CREDIT MANAGEMENT OF EVEREST BANK LIMITED.

Submitted By

Binita Maharjan

SHANKER DEV CAMPUS

T.U. Registration. No: 7-2-355-26-2002

Campus Roll No: 3053/062
Exam Roll no.5360

A Thesis Submitted To:

OFFICE OF THE DEAN, FACULTY OF MANAGEMENT

Tribhuvan University

In partial fulfillment of the requirements for the degree of

Master of Business Studies (MBS)

Kathmandu, Nepal
Sep, 2011

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RECOMMENDATION

This is to certify that the thesis:

Submitted by:

BINITA MAHARJAN

Entitled:

"CREDIT MANAGEMENT OF EVEREST BANK LTD"

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

…………………… ….............................. ……………………

Prof. Snehalata Kafle Prof. Bishweshor Man Shrestha) Prof. Dr Kamal Deep Dhakal

(Supervisor) (Head of Research Department) (Campus Chief)

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Pitri Raj Adhikari

(Supervisor)

VIVA -VOCE SHEET

We have conducted the viva-voce examination of the thesis

Submitted by:

BINITA MAHARJAN

Entitled:

"**CREDIT MANAGEMENT OF EVEREST BANK LIMITED.**"

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

Master's Degree in Business Studies (MBS)

Viva-Voce Committee

Head, Research Department ..……………………………………........

Member (Thesis Supervisor) ....……………………………………

Member (Thesis Supervisor) ....……………………………………

Member (External Expert) ....……………………………………

Date: ………...………….

DECLARATION

I here by declare that the work reported in this thesis entitled **"*CREDIT MANAGEMENT OF EVEREST BANK LIMITED*"** submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master's Degree in Business Study (M.B.S.) under the supervision of Prof Snehalata Kafle, and Mr.Pitri Raj Adhikari, Lecturer of shanker Dev Campus.

Sep,2011

…………………………

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This thesis entitled “Credit Management of Everest Bank Limited” has been prepared for the partial fulfillment of the requirement of Master’s Degree of Business Studies (M.B.S) under the Faculty of Management, Tribhuvan University, is based on research models involving the use of quantitative and qualitative model to analyze the credit management of Everest Bank Limited.

First of all, I regard as it my dispensation and providence to get an opportunity to work under the admirable supervision of Prof. **Mrs Snehalata Kafle** and **Mr. Pitri Raj Adhikari**, lecture of Shanker Dev Campus. They always motivated me and provided guidance all the time. Words fail me in expressing my gratitude to their. I also thank to express my deep admiration to Mr.Shyam.Whose Valuable suggestions helped me to complete this research work. I would also like to record my in debtless to all my respected who support me in this thesis writing.

I also express my gratitude to the staff of various corporate bodies, including SEBO/N, Nepal Stock Exchange and Everest Bank Limited. I should furnish my trustworthiness to all of my friends who supporting me during each and every stage of report writing.

Finally, I would like to express my genuine appreciation to the staffs of library of Shanker Dev Campus, and Tribhuvan University.

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Binita Maharjan
Shanker Dev Campus,
Kathmandu

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ABBREVIATIONS

BOK	= Bank of Kathmandu
EBL	= Everest Bank Limited
EBL	=Everest Bank Limited
HBL	= Himalayan Bank Limited
NABIL	= Nepal Arab Bank Limited
NBBL	= Nepal Bangladesh Bank Limited
NBL	= Nepal Bank Limited
NGBL	= Nepal Grind lays Bank Limited
NRB	= Nepal Rastra Bank Limited
NSBL	= Nepal Siddhartha Bank Limited
SBI	=State Bank of India
SCBNL	= Standard Chartered Bank Nepal Limited

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CHAPTER - I
INTRODUCTION

1.1 Background of the Study

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

The concept of the banking has been developed from the ancient history with the effort of ancient goldsmiths who developed the practice of storing people's gold and valuables under such arrangement the depositors would leave their gold for safekeeping and given a receipt by the goldsmith. Whenever, the receipt was presented the depositors would get back their gold and valuables after paying a small amount as fee for safekeeping and serving.

To overcome this economic situation, government has to formulate and implement strategies focusing overall industrialization of the nation and development of a sound banking system is necessary for the rapid industrial development. Shrestha says, "Financial infrastructure of an economy consists of financial intermediation, financial institution and financial markets" (Shrestha: 1990) financial institution, in this economy plays a role of catalyst in the process of economic growth of the country. In this country, a bank is a financial institution, which plays a significance role in the development of a country. It facilitates the growth of trade and industry of national economy.

However, bank is a resource for economic development, which maintains the self-confidence of various segments of society and extends credit to the people. Banking sector plays a vital role for the country's economic development opportunities to people. Such economy of the country secures proper growth. In this way, it is crystal clear that a sound banking system is must for the industrial development and creates employment and investment opportunities to people. Such economy of the country secures proper growth. In this way, it is crystal -clear that a sound banking system is necessary for the industrial development and for economic development of the country. "A bank is a business organization that receives and holds deposits of fund from other, makes loans or extends credit and transfer funds by written orders of depositors." Banks have always been the most important and the targets of the financial intermediaries almost everywhere. It plays significant role in the development of a country intermediating between the savings and investment. Essentially the banks and financial systems are the channel through which money has been mobilized distribution throughout the economy. Any bank must maintain adequate cash and bank balance to meet its day-to-day management of cash resources for remote contingencies.

Bank grants loan and advances to industries, people and companies that result in the increase in the productivity of nation. For Example:-The loan against to agricultural sector enhances the agricultural product on. The farmers can use the loan amount as per their need to produce their product that will promote the agriculture product on. Similarly, the loan and advances to different people and corporate bodies help to increase their income and profits. They can use the amount as per their need at right place at the right time. Bank is a business organization where monetary transaction occurs. It creates fund from its clients saving and lends the same to needy person or business companies in term loans, advances and investment. Therefore, proper financial decision-making is more important in banking transactions for its efficiency and profitability. Most of the financial decision-making is loan management. It plays the vital role in the business succession, so efficient management of lending policy is needed.

