficient collateral are taken. Because of the nature of risk, bank need to analysis of the financial standard, credit worthiness and for ascertaining the performance ability of the customer.

i. Bank Guarantee

No loan is disbursed in the transaction of Bank Guarantee. Hence the researcher would like to introduce it in a single sentence. Bank guarantee expresses a commitment of the bank to make good any financial loss and beneficiary of the Guarantee may sustain when the party named in Guarantee on whose behalf the Guarantee is issued falls to perform the contract and or discharge his/ her obligation.

ii. Letter of Credit (L/C)

L/C is a commitment / undertaking by a bank on behalf of its customer (known as buyer/importer) to pay the counter value of goods/services within a given date of its supplier (known as seller/exporter) according to agreed stipulated and against presentation of specified documents. A “Letter of Credit” is used as an instrument for settlement of payment obligation arising out of commercial transaction like sales/purchases. In such credit, payment obligation arises only upon fulfillment of specified conditions.

It can be also defined that L/C is a written instrument issued by a bank undertaking to pay a certain sum of money to certain party upon presentation of certain documents complying certain terms and conditions as specified in the Letter of Credit and under Uniform Customs and Practice for Documentary Credits (UCPDC) of International Chamber of Commerce (ICC) 500 (Revised).

The bank of importer normally opens a letter of credit not the exporter, hence it is known as importer letter of credit. However, the same import L/C is known as export L/C for the bank of exporter and the exporter himself. This should be understood that importer as well as exporter both do not open separate L/C for the trade of same commodities.

There are four parties involve in this operation:

The bank opening the L/C on behalf of his customer is called

- L/C issuing Bank, upon which bank it opened is called .
- L/C advising Bank. After that the bank going to negotiate the export document is called .
- Negotiating Bank and finally the bank makes the payment is called.
- Reimbursement Bank.

In the process of operation of the Letter of Credit, the bank provides various import and export related financing which are associated with import and export L/C. Let us discuss the loan provided at the time of L/C issuance to settlement.

2.5 Import Financing

Opening Import L/C for the procurement of raw material for the production of finished goods as stipulated by the export L/C are made the financing is normally made in the following way:

2.5.1Payment Against Documents (PAD)

In Letter of Credit transaction, when the document arrives at the bank, principally the L/C opening bank should make the payment of the value to the reimbursing bank. In this situation bank make payment by booking the loan. This type of loan can be treated as forced loan. If the buyer is not able to make the settlement in the due date of the LC, bank makes the payment by financing forces loans. The period of this loan is too short.

2.5.2 CT (Calcutta Transit) Loan

This loan is also just like the PAD but this loan is not treated as force loan. In case of the raw material procurement form the foreign country, transit may be through Calcutta, India. In this case bank make the payment of value, the document, financing CT loan called Calcutta Transit Loan. The period of the loan is until the raw material arrives upto customs points.

2.5.3TR Loan (Trust Receipt Loan):

Trust Receipt Loan is the major loan in the import financing. If the payment of the import LC's are made, the financing is normally booked under Trust Receipt Loan. Each TR loan is settled normally from the export proceeds or by cash deposits by the client if it matures before export. Each TR loan has normally three months of maturity.

2.5.4 Pre Export Loan

Disbursement in short tem loan in cash either in foreign currency or in local currency for the working capital requirement to complete the export order is as per the export order (as per the export LC) is known as pre export loan. This is also known as packing credit loan (PC Loan).

2.5.5 Post export loan:

Upon making the shipment by the exporter, he may require another firm of financing from the bank. This might be conducted in terms of post export loan. Very popular export loan is the Foreign Documents Bills Purchase (FDBP). The export document which exporter submits at the bank for sending to the drawee bank for the further realization can be purchased by the exporter's bank which is known as negotiation of the export document. If this is done the bank provides the amount of negotiation to the exporter as a loan till the proceeds of the same documents realizes. This is known as FDBP.

In some cases, in LC transaction the importer may ask the loan form the exporter's bank adding the additional clause in LC. Exporter's Bank (Negotiating Bank) may provide the loan as per terms and condition mentioned in the Letter of Credit. This type of loan is as per terms and condition mentioned in the Letter of Credit. This type of LC is called the Red Clause Letter. Banks can provide this type of loan against the terms and conditions mentioned in LC.

2.6 Credit Principles, Policy and Practice

During the study, it is become familiar about the credit principle, policy and practice of the banks. To reveal the essential aspect of this chapter, I have taken some empirical principle developed and expressed by the experts, NRB Directives and other evidence, which will help to make the clear concept to this chapter.

Mr Sudir Karki, financial expert giving his view about the credit policy that:

- ❖ Quality of credit is more important than exploiting new opportunities
- ❖ Every loan should have two ways out that are not related and exist from the beginning.
- ❖ Successful completion of the transaction, Realizing Assets/ Drawing on the borrower's resources.
- ❖ The character of the borrower of in the case of corporations, the management and shareholders must be free of any doubt as to their integrity.
- ❖ Banks that associate with people of less than acceptable character damage their own image and reputation for beyond the profit obtained on the transaction.
- ❖ Where security is obtained a professional and impartial view of its value and marketability must be obtained.
- ❖ Do not let poor attention to detail and Loan Administration spoils an otherwise sound loan.
- ❖ If the loan is to be guaranteed, be sure that the guarantor's interest is served as well as the borrower's
- ❖ See where the bank's money is going to be spent.
- ❖ Think first for the bank. Risk increases when credit principles are violated.

2.7 Portfolio Management

Portfolio is defined as a combination of assets and portfolio theory deals with the selection of optimum portfolio that provides the highest possible return for any specified degree of risk or the lowest possible risk of any specified rate of returns. Hence an investor or investment company should invest its assets diversifying in several opportunities so that maximum return can be obtained with minimum risk.

2.8. Risk on Lending can be categorized as follow:

NRB has clearly mention in their directives that the fund collected from the general public as deposit should invest in the profitable sector and as far as possible in the risk free sector. But there is no sector where there is risk free lending. So, to minimize the risk of lending commercial banks have to provision certain portion of investment at NRB according to the nature of credit.

2.8.1 Business Risk

Risk arises from the nature of business. Sales and operation expenses in business unit is uncertain. Change in the economy definitely affect to the business units. No business units can run with its of all variable expenses, there lies some proportion of fixed expenses/ There lies operating leverage due to irregular relationship in sales and expenses change. The risk arise due to the operating leverage is called business risk.

2.8.2Financial Risk

The risk may arise in business unit or production unit may arise due to capital formation. This type of risk is called financial risk.

This risk has been facing by business units and many production units. Hence, an investing company or bank should consider it before approaching to lending.

Basically Risk can be classified in two ways:

2.8.2.1Unsystematic Risk (Diversified Risk)

This risk may arise due to the nature of investment and seen in a particular sector. This risk can be minimized by diversifying of lending at various sectors.

2.8.2.2 Systematic Risk (Non Diversified)

Such type of risk does not arise in a particular sector but in whole economy, Income level, inflation, taxation policy of the government may effect to the whole economy. This risk can not be minimized. Hence investors acquire external return on its investment. Portfolio management should be oriented towards the followings:

1. Portfolio Limit.
2. Portfolio towards risk and higher return.
3. Pricing management.
4. Key risk area must be defined.
5. Single Borrower limit.

2.9 NRB Directives

2.9.1 Directive relating to the single borrower

Nepal Rastra Bank has issued the directive regarding the single borrower limit. The main purpose of the directives is to divers if the commercial banks' lending rather than focusing to the particular borrowers. The directive regarding single borrower limit is as follow:

2.9.2 Limit on credit and facilities

- Funded based credit upto 25% of core capital
- Non funded based facilities upto 50% of core capital

Core capital shall be included the following:

- Paid up capital
- Share premium
- Non Redeemable preference share
- General Reserve Fund

2.9.3Directives Relating Loan Loss Provision

A bank should identify and recognize impairment in a loan or a collective assessed group of loans when it is probable that the bank will not be able to collect, or there is no longer reasonable assurance that the bank will collect all amount due accruing to the contractual term of the loan agreement. The impairment should be recognized by reducing the carrying amount of loans through and allowance or charge off and charging the income statement in the period in which the impairment occurs. A Bank should measure an impaired loan at its estimated revocable. A bank should adopt a sound system for managing credit risk. To be able to prudently value loans and to determine appropriate allowances, it is particularly important that banks have a system in place, where established by the institution itself or by the supervisor, to ratable classify all loans on the basis of risk. A credit risk classification system may include categories or designation that refers to varying the degree of credit deterioration such as substandard loans, designation that refers to varying the degree of credit deterioration such as substandard loans, doubtful loans and irrecoverable loans. A classification system typically takes into account the borrower's current financial condition and paying capacity, the current value and reliability of collateral and other factors that affect the prospects for collection of principle and interest. Hence, Bank should maintain reserve of fund as loan loss provision against the loan disbursed. Nepal Rastra Bank has issued the directive relating the provision of loan loss. We have many examples that most of the banks are taken into liquidation due to bad debt or not repayment of the loan by the borrowers. Hence, to relief from this situation NRB has issued the directives by which commercial bank should make some provision against the loan disbursed by them. For this purpose loan categorized as follow and required the certain percentage of reserve in accordance with the classification. Now, let us discuss the classification of loan and percentage required to maintain the provision as directive issued by the NRB.

1. Pass (Performing Loan): No recovery problem (principal, interest not past due) and principal and interest past due for a period of three months.

2. Substandard: Past due during the period of three months to six months.

3. Doubtful debt: Past period for the period of six months to one year

4. Loss: Past due for a period of more than one year as well as advances which have least possible of recovery or considered uncollected and having thin possible of even partial recovery in future.

All loans and advances classified under substandard, doubtful and loss are categorized as Non performing loan.

2.10 Loan Loss provision

The required loan loss provisioning on the basis of classification of outstanding credit shall be as follows:

Classification of Loan	Loss provisioning
Pass	1%
Substandard	25%
Doubtful	50%
Loss	100%

Directive for Sector wise Lending

Commercial Banks are also required to grant loan and advances in the productive sector, priority sector and deprived sector of the total advances as follows:

- 40% to the productive sectors
- 12% to priority sector including deprive sectors.
- 0.70% to the deprive sector out of loan disbursed to the priority sectors.

2.11. Credit Policy and Flow of credit

Looking at the credit policy of the bank the bank usually flow credit in the three sector

- **Industry Sector:** This sector includes manufacturers of the industrial goods and consumers goods.
- **Trading Sector:** This sector deals with the purchased and sales of finished goods which can be directly consume for the final use or it may be the industrial raw material for the manufacturing industry.
- **Consumer financing:** This type of policy focuses the investment of the bank to the individual citizen to the different sector.

2.12. Procedure for Application, Appraisal, Sanction / Disbursement of Loan

The various steps involved in the loan appraisal, approval and disbursement process are set out below:

2.12.1. Business plan

A borrower interested in taking a loan should approach the Marketing and Planning Division at the bank and make an application by filling out the project information sheet available with the above division regional offices. In this the prospective borrower has to furnish the flowing:

–Technical details;

–Proposed financial structure;

-Expected raw material requirement and

–Certain legal information relevant to the proposed project.

The project information sheet (PIS) is to be submitted along with a project feasibility report and documents certifying the legal status of the company.

2.12.2. Processing of business plan

In the event of processing of business plan at the branch, the plan is scrutinized by the branch officials related to credit department. They prepare the loan proposal, which includes the feasibility of the plan.

At the central office business plan along with the loan proposal submitted by the branch well recommended by branch in-charge /credit in-charge is scrutinized by a project screening committee headed by the general manager and consisting of deputy general managers' sectoral division chiefs and chiefs of the bank.

2.12.3. Screening the business plan

The duly filled out PIS along with detailed feasibility report will be processed by credit department and then referred to the project screening committee for review as to the desirability of the project in the context of national priorities legal obligations, national and international policies and banks own credit policies.

After analysis of the internal and external factors the credit in charge focuses to the security against the lending. Such credits are extended by bank against security of properties. Security may be collateral of fixed nature of stock of the unit or both. Credit in-charge observes the sight of the properties. The parameters for good security define the approaches of road, electricity water and other civil amenities. Importance is given to the property situated in the urban areas.

If the proposal is accepted, the applicant will be advised to file the formal loan application from for financial assistance.

2.12.4. Loan application

In the event of processing the loan application at the office, the application is forwarded by the credit department to the concerned sectoral division. Each sectoral division is entrusted with the following functions:

The concerned sectoral division appraises the project, and decides its viability on the basis of technical and financial soundness of the loan proposal, the marketability of the products as well as the proposal credit worthiness of the applicant borrower. Once the viability of the project is ascertained, the credit division at central office takes a decision as of whether the project will be financed solely by concerned bank or by a consortium formed with some other banks.

Age Criteria for co-applicant is 21 years at the time of application received and not older than 75 years at loan maturity. Subsequent to appraisal an appraisal report is tabled before the sanctioning authority for final decision and approval.

2.12.5 Loan Sanction

Upon proper scrutiny of the loan appraisal the sanctioning authority approves the proposal and prepares a loan sanction letter. The sanction letter spells out the details of the loan, the amount and its purpose, the manner of disbursement the securities to be pledged against the loan (usually, the entire fixed assets of the project are pledged; extra collateral is taken for working capital loan is for those term loans which are intended to finance a movable assets like machinery) the repayment schedule, and other terms and conditions of financing.

Upon receipt of the approval from sanctioning authority at the branch the credit department issues a credit facility offer letter to the borrower. This letter spells out the details of the loan, the amount and its purpose, details of charges, the manner of disbursement the securities to be pledged against the loan and other terms and conditions to be implemented by the bank and the borrower.

The loan documentation charged charge by the banks is

- NPR 1,500 upto NPR 1 million loan
- NPR 3,000 upto NPR 10 million loan
- NPR 5,000 above NPR 10 million loan

If the borrower is satisfied with the offer the borrower signs the offer letter and the agreement is made. Upon acceptance of the offer of the bank the borrower is required to adhere to the terms and conditions stipulated in the offer letter.

2.12.6. EXECUTION OF LEGAL FORMALITIES

When the memo is approved from the top level, some legal formalities are obtained before sanction of loam. The legal formalities are obtained in accordance to the nature of securities and loan. Now, let us discuss about the type of securities and methods of execution.

- **Moveable securities**

Moveable securities include Current Assets, Business Stock, Merchandise Items, Shares, Debentures, Government Bond, Treasury Bills, Fixed Deposits Receipts, Vehicles under Hire Purchase and Export Documents.

- **Immovable Securities**

Immovable Securities are fixed properties such as land, land and building, heavy plant and machines installed within factory premised. Such types of security can not be replaced from one place to other place therefore it is called immovable securities.

So the way of charging according to various types of movable and immovable securities is different. Generally the major way of charging are as mentioned below:

- **Mortgage**

The fixed properties of immovable properties are taken as a security by way of mortgage. Mortgage formality shall be done by preparing mortgage deed. Required information are carried out from Title Deed and from valuation report. Mortgage is the transfer of an interest in specific immovable property for the purpose of securing bank's finance. There are two kinds mortgage as mentioned below:

- **Equitable Mortgage**

Equitable Mortgage is an agreement, express or implied where the interest of property shall pass to the bank as security for a debt due or to become due. It is created by a simple deposit of original title deed with an intent letter of property owner.

- **Legal Mortgage**

In legal Mortgage the property owner transfer his legal title in favor of bank under "Dristi Bandhak" where the bank gets legal estate in the property and he will endowed with all sorts of right and remedies if required.

- **Pledge**

Various types of merchandise items and the business stocks can be considered as security for short term credit facilities by way of pledge arrangement. In this arrangement, bank has effective control over the security and the customer cannot allow transacting over the security before clearing dues outstanding. Furthermore, various types of Government Bond, Treasury Bills and Development Bonds where the lien from the issuing authority is not possible (as observed from the present practice) is also considerable as a pledge item to provide bank advances to its customers. In this situation customers are required to simply pledge the certificates to the bank and bank will make necessary arrangement.

- **Hypothecation**

Banks can make hypothecation fixed assets and current assets of their customers for the purpose of availing loans and advances against the security of the same. Hypothecation documents duly signed by authorized person of Loan company. Goods under hypothecation is under control of customers itself and he is allowed to do the transaction on goods solely, however he is also required to adjust the liability created against hypothecation according to change in the level of stocks/ goods. Under hypothecation there is also an arrangement by which bank can convert the hypothecated item into pledge, if required.

- **Lien**

Various types of documents security such as share certificates of listed company, Fixed Deposit receipt of different banks and other negotiable instruments can also be considered as a security for loans and advances under lien arrangement of the same. It can be done with request to issuing authority by making lien over the same under permission of owner of such documents. The owner of such documents will provide such documents. The owner of such documents will provide such certificates duly discharge in favor of bank along with letter of lien signed by him.

- **Hire Purchase**

Hire Purchase transaction is a king of bailment where the hirer pays money in consideration of the use of goods yet the ownership continues to remain with the bank and who gives the commodities/ goods on hire purchase finance.

After being finalized to grant the loan, bank obtained/ executed various documents to make legally liable to lone for repayment of sanctioned loan. This process is called documentation. Since, different documents are required to be executed accordance to the nature of loan, normally following documents are necessary.

- Promissory Note
- Letter of Request
- Letter of Continuity
- It is filled up for the continue use of those facilities as provided.
- Letter of Arrangement
- Letter of Arrangement is the commitment to the bank by the borrower to arrange the repayment of loan.
- Letter of Disbursement
- Hypothecation of entire current assets and fixed assets.
- Personal guarantee of all the directors and the property owners.
- Mortgage Deed.

2.12.7.Loan Disbursement

Usually, loan is disbursed maintaining a 75:25 loan/equity ratio at any stage of the project. For example, the first disbursement may be made against land and building to the extent of 75%of the total cost of the land and building and the disbursement is made only when the promoter has purchased the land and completed the construction of the building at least up to plinth level through equity financing. Similarly, the bank may disburse loan for the purchase of machinery by opening a letter of credit, ensuring however that out of the total investment, including that to be made for the machinery, 40% is out of once operation are about the start, the concerned sectoral division appoints a team to prepare a project completion report (PCR)

At the time of disbursement of loan bank charged 1% as the service charge of loan amount.

2.13. Loan Recovery Procedure

After the client enjoys the facility they have to return the fund within the purposed time period. The working capital loan is given for the one-year period and has to renewed every year on the renewal request of the client. The repayment schedule of the loan have different method. As mention below:-

- Term loans are granted for a maximum period of 15 years, depending on the nature and debt-servicing ability of the project. And whole amount of principal as well as interest must settle within the given time period.
- Principal dues are payable in monthly installments where as interest is payable quarterly basis.
- A grace period (moratorium) for repayment of principal is granted on the basis of the time required for the project to come in to operation and interest dues during the construction period are capitalized. And this moratorium period up to the 1 year is in the practice of the commercial bank.
- Short-term loans of working capital loans may be granted for a period of 1 to 3 years and are subject to renewal.
- Repayment of interest become due on quarterly basis, as follows:
  - End of Chaitra (Mid April)
  - End of Ashad (Mid July)
  - End of Ashwin (Mid October)
  - End of Poush (Mid January)

- In the event of failure of payment of interest, the interest charged on Ashad (mid-June to mid July) and Paush (Mid December to mid January) will automatically be capitalized after one month and the capitalized interest will carry the same interest rate as on the pertinent loan.
- The payment of the retail lending is based in the EMI (Equal Monthly Installment) basis where the principal and the interest is paid every end if the month. In this method of repayment of the loan the borrower have to pay equal installment every month for the given time period
- If the borrower want to pay the loan before the maturity of the granted loan then the bank charged panel of additional 1% charged form the sanction loan as the

premature settlement of the loan. And in generally practice of the commercial banks the prepayment charged are

- 2% of amount prepaid before 1 year
- 1% of amount prepaid after 1 year
- Partial payment allowed after 1 year only
- Service Charge: 1% of loan amount of loan sanction.

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CHAPTER -THREE

RESEARCH METHODOLOGY

This chapter describes the approach, materials, and procedures the present study uses to analyze the primary and secondary data.

3.1 Research Design

This study describes and explores the credit policy and its implementation by JVBs toward diversification of investments. So, descriptive, exploratory and analytical methods are combined, as the study demands, for the best result.

3.2 Population and Sample

The entire number of JVBs functioning is the population of this study. JVBs were taken as subjects on random sampling basis. For the analysis of credit policy and its implementation of 3 JVBs are taken randomly. Here due to different constraints only three joint venture banks namely, Nabil Bank, Everest Bank and NIC Bank, taken as the sample in this study.

3.3. Rationale of Sampling

The study concentrate the credit policy and practices of three joint venture Banks which represents the almost all the activity of the existing joint venture Banks in Nepal. Nabil Bank is the oldest of all joint venture Bank in Nepal. It is the representative for the first generation bank. It has the huge investment and large operation and number of branches, which also may draw something-significant recommendation, the domestic commercial bank in addition to joint venture bank. Everest Bank Limited also has banking operation history more than one decade. It is the pioneer bank to introduce retail lending in the history of Nepalese commercial bank. NIC bank is one of the latest introduced bank among above sample bank. It is not joint venture bank but has draft drawing agreement with Standard Chartered Bank and other private bank in India.

3.4. Number of observation

Five years data of three JVBs were taken for the study. The amount of investments and deposits during the sample period by sampled JVBs from 1999/2000 to 2004/2005 is taken for study.

3.5. Sources of Data

To study the policy and its implementation in the portfolio of investment, historical data of sampled JVBs are used. The secondary source includes the publication of annual report of related bank in which balance sheet, profit & loss account, financial statement are the main one to support this study. It also includes the related bulletin, books, journal, etc. In addition to the secondary data, it also uses the primary data like interview, questionnaires to concern officials and directive to commercial banks. Thus, both primary and secondary sources are used for the required data collection. The study heavily depends upon the secondary sources, since the main objective of research is to study the policy and its implementation by JVBs.

3.6. Pilot Study

Pilot study, on a small scale, was carried on before launching a major research was done. Some changes were made in questionnaires so as to make them understand easily by the respondents.

3.7. Data Analysis Tools

Relevant statistical tools and financial tools are used to find out the best appropriate outcomes as per designed objectives of the present study. The present research has used mix of following tools in the analysis.

3.7.1. Statistical Tools

Brief explanations of the statistical tools used in this study are given below.

- **Arithmetic Mean (Mean)**

The simple or arithmetic average in which all the observations are treated equally, is the sum of all the individual numbers divided by the number of observations.

$$\text{Mean } \left(\bar{X}\right) = \frac{X_1 + X_2 + X_3 \ldots\ldots\ldots X_n}{n}$$

Where $\bar{X}$ = mean

X_1, X_2, X_3 to X_n are given set of observations up to the period n

n = number of items observed.

- **Standard Deviation**

In order to indicate the variability of the individual observations, standard deviation is used in this study. Standard deviation measures the dispersion or variability around the mean. The equation for the computation of the standard deviation (σ) is

$$\sigma = \sqrt{\frac{\sum\left(Xn - \bar{X}\right)^2}{n-1}}$$

$\bar{X}$ = The average (mean)

X_n = The individual observation

n = Total number of observation

- **Coefficient of Variation (CV)**

Coefficient of variation (CV) is used to adjust for such difference in scale. It is a relative measure of dispersion and is defined as the ratio of the standard deviation divided by the mean. That is, CV = $\frac{\sigma}{\overline{X}}$

It is usual for the risk/return model. It shows the return per unit of risk.

3.7.2. Financial Tools

Financial ratios are computed and interpreted from two perspectives. They are complied for a number of years to perceive trends, which is usually known as time-series analysis. Next, they are compared at a given time for sample JVBs, known as cross-sectional analysis. Some of the selected tools are explained as below.

- **Current Ratio**

Current ratio is the ratio of current assets to current liabilities. It is a measure of liquidity.

Current Ratio = $\frac{Current\ \ Assets}{Current\ \ Liabilities}$

Current assets include normally those assets of a firm, which are converted into cash within one year. These assets of a firm includes cash, bank balance, investment in treasury bills, discounts, overdrafts, short term advances loans, foreign currency loan, bills for collection, customer acceptance, stock, receivable and prepaid expenses.

Similarly current liabilities include those liabilities of a firm which are paid within one year, like current payments, cash margin, current deposits, saving deposits, inter bank reconciliation accounts, bills payable, provision for overdraft, accrued expenses, bills for collection, customer acceptance, outstanding expenses, dividend payable, and provision for taxation. Although there is no hard and fast rule for measuring this ratio, conventionally a CR ratio of 2:1 is considered satisfactory.

- **Activity Ratio**

Activity ratio is concerned with measuring the efficiency in assets management. Sometimes, these ratios are called efficiency ratios or assets utilization or turnover ratio. Because they indicate the speed with which assets are converted or turned over into sales. This ratio involves a relationship between sales and assets. Greater the rate of turnover or conversion the more efficient the utilization and management of assets.

If the available assets are not utilized, the investment upon them will be idle and profit will also decrease, on the other hand, insufficient investment causes less production, less sales, less profit etc. So, proper balance on sales and assets is important for a firm. Various ratios are used to compute the efficiency of a firm.

- **Loan and Advance to Total Deposits Ratio**

Most of the commercials banks earn more profit by using funds of outsider deposited in terms of loan and advances. The ratio shows whether the banks are efficient to utilize the outsiders' fund (i.e. total deposits) for the purpose of profit generation on the loans and advances thus provided.

Generally higher ratio reflects higher efficiency of in utilizing outsiders' fund and vice versa. The ratio can be computed by dividing the total amounts of loans and advances by total deposited funds.

Loan and advance to total deposits ratio = $\frac{Loan\ and\ \ Advance}{Total\ Deposits}$

Loans and advance refers to the total amount of loan and advance and overdraft (i.e. in local currency plus convertible foreign currencies) and total deposit refers the total of all kinds of deposits.

- **Loan and Advances to Fixed Deposits Ratio**

This ratio represents how many times the funds are used is loans and advances against fixed deposits. Fixed deposits are long term interest bearing obligation and loan and advances are the main sources of earning of the bank. This ratio can be computed by dividing loans and advance by fixed deposits.

Loan and advance to fixed deposits ratio = $\frac{Loan\ and\ \ Advance}{Fixed\ Deposits}$

A high ratio indicates idle cash balance i.e. cash is not being utilized properly.

- **Loan and Advance to saving deposits Ratio**

This ratio examines how many times the funds are used to loans and advance against saving deposits. Saving deposits are interest bearing short term obligation and loan and advance are the major sources of generating income. This can be computed as dividing loan and advance by saving deposits.

Loan and Advance to saving deposits ratio = $\frac{Loan\ and\ \ Advance}{Saving\ Deposits}$

- **Performing Assets to Total Assets Ratio**

Performing assets represents those total assets that are invested in the form of loan and advance like: bills purchased and discounted investment and money on the short call. This ratio can be computed by dividing performing assets by total assets.

Performing assets to total assets ratio = $\frac{Perfor\min g\ \ Assets}{Total\ Assets}$

This ratio shows how much the banks are successful in utilizing their assets for profit generating purpose. Generally higher ratio represents the higher efficiency in utilizing assets and vice- versa.

* * * * *

CHAPTER -FOUR

DATA PRESENTATION AND ANALYSIS

4.1. Analysis and Presentation of Data

Present chapter reports the financial tools and statistical tools results of sample banks over the sample period through the use of secondary data. It also presents the results of primary data. This study is mostly based on the two aspects. The first part defines the credit policy (Loan Sanction Process) of the bank and the next part defines the implementation of the credit in the different sector. This chapter of thesis also presents the data, facts, figures relating to different aspect of Nabil Bank, NIC Bank and Everest Bank Limited. This available data are tabulated, analyzed and interpreted so that the credit flow of the above bank can be easily understood. Though there are many financial tools but due to some sort coming and constraints, only selected tools have been taken to analyze the credit policy of the joint venture bank. The types of loans have been mentioned in the second chapter the all bank has the same identical type of loan in the competitive market. But, in this chapter only defines only the credit flow procedure and the different sector of investment.