The source of finance is most essential element for the establishment and operation of financial institute. Profit oriented institutions usually obtain these sources through ownership capital, public capital through issue of shares and debentures, borrowing through banking institution as credit or loan. Now days, the essential sources of the organization for financial supporting is the credit, overdrafts and others provided by banking institution.

The History of banking system in Nepal in the form of money lending can be traced back in the reigning period of Gunakama Dev, the king of Kathmandu (NBL Patrika: 2037). Tankadhari a special class of people was established to deal with the lending activities of money toward the end of fourteen century at the Ruling period of King Jaysthiti Malla (NBL Patrika, 2001). During period of Rannodip Singh Prime Minister of Nepal, one financial institution was established to give loan facilities to the government staff and afforded loan facilities to the public in general in the term of 5% interest but 'Tejarath did not accept money from public(NBL Patrika : 2040).

The study focuses on evaluating the deposits utilization of the bank in terms of loans and advances and investments and its contribution in the profitability of the bank. It also focuses on the contribution of off-balance sheet activities in the earnings of the bank and non-performing assets position of the bank. The term credit is referred to the loan. Credit is the amount of money lent by the creditor (bank) to the borrower (customers) either based on security or without security.

1.2. Focus of the Study

Although joint venture banks have managed credit than other local commercial banks within short span of time, they have been facing a neck –to-neck competition against one another. Among this joint venture banks, this research is based on mainly joint venture banks, namely Everest Bank Limited Joint venture commercial banks play a tremendous role in a developed or developing nation also helps to improve the economic sector of the country. Typically, commercial banks main motive is to make profit by providing quality services to the customers. In Nepal, there exist 31 commercial banks realizing their services. The study focus on evaluating the deposits utilization of the bank in terms of loans and advances and investments and its Commercial banks are the heart of financial system. They hold the deposit of money persons, government establishment and business. The study focuses on evaluating the deposits utilization of the bank in terms of loans and advances and investments and its contribution in the profitability of the bank. It also focuses on the contribution in the profitability of the bank. Commercial banks are the heart of financial system. They hold the deposit of many persons, government establishment and business units. They make fund available through their lending and investing activities to borrowing individual's business firms and government establishment. In doing so, they assist both the flow of goods and services from the producers to consumers and the financial activities of the government. They provide a large portion of medium of exchange and they are the media through which monetary policy is affected. These facts show that commercial banking system of nation is important to the functioning of the economy.

Financial institution is currently viewed as catalyst in the process of economic growth of country. A key factor in the development of an economy is the mobilization of the domestic resources and intermediaries, the financial institution helps the process of resources mobilization. The importance of financial institutions in the economy has of late grown to an enormous extent. The government in turn is required to regulate their activities. So, the financial policies are implemented as per the requirement of the country.

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

1.3. Statement of the Problem

The problem of the study will ultimately find out the reasons about the credit management. A study on the credit management of the commercial banks would be highly beneficial for pointing out their strength and weakness. Although joint venture banks have managed to perform better than other local commercial banks within short span of time, they have been facing a neck-to-neck competition against one another fluctuating and low interest rates on deposits, poor deposit mobilization trade, commerce etc. have affected on the return of funds, total assets, total deposits and shareholders wealth position. Since the joint venture banks have been established gradually because of the liberal and market –oriented economic policy (Report) of Nepal Government, they have been facing though competition from other commercial banks and of course each other. Although various joint venture banks operating in Nepal after Nepal Government adopted the open liberal and market oriented economic (Report), the financial sectors have not been enough to meet the growing resource need to the economy as expected before. Why is so and what is the problem? To answer this question an analysis of their present credit management is necessary. Therefore, focus of the present study is on the credit management of the joint-venture banks in Nepal with special reference to Everest Bank Ltd.

Global economic prospects report Nepal’s Gross Domestic Product to expand by an estimated 1.9% in 2006. Doing business in south Asia Nepal ranks 25th worldwide on the ease of registering property 5 reasons why Nepal reduced poverty by 11% between 1996 and 2004 despite conflict. Economic activities in Nepal slowed to 1.9% because of the intensified conflict, weather – related decline in agriculture production and a trend decline in clothing exports. Growths are projected to strengthen, owing to diminished political uncertainties following the recent restoration of parliament and the cessation of fighting with insurgents. Poverty alleviation fund is us $ 25millions Oct 2006. Current lending in Nepal is the total fiscal year in $43200, 000 us dollar. Finance (Micro and SME finance) is 4% in 14 Nov-2006.

Since the liberalization policy of the government, various banks and financial institutions has been established with, a view to reinforce the economic growth of the country. They have played an indispensable role by accepting deposits and granting loans. Investment of the collected funds is the most important factor for both shareholders and the bank as they are the source of earning. Credit extended by these banks is directly related to the national interest.

Similarly financial companies have been emerging rapidly and the bank has to compete with them. Since, finance companies are making investment in the same sectors where commercial banks typically invest. Commercial banks are more interested in providing loans on short -term projects due to safety and security of their loans. Thus, they are following conservative loan policy based on strong security. Similarly, these banks do not have a well-organized credit management. They rely much on the instructions and guidelines of Nepal Rastrya Bank. Even if they have formulated some guidelines, they fail to implement it due to poor supervision and lack of professionalism.

Joint Venture Banks are of utmost importance as they have contributed significantly to the overall economic development of the country. Yet, after so long since their establishment and successful operations for almost two decades, they are not free from problems and hindrances in their avenue. Since, we are concerned with the sample (Everest Bank Ltd.) we will be discussing about it. This bank has been operating pretty well from its inception. It has been awarded prestigious titles because of its experience in the field of international banking, hi-tech computerized services, professional attitude, qualified and experienced work force, quality and reliable services that served as the key factor for its rapid progress. It has been able to control and capture a remarkable leadership of Nepalese banking sector in a relatively short period in terms of both market share and market price. Project appraisal method followed by commercial banks is not scientific and appropriate. Granting loan against insufficient deposits overvaluation of goods pledged, land and building mortgaged, risk–averting decision regarding loan recovery and negligence in recovery of overdue loans are some of the drawbacks of unsound investment policy. Similarly, loan supervision and follow-up mechanism is lacking in many commercial banks.