The second part of the thesis consists of the credit implementation; this part describes the credit flow of the bank in the chat, tabular form and interprets the data with the measurement of the tools.

4.2. Presentation of data from Primary Source

The information that has been collected from the primary data is though the questionnaire distributed to the various staff of the banks and the also the personal visit with the concern staff has helped to collect the information. Not only the interview is held with the bank staff but the researcher has also taken interview with the various credit client of the bank. One set of the question is been attached with this thesis in the Appendix I, and the average answer is interpreted by the researcher. The researcher has collected the information through the questionnaire as a sample data only to the fifty staffs members of the commercials.

The first question is asked which sector is the most secure lending, most of the banks staffs reply that the housing financing is the most secure lending. The staff of Everest Bank Limited Mr. Ujwal Kumar Pokhrel told that Everest Bank is the pioneer bank to introduce the housing loan in the history of Nepal and is the successful and secure scheme so out of many 'consumer financing' the housing financing is the secure financing. But Nabil bank staff focus on the manufacturing industry is the secure investment, they told investment in the industry sector helps in the growth of the nation too, they do not go with the consumer financing because it do not contribute to the nation only the individual will be benefited. And the operating cost in the consumer financing is high and amount of financing is low. The manager of NIC bank (Birgunj) Mr. B.N Gharti and many other sample members told that government bond is the most secure source for lending and lending in these sector has zero percentage of risk or it is the risk free investment.

The second question is about the lack of promotion activity in the investment in priority and deprived sector the commercial banks. The main reason for less amount of investment in these sectors is due to the loan recovery form these securities is low. Most of the branches of the commercial banks are located in the cities and the demand in these loan are too less in quantity and amount. Demand of the loan for these sectors are from the rural area and joint venture banks are not approaching to the rural area due to the lack of security. According to the NRB directive no commercial can take collateral as security in the investment in deprived sector. So, due to the fear of loan recovery and high operating cost the bank reject most of the loan in these sectors.

The answer question is asked for the common security that the bank demands at the time of granting the loan the common answer is that commercial banks usually accept the fixed assets as the security. Government bond is also highly preferred by the banks by the duration of these bond are for the short period commercial banks usually accept fixed assets as the collateral. Personal guarantee is also accepted by the bank only to the prime client. But the banks do not usually accept personal guarantee. Because bank has to provision 100% of it's lending on the personal guarantee. Bank usually takes more value of securities than the necessary. In this question one of the option was gold and sliver and found that that these assets as the collateral is value less or simply we can say that commercial banks has no any policy to grant loan against the gold and silver.

The fourth question was asked how long does the commercial banks takes to disburse the loan form the date of loan application, the answer in this question is found positive

In an average of within 30 days from the date of loan application bank sanction loan but due to unavailable of sufficient information from the client it may takes some more time. It means we can analysis that commercial banks are quick in their services.

The fifth and the sixth question was of same nature so the answer for the question number five and six came together, in the fifth question it was asked that the which authority approves the credit policy and all respondent reply that the board of directors approves the credit policy it means that the decision making authority is hold by the top level and rest of the employee is exercise the policy. Although the policy making is done by the top level but communication flow is based on both top-bottom approach and bottom-top approach. So form this approach we can say that the banks staffs are working as the team. In the sixth question it is asked that does your bank have the hierarchy for the loan sanction and it is found that every level above the branch manager has the certain credit limit to sanction credit facility then power beyond branch manager passes to the deputy general manger and again power beyond deputy general passes to Executive director and final decision goes to board director. The hierarchy is made for the loan sanction is to provide the loan to its client as soon as possible and to make fewer burdens to the higher authority.

The seventh question is which product of credit facility is most profitable and the answer on this question is in the mixed form everyone comes in his or her view. So, we can convince that every product of the banks is the profitable scheme.

The eighth question is asked for the follow-up for the over due of the loan to the borrower is done immediately. Because due to the high technology and software they are using the bank gets information about the overdue immediately and tries to take action of recovery soon and effectively.

The ninth question is asked to that while floating loans your banks gives some extent of priority on the following sector i.e industrial, trade, service and others. and it was also mention that the priority in each sector are independent with each other In the answer of the ninth question that they found the question is vast. Because the question is not clear to them but also trade financing from NIC bank and Nabil bank got the highest percentage of score but staff from Everest bank support other Sector marking as the retail lending.

The tenth question is asked for the most important reason that leads to the NPA (Non Performing Assets). The most common answer is due to irregular follow up and inspection in the site visit. Further the respondent has given the clear and most happening situation of Nepal bank limited. But investment in the wrong sector also leads to the increase in the NPA. Staffs of the banks do not agree on the due to higher interest rate there is no chances for turning loan from good to bad. They support that interest rate they offer to the client is reasonable. And further more they told that the option given in the questionnaire is equally important and have to consider all the precaution. Like investment in wrong sector, excess credit flow than the necessary, lack of documentation process at the time of loan disbursement, high interest and irregular inspection and field visit.

The eleventh question is asked for the banks procedure to reduce NPA. The bank's first procedure to reduce the NPA is the regular follow up to the client forcing them to pay back all the due amount the second alternative is to rebate the interest amount and forcing to the client to pay the principal amount immediately. The last actions for the bank to get the loan amount recover with the help of the legal action. According to their answer, in question no. eleven it indicates that banks can go to any up to level to get public's money back.

The twelfth question is asked for external factors that may cause for NPA growth. And the below the researcher has presented the result of most common answer of the respondent.

a) Economic and industrial recession in the case of increasing NPA. **(Totally Agreed)**
b) In consistency Government policy is of the case for NPA increment. **(Agreed)**
c) High and conservative provisioning requirement has caused for increment on NPA level. **(Slightly Agreed)**
d) Lacking on monitoring and supervision from NRB has played significance role on NPA increment. **(Totally Agreed)**
e) In absence of strong legal provision for loan recovery, there is some lacking which ultimately leads to high NPA. **(Agreed)**
f) Due to political, bureaucratic and external pressure loan is being floated without choosy and this has cause for NPA Increment. **(Neutral)**

4.3. Presentation of data Information from Secondary Source

Liquidity of the firm refers to the sound solvency position of a firm to meet its obligation, liquidity ratios measures the ability of a firm to meet its short term obligations. Various ratios come under this category.

4.3.1. Current Ratio / Quick Ratio

It is the ratio of total current assets to total current liabilities calculated by dividing the company's current liabilities. In the service industries like banks doesn't have their stock, so current and quick ratio are same.

Current Ratio = $\frac{Current\ \ Assets}{Current\ \ Liabilities}$

Current assets of joint venture bank refers to cash and near cash items (i.e. cash and bank balance, money at call and short notice, loans and advances, cash credit, bills discounted, investment, interest receivables, miscellaneous current assets) and current liabilities are deposits (i.e. saving, fixed, current, call and short deposit, other bill's payable. Miscellaneous liabilities). The following table shows the current ratio of NABIL Bank, Everest Bank and NIC Bank;

Table-4.1

Current Ratio in times

Year	Nabil			EBL			NIC		
	C.A	**C.L**	**Ratio**	**C.A**	**C.L**	**Ratio**	**C.A**	**C.L**	**Ratio**
2001	5541.9	12780.1	0.43	278.6	3057.4	0.09	221.5	2025.5	0.11
2002	6284.9	15838.9	0.40	824.1	4574.5	0.18	539.4	3575.8	0.15
2003	4999.3	15370.6	0.33	809.2	5461.1	0.15	606.5	3165.3	0.19
2004	4162.1	13437.7	0.31	2256.1	6694.9	0.34	48.0	3143.9	0.11
2005	3616.9	14098.0	0.26	869.7	8064.0	0.11	448.8	5146.4	0.09
Mean	0.34			0.17			0.13		
S.D	0.07			0.10			0.04		
C.V	0.21			0.57			0.32		

Source NRB Quarterly Bulletin No. 44

The ratio of Nabil bank over the study has been ranged between 0.26 in the year 2005 and 0.43 in year 2001. In this above table we can see that as the time passes by the rate of ratios are going on decreasing. Where as Everest bank ratio is in between 0.09 in year 2001 to 0.34 in year 2004 and the lowest ratio of NIC bank is 0.11 in the year 2001 and 2004 and highest ratio is recorded 0.19 in year 2002. Looking at the above ratios the banks are not meeting the standard of the ratio that is 2:1. As we know that the assets of the banks or company should be the double than the liability but in case of banks the researcher has found that is just opposite then the principle of the ratio.

However the Nabil bank and NIC bank has less consistency in its current ratio with C.V of 0.21 and 0.32 respectively. But EBL has the highest value of C.V of 0.57 with lower consistency but the mean of Nabil Bank has the less among the three sampled bank.

The current ratio of above bank is the highest then the standard ratio of 2:1. We can say that Nabil bank has maintained the standard but other bank has too low in the standard of the ratio, so it is difficult to measure the liquidity position. We can say the too low liquidity position means that the bank is not getting the good opportunity to invest in the profitable sector and holding the amount.

4.3.2. Loan and Advances to Current Assets Ratio

This ratio measures the relationship between loan and advances to current assets. It shows the banks (liquid) capacity of discounting and purchasing the bills and loans, cash credit and overdrafts facilities to the customers. In this study loan and advances refers to local and foreign bills discounted and purchased and loans, cash credit and overdraft in local currency as well and inconvertible foreign currency. This ratio is calculated by dividing loans and advances by current assets.

Loans and Advance to Current Assets = $\frac{\text{Laon and Advances}}{CurrentAssets}$

The following table shows the ratios between loan and advances and the current assets of the Nabil Bank, Everest Bank and NIC Bank

Table-4.2

Loan and Advance and Current Assets (Amount in million and ratio in times)

Year	Nabil			EBL			NIC		
	L &.A	C.A	Ratio	L &.A	C.A	Ratio	L &.A	C.A	Ratio
2001	7323.6	5541.9	1.32	2270.2	278.6	8.15	1659.1	221.5	7.49
2002	8437.6	6284.9	1.34	3006.6	824.1	3.65	2622.2	539.4	4.86
2003	7328.2	4999.3	1.47	3982.7	809.2	4.92	2369.9	606.5	3.91
2004	8267.8	4162.1	1.99	5049.6	2256.1	2.24	2564.3	348.0	7.37
2005	8769.7	3616.9	2.42	6131.1	869.7	7.05	3746.6	448.8	8.35
Mean	1.71			5.20			6.40		
S.D	0.48			2.42			1.90		
C.V	0.28			0.46			0.30		

Source NRB Quarterly Bulletin No. 44

The above table shows that the loan and advance to current assets ratio of Nabil Bank is highest in the year 2005 is 2.42 and the lowest in the year 2001 is 1.32. Whereas Everest bank limited has the highest ratio of 8.15 in the year 2001 and lowest of 2.24 in the year 2004. In this way we can analysis that there is high variance in the ratio of EBL because in the five year data the ratio was 4.92 in the year 2003 and again the ratio decrease to 2.24 which was the lowest among the five year sample data and subsequently next year the ratio move towards the highest ratio i.e. 7.05. NIC bank's lowest ratio is 3.91 in the year 2003 and highest in the year 2005 of 8.35. The highest ratio of INC bank is the highest ratio among the above sampled banks.

Among the above three sampled bank the Nabil Bank has more constituency than other banks the C.V of Nabil Bank has 0.28 and NIC Bank and Everest Bank has the C.V of 0.30 and 0.46 respectively.

The above table shows that Everest Bank and is not utilizing its current assets in terms of loan and advance than Nabil Bank and NIC Bank. Everest Bank has to increase the utilization of its current assets should increase its loan and advances.

4.3.3. Loan and Advance to Total Deposit Ratio

This ratio measures whether the banks are successfully utilizing outsider's fund in profit generating purpose by extending for use of loan and advances.

Generally' a high ratio reflects higher efficiency to the utilization of outsiders fund and vice-versa. This ratio is calculated by using following formula.

$$\text{Loan and Advances to Total Deposit Ratio} = \frac{\text{Laon and Advances}}{TotalDeposit}$$

Here, loan and advances refers to total of loan, advance and overdraft (i.e. in local currency plus convertible foreign currency) and total deposit refers to total of all kinds of deposit at the bank.

The figure of total loan and advance and total deposit is presented in the tabular form and measurement is made in the next subsequent table.

Table-4.3

Loan and Advance (L&A) to Total Deposit (Amount in million and ratio in times)

Year	Nabil			EBL			NIC		
	L &.A	Deposit	Ratio	L &.A	Deposit	Ratio	L &.A	Deposit	Ratio
2001	7323.60	12780.10	0.57	2270.20	3057.40	0.74	1659.10	2025.50	0.82
2002	8437.60	15838.9	0.53	3006.60	4574.50	0.66	2622.20	3575.80	0.73

2003	7328.20	15370.60	0.48	3982.70	5461.10	0.73	2369.90	3165.30	0.75
2004	8267.80	13437.70	0.62	5049.60	6694.90	0.75	2564.30	3143.90	0.82
2005	8769.70	14098.00	0.62	6131.10	8064.00	0.76	3746.60	5146.40	0.73
Mean	0.56			0.73			0.77		
S.D	0.06			0.04			0.04		
C.V	0.11			0.06			0.06		

Source NRB Quarterly Bulletin No. 44

From the above results we can see that most of the fund that has been floated from the deposit receives from the customers. The lowest ratio of loan and advances to deposit is 0.48 of Nabil Bank in year 2003 and highest ratio is 0.82 in year 2001 and 2003 of NIC bank.

The lowest ratio of Nabil Bank is 0.48 in year 2003 and the highest ratio is 0.62 in the year 2005.

The C.V of Everest Bank and NIC bank is low i.e. 0.06 so it has the more consistency than other sampled bank. The above table shows Everest bank and NIC bank are successfully utilizing its resource in profit generating field than Nabil Bank. Lower ratio between loan and advances to deposit of Nabil Bank brings the bank in the risk to pay back the customer deposit and chances of recover in time may not occur. So, it will be better for Nabil Bank and to increase the portion of loan and advances to earn more interest.

4.3.4. Fixed Deposit (F.D) to Loan and Advances (L&A) Ratio

This ratio of commercial banks indicates, how much of loan and advances are granted against fixed deposit. Fixed deposits are the higher interest rate payable deposits. Hence, commercial bank should utilize the fixed deposits properly. This ratio can be calculated with the help of the following ratio.

$$\text{Fixed Ratio to Loan and Advance} = \frac{\text{Fixed Deposit}}{\text{Loan and Advances}}$$

The following table displays the ratio of loan and advances to fixed deposit of Nabil Bank, Everest Bank and NIC bank.

Table-4.4

Fixed Deposit to Loan and Advances (Amount in million and ratio in times)

Year	Nabil			EBL			NIC		
	L &.A	**F.D.**	**Ratio**	**L &.A**	**F.D**	**Ratio**	**L &.A**	**F.D**	**Ratio**
2001	7323.60	3194.30	0.44	2270.20	1592.70	0.70	1659.10	1174.20	0.71
2002	8437.60	3719.20	0.44	3006.60	2470.20	0.82	2622.20	1958.00	0.75
2003	7328.20	2446.80	0.33	3982.70	2694.60	0.68	2369.90	1347.10	0.57
2004	8267.80	2252.60	0.27	5049.60	2803.40	0.56	2564.30	1142.00	0.45
2005	8769.70	2310.60	0.26	6131.10	2914.10	0.48	3746.60	2083.10	0.76
Mean	0.35			0.65			0.65		
S.D	0.09			0.13			0.13		
C.V	0.25			0.21			0.21		

Source NRB Quarterly Bulletin No. 44

The above table shows the total ratio of the fixed deposit to loan and advances. Looking at the average of the five year ratio of total lending from the fixed deposit the average lending of the Nabil bank is low than the Everest bank limited and NIC bank. Nabil bank invest the ratio of 0.35 to the total loan and advances. Though the lending from the fixed deposit is the safe lending because the maturity date of the fixed deposit is known to the bank then also the Nabil bank is lending only the fewer portions. The Everest bank and the NIC bank has utilized the benefit of the fixed deposit. So they have utilized the high portion of the fixed i.e. 065 to the loan and advance.

Thus the above table clearly indicates that the fixed deposit to loan and advances ratio are being efficiently and properly utilized by the Everest and NIC bank equally. But, Nabil bank requires utilizing the benefit of fixed deposit. And invest more the portion of fixed deposit in various productive and profitable sectors.

4.3.5. Saving Deposit (S.D) to Loan and Advance Ratio

This ratio indicates the portion of total saving deposit utilized in loan and advances. Saving deposits are interest paying deposits. So, the banks should utilize them properly. This ratio can be calculated with the help of following formula.

$$\textit{Saving Deposit to Loan and Advance Ratio} = \frac{\text{Saving Deposit}}{\text{Loan and Advances}}$$

Following table shows the total Loan and Advances and Saving Deposit

Table-4.5

Saving Deposit to Loan and Advance Ratio (Amount in million and Ratio in Times)

Year	Nabil			EBL			NIC		
	L &.A	S.D.	Ratio	L &.A	S.D	Ratio	L &.A	S.D	Ratio
2001	7323.60	4150.20	0.57	2270.20	891.70	0.39	1659.10	356.30	0.21
2002	8437.60	4917.10	0.58	3006.60	1384.10	0.46	2622.20	526.00	0.20
2003	7328.20	4889.00	0.67	3982.70	1733.30	0.44	2369.90	576.20	0.24
2004	8267.80	5237.40	0.63	5049.60	2758.00	0.55	2564.30	733.70	0.29
2005	8769.70	5994.10	0.68	6131.10	3730.70	0.61	3746.60	1280.40	0.47
Mean	0.63			0.49			0.28		
S.D	0.05			0.09			0.11		
C.V	0.08			0.18			0.38		

Source NRB Quarterly Bulletin No. 44

Lending from the saving deposit is also a safe lending because this type of deposit is made by the individual who have excess saving from their income. And withdrawal chances from the saving deposit is also low. Looking at the above table Nabil bank has invested highest ratio in the year 2005 of 0.68 and 0.57 in 2001. Everest bank has the highest ratio of 0.61 in year 2005 and lowest of 0.39 in 2001. Finally NIC bank has recorded highest ratio of investment of 0.47 in year 2005 and lowest of 0.20 in 2002.

When we compare the entire banks investment ratio in the year 2005 have the highest ratio of investment. And in the year 2001 has the lowest ratio of investment. So, we can as that as the time passes by the banks has changed the trend to invest more ratios from the saving deposit.

The average invests in compare to the five year data Nabil bank has the high ratio of 0.63 investments from the saving deposit. Everest bank has the ratio of 0.49 and NIC bank seems the conservative bank which invests only 0.28 from the saving deposit.

The C.V of the Nabil Bank is the lowest of 0.08 than other sampled bank, so, we can say the it has the highest consistency. The C.V of the Everest bank and NIC bank has 0.18 and 0.38. From the above calculation we van say NIC bank has low consistency which fluctuates in the high ratio. It also means that Nabil bank is utilizing its saving deposit properly than Everest Bank and NIC bank.

4.3.6. Current Deposit (C.D) to Loan and Advance Ratio

This ratio indicates the portion of total current deposit utilized in loan and advances. Current deposits are non interest paying deposits. So, the banks should utilize them properly at the same time bank have to aware of heavy withdrawal at any time. This ratio can be calculated with the help of following formula.

Current Deposit to Loan and Advance Ratio: $\frac{\text{Current Deposit}}{\text{Loan and Advances}}$

Following table shows the total Loan and Advances and Current Deposit

Table-4.6

Current Deposit to Loan and Advance (Amount in million and Ratio in times)

Year	Nabil			EBL			NIC		
	L &.A	**C.D.**	**Ratio**	**L &.A**	**C.D**	**Ratio**	**L &.A**	**C.D**	**Ratio**
2001	7323.60	2935.30	0.40	2270.20	274.40	0.12	1659.10	148.30	0.09
2002	8437.60	2957.10	0.35	3006.60	399.70	0.13	2622.20	248.00	0.09
2003	7328.20	2723.00	0.37	3982.70	489.60	0.12	2369.90	257.20	0.11
2004	8267.80	3025.00	0.37	5049.60	562.40	0.11	2564.30	235.80	0.09
2005	8769.70	2687.00	0.31	6131.10	719.80	0.12	3746.60	278.50	0.10
Mean	0.36			0.12			0.10		
S.D	0.03			0.01			0.01		
C.V	0.10			0.07			0.08		

Source NRB Quarterly Bulletin No. 44

By interpreting the above data we can see that Nabil bank has utilized the maximum ratio of current deposit. But the nature of current is non interest payable deposit and can be withdrawal from the bank at any time and any sum of available sum of amount. So, less amount of investment made from the current deposit more it is benefit to the bank. NRB directive has also clearly mentioned the highest ratio of liquidity should be maintained by the banks.

Nabil bank has highest ratio of investment from the current deposit. In the average of five years sample it has invest 0.36 to the total Loan and advances. But other banks Everest bank and NIC bank has invested the lowest portion from the current deposit i.e. 0.12 and 0.10 respectively.

The C.V of the Everest bank has the lowest of 0.07 and has the highest consistency. But NIC bank has also the lowest consistency of 0.08. So we can say that Everest Bank and NIC bank has utilized the benefit from the current deposit the Nabil bank.

4.3.7. Call Deposit (Call. D) To Loan and Advance Ratio:

This ratio indicates the portion of total call deposit utilized in loan and advances. Call deposits are interest paying deposits on the daily basis. This deposit is highly costly deposit to the bank so; the banks should utilize them properly. The chances of the withdrawal from this type of deposit are too low. The business person and retired people are seems more attracted to open call account because they get the interest on daily basis and can be withdrawal at any time of the deposited amount.

This ratio can be calculated with the help of following formula.

Call Deposit to Loan and Advance Ratio: $\frac{\text{Call Deposit}}{\text{Loan and Advances}}$

Following table shows the total Loan and Advances and Call Deposit

Table-4.7

Call Deposit to Loan and Advance (Amount in million and Ratio in Times)

Year	Nabil			EBL			NIC		
	L &.A	Call.D.	Ratio	L &.A	Call.D.	Ratio	L &.A	Call.D.	Ratio
2001	7323.60	2083.9	0.28	2270.20	185.40	0.08	1659.10	219.50	0.13
2002	8437.60	3948.30	0.47	3006.60	225.60	0.08	2622.20	797.10	0.30
2003	7328.20	4944.70	0.67	3982.70	439.40	0.11	2369.90	942.09	0.40
2004	8267.80	2540.70	0.31	5049.60	428.00	0.08	2564.30	966.10	0.38
2005	8769.70	2801.60	0.32	6131.10	565.60	0.09	3746.60	1416.20	0.52
Mean	0.41			0.09			0.35		
S.D	0.16			0.01			0.14		
C.V	0.40			0.15			0.41		

Source NRB Quarterly Bulletin No. 44

Form the above table we can see that the ratios between call deposit to Loan and Advances are fluctuates with the passage of time. Ratio if Nabil bank has increased form 2001 to 2006 and the ratio have decreases in the subsequent years. The highest ratio is 0.67 in 2003; the lowest ratio is 0.28 in 2001. The average ratio of the five years sample data is 0.41.

Ratio of Everest bank is too low the highest ratio is 0.08 in the year 2001, 2002 and 2005 and the highest ratio is 0.11 in 2003. Though the withdrawal chances from call deposit is very rare chances the bank has not utilizes the benefit from the call deposit by increasing the lending from call Deposit.

The fluctuation of the ratio between call deposit to loan and advances of NIC bank is too high the lowest ratio is calculated 0.13 in the year 2001 where as highest ratio is calculated 0.52 in 2005. And the average ratio is calculated 0.35. The fluctuation in the ratio shows that the banks policy in investment through the call deposit has changed. In the beginning the bank has invest only few ratio from the call deposit, but as the time passes by the bank has started to invest major portion from the call deposit. As the result in the last year i.e., in 2005 bank has invest 0.52 (52%) from the call deposit

C.V of the Everest bank is low i.e. 0.15 so we can say is has the highest consistency among the sampled bank. Other banks like Nabil and NIC bank has calculated the C.V of 0.40 and 0.41 respectively.

4.3.8. Other Deposit (Other.D) to Loan and Advance Ratio

This ratio indicates the portion of total other deposit utilized in loan and advances. Other deposits are not interest paying deposits. This deposit is non-costly deposit to the bank so, the banks should utilize them. Actually other deposits are margins deposits and the maturity if the fixed deposit but the claim has no made by the customers. These deposits should be refunded by the bank if the customers claim on the amount. We can say that withdrawal chances of these amounts can be at any time.

This ratio can be calculated with the help of following formula.

Other Deposit to Loan and Advance Ratio: $\frac{\text{Other Deposit}}{\text{Loan and Advances}}$

Following table shows the total Loan and Advances and Other Deposit

Table-4.8

Other Deposit to Loan and Advance (Amount in million and Ratio in Times)

Year	Nabil			EBL			NIC		
	L &.A	Other.D.	Ratio	L &.A	Other.D.	Ratio	L &.A	Other.D.	Ratio
2001	7323.60	416.30	0.06	2270.20	113.20	0.05	1659.10	127.30	0.08
2002	8437.60	297.20	0.04	3006.60	94.90	0.03	2622.20	46.70	0.02
2003	7328.20	267.10	0.04	3982.70	104.20	0.03	2369.90	41.90	0.02
2004	8267.80	382.00	0.05	5049.60	143.10	0.03	2564.30	65.30	0.03
2005	8769.70	304.70	0.03	6131.10	133.80	0.02	3746.60	88.20	0.03
Mean	0.04			0.03			0.03		
S.D	0.01			0.01			0.02		
C.V	0.23			0.34			0.73		

Source NRB Quarterly Bulletin No. 44

Others deposit is not the bank deposit to use for the long-term investment. That is why bank has invested only the few portions from the other deposit. From the above calculation we can see that non-of the banks has invested more than the ratio of 0.08 from the other deposit. It shows that the banks are very much conscious to use the call deposit for lending. And they are highly in liquidity position so that they will immediately refund the fund on the claim on other deposit.

The average ratio of Nabil bank is 0.04 and the average ratio of Everest bank and NIC bank is 0.03. Nabil bank has the lowest C.V. of 0.23 and Everest bank and NIC bank has 0.03 and 0.78 respectively. With the lowest C.V of Nabil bank it has the highest consistency and utilized benefit from other deposit.

4.4. Sector wise Loan and Advances of Nabil Bank, Everest Bank and NIC Bank

Sector wise lending means there are various sectors that the bank has the opportunity to invest. Even NRB have issued in its directives that commercial banks have to invest certain percentage in the deprived and priority sector. So that the backward sector will also get the benefit form the financial facility.

The table below shows the sector wise loan and advances and their ratio in percentage out of the total lending.

Table- 4.9

Sector wise loan and Advance of Nabil Bank and NIC Bank (Amount in million)

Sectors	Nabil Bank		Everest Bank		NIC Bank	
	Amount	%	Amount	%	Amount	%
Agriculture	55.40	0.64	29.70	0.49	99.20	2.65
Mining	0.00	-	2.40	0.04	0.00	-
Production	4064.60	47.17	1919.30	31.46	1924.00	51.40
Construction	369.40	4.29	769.90	12.62	67.50	1.80
Machinery	74.20	0.86	29.00	0.48	94.40	2.52
Transpiration	592.00	6.87	153.10	2.51	51.10	1.37
Public Service	197.40	2.29	597.80	9.80	216.60	5.79
Wholesalers	1548.80	17.97	1351.90	22.16	1038.30	27.74
Finance	274.00	3.18	198.30	3.25	79.90	2.13
Service	952.10	11.05	497.90	8.16	100.40	2.68
Consumable	54.10	0.63	172.60	2.83	2.00	0.05
Local Govt.	1.00	0.01	0.00	-	0.00	-
Others	433.60	5.03	378.90	6.21	69.60	1.86
TOTAL	**8616.70**	**100%**	**6100.70**	**100%**	**3743.10**	**100%**

* Source NRB Quarterly Bulletin mid- July 2005

From the above table we can see that there are various sectors that the banks are investing. Almost all the sectors the banks are trying to invest their funds. Up to the mid July 2005 Nabil banks has invest total of 8616.70 million, Everest Bank has total lending of 6100.70 million and NIC banks has the lending of 3743.10 million. So it is difficult to calculate and analysis data amount wise, researcher has tried to interpret according to the percentage into the various sector.