Total debenture and bond of the bank was Rs.300m in 2009/10 against the debenture and bond of Rs.300millions in 2008/09. Total liabilities of the bank were Rs.41,382,760,711 in 2009/010 against the liabilities of the bank 36,916,848,645 in 2008/09. Total loan and advances of the bank was Rs 404,600,000 in 2009/10 against the loan and advances of the bank Rs. 312 millions in 2004/05. Total employee expenses is Rs.226,364,000 and operating expenses is Rs.332,511,231.The current ratio of the bank was 0.21 times in 2009/10 against the current ratio of the bank 0.18 times in 2008/09. Total cash and bank balance to total deposit ratio was 0.58 times in 2009/10 against the ratio of the bank 0.41 times in 2008/09. The total return on loan and advances ratio was 76.24 times in 2009/10 against the ratio of the bank was 73.43 times in 2008/09. The total loan loss provision to total loan and advances ratio was 0.27 times in 2009/10 against the ratio of the bank 0.38 times in 2008/09.

The problem associated with Everest Bank with regard of credit management aspects are highlighted below:

- What is the impact of deposit and loan advance in liquidity?

- What is the procedure of EBL for granting loan?
- Is EBL maintaining lending efficiency?
- How is EBL managing it's assets and profitability?
- What is the situation of total loan and advance with total deposit and its net profit ?
- Is the bank mobilization and credit management effective or efficient?
- What is the proportion of Non performing Assets on total loans and advances of bank.

1.4. Objective of the Study

Undoubtedly, the role of commercial bank in mobilizing and utilizing scattered resources of nation is praiseworthy one-.The basic objectives of the study is to have true insight into the credit management aspects (practice of disbursing loans and recovery of the Everest Bank Ltd.). This aims to examine its efficient in effectiveness, systematization and sincerity in disbursing and recovery loan as well within the directives of NRB, Financial institution act and its own policy.

The main objective of this study is to evaluate the credit management of Everest Bank Limited. Besides, there may be other objectives as well.

1. To examine the impact of deposit in liquidity.
2. To evaluate the various stages occurred in loan management procedure.
3. To analyze the lending efficiency of the bank.
4. To explore the assets management efficiency and portfolio ratios.

1.5. Significant of the Study

The needs of the study are:

1. The study will give a clear picture of financial position of the company under study.
2. This study will provide information to those who are planning to invest in Everest Bank Limited.

3. With the help of the report of this study, the management may apply corrective measures for the improvement of the banks performance.
4. The policy formulates of the bank may gain something with the help of the result of this study.
5. The study will help general public to know about the overall financial position of the Everest Bank Limited.
6. After the completion, this report will be kept in the library, which plays the role of reference to the students making the similar study in future.

1.6. Limitations of the Study

This study is conducted for the partial fulfillment of Master's of Business Studies, so it processes some limitations of its own kind. The limitations of the study are follows:

1. The study is based only on secondary data so it may contain reporting errors.
2. There is in total 31 commercial banks in the financial market but this I take only one from them. The sampled bank is Everest Bank Ltd
3. The study covers the past and present state of the commercial banks in Nepal and will not make any projection in future.
4. The study covers the data of only five fiscal years from 2005/2006 to 2009/2010 and the conclusion drawn confines only to the above period
5. This study used only the selective tools for analysis and interpretation of data.

1.7. Organization of the Study

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

Chapter-I: Introduction

This chapter describes the basic concept and background of the study. It has served orientation for readers to know about the basic information of the research area, various problems of the study, objectives of the study and need or significance of the study.

Chapter-II: Review of literature

The second chapter of the study assures readers that they are familiar with important research that has been carried out in similar areas. It also establishes that the study as a link in a chain of research that is developing and emerging knowledge about concerned field.

Chapter-III: Research Methodology

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. It describes about the various source of data related with study and various tools and techniques employed for presenting the data.

Chapter-IV: Presentation and Analysis of data

This chapter analyzes the data related with study and presents the finding of the study and also comments briefly on them.

Chapter-V: Summary, Conclusion and Recommendation

On the basis of the results from data analysis, the study concluded about the performance of the concerned organization for better improvement.

Besides this the study includes declaration, viva-voce sheet, acknowledgement and table of contents in front page whereas at the end it include bibliography and appendices.

CHAPTER-II
REVIEW OF LITERATURE

To explore the relevant and true facts for the research purpose, this chapter highlights the literature available related to the study. An attempt has been made to look into bank publications, periodicals and central banks rules and regulations. In addition, informal interviews with bank personal and a few customer /borrowers have been aimed to receive. Further, interaction programs related with the financial issues transmitted by the various television channels will be taken as supportive concept. For review study, the researcher uses different books, reports, journals and research studies published by various institutions, unpublished dissertations submitted by master level students have been reviewed.

It is divided into two headings:

-Conceptual Review

-Review of Different Studies

2.1 Conceptual Review

The review of textbooks and other reference materials such as: newspaper, magazines, research articles and past thesis have been included in this topic.

Credit administration involves the creation and management of risk assets. The process of lending takes into consideration about the people and system required for evaluation and approval of loan requests, negotiation of terms, documentation, disbursement, administration of outstanding loans and workouts, knowledge of the process and awareness of its strength and weaknesses are important in setting objectives and goals for lending activities and for allocating available funds to various lending functions such as commercial, installment and mortgage portfolios.

Mobilization of the domestic saving is one of the prime objectives of the monetary policy in Nepal. And commercial banks are the most active financial intermediary for generating resources in the form of deposit of private sector and providing credit to the investors in different sectors of the economy. In banking sector or transaction, an unavoidable ness of loan management, many subject matters are considered and thought. For example, there are subject matters like the policy of loan flow, the documents of loan flow, loan administration, audit of loan, renewal of loan, the condition of loan flow, and the provision of security, the provision of the payment of capital and its interest and other such procedures. This management plays a great role in healthy competitive activities.