All the above sampled commercial bank has invest their major portion in the production sector. The NIC banks have made the highest portions in production sector of 51.40%. Nabil bank has also investment of 47.17 in the production sector. Everest bank has also invested major portion of lending in production sector of 31.46%. We can say the NIC bank and Nabil bank are more constrained in the production sector but Everest bank has slightly diversified the investment in other sectors.

Nabil bank is the only one bank which has invests its fund to the local government of 0.01% out of the total lending. It shows that the ratio of investment in this sector is too low comparative to other sector. But we can say that as a private joint venture is has invested to the local government in the Nepalese banking history.

Among the three sample banks Everest Bank is the only one bank to invest in mining industry. The total ratio to invest in this sector is 0.04% out of the total lending.

4.5. Security wise Loan and Advances of Nabil Bank, Everest Bank and NIC Bank

None of the banks invest without the security. Holding the security means to be assure that the bank will recover the lending amount if the client id not pay back the principal and interest in the due course of time.

The table below shows the total lending and their ratio in percentage through holding various type of security.

Table-4.10

Security wise Loan and Advances of Nabil Bank, Everest Bank and NIC Bank

Securities	Nabil Bank		Everest Bank		NIC Bank	
	Amount	%	Amount	%	Amount	%
Gold	0.00	-	0.00	-	0.00	-
Govt. Securities	305.30	3.54	185.60	3.04	2.10	0.06
Non govt. securities	0.00	-	0.00	-	0.00	-
Fixed A/C receipt	154.10	1.79	145.20	2.38	34.50	0.92
Assets Guarantee	5990.20	69.52	5128.70	84.07	3622.40	96.78
On Bills Guarantee	1226.90	14.24	348.00	5.70	2.60	0.07
Guarantee	170.00	1.97	165.00	2.70	55.00	1.47

Credit Card	3.50	0.04	0.00	-	0.00	-
Earthquake victim	0.00	-	0.00	-	0.00	-
Others	766.70	8.90	128.30	2.10	26.60	0.71
Total	**8616.70**	**100**	**6100.70**	**100**	**3743.10**	**100**

* Source NRB Quarterly Bulletin mid- July 2005

The above table shows that there are different types of securities that the bank keeps in the custody at the time grating the loan. Looking at the figure and ratios of the commercial bank in the above table we found that all the banks prefer assets guarantee as the best secured securities. The assets securities include land and buildings, machinery tools, furniture & fixtures, vehicle, other fixed assets, rice, raw jute agriculture etc.

Nabil bank has accept highest ratio of assets guarantee as the best securities i.e. 69.52%, and lowest of gold and non-government secut0iries. The second prior security for the Nabil bank is on bills guarantee i.e. 14.24%. On bills guarantee includes domestic bills, foreign bills, import bill, letter of credit, export bill, against export bill and other foreign bills. Banks usually reject the gold and silver as the securities because calculation of the actual market value of gold is difficult and the value of these securities keeps in fluctuating all the time.

Everest bank has also invested its major fund by taking the collateral of assets guarantee i.e. 84.07%. Same as NIC bank has also invested 96.78% against the security of assets guarantee.

4.6. Interest Rate of Commercial Banks in different types of Loan

Commercial banks charges do not charge uniform interest to all type of loans. As per the need and benefit from the credit facility the interest rate also varies. Commercial bank charges different rates in different credit facility.

Table-4.11

Interest rate in different types of Loan (In percentage)

Type of Loan	**Nabil Bank**	**Everest Bank**	**NICBank**
Overdraft	10-12	10.25-12.50	12-13
Export credit	4-11	9-10	10-12
Import credit	8.5-11	9-11.25	8.5-10.50
Against FDR	7.00	+1.50	8.00
Against HMG Bond	6.5-7.5	7.5-8	7.50-8.50
Against BG/CG	9.00	9.5-10.5	9.5-10.5
Against other Guarantee	10.00	-	8.5
Industrial Loan	10-12	9-13	9-10
Commercial loan	10-12	9-12.5	12-13
Priority loan	12-13	12-13	12-13
Poorer Loan	7-9	10-11	5.50-10.50
Term Loan	11-13	11-13.50	12-13
Working Capital	10-12	9-12.5	11.5-12.5
Hire Purchase	10.5-12.5	11.5-13	12-13.50
Others	7-13	7.5-13.5	4-14

* Source NRB Quarterly Bulletin mid- July 2005

In the above table we can see the various interest rates in different credit facility. When we compare interest rate charged by the different banks are nearer to same rate. When we look at the row of the export credit Nabil bank interest rate varies from 4% to 11% the interest rate being too low is to encourage the Nepalese industry in the export business. If the bank charges low interest rate then Nepalese business encourages exporting their product outside the nation and earning more through export. On the other side if banks encourage Nepalese industry in the export business banks have stronger in the holding of foreign currency in foreign banks.

Though the Everest bank is a reputed joint venture bank but also it doesn't have the facility of granting loan in other guarantee except government bond. The highest rate of interest charged by the Everest bank is on overdraft hire purchase and other loan. The reason for charging high ratio on these types of loan is due to risk factor and the fund invested in these sectors generates individual benefit only. But when we over view all type of loan and interest rare maximum of the interest is charged in the range of 9% to 13%.

4.7. Interest Income Earned by Commercial Banks

Commercial banks are the services oriented banks. Most of the income that banks earns through charging interest against lending and also through direct investment in different sources. Following table shows the total Interest Income of Nabil Bank, Everest Bank and NIC Bank up to the fiscal year2004/2005.

Table 4.12.

Interest Income (Amount in million)

Interest Income Head	Nabil Bank		Everest Bank		NIC Bank	
	Amount	%	Amount	%	Amount	%
Loan & Advance	703.70	74.43	565.90	85.72	28.10	81.69
Govt. Bonds	0.00	0.00	0.00	0.00	4.50	13.08
Foreign Bonds	6.20	0.66	0.00	0.00	0.00	0.00
NRB Bonds	192.70	20.38	88.80	13.45	0.00	0.00
Debentures	0.00	0.00	3.70	0.56	0.00	0.00
Agency Balance	1.80	0.19	1.20	0.18	0.00	0.00
Commission	0.00	0.00	0.00	0.00	1.80	5.23
Others	41.00	4.34	0.70	0.09	0.00	0.00
Total	**945.40**	**100.00**	**660.20**	**100.00**	**34.40**	**100.00**

Source NRB Quarterly Bulletin No. 44

In the above table we can say that various interest head and their amount. All the commercial bank has earned major interest income from loan and advances. Nabil Bank has earned 74.43% of income from loan and advances out of total interest income. Where as Everest Bank and NIC Bank has earned 85.72% and 81.69% interest income from loan and advances respectively. We can clearly analysis banks are highly concentrate to generate the income from loan and advances. Among the above sample bank NIC is only one bank who has generate interest income from Government Bonds and interest from commission. Although Nabil Bank and Everest Bank has generate most of the income from charging the interest in loan and advances but it has invested in all the sector that could generate the interest income for example foreign bonds, NRB bond, agency balance, others etc.

In the history of private Joint Venture Banks Everest Bank is only one bank that has purchase the debentures and has earned secured interest rate.

4.8. Major Findings

From the above analysis made through information from Primary sources and from secondary sources and from personally bank visit the researcher have made the following important findings which are listed below.

1. Comparative analysis of Borrowers

Comparative analysis of Borrowers before granting a loan is major positive aspect of all the sample banks. General interview to sophisticated financial observation is obtained before granting the loan. For uniformity in the procedure in appraising, particular format has been designed separately by the management and officers of Joint Venture Banks. But the necessary information relating to the client is enough in their credit application format. Though the banks wants more information form the credit clients but some where it is seems that the information collected form the banks are more than the necessary to the banks.

2. Focuses on viability and feasibility of project

The criteria of appraising the proposal on the basis of project feasibility and viability is attractive and innovative aspect of the bank. It is though that the repayment of the loan should be made through the earning of the particular projects. Bank thinks that man with the knowledge is more is securing than man with wealth.

3. Concentration on lending in productive sector

Observation on lending portfolio of the bank reveals that major portion of loan and advances goes to productive sector. This show that bank has been playing vital role in the development of industrial activities realizing the situation that industries are the pillar to the economy developments. Although the industries are getting the financial support from the bank they are not able to take advantage from the financial support due to strike, lockout, changes in government policy etc. Banks are ready to invest in productive sector but due to lack of investment opportunity new concept has been arrived for lending in individual customers i.e. retail lending (Housing loan, Vehicle loan, Educational loan, Professional loan, and Personal loan).

4. Lending in Priority Sector

In the formal chapter we have already discuss the priority sector lending out of total lending of the commercial banks. NRB has issued a directive that the commercial bank should disburse at least 12% out of total loan and advance in priority sector including deprive sector. Disbursement in priority sector by the Joint Venture Banks is more than the ratio mention by the NRB.

5. Prize for Better Performance

On the basis of better performance of the client bank provide the interest reduce or rebate to its prime client and provides certain facility and discount as the prizes. On the other hand if negligence arises from the client bank can charge panel so that client are forced for timely repayment of borrowings.

6. Different Interest Rate for Different Nature of Loan

As above the researcher had already discussed about the nature and types of the loan that the banks normally provides. Nature of loan has been designed considering the nature of the project and business activity and Interest rate has been charged according to the nature of loan. As per present interest rate issued by Nabil Bank, Everest Bank and NIC Bank the researcher found the following discrimination in interest rate.

- **Interest discrimination on the basis of industry and trading**

Interest rate charges on manufacturing industry in a certain rate that differs with trading business. We found interest rate charge to industry is some to extent lower than trading. The reason is to encourage industry business within the territory of Nepal. It does not mean banks are neglecting the trading business. In some of the case study the researcher has found that the prime customer of trading business is getting more facility then the industry loan.

- **Discrimination on the basis of prime client and ordinary client**

Different interest rate is charge on the basis of prime client and ordinary client. Prime client are those client who have regular relation with the bank. They have created certain image to the bank. The bank treats as a family member to the prime client and provides the certain facility too i.e. lower interest rate in the borrowing than the bank published interest rate, ABBS charge free, inward/outward remittance free or minimum flat charge. Ordinary client are those who have the casual relation with the bank. If the relation with the bank repeated timely then these ordinary client could be bank's prime customers.

- **Discrimination on the basis of nature of loan**

As discuss in previous chapter bank provides loan and advances on several purposes and charges the interest rate according to the nature of the loan. Interest rate is low in Fixed Deposit Receipt (FDR) as compare to other type of loan. Interest rate charged in import and export financing is moderate one. Where as working capital loan and industrial loan interest rate are higher that any other loan. Interest rate on retail lending is of average one, the reason for charging average interest rate for this type of loan is that it is granted to the individual and repayment is made out of income. But repayment of the industrial loan and trading loan is made out of profit by the firm.

Banks also provides certain interest rebate on loan provided to priority sector and deprived sectors. This sector is the society of low income level and they have no sufficient and strong collateral to execute the loan disbursed by the bank. Banks has to provide the loan in certain rate as prescribed by NRB.

7. Centralization

Till my submission there are different branches opened by the Joint Venture Banks Nabil bank has 9 branches opened in Kathmandu valley only out of 22 branches. And rests of the other branches are also constricted in the major cities of Nepal. Similarly Everest bank has 18 branches out of which 8 branches are operating within the valley. And rests of the other branches are in the commercial cities of Nepal. NIC Bank has 8 branches out of which two branches are at Kathmandu valley and rests are outside the valley.

It shows that the banks are in competitive to provide quality service, quick service among other Joint Venture Banks. So due to lack of facility and infrastructure and security Joint Venture Banks are concentrate on major cities area and ultimately people of remote village are not getting the facility provide by the Joint Venture Banks.

8. High Interest Rate

The interest rate charged by the commercial banks is ranged from 9% to 13%. When we look at this interest rate it may not seem to be higher than the past records where commercial bank uses to charge up to 20% and private lenders charges up to 36%. But in the past interest rate on the deposit amount was also 13% to 15%. Today highest interest rate on deposit is about of 4.5%. The spread rate is 7% to 9% which is above the standard of NRB directives. Finally we can conclude that though the interest rate on lending has been decreased but due to wide gap in the spread rate we can say that the commercial bank charge higher interest rate.

9. Low Diversification in lending

In my study, it seems that most of the portion of loan granted by sample banks goes to industrial sector only the future of the banks depends to the prosperity of the industry. Low diversification of loan shows higher risk hence the bank lending policy can be treated poorer also the branches of the bank are situated at the highly urban area of the country. According to the verbal information provided by the officer concern bank the collateral of the land and building against the security of the loan should be within the urban area near by the bank location. Branches of these banks are concentrated to sophisticated urban area, and also bank does not entertain the collateral outside the urban area. In Nepal 80% of the total population resides in the village area which directly shows that Joint Venture Banks are providing its facility to 20% of the population living in urban area.

10. Making strong root in the field of Nepalese Economy

Looking at the financial performance of the Joint Venture Banks they are increasing their profit and their branches every year non-of the Joint Venture Banks are operating in loss. Within the short period of Joint Venture Banks history in Nepal there are 17 commercial banks and more than 200 branches operating within the territory of Nepal. Due to high promotion and attractive scheme of the commercial banks people are more interested to keep the relation with the Joint Venture Banks.

NRB has made the strong directives that all the commercial banks have to open their branches at the rural area. If these regulation of NRB implements then the people at the remote area will also get benefit and image of the commercial banks reaches every corner of the country.

11. Accepting as Collateral

JVB’s philosophy at accepting collateral has been changed. In the past the government owned commercial banks used to accept gold and silver as the collateral against the loan but there is no JVB’s to accept these securities. It is found form the analysis that bank used to accept government bond and fixed assets against the loan. Stock and debenture is also accepta as the collateral but only for the short period of time i.e up to one year. Though the NRB has suggested to JVB’s not to flow the loan against the personal guarantee but also it is found that the commercial banks has flown their fund against the personal guarantee without any provision.

12. Proper Utilization of Resources

It has been found that the banks are utilizing the fund properly which have been collected through the deposit and other means. The researcher has tested the sampled data through means, C.V, Ratios, and S.D. Finally, it is found that none of the test made above are below the standard.

* * * * *

CHAPTER -FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is the final chapter of the study. Summary, Conclusions and Recommendations are the three heads included in this chapter.

5.1. Summary

The study evaluates the on credit policy and its implementation of commercial banks with reference of Nabil Bank, NIC Bank and Everest Bank Limited include both theoretical and practical aspects. The researcher has tried to go through the practical aspects, which has been followed by above sample bank. Most of the research regarding the banking practices is found normally moving around the principle aspects again and again rather then filtering the actual situation. Normally, this study focuses on the credit policy and its implementation, which has been adopted by above three banks. In this process the researcher had consulted many books, booklets, magazine, newspaper in most case; the researcher undertook verbal interviews with officers of the concern banks and their selected client and general public too. During the period, the researcher summarized the whole task in five chapters including this chapter. The research has been conducted to elaborate the credit policy and implementation of Nepalese Joint Venture Banks. The reality is that the Nepalese people, evens they are literate do not yet developed themselves for institutional loan accordingly quite unknown about the function and facility provided by Joint Venture Banks. Even today lay people prefer to borrow from private individual i.e. landlord, friends, family etc. rather than institutional loan. This research will try to pave the way those people who wants to get loan easily and get information about the facility provided by the above sample banks.

For this purpose various feature and nature of the loan is discussed that are granted by the banks. Before this history of banking practices in Nepal, general concept, function of the commercials, its role in economic development for the country has been conducted so that our study could go in chain way. According, what the function of Joint Venture Banks, what are the norms, internal rules, and its objectives are discussed. In this process, it has been tried to portray the way of credit initiation and appraisal process and discussed types of data needed, the way of making category of the client, the way of selecting the most attractive prospect so that the new credit client could feel easy. Similarly, nature of loan provided accordance to nature of security and nature of business. For the security purpose various movable and immovable security such as land and building, entire factory, business stocks, share, debenture, government bonds, fixed deposit receipt are used and the way of executing the ownership i.e. legal mortgage, equitable mortgage, pledge, lien, hypothecation found in the practices. Here, it was discussed about different types of risk during the process of lending discussed and precaution action that should be adopted by the bank is mentioned. So, that the organization make better itself and can gain quality in loan facility. The saying is that " Any fool can lend money, but it takes a lots of skill to get it back" hence an investor or an investment company should invest its assets diversifying in several opportunity so that maximum return can be obtained with minimum risk. A typical classification system on the basis of paying capacity, reliability of the collateral found. In this way, various research methodologies have been used so that my study could extract the reality. This study did not focus on credit policy of a single bank but with a comparative manner taking data from Nabil Bank, Everest Bank and NIC Bank focusing on their portfolio. During the study it is found total loan of the goes to industries, trade, agriculture, service sector, priority sector, deprive, others etc. Also the researcher has found that the banks has followed the rules and regulation issued by NRB i.e. liquidity maintenance, loan portfolio, loan loss provision. However adequacy against risk weighted assets is going to be maintained on the phase basis. Various types of literature studies have been undertaken so that exact theme could be extracted. Various norms, regulation and directives as issued by NRB are presented so as these are treated as guidance for comparing the performance of bank.

In this study simple financial tools have been used to compare the results. It has been presented this thesis in the professional and simple way. So that everyone can understand my thesis. It is anticipated this research will works as the partial fulfillment of requirement for Master's Degree and will be benefit to general readers, new students, research department of banks, new bank client and general public too. This study shows that the history of Joint Venture Banks are of too short period but also it has covered the huge market in the Nepalese economy within a short period.

5.2. Conclusions and Recommendations

The following recommendations are drawn from the findings and conclusion of the study

1. Lending Procedure Should be Short

It is found that the bank's procedure in term of lending is too lengthy. Commercial banks are established in the motive of profit earning from secure lending. So these institutional tries to gather more and more information and collateral from the borrower which ultimately consumes more time. It is recommended to the bank to go to the short procedure of lending so that the borrower will get the necessary fund on time.

2. Need to grab more benefit from Fixed Deposit

Fixed deposits are that type of deposit which can be withdrawal at the time of maturity only. So, the banks are advice to utilize the maximum benefit from the nature of fixed deposit by investing in the long term loans.

3. Need to Invest Small Entrepreneur Development Program

Talking all in all, I concluded that transaction of Joint Venture Banks has concentrated with big clients, large group of traders, business networks and large industries. Loan should go to those who are economically backward and uplifting the condition of these orphan people. So bank should come forward to increase the number of clients, develop entrepreneurs, and diversify its business with large no to small investors according with investing to small entrepreneur development program.

4. Need to Invest in Productive Area that utilized the Natural Resources

Nepal is rich in natural resources but these resources are not properly utilized due to lack of financial support and technical assistant. Numerous opportunities like electricity, tourism mines etc are unused due to the lack of financial support. In the above data we found the Everest bank has invest only Rs. 2.40 in mines industry but Nabil bank and NIC bank has invest not a single amount in these sector. So bank has diverted their investment in the natural resources too.

5. Needs to diversify in accepting single nature of collateral

It is found that commercial banks usually prefer to accept land and building only as the collateral from the client. It means that banks are taking higher risk for accepting only single nature of collateral. So it is recommended to the commercial to accept other assets at the secure collateral.

6. Need to Provide Technical Assistance

Excessive concentration on lending shows the people is lacking of new innovation. Most of the people do similar business. This crates the excessive competition for business activity and risk for the banks. Hence bank should provide the technical assistance according to financial support. Everest bank has introduced the retail lending, this scheme found popular among the individuals but the investment to individual counts nothing benefit to the national as a whole. Only the individual household gets benefits from this type of lending. Now banks should come with such type of lending scheme which benefit is granted by the individual as well as society and nation too.

7. Needs to Diversify Lending

Though the banks are establishment to earn the profit but besides profit making it has to invest in those sector where the society is really in need of investment. Analyzing in the previous chapter it is found that most portions of the investment is made in the service or retail sector only. So it is recommended to the bank to invest in other sector too. Over concentration of lending reveals the excessive level of risk. Hence bank should take the steps to diversify its lending. So that risk can be minimized and small borrowers are promoted. Also bank should develop the concept of micro financing. In additional, commercial banks are recommended to the group financing there by diversifying new avenues rather than focusing merely in one sector.

8. Need to reduce spread rate

Since, interest rate charged by the Joint Venture Banks is little higher. The spread rate between the lending to the deposit is 7% to 9%. This higher spread rate doesn't show good image for the commercial bank among the Nepalese people. The interest rate of the commercial banks in the dopiest and lending is not attractive. The interest rate in the deposit is too low and interest rate in the lending is too high. NRB has also mention in its directive that the spread rate should not be higher than 5%.

9. Preference to Support Short Term Lending

Considering the present scenario and risk management, it is justifies that risk can be minimized through short term lending than long term. Hence preference to be given for short trade financing and discouraging long term loan finance and also focusing multiple returnable loan rather than dry as far as possible.

Banks \ Years	2001	2002	2003	2004	2005
Nabil (L&A)	7323.6	8437.6	7328.2	8267.8	8769.7
Everest Bank(L&A)	2270.2	3006.6	3982.7	5049.6	6131.1
NIC Bank (L&A)	1659.1	2622.2	2369.90	2564.3	2746.6
Nabil (CA)	12780	15839	15371	13438	14098
Everest Bank(CA)	2057.4	4574.5	5461.1	6694.9	8064
NIC Bank (CA)	2025.5	3575.8	3165.3	3143.9	5146.4

							MEAN ®	
NABIL	0.57	0.53	0.48	0.62	0.62	2.82	0.56	2.26
EBL	1.10	0.66	0.73	0.75	0.76	4.00	0.80	
NIC	0.82	0.73	0.75	0.82	0.53	3.65	0.73	

nabil	0.01	(0.03)	(0.09)	0.05	0.06
ebl	0.30	(0.14)	(0.07)	(0.05)	(0.04)
NIC	0.09	0.00	0.02	0.09	(0.20)

						total		**SD**	**C**
NABIL	0.0001	0.0010	0.0076	0.0026	0.0034	0.0147	0.0037	**0.06**	0.
EBL	0.0915	0.0206	0.0051	0.0022	0.0016	0.1211	0.0303	**0.17**	0.
NIC	0.0079	0.0000	0.0003	0.0073	0.0386	0.0542	0.0135	**0.12**	0.

APPENDIX-II

Work sheet for the calculation of Mean, Standard deviation and coefficient of Nabil Bank considering current assets (CA) and current liability (CL)

YEAR	**CA**	**CL**	**RATIO (X)**	$\sum (X-\bar{X})$	$(X-\bar{X})^2$
2001	12780.10	5541.90	2.31	-0.70	0.49
2002	15838.90	6284.90	2.52	-0.49	0.24
2003	15370.60	4999.30	3.07	0.07	0.00
2004	13437.70	4162.10	3.23	0.22	0.05
2005	14098.00	3616.90	3.90	0.89	0.80
Total			$\sum X$ **=15.03**		$\sum (X-\bar{X})^2$ **=1.58**

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

$$\text{Mean } (\bar{X}) = \frac{\sum \text{x}}{N} = \frac{15.03}{5} = \mathbf{3.01}$$

$$\textbf{(S.D)}\ \sigma = \sqrt{\frac{\sum\left(Xn - \bar{X}\right)^2}{n-1}} = \sqrt{\frac{1.58}{5-1}} = \mathbf{0.63}$$

$$\textbf{CV} = \frac{\sigma}{\bar{X}} = \frac{0.63}{3.01} = \mathbf{0.21}$$

Where,

CA= Current Assets
CL= Current Liability
S.D= Standard Deviation
C.V= Coefficient of Variance

APPENDIX-III

Work sheet for the calculation of Mean, Standard deviation and coefficient of Everest Bank considering current assets (CA) and current liability (CL)

YEAR	**CA**	**CL**	**RATIO (X)**	$\sum (X-\bar{X})$	$(X-\bar{X})^2$
2001	2057.4	278.6	7.38	0.44	0.19
2002	4574.5	824.1	5.55	-1.40	1.96
2003	5461.1	809.2	6.75	-0.20	0.04
2004	6694.9	1156.1	5.79	-1.16	1.34
2005	8064.0	869.7	9.27	2.32	5.39
Total			$\sum X$ **=34.75**		$\sum (X-\bar{X})^2$ **=8.92**

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

$$\text{Mean } (\bar{X}) = \frac{\sum x}{N} = \frac{34.75}{5} = \mathbf{6.95}$$

$$\textbf{(S.D) } \sigma = \sqrt{\frac{\sum (Xn - \bar{X})^2}{n-1}} = \sqrt{\frac{8.92}{5-1}} = \mathbf{1.49}$$

$$\textbf{CV} = \frac{\sigma}{\bar{X}} = \frac{1.49}{6.95} = \mathbf{0.21}$$

Where,

CA= Current Assets
CL= Current Liability
S.D= Standard Deviation
C.V= Coefficient of Variance

APPENDIX-IV

Work sheet for the calculation of Mean, Standard deviation and coefficient of NIC Bank considering current assets (CA) and current liability (CL)

YEAR	**CA**	**CL**	**RATIO (X)**	$\sum (X-\bar{X})$	$(X-\bar{X})^2$
2001	2025.5	221.5	9.14	0.85	0.72
2002	3575.8	539.4	6.63	-1.67	2.79
2003	3165.3	606.5	5.22	-3.08	9.49
2004	3143.9	348.0	9.03	0.74	0.54
2005	5146.0	448.8	11.14	3.17	10.04
Total			$\sum X$ **=41.49**		$\sum (X-\bar{X})^2$ **=23.57**

Current Ratio = $\dfrac{Current\ Assets}{Current\ Liabilities}$

Mean ($\bar{X}$)= $\dfrac{\sum x}{N}$ = $\dfrac{41.49}{5}$ =**8.30**

(S.D) $\sigma = \sqrt{\dfrac{\sum \left(Xn - \bar{X}\right)^2}{n-1}}$ $= \sqrt{\dfrac{23.57}{5-1}}$ **= 2.43**

CV = $\dfrac{\sigma}{\bar{X}}$ = $\dfrac{2.43}{8.30}$ = **0.29**

Where,

CA= Current Assets
CL= Current Liability
S.D= Standard Deviation
C.V= Coefficient of Variance

APPENDIX-V

Work sheet for the calculation of Mean, Standard deviation and coefficient of Nabil Bank considering Loan and Advances (LA) and Current Assets (CA)

YEAR	L & A	CA	RATIO (X)	$\sum (X- \bar{X})$	$(X- \bar{X})^2$
2001	7323.60	5541.9	1.32	-0.39	0.1495
2002	8437.60	6284.9	1.34	-0.37	0.1337
2003	7328.20	4999.3	1.47	-0.24	0.0587
2004	8267.80	4162.1	1.99	0.28	0.0774
2005	8769.70	3616.9	2.42	0.72	0.5133
Total			$\sum X$ **=8.54**		$\sum (X- \bar{X})^2$ **=0.9327**

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

Mean ($\bar{X}$)= $\frac{\sum x}{N}$ = $\frac{8.54}{5}$ =**1.71**

(S.D) $\sigma = \sqrt{\frac{\sum \left(Xn - \bar{X}\right)^2}{n-1}} = \sqrt{\frac{0.9327}{5-1}}$ **= 0.48**

CV = $\frac{\sigma}{\bar{X}} = \frac{0.48}{1.71}$ = **0.28**

Where,

CA= Current Assets
L &A=Loan and Advances
S.D= Standard Deviation
C.V= Coefficient of Variance

APPENDIX-VI

Work sheet for the calculation of Mean, Standard deviation and coefficient of Everest Bank considering Loan and Advances (LA) and Current Assets (CA)