It is very important to be reminded that most of the bank failures in the world are due to shrinkage in the value of loan and advances. Hence, risk of non-payment of loan is known as credit risk or default risk.

2.1.1 Concept of Commercial Bank

Before defining the term commercial bank, let us define the meaning of bank and commercial. According to S. and S.'s definition of bank, a banker or bank is a person or company carrying on the business of receiving money collecting drafts, for customers subject to the obligation of honoring cheques drawn upon them from time to time by the customers to the extent to the amount available on their customer, Shekher & Shekher, 1999.

Paget (1987), states that no one can be a banker who does not take deposit accounts, take current accounts, issues and pay cheques of crossed and uncrossed, for his customers. He further adds that if the banking business carried on by any person is subsidiary to some other business; he cannot be regarded as a banker.

Commerce is the financial transactions related to selling and buying activities of goods and services. Therefore commercial banks are those banks, which work from commercial viewpoint. They perform all kinds of banking functions as accepting deposits, advancing credits, credit creation and agency functions. They provide short-term credit, medium term credits and long terms credit to trade and industry. They also operate off balance sheet functions such as issuing guarantee, bonds, letter of credit, etc.

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

2.1.2 Functions of Commercial Banks

The business of commercial bank is primarily to hold deposits and make credits and investments with the object of securing profits for its shareholders. Its primary motive is profit; other considerations are secondary. The major functions of commercial banks are as follows:

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

i) Assist in foreign Trade:

The bank assist the traders engaged in foreign trade of the country. He discounts the bills of exchange drawn by exporters on the foreign importers and enables the exporters to receive money in the home currency. Similarly, he also accepts the bills drawn by foreign exports.

ii) Offers Investment Banking and Merchant Banking Services:

Banks today are following in the footsteps of leading financial institutions all over the globe in offering investment banking and merchant banking services to corporations. These services include identifying possible merger targets, financing acquisitions of other companies, dealing in security underwriting, providing strategies marketing advice and offering hedging services to protect their customers against risk from fluctuating world currency prices and changing interest rate.

Further, they support the overall economic development of the country by various modes of financing.

2.1.3 Concept of Credit

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

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

1. Overdraft
2. Cash Credit
3. Direct Credit
4. Discounting of Bills

2.1.4 Types of Credit

Overdrafts:

It denotes the excess amount withdrawn over their deposits.

Cash Credit:

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

Term Credit:

It refers to money lent in lump sum to the borrowers. It is principle form of medium term debt financing having maturities of 1 to 8 years.

Barely and Myers urge that bank credits with maturities exceeding 1 years are called term credits. The firm agrees to pay interest based on the bank's prime rate and to repay principle in the regular installments. Special patterns of principle payments over time can be negotiated to meet the firm's special needs (Richard, 1996).

Working Capital Credit:

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

Priority or Deprived sector Credit:

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

- Advances to poor/downtrodden/weak/deprived people up to Rs 30,000 for generating income or employment.
- Institutional Credit to Rural Development Bank.
- Credits to NGOs those are permitted to carryout banking transactions for lending up to Rs. 30,000.

Hire Purchase Financing (Installment Credit):

Hire-Purchase credits are characterized by periodic repayment of principle and interest over the maturity of the credit. Hirer agrees to take the goods on hire at a stated rental including their repayment of principle as well as interest with an option to purchase.

A recent survey of commercial banks indicates those banks are planning to offer installment credits on a variable rate basis. It can be secured and unsecured as well as direct and indirect installment credits on a variable rate basis. It can be secured and unsecured as well as direct and indirect installment credit.

Housing Credit (Real Estate Credit):

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

Project Credit:

Project credit is granted to the customers as per project viability. The borrowers have to invest certain proportion to the project from their equity and the rest will be financed as project credit. Construction credit is short-term credits made to developers for the purpose of completing proposed projects. Maturities on developers for the purpose of completing proposed projects. Maturities on construction credits range from 12 months to as long as 4 to 5 years, depending on the construction credits range from 12 months to as long as 4 to 5 years, depending on the size of the specific project (Johnson, 1940). The basic guideline principle involved in disbursement policy is to advance funds corresponding to the completion policy is to advance funds corresponding to the completion stage of the project. Term of credit needed for project fall under it.

Consortium Credit:

No single financial institution grant credit to the project due to single borrower limit or other reason and two or more such institutions may consent to grant credit facility to the project of which is baptized as consortium credit. It reduces the risk of project among them. Financials bank equal (or likely) charge on the project's assets.

Credit Cards and Revolving Lines of Credit:

Banks are increasingly utilizing cards and revolving lines of credit to make unsecured consumer credit. Revolving credit line lowers the cost of making credit since operating and processing cost are reduced. Due to standardization, centralized department processes revolving credits resulting reduction on administration cost. Continued borrowing arrangement enhances cost advantages. Once the credit line is established, the customer can borrow and repay according to his needs and the bank can provide the fund to the customer at lower cost.

Off-Balance Sheet Transaction:

In fact, bank guarantee and letter of credit refer to off balance sheet transactions of financial institution. It is also known as contingent liability. Contingent liability pinpoints the liability, which may or may not arise during the happening of certain event. Footnotes are kept as references to them instead of recording in the books of accounts.

It is non-funded based remunerative facilities but more risky than the funded until adequate collateral are not taken. Lets its two varieties be described separately.

Bank Guarantee:

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

Letter of Credit (L/C):

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

2.1.5 Objectives of the Sound Credit Policy

The purposes of a written credit policy are:

I) To assure compliance by lending personnel with the bank's polices and objectives regarding the portfolio of credits and

II) To provide personnel with a framework of standards within which they can operate.

2.1.6 Lending Criteria

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

1. Character

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

- Memorandum and Article of Association
- Registration certification
- Tax registration certificate (Renewed)
- Resolution to borrow
- Authorization-person authorizing to deal with the bank.
- Reference of other lenders with whom the applicant has dealt in the past of bank A/C statement of the customer.