YEAR	L & A	CA	RATIO (X)	$\sum(X-\bar{X})$	$(X-\bar{X})^2$
2001	2270.2	278.60	8.15	2.95	8.686473
2002	3006.6	824.10	3.65	-1.55	2.411730
2003	3982.7	809.20	4.92	-0.28	0.078144
2004	5049.6	2,256.10	2.24	-2.96	8.780075
2005	6131.1	869.70	7.05	1.85	3.416414
Total			$\sum X$ **=26.01**		$\sum(X-\bar{X})^2$ **=23.37284**

Loan and Advances to Current Assets= $\dfrac{\text{Loan and Advances}}{\text{Current Assets}}$

Mean ($\bar{X}$)= $\dfrac{\sum x}{N}$ = $\dfrac{26.01}{5}$ =**5.20**

(S.D) $\sigma = \sqrt{\dfrac{\sum\left(Xn-\bar{X}\right)^2}{n-1}} = \sqrt{\dfrac{23.37284}{5-1}}$ **= 2.42**

CV = $\dfrac{\sigma}{\bar{X}}$ = $\dfrac{2.42}{5.20}$ = **0.46**

Where,

CA= Current Assets
L &A=Loan and Advances
S.D= Standard Deviation
C.V= Coefficient of Variance

APPENDIX-VII

Work sheet for the calculation of Mean, Standard deviation and coefficient of NIC Bank considering Loan and Advances (LA) and Current Assets (CA)

YEAR	L&A	CA	RATIO (X)	$\sum (X-\bar{X})$	$(X-\bar{X})^2$
2001	1659.1	221.50	7.49	1.10	1.199300
2002	2622.2	539.40	4.86	-1.53	2.352667
2003	2369.9	606.50	3.91	-2.49	6.188482
2004	2564.3	348.00	7.37	0.97	0.947722
2005	3746.6	448.80	8.35	1.95	3.813706
Total			$\sum X$ **=31.98**		$\sum (X-\bar{X})^2$ **=14.50188**

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

Mean ($\bar{X}$)= $\frac{\sum x}{N}$ = $\frac{31.98}{5}$ =**6.40**

(S.D) $\sigma = \sqrt{\frac{\sum (Xn - \bar{X})^2}{n-1}} = \sqrt{\frac{14.50188}{5-1}}$ **= 1.90**

CV = $\frac{\sigma}{\bar{X}} = \frac{1.90}{6.40}$ = **0.30**

Where,

CA= Current Assets
L &A=Loan and Advances
S.D= Standard Deviation
C.V= Coefficient of Variance

APPENDIX-VIII

Work sheet for the calculation of Mean, Standard deviation and coefficient of Nabil Bank considering Loan and Advances (L&A) and Total Deposit

YEAR	L&A	Deposit	RATIO (X)	$\sum (X-\bar{X})$	$(X-\bar{X})^2$
2001	7323.6	12780.1	0.57	0.01	0.0000
2002	8437.6	15838.9	0.53	-0.03	0.0012
2003	7328.2	15370.6	0.48	-0.08	0.0071
2004	8267.8	13437.7	0.62	0.06	0.0031
2005	8769.7	14098	0.62	0.06	0.0031
Total			$\sum X$ **=2.82**		$\sum (X-\bar{X})^2$ **=0.0145**

Loan and Advances to Total Deposit= $\dfrac{\text{Loan and Advances}}{\text{Total Deposit}}$

Mean ($\bar{X}$)= $\dfrac{\sum x}{N}$ = $\dfrac{2.82}{5}$ =**0.56**

(S.D) $\sigma = \sqrt{\dfrac{\sum\left(Xn-\bar{X}\right)^2}{n-1}} = \sqrt{\dfrac{0.0.045}{5-1}}$ **= 0.06**

CV = $\dfrac{\sigma}{\bar{X}}$ = $\dfrac{0.06}{0.56}$ = **0.11**

Where,

L &A=Loan and Advances
Deposits= Total Deposits
S.D= Standard Deviation
C.V= Coefficient of Variance

APPENDIX-IX

Work sheet for the calculation of Mean, Standard deviation and coefficient of Everest Bank considering Loan and Advances (L&A) and Total Deposit

YEAR	L&A	Deposit	RATIO (X)	$\sum (X-\bar{X})$	$(X-\bar{X})^2$
2001	2270.2	3057.4	0.74	0.01	0.000144
2002	3006.6	4574.5	0.66	-0.07	0.004624
2003	3982.7	5461.1	0.73	0.00	0.000004
2004	5049.6	6694.9	0.75	0.02	0.000484
2005	6131.1	8064	0.76	0.03	0.001024
Total			$\sum X$ **=3.64**		$\sum (X-\bar{X})^2$ **=0.006280**

Loan and Advances to Total Deposit= $\dfrac{\text{Loan and Advances}}{\text{Total Deposit}}$

Mean ($\bar{X}$)= $\dfrac{\sum x}{N} = \dfrac{3.64}{5}$ =**0.73**

(S.D) $\sigma = \sqrt{\dfrac{\sum\left(Xn-\bar{X}\right)^2}{n-1}} = \sqrt{\dfrac{0.006280}{5-1}}$ **= 0.04**

CV = $\dfrac{\sigma}{\bar{X}} = \dfrac{0.04}{0.73}$ = **0.05**

Where,

L &A=Loan and Advances
Deposits= Total Deposits
S.D= Standard Deviation
C.V= Coefficient of Variance

APPENDIX-X

Work sheet for the calculation of Mean, Standard deviation and coefficient of NIC Bank considering Loan and Advances (L&A) and Total Deposit

YEAR	L&A	Deposit	RATIO (X)	$\sum (X-\bar{X})$	$(X-\bar{X})^2$
2001	1659.1	2025.5	0.82	0.05	0.0025
2002	2622.2	3575.8	0.73	-0.04	0.0016
2003	2369.9	3165.3	0.75	-0.02	0.0004
2004	2564.3	3143.9	0.82	0.05	0.0025
2005	3746.6	5146.4	0.73	-0.04	0.0016
Total			$\sum X$ **=3.85**		$\sum (X-\bar{X})^2$ **=0.0086**

$$\text{Loan and Advances to Total Deposit} = \frac{\text{Loan and Advances}}{\text{Total Deposit}}$$

$$\text{Mean } (\bar{X}) = \frac{\sum x}{N} = \frac{3.85}{5} = \mathbf{0.77}$$

$$\textbf{(S.D)}\ \sigma = \sqrt{\frac{\sum\left(Xn-\bar{X}\right)^2}{n-1}} = \sqrt{\frac{0.0086}{5-1}} = \mathbf{0.05}$$

$$\textbf{CV} = \frac{\sigma}{\bar{X}} = \frac{0.05}{0.77} = \mathbf{0.06}$$

Where,

L &A=Loan and Advances
Deposits= Total Deposits
S.D= Standard Deviation
C.V= Coefficient of Variance

APPENDIX-XI

Work sheet for the calculation of Mean, Standard deviation and coefficient of Nabil Bank considering Fixed Deposit (FD) to Loan and Advances (L&A)

YEAR	FD	L&A	RATIO (X)	$\sum (X-\bar{X})$	$(X-\bar{X})^2$
2001	3194.3	7323.6	0.44	0.09	0.0085
2002	3719.2	8437.6	0.44	0.09	0.0085
2003	2446.8	7328.2	0.33	-0.02	0.0003
2004	2252.6	8267.8	0.27	-0.08	0.0061
2005	2310.6	8769.7	0.26	-0.09	0.0077
Total			$\sum X$ **=1.74**		$\sum (X-\bar{X})^2$ **=0.0311**

Fixed Deposit to Loan and Advances = $\frac{\text{Fixed Deposit}}{\text{Loan and Advances}}$

Mean ($\bar{X}$)= $\frac{\sum x}{N}$ = $\frac{1.74}{5}$ =**0.35**

(S.D) $\sigma = \sqrt{\frac{\sum (Xn-\bar{X})^2}{n-1}} = \sqrt{\frac{0.0311}{5-1}}$ = **0.09**

CV = $\frac{\sigma}{\bar{X}}$ = $\frac{0.09}{0.35}$ = **0.25**

Where,

L &A=Loan and Advances
FD= Fixed Deposits
S.D= Standard Deviation
C.V= Coefficient of Variance

APPENDIX-XII

Work sheet for the calculation of Mean, Standard deviation and coefficient of Everest Bank considering Fixed Deposit (FD) to Loan and Advances (L&A)

YEAR	FD	L&A	RATIO (X)	$\sum (X-\bar{X})$	$(X-\bar{X})^2$
2001	1592.7	2270.2	0.7	0.05	0.002704
2002	2470.2	3006.6	0.82	0.17	0.029584
2003	2694.6	3982.7	0.68	0.03	0.001024
2004	2803.4	5049.6	0.56	-0.09	0.007744
2005	2914.1	6131.1	0.48	-0.17	0.028224
Total			$\sum X = 3.24$		$\sum (X-\bar{X})^2 = 0.069280$

Fixed Deposit to Loan and Advances = $\frac{\text{Fixed Deposit}}{\text{Loan and Advances}}$

Mean ($\bar{X}$)= $\frac{\sum x}{N} = \frac{3.24}{5}$ =**0.65**

(S.D) $\sigma = \sqrt{\frac{\sum (Xn-\bar{X})^2}{n-1}} = \sqrt{\frac{0.069280}{5-1}}$ = **0.13**

CV = $\frac{\sigma}{\bar{X}} = \frac{0.13}{0.65}$ = **0.20**

Where,

L &A=Loan and Advances

FD= Fixed Deposits

S.D= Standard Deviation

C.V= Coefficient of Variance

APPENDIX-XIII

Work sheet for the calculation of Mean, Standard deviation and coefficient of NIC Bank considering Fixed Deposit (FD) to Loan and Advances (L&A)

YEAR	**FD**	**L&A**	**RATIO (X)**	$\sum (X-\bar{X})$	$(X-\bar{X})^2$
2001	1174.2	1659.1	0.71	0.06	0.003844
2002	1958.0	2622.2	0.75	0.10	0.010404
2003	1347.1	2369.9	0.57	-0.08	0.006084
2004	1142.0	2564.3	0.45	-0.20	0.039204
2005	2083.1	3746.6	0.76	0.11	0.012544
Total			$\sum X$ **=3.24**		$\sum (X-\bar{X})^2$ **=0.07208**

$$\text{Fixed Deposit to Loan and Advances} = \frac{\text{Fixed Deposit}}{\text{Loan and Advances}}$$

$$\text{Mean } (\bar{X}) = \frac{\sum x}{N} = \frac{3.24}{5} = \mathbf{0.65}$$

$$\textbf{(S.D)}\ \sigma = \sqrt{\frac{\sum (Xn-\bar{X})^2}{n-1}} = \sqrt{\frac{0.07208}{5-1}} = \mathbf{0.13}$$

$$\textbf{CV} = \frac{\sigma}{\bar{X}} = \frac{0.13}{0.65} = \mathbf{0.21}$$

Where,

L &A=Loan and Advances
FD= Fixed Deposits
S.D= Standard Deviation
C.V= Coefficient of Variance

APPENDIX-XIV

Work sheet for the calculation of Mean, Standard deviation and coefficient of Nabil Bank considering Saving Deposit (SD) to Loan and Advances (L&A)

YEAR	SD	L&A	RATIO (X)	$\sum (X-\bar{X})$	$(X-\bar{X})^2$
2001	4150.2	7323.6	0.57	-0.06	0.0031
2002	4917.1	8437.6	0.58	-0.05	0.0021
2003	4889.0	7328.2	0.67	0.04	0.0019
2004	5237.4	8267.8	0.63	0.00	0.0000
2005	5994.1	8769.7	0.68	0.05	0.0029
Total			$\sum X$ **=3.13**		$\sum (X-\bar{X})^2$ **=0.0101**

Saving Deposit to Loan and Advances = $\dfrac{\text{Saving Deposit}}{\text{Loan and Advances}}$

Mean ($\bar{X}$)= $\dfrac{\sum x}{N} = \dfrac{3.13}{5}$ =**0.63**

(S.D) $\sigma = \sqrt{\dfrac{\sum\left(Xn-\bar{X}\right)^2}{n-1}} = \sqrt{\dfrac{0.0101}{5-1}}$ = **0.05**

CV = $\dfrac{\sigma}{\bar{X}} = \dfrac{0.05}{0.63}$ = **0.08**

Where,

L &A=Loan and Advances
SD= Fixed Deposits
S.D= Standard Deviation
C.V= Coefficient of Variance

APPENDIX-XV

Work sheet for the calculation of Mean, Standard deviation and coefficient of Everest Bank considering Saving Deposit (SD) to Loan and Advances (L&A)

YEAR	SD	L&A	RATIO (X)	$\sum (X-\bar{X})$	$(X-\bar{X})^2$
2001	891.7	2270.2	0.39	-0.10	0.010000
2002	1384.1	3006.6	0.46	-0.03	0.000900
2003	1733.3	3982.7	0.44	-0.05	0.002500
2004	2758.0	5049.6	0.55	0.06	0.003600
2005	3730.7	6131.1	0.61	0.12	0.014400
Total			$\sum X$ **=2.45**		$\sum (X-\bar{X})^2$ **=0.031400**

Saving Deposit to Loan and Advances = $\frac{\text{Saving Deposit}}{\text{Loan and Advances}}$

Mean ($\bar{X}$)= $\frac{\sum x}{N} = \frac{2.45}{5}$ =**0.49**

(S.D) $\sigma = \sqrt{\frac{\sum (Xn-\bar{X})^2}{n-1}} = \sqrt{\frac{0.031400}{5-1}}$ **= 0.09**

CV = $\frac{\sigma}{\bar{X}} = \frac{0.09}{0.49}$ = **0.18**

Where,

L &A=Loan and Advances
SD= Fixed Deposits
S.D= Standard Deviation
C.V= Coefficient of Variance

APPENDIX-XVI

Work sheet for the calculation of Mean, Standard deviation and coefficient of NIC Bank considering Saving Deposit (SD) to Loan and Advances (L&A)