2. Capacity

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

- Certified balance sheet and profit and loss account for at least past 3 years.
- References or other lenders with whom the applicant has dealt in the past or bank A/C.

3. Capital

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

4. Collateral

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

5. Conditions

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

2.1.7 Principle of Credit Policy

Good credit policy is essential to carry out the business of lending more effectively. Banks should look the fact that is there any unproductive or speculative venture or dishonest behavior of the borrower. Liquidity refers to pay on hands on cash when it needed without having to sell long-term assets at loss in unfavorable market. A banker has to ensure that money will come in as on demand or as per agreed terms of repayment.

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

Generally, credit request would be accepted for productive sector only. Bank should be rejected credit request for speculation, social functions, pleasures trips, ceremonies and repayment of prior credit as they are unproductive. Profitability denotes the value created by the use of resource is more than the total of the input resources. Bank should provide to such project that can provide optimum amount of return. For such purpose, bank should take a little bit risk by providing to venturous project. Portfolio of credit advances is to be spread not only among many borrowers of same industry. It across the industries in order to minimize the risk of lending, by keeping "Do not put your all eggs in the same basket" in mind. In lending and granting advances, interest of nation should not be distorted (if undermined). Priority and deprived sector of economy and other alarming sector should be given proper emphasis while extending advances.

2.1.8 Project Appraisal

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

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

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

a. Financial aspect
b. Economic aspect
c. Management /organizational aspect
d. Legal aspect

Directives issued by NRB for the commercial Bank: (related to credit aspect only):

1. Credit classification and provisioning

Classification	Provision
1. Pass Credit	1%
2. Sub Standard Credit	25%
3. Doubtful Credit	50%
4. Bad Credit	100%

Those credits that have not crossed the time schedule of repayment and are within 3 months delay of maturity date fall under the classification topic 'pass credit'. It is also known as performing credit.

Sub standard credit are those credit which are already crossed the repayment time schedule and are within 3-6 months delay of maturity date. Likewise, within 6-12 months from the time to be recovered are classified as doubtful credit. Those credits, which are not recovered yet after 1 year from maturity date, are known as bad credit. All the above 3 types of credits are classified as non-performing credit also. The credit loss provision for performing credit is termed as general credit loss provision whereas the credit loss provision for non- performing credit is termed as specific credit loss provision.

Auditor has to correctly rate the credit and ensure that accurate credit loss provision has been made. The auditor should examine whether the bank has obtained complete documentation so that banks interest is secured. In addition audit is made to inspect compliance of terms and conditions laid down. Credit audit is required to check whether credit given is within authority, drawing power, etc. Credit audit helps the bank to know quality of its credit, its weakness and strengths. This, in turn, helps the bank to adopt corrective measures where weaknesses have been pointed out and to focus further on strengths. General guidelines whether to reject or renew the credit can be established with the help of credit audit.

2. Limit of Credit and Advances in a Particular Sector

- Fund based credit and advances can be issued up to 25% (upper limit) of core capital to a single customer, firm, company and a group of related customer.
- Non-fund based (off-balance items) can be issued up to 50% of core capital to a single customer, firm, company and group of related customer.

Note: The core capital includes {paid up capital + share premium + non-redeemable preference share + general fund + accumulated profit (loss) – goodwill (if any included)}.

Group of related customer:

- If a company takes 25% or more share of another company.
- Member of board of directors of company shareholders of private limited company and such members and shareholders with others in a single house, even if husband, wife, son, daughter, daughter in law, unmarried daughter, adopted son, adopted unmarried daughter, father, mother, stepmother, brothers and sisters whom be should look after. And the above members personally or combined take 25% or more share of another company.
- Firm, company and members as a related group.
- Members of board of directors, shareholders and other relatives as stated in serial number ‘b’ takes less than 25% of board of directors of the company solely or combined but have control on the other company by the following ways:
- Being president of board of directors of the company.
- Being executive directors of the company.

- Nominating more than 25% of members of board of directors of the company.
- If cross guarantee is given by one company to another company

2.2 Review of Articles

Wenner, Navajas, Trivelli & Tarazon (2007), in their , “Managing Credit in Rural Financial Institutions in Latin America”, have stated that credit that credit management in Latin American rural financial institution is improving evolving, but much still needs to be done. Many of the initiations surveyed demonstrated success as measured by high overall rates of profitability, low delinquency rates in both general and agricultural portfolios, and sustained growth rates in agricultural portfolios over time. Nonetheless, the paucity of institutions active in rural and expressed desires for better risk management systems, the relatively small loan sizes, and restricted terms indicate that the situation is less than optional.

Massive credit expansion in developed countries has been due in large part to the introduction and wide different of risk transfer techniques (insurance, securitization, derivatives,etc) and the wider acceptance of different types of collateral (inventories, account receivables, warehouse receipts, etc.). In Latin America, the most common risk transfer instruments available are publicly financed loan guarantee fund; however, they are used only modestly (25%). Historically , guarantee funds have been plagued with problems of high costs, limited additionally , and moral hazard. Recent work has shown that the most successful guarantee funds in Latin America (in terms of additional) are those in Chile, and that mush of the positive impact is due to adequate regulation. In order to introduce some of the other risk transfer instruments and commonly found in developed, capital markets, credit bureaus, commercial codes, secured transaction frame works, and information disclosure rules.

Burns & Stanley (2008), in the article, “Managing Consumer Credit”, have stated that the tools for improving management of consumer credit have advanced considerably in recent years as industry leaders and their advisors have focused on the development of increasingly sophisticated analytical tools. Advances in data warehousing technology and overall computational efficiencies have greatly facilitated these developments. At the same time, application of these new mythologies varies substantially among firms and between industry segments. Generally speaking, the credit fare industry tends to be the furthest along the development path , but even-here, variability exists. A number of lending firms have developed highly refined portfolio segmentation designs an enhanced risk- based score-card schemes, but only a few have reached the level of fully integrated models that employ multi-variable regression analysis. Credit management practices in the consumer lending business are generally much stronger than in the early 1990s and the industry is far better positioned to weather the current economic downturn than it was a decade ago.