YEAR	SD	L&A	RATIO (X)	$\sum (X-\bar{X})$	$(X-\bar{X})^2$
2001	356.3	1659.1	0.21	-0.07	0.005184
2002	526.0	2622.2	0.2	-0.08	0.006724
2003	576.2	2369.9	0.24	-0.04	0.001764
2004	733.7	2564.3	0.29	0.01	0.000064
2005	1280.4	3746.6	0.47	0.19	0.035344
Total			$\sum X$ **=1.41**		$\sum (X-\bar{X})^2$ **=0.04908**

Saving Deposit to Loan and Advances = $\dfrac{\text{Saving Deposit}}{\text{Loan and Advances}}$

Mean ($\bar{X}$)= $\dfrac{\sum x}{N} = \dfrac{1.41}{5}$ =**0.28**

(S.D) $\sigma = \sqrt{\dfrac{\sum (Xn-\bar{X})^2}{n-1}} = \sqrt{\dfrac{0.04908}{5-1}}$ = **0.11**

CV = $\dfrac{\sigma}{\bar{X}} = \dfrac{0.11}{0.28}$ = **0.39**

Where,

L &A=Loan and Advances
SD= Fixed Deposits
S.D= Standard Deviation
C.V= Coefficient of Variance

APPENDIX-XVII

Work sheet for the calculation of Mean, Standard deviation and coefficient of Nabil Bank considering Current Deposit (CD) to Loan and Advances (L&A)

YEAR	CD	L&A	RATIO (X)	$\sum (X-\bar{X})$	$(X-\bar{X})^2$
2001	2935.3	7323.6	0.4	0.04	0.0016
2002	2957.1	8437.6	0.35	-0.01	0.0001
2003	2723.0	7328.2	0.37	0.01	0.0001
2004	3025.0	8267.8	0.37	0.01	0.0001
2005	2687.0	8769.7	0.31	-0.05	0.0025
Total			$\sum X$ **=1.80**		$\sum (X-\bar{X})^2$ **=0.0044**

$$\text{Current Deposit to Loan and Advances} = \frac{\text{Current Deposit}}{\text{Loan and Advances}}$$

$$\text{Mean } (\bar{X}) = \frac{\sum x}{N} = \frac{1.80}{5} = \mathbf{0.36}$$

$$\textbf{(S.D)}\ \sigma = \sqrt{\frac{\sum (Xn-\bar{X})^2}{n-1}} = \sqrt{\frac{0.0044}{5-1}} = \mathbf{0.03}$$

$$\textbf{CV} = \frac{\sigma}{\bar{X}} = \frac{0.03}{0.36} = \mathbf{0.09}$$

Where,

L &A=Loan and Advances
CD= Current Deposits
S.D= Standard Deviation
C.V= Coefficient of Variance

APPENDIX-XVIII

Work sheet for the calculation of Mean, Standard deviation and coefficient of Everest Bank considering Current Deposit (CD) to Loan and Advances (L&A)

YEAR	CD	L&A	RATIO (X)	$\sum (X-\bar{X})$	$(X-\bar{X})^2$
2001	274.4	2270.2	0.12	0.00	0.000000
2002	399.7	3006.6	0.13	0.01	0.000100
2003	489.6	3982.7	0.12	0.00	0.000000
2004	562.4	5049.6	0.11	-0.01	0.000100
2005	719.8	6131.1	0.12	0.00	0.000000
Total			$\sum X$ **=0.60**		$\sum (X-\bar{X})^2$ =0.00005

Current Deposit to Loan and Advances = $\dfrac{\text{Current Deposit}}{\text{Loan and Advances}}$

Mean ($\bar{X}$)= $\dfrac{\sum x}{N}$ = $\dfrac{0.60}{5}$ =**0.12**

(S.D) $\sigma = \sqrt{\dfrac{\sum\left(Xn-\bar{X}\right)^2}{n-1}} = \sqrt{\dfrac{0.00005}{5-1}}$ **= 0.01**

CV = $\dfrac{\sigma}{\bar{X}} = \dfrac{0.01}{0.12}$ = **0.06**

Where,

L &A=Loan and Advances
CD= Current Deposits
S.D= Standard Deviation
C.V= Coefficient of Variance

APPENDIX-XIX

Work sheet for the calculation of Mean, Standard deviation and coefficient of NIC Bank considering Current Deposit (CD) to Loan and Advances (L&A)

YEAR	CD	L&A	RATIO (X)	$\sum (X-\bar{X})$	$(X-\bar{X})^2$
2001	148.3	1659.1	0.09	-0.01	0.000036
2002	248.0	2622.2	0.09	-0.01	0.000036
2003	257.2	2369.9	0.11	0.01	0.000196
2004	235.8	2564.3	0.09	-0.01	0.000036
2005	278.5	3746.6	0.10	0.00	0.000016
Total			$\sum X$ **=0.48**		$\sum (X-\bar{X})^2$ =0.00032

Current Deposit to Loan and Advances = $\dfrac{\text{Current Deposit}}{\text{Loan and Advances}}$

Mean ($\bar{X}$)= $\dfrac{\sum x}{N}$ = $\dfrac{0.48}{5}$ =**0.096 or 0.10**

(S.D) $\sigma = \sqrt{\dfrac{\sum\left(Xn-\bar{X}\right)^2}{n-1}} = \sqrt{\dfrac{0.00032}{5-1}}$ **= 0.01**

CV = $\dfrac{\sigma}{\bar{X}} = \dfrac{0.01}{0.096}$ = **0.09**

Where,

L &A=Loan and Advances
CD= Current Deposits
S.D= Standard Deviation
C.V= Coefficient of Variance

APPENDIX-XX

Work sheet for the calculation of Mean, Standard deviation and coefficient of Nabil Bank considering Call Deposit (Call.D) to Loan and Advances (L&A)

YEAR	Call.D	L&A	RATIO (X)	$\sum (X-\bar{X})$	$(X-\bar{X})^2$
2001	2083.9	7323.6	0.28	-0.13	0.0169
2002	3948.3	8437.6	0.47	0.06	0.0036
2003	4944.7	7328.2	0.67	0.26	0.0676
2004	2540.7	8267.8	0.31	-0.10	0.0100
2005	2801.6	8769.7	0.32	-0.09	0.0081
Total			$\sum X$ **=2.05**		$\sum (X-\bar{X})^2$ **=0.1062**

$$\text{Call Deposit to Loan and Advances} = \frac{\text{Call Deposit}}{\text{Loan and Advances}}$$

$$\text{Mean } (\bar{X}) = \frac{\sum x}{N} = \frac{2.05}{5} = \mathbf{0.41}$$

$$\textbf{(S.D)}\ \sigma = \sqrt{\frac{\sum (Xn - \bar{X})^2}{n-1}} = \sqrt{\frac{0.1061}{5-1}} = \mathbf{0.16}$$

$$\textbf{CV} = \frac{\sigma}{\bar{X}} = \frac{0.16}{0.41} = \mathbf{0.40}$$

Where,

L &A=Loan and Advances
Call. D= Call Deposits
S.D= Standard Deviation
C.V= Coefficient of Variance

APPENDIX-XXI

Work sheet for the calculation of Mean, Standard deviation and coefficient of Everest Bank considering Call Deposit (Call.D) to Loan and Advances (L&A)

YEAR	Call.D	L&A	RATIO (X)	$\sum (X- \bar{X})$	$(X- \bar{X})^2$
2001	185.4	2270.2	0.08	-0.01	0.000064
2002	225.6	3006.6	0.08	-0.01	0.000064
2003	439.4	3982.7	0.11	0.02	0.000484
2004	428.0	5049.6	0.08	-0.01	0.000064
2005	565.6	6131.1	0.09	0.00	0.000004
Total			$\sum X$ **=0.44**		$\sum (X- \bar{X})^2$ **=0.000680**

$$\text{Call Deposit to Loan and Advances} = \frac{\text{Call Deposit}}{\text{Loan and Advances}}$$

$$\text{Mean } (\bar{X}) = \frac{\sum x}{N} = \frac{0.44}{5} = \mathbf{0.09}$$

$$\textbf{(S.D)}\ \sigma = \sqrt{\frac{\sum\left(Xn - \bar{X}\right)^2}{n-1}} = \sqrt{\frac{0.000680}{5-1}} = \mathbf{0.01}$$

$$\textbf{CV} = \frac{\sigma}{\bar{X}} = \frac{0.01}{0.09} = \mathbf{0.15}$$

Where,

L &A=Loan and Advances
Call. D= Call Deposits
S.D= Standard Deviation
C.V= Coefficient of Variance

APPENDIX-XXII

Work sheet for the calculation of Mean, Standard deviation and coefficient of NIC Bank considering Call Deposit (Call.D) to Loan and Advances (L&A)

YEAR	Call.D	L&A	RATIO (X)	$\sum (X- \bar{X})$	$(X- \bar{X})^2$
2001	219.5	1659.1	0.13	-0.22	0.046656
2002	797.1	2622.2	0.30	-0.05	0.002116
2003	942.09	2369.9	0.40	0.05	0.002916
2004	966.1	2564.3	0.38	0.03	0.001156
2005	1416.2	3746.6	0.52	0.17	0.030276
Total			$\sum X$ **=1.73**		$\sum (X- \bar{X})^2$ **=0.08312**

Call Deposit to Loan and Advances = $\dfrac{\text{Call Deposit}}{\text{Loan and Advances}}$

Mean ($\bar{X}$)= $\dfrac{\sum x}{N}$ = $\dfrac{1.73}{5}$ =**0.35**

(S.D) $\sigma = \sqrt{\dfrac{\sum \left(Xn - \bar{X}\right)^2}{n-1}} = \sqrt{\dfrac{0.08312}{5-1}}$ **= 0.14**

CV = $\dfrac{\sigma}{\bar{X}}$ = $\dfrac{0.14}{0.35}$ = **0.41**

Where,

L &A=Loan and Advances
Call. D= Call Deposits
S.D= Standard Deviation
C.V= Coefficient of Variance

APPENDIX-XXIII

Work sheet for the calculation of Mean, Standard deviation and coefficient of Nabil Bank considering Other Deposit (Other D) to Loan and Advances (L&A)

YEAR	Other D	L&A	RATIO (X)	$\sum (X-\bar{X})$	$(X-\bar{X})^2$
2001	416.3	7323.6	0.06	0.01	0.0002
2002	297.2	8437.6	0.04	-0.01	0.0000
2003	267.1	7328.2	0.04	-0.01	0.0000
2004	382.0	8267.8	0.05	0.00	0.0000
2005	304.7	8769.7	0.03	-0.01	0.0001
Total			$\sum X$ **=0.21**		$\sum (X-\bar{X})^2$ **=0.0004**

$$\text{Other Deposit to Loan and Advances} = \frac{\text{Other Deposit}}{\text{Loan and Advances}}$$

$$\text{Mean } (\bar{X}) = \frac{\sum x}{N} = \frac{0.21}{5} = \mathbf{0.04}$$

$$\textbf{(S.D)}\ \sigma = \sqrt{\frac{\sum\left(Xn-\bar{X}\right)^2}{n-1}} = \sqrt{\frac{0.0004}{5-1}} = \mathbf{0.01}$$

$$\textbf{CV} = \frac{\sigma}{\bar{X}} = \frac{0.01}{0.04} = \mathbf{0.23}$$

Where,

Other D= Other Deposit
L&A= Loan and advances
S.D= Standard Deviation
C.V= Coefficient of Variance

APPENDIX-XXIV

Work sheet for the calculation of Mean, Standard deviation and coefficient of Everest Bank considering Other Deposit (Other D) to Loan and Advances (L&A)

YEAR	Other D	L&A	RATIO (X)	$\sum (X- \bar{X})$	$(X- \bar{X})^2$
2001	113.2	2270.2	0.05	0.02	0.000335
2002	94.9	3006.6	0.03	0.00	0.000000
2003	104.2	3982.7	0.03	-0.01	0.000029
2004	143.1	5049.6	0.03	0.00	0.000010
2005	133.8	6131.1	0.02	-0.01	0.000095
Total			$\sum X$ **=0.16**		$\sum (X- \bar{X})^2$ **=0.000469**

$$\text{Other Deposit to Loan and Advances} = \frac{\text{Other Deposit}}{\text{Loan and Advances}}$$

$$\text{Mean } (\bar{X}) = \frac{\sum x}{N} = \frac{0.16}{5} = \mathbf{0.03}$$

$$\textbf{(S.D)}\ \sigma = \sqrt{\frac{\sum (Xn - \bar{X})^2}{n-1}} = \sqrt{\frac{0.000469}{5-1}} = \mathbf{0.01}$$

$$\textbf{CV} = \frac{\sigma}{\bar{X}} = \frac{0.01}{0.03} = \mathbf{0.34}$$

Where,

Other D= Other Deposit
L&A= Loan and advances
S.D= Standard Deviation
C.V= Coefficient of Variance

APPENDIX-XXV

Work sheet for the calculation of Mean, Standard deviation and coefficient of NIC Bank considering Other Deposit (Other D) to Loan and Advances (L&A)

YEAR	Other D	L&A	RATIO (X)	$\sum (X-\bar{X})$	$(X-\bar{X})^2$
2001	127.3	1659.1	0.08	0.04	0.001979
2002	46.7	2622.2	0.02	-0.01	0.000208
2003	41.9	2369.9	0.02	-0.01	0.000212
2004	65.3	2564.3	0.03	-0.01	0.000046
2005	88.2	3746.6	0.02	-0.01	0.000076
Total			$\sum X$ **=0.16**		$\sum (X-\bar{X})^2$ **=0.002521**

$$\text{Other Deposit to Loan and Advances} = \frac{\text{Other Deposit}}{\text{Loan and Advances}}$$

$$\text{Mean } (\bar{X}) = \frac{\sum x}{N} = \frac{0.16}{5} = \mathbf{0.03}$$

$$\textbf{(S.D)}\ \sigma = \sqrt{\frac{\sum\left(Xn-\bar{X}\right)^2}{n-1}} = \sqrt{\frac{0.002521}{5-1}} = \mathbf{0.03}$$

$$\textbf{CV} = \frac{\sigma}{\bar{X}} = \frac{0.03}{0.03} = \mathbf{0.78}\ \textbf{(}\text{Whole Figure Calculation Error}\textbf{)}$$

Where,

Other D= Other Deposit
L&A= Loan and advances
S.D= Standard Deviation
C.V= Coefficient of Variance

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