Fatemi & Fooladi (2009), in their article, “Credit Management; a survey of practices’, have state that credit risk arises from uncertainty in a give counterparty’s ability to meet its obligations. The increasing variety in the types of counterparty’s (from individuals to sovereign governments) and the even –expanding variety in forms of obligations (from auto loan to complex derivatives transactions) has meant that credit management has jumped to the fore forefront of credit management activities carried out by firm in the financial services industry.

In a survey of the largest financial institution based in the US, the study find that identifying counterparty default risk is the single most –important purpose served by the credit risk models utilized. Close to half of the responding institutions utilize models that are also capable of dealing with counterparty migration risk. Surprisingly, only a minority of banks currently utilize either a proprietary of a vendor-marketed model for the management of their credit .

Interestingly, those that utilize their own in – house model also utilize a vendor model. Not surprisingly, such models are more widely used for the managemet of non-traded credit loan portfolios than they are for the management of traded bonds.

Ganzi and Huppman (2010), in their article, "Credit Risk Management : How the Banking Industry is Integrating Environmental and Social Issues: Is Being Financially Responsible?" have stated that credit risk management is undergoing an important transition. Banks are no longer treating environmental and other social issues as peripheral to their business concerns; they no longer focus simply on recycling paper of using energy-efficient light bulbs. Based on meeting with 80 officers at 38 leading financial institutions, a study financially supported by Environmental Resources Management (ERM), indicates that ht majority of the world's large banks agree that integrating environmental and broader social issue into their core credit risk management process is essential to management credit risk in the 21st century. Leading banks such as Citigroup, ABN AMRO, Westpac, and Barclays, to name a few , now view these "non-traditional" issues as real credit risk variables that may potentially affect their client's bottom lines as well as their own.

In summary , it now appears that a growing number of leading global credit providers are in varying stages of consideration and/ of implementation of industry best practices for addressing environmental issue and ,in many cases, social issues. These action are being taken by the credit providers, not just because it is good for their image or because they see it as their moral obligation, but because they believe it makes sound bottom-line economic sense for their long-term credit portfolio quality (delinquency, write-offs and recovery) and overall financial performance. The two big unknowns appear to be: (1) will these financial institutions (and, in particular, their Boards and Executive Management terms) make the needed financial commitment to establish and implement effective internal and external (i.e., at client level) programs and processes, and (2) if they make the commitment, will it lead to be tipping point where all global credit providers will follow suit (levelling of the playing field).

2.3 Review of Thesis

Upreti (2001) states that profitability in term of return on shareholders equity ratio of NGBL is found lower in F.Y, 1994/95 (3671%). Similarly, the ratio of HBL is found within the range from 38.68 % (in 1995/96) to 23.13% (in 1998/99). The yearly average of NGBL (i.e. 31.52) is higher than yearly average (i.e.30.152) of HBL. It can be concluded that both the banks have been able to earn profit on shareholder’s equity but not satisfactory level. NGBL is more success to generate more return on its shareholder’s funds than that of HBL, although there is no significant different between the averages of these ratio of the two banks. Return on total assets ratio of NGBL is found within the range between 2.95 % (in 1995/96), (2.30%) and (in1994/95) where the same ratio of HBL is found within the range from 2.48 % (in 1995/96) to 1.48% (in 1998/99). The yearly ratio of HBL is generally decreasing over the study period. Moreover, the yearly average of NHBL (2.64) is found higher than the yearly average of HBL along with its yearly average ratio is also higher than composite average of the banks. It can be concluded that return on total assets ratio in cash of NGBL is found better performance by utilizing overall resources but the generated profit is found lower for the overall resources in both the joint venture banks.

The main statement of the problem of his research is the Himalayan bank Ltd. and Nepal bank operating in Nepal. In comparison to their JVB’s these bank have achieved a desirable success in terms of market share and profit due to their service excellence, consumer satisfaction, highly skilled management and staff and worldwide network of branch. Although, Himalayan Bank Limited and Nepal Grindlays Bank have able to perform better than other local banks and financial companies within a short span of time, they have been facing competition with each other. These banks do not have strong financial position in respect to net profit to capital employed ratio, capital adequacy and earning per share. The contribution of these banks in rural areas is very unsatisfactory. To know the solution of these problems, the competitive financial analysis of these two banks will be much more helpful.

Kapadi (2002),The most of the capital structure ratios show that the capital structure of both the banks is highly leveraged. Total debt to equity ratio of both the banks reveals that the claims of the outsider exceeds mere than that of the owner's over the bank asset. However NABIL bank seems to be more leveraged than SCBNL. Total debt to total assets ratio of both the banks has always been over 88, which indicates the excessively geared capital structure. Comparatively NABIL bank has used a little more debt financial than SCBNL. Long term debt to total assets ratio of NABIL bank is seems to be greater as per mean which shows more use of long-term debt by NABIL bank than by SCBNL. Long term debt to net worth ratio of both the banks is following the fluctuating trend. The mean proportion of outsiders fund and owners fund employed in the total capitalization of NABIL bank is higher than that of SCBNL. This implies that it is following an aggressive strategy of higher risk higher return policy. The net fixed asset to net worth ratio of NABIL bank is higher than that of SCBNL as per mean ratio. But the investment of owners' equity in fixed assets for both the banks are minimum as is commonly seen in various financial institutions.

The main statement of the problem of his research is NABIL bank and SCBNL have been operating well from their very establishment. Their experience on international banking, prompt and computerized services professional altitude are the factor for their rapid progress. They have been gaining weakness and inefficiency of domestic commercial banks. These banks have succeeded to capture a remarkable market share of Nepalese banking sector in a relatively short period of time. This fluctuation in different aspects of both the sample banks can be traced out by analyzing their financial performance. Therefore, the researcher of this thesis will seek the answers to the following questions relating to both of these banks.

Bista (2002), study has been undertaken to examine and evaluate the financial performance of NIBIL bank limited. The researcher has used the financial tools to make this study more effective and informative. This study has corrected ten years data from 1991/1992 to 2000/2001 of the NABIL bank limited. The analysis shows that the deposits of the bank have increased during the years 1999/00 and 2000/01. The rate of increase was comparatively low for the year 1996/97. Total loans and advances have been increasing at an average rate of 24% each year, highest of 51% in year and lowest of 7% in year 1996/97. Total investment of the bank has been increasing over the years, which is mainly due to the bank's strategy of safe lending and because of increase in customer's deposits and limited opportunities for prudent lending.

The main statements of the problem of his research is financial management aspect is considered to be the vital and integral part of overall management of any enterprises, ensuring financial strength through adequate cash flows, liquidity and better utilization of assets. Commercial joint venture banks set up in Nepal seem to need grater funds in terms of financing to the expansion of their assets because of growing number of new establishment of joint venture banks in the country. These banks deal with other people's deposits, most of which are payable on demand. There is no doubt that the survival of the existing commercial banks and other financial institution depend upon how they manage their assets and liabilities to maximize their profits with the minimum exposure of assets to risks, and are guided by there important conflicting criteria of solvency, liquidity and profitability. Therefore, the financial management is the main indicator of the success or failure of any business firm. Financial condition of the business firm should be sound be sound from the point of view of shareholders, debenture holders' financial institutions and nation as a whole.

Parajuli (2003), states that concept of financial reform emerged since 1980s with economic liberalization. Nepal Government and NRB published the economic and monitory policy to support such reform. As the result of these policies various jointed venture bank established in the private sector. Under the structural adjustment program of the IME the financial sector was further liberalized in 1987. The focus of NRB was placed on indirect monitory control. The agricultural development bank of Nepal and Nepal industrial development corporation were allowed to issue debentures to increase their financial resources. NRB strengthened its regulation and supervision of banking and financial institution and the commercial banks were granted virtually freedom to fix their interest rates on deposit in July 1989 except for the priority sector credit. The credit information Bureau was established in 1989. NRB started to control the financial institutions with strengthening to supervision and monitoring system. It has also pointed out the need of having deposit taking institutions act which it's on umbrella act of all deposit taking institution. Some of the main elements of financial sector reform strategy published by NG in December 2000 such as restructuring the government owned banks strengthening the commercial banks regulation accounting and auditing system improving the regulation and supervision on non banking deposit institutions.

Luitel (2003), found that to examine the short-term solvency of the NBL the help of liquidity ratios was taken. While comparing the ratios of two periods at an average the first period had higher current liabilities ratio than the second period. The average current ratio of the first period was 105.11% over 100.49% of the second period. Through the proportion of current assets greater than that of current liabilities at an average during both the periods the bank can not be said to have a sound current ratio or during both the periods the banks did not have healthy short-term solvency. Even then the first period of the study had better short term solvency than the second period. The highest and lowest current ratio for the first period were 110.35% and 101.031%in the F.Y. 047/048 and 048/049 respectively whereas the same for the second period were 104.47.1%.and 94.16% in F. Y. 053/054 and 0567/057 B.S. respectively. The F.Y. 055/056 also showed the ratio less than 100 % i.e.97.92% which signifies that during the years the bank had current liabilities more than current assets. During both the periods' liquidity position of the bank was worsening.

Joshi (2003) explain that the mean current ratio of EBL is slightly higher than that of the SCBNL and the variability of ratio of EBL is more consistence than SCBNL in comparison. The mean ratio of cash and bank balance to total deposit of SCBNL is lower in comparison to EBL. SCBNL has better liquidity position than EBL because of the high volume of liquidity indicated the inability of the bank to mobilize its current assets. Moreover SCBNL's ratios are homogeneous than EBL. The mean ratio of cash and bank balance to current assets of SCBNL is lower in comparison to EBL. Similarly, SCBNL's ratios of the study period are more consistent than EBL. The mean ratio of loan and advances to total deposit of EBL is higher than SCBNL. It can be said that EBL used to provide grater loan and advance in comparison to its total deposit than SCBNL. Likewise, SCBNL's ratio seems to be variable them EBL. The mean ratio of investment on government securities to total working fund of SCBNL is higher than EBL. Consequently, it has consistency in maintaining the ratio than EBL. The mean ratio of return on loan and advances of SCBNL has found to be significantly grater than EBL with more consistency than that of EBL. The mean ratio of credit risk of SCBNL is lower than that of EBL's ratios are more consistent than that of SCBNL. Growth ratio of deposit are more consistent than that of SCBNL is lower i.e. 19.28% in comparison to EBL i.e. 76.46%.

The main statement of the problem of his research is the investment decision is the major tool of financial institution. There are many finance companies and commercial banks operating in Nepal. According to NEPSE record, there were

17 commercial banks 46 finance companies 5 Gramin Bikas banks, 30 non - government financial organizations until July 2001. The fast growth of such organizations has made pro-rata increment of in collecting deposits and their investment. They collected adequate amount from the mass, however they could not find or locate new investment sectors required to mobilizes their fund on the changing context of Nepal. Many banks or companies succumbed to liquidation although they had sustainable investment capacity. The increasing rate of liquidity has caused a downward trend in investment sectors. It has ensured bad impact on interest rate to the depositors, lower market value of shares etc. for the assessment of such adverse impact, this study has shown to contrast and analyses the investment policy of joint venture banks. Joint venture banks viz. standard chartered bank Nepal Ltd and Everest bank limited.

Regmi (2004) states that commercial banks are those banks, which works from commercial view point. They perform all kinds of banking functions such as, accepting deposits, advancing credits, credit creation and management of credit and advances. Portfolio management helps to minimize or manage the credit risks and spreading over the risks to various portfolios. Banks earn interest on credit and advances which is one of the major source of income for banks. On average 5 years of research period, cash and bank balance to total deposits of ratio of NB bank and BOK is 12.75% and 14.12% respectively. Likewise NB bank and cash and bank balance 1.584 times of current deposits and BOK has cash and bank balance 1.14 times of current assets. NB bank: most of the credit and advances almost 70% is provided an assets guarantee. The assets guarantee credit is increasing period by period. After assets guarantee bank has provided credit based on bills guarantee credit is 3421.3millions (76.1% of total credit) and in the last period it is 3347.99millions (58.2%of total credit).

The liquidity position of BOKL is comparatively better than SCBNL. It has the highest cash and bank balance to total deposit ratio, cash and balance to current assets ratio. This may be the bank is in a good position to meet the daily cash requirement but it has to bear high cost of fund. Since investment on government securities of SCBNL is far better than BOKL. However, higher ratio shows unstable policy of investment. At last, we can be concluded that BOKL has good deposit collection and SCBNL can success to invest more amounts on government securities. Therefore, BOKL has maintained moderate investment policy on loan and advances. The asset management ratios of the both banks are satisfactory, it can be shown that SCBNL is not able to provide its deposit as loan and advances in comparison to BOKL. Whereas, SCBNL have more portion of deposit invested as investment in different sectors. Moreover, SCBNL has not utilized its working fund as loan and advances in comparison to BOKL. Due to security, SCBNL have also invest able its working fund in government securities and other company's share and debentures than that of BOKL, (Dhital: 2004) states.

Karki (2004) found that the development of any country largely depend upon its economic development capital formation is the prerequisite in setting the overall pace of the economic development of a country. Well-organized financial system contributes to the process of capital formation by converting scattered saving into meaningful capital investment in order to aid industry, trade, commerce and agriculture for the economic development of the nation. The financial institution play dominant role in the process of economic development. Banks are indispensable elements in these systems. Commercial banks furnish necessary capital needed for trade and commerce for mobilizing the dispersed saving of the individuals and institutions. They provide the bank of the money supply as well as the primary means of facilitating the flow of credit.

Dahal (2004) shows that the liquidity ratio measures the ability of a firm to meet its short-term obligations and select the short term financial solvency of a firm. The liquidity position of the banks in term of current ratio shows that the ratios of NBBL are always above then normal standard (i.e.2:1) where as

HBL’s ratio is always below than normal standard. It shows that the liquidity position in term of current assets to current liability of NBBL is better than HBL. Therefore, it is concluded that NBBL is better short -term solvency position as compared with HBL. The liquidity position of NBBL in term of cash and bank balance to deposit ratio is higher than that of HBL (i.e.39.09 percentage>11.85% on an average). Therefore, it is concluded that NBBL has sufficient cash and bank balance to its deposit except fixed deposit then that of HBL. Likewise, the liquidity position of NBBL in term of cash and bank balance to current deposit ratio is found higher than HBL (i.e. 165.95%>63.16% in an average). Here, NBBL has so high ratio that it is bad because “ideal assets earn nothing.” Therefore, NBBL should invest in productive area. This analysis shows that NBBL has more cash ideal than HBL.

Basnet (2005) states that financial analysis involves the method of calculating and interpreting financial ratio in order to assess the firm’s performance and status. The following are the main findings from the financial ratio. The current ratio measures only total rupees worth of current assets and total rupees worth of current liabilities i.e., it indicates the availability of for current liabilities. A ratio that is grater than one means that the firms has more current asset than current claims against them. The calculation found that the average current ratio of SBI (1.05 times) is greater than that of NBB (0.98times). The table shows that the ratio is in fluctuating trend of SBI and decreasing trend of NBB. The highest ratio for SBI is 31.41% and lowest is 18.45% and lowest ratio is 8.47%. Calculation of loan and advances to total deposit exhibits that the ratio is fluctuating for SBI. It was lowest in fiscal year 2000/2001 whereas the ratio was in increasing trend up to fiscal year 2001/2002 for NBB but it is decreased in 2002/2003.

Shrestha (2005) found that lending is one of the most important part of function of a commercial bank and composition of loan and advances directly affects the performance and profitability of the bank. There is intense competition in banking business with limited market and less investment opportunities available. Every bank is facing the problem of default loan and there is always possibility of a certain portion of the loan and advances, profitability deposits position of Nepal SBI Bank Limited is analyzed and its contribution in total profitability has been measured.

Subedi (2005) states that deposit is the part of balance sheet which always remains the biggest in amount. It is the sensitive liability among al items. As like total liabilities and capital deposit also increase until 2057/58 and starts to fall down. The increment rate is satisfactory in first and second changing years, and then it has changed by negative digits therefore in two subsequent year's. The business in peak where the value was Rs.15839.0077millions. The proportion of debt over the total liabilities and capital is 83.35% in average. Fixed deposit is taken as a long-term debt in the banking business; it is key department factor to capital structure. The bank could collect the deposit is Rs.7667.8459 millions. In two subsequent years, it decreases and becomes Rs.2252.5464millions in the final study years. This items changes by in highly decreasing trend. The average change rate is 5.89%. The proportion over total liabilities and capital is 26.32% in average. The composition of paid up capital, reserve and surplus other reserves and undistributed profit is known as shareholders equity. Unlike other items mentioned above, shareholders equity is regularly increasing. The yearly change rate is in fluctuating trend varied from 8.97% to 24.63%.

The main statement of his study is the banking industry is one of the fast growing businesses in Nepal. After the liberalization policy was adopted by government this sector has been dramatically. Now, more then one and half dozen banks are in operation. Now too, new banks are being set up. Due to security, problem and political instability government could not be able to pay sufficient attention to business and industry sector. Regulation and monitoring by government has been weekend in the banking sector as like others free and fair competition is decreasing. Customers and stakeholders are too much sad to hear the news that banks have tried to cartel in taking treasury bills before some months other type non-business practices might have been occurred in this industry. Surely such types of practices will hamper the whole sector. Ultimately, the capital structure will be affected. We have been watching the type scenario where the capital structure is not so stagnant and continues progress.

Shrestha's (2006) view that NB bank has sufficient liquidity. It shows that bank has not got investment sectors to utilize their liquid money. Now, in Nepal many banks and other financial institution are functioning to collect deposits and invest money somewhere in the invest able sectors. Therefore, monetarization have been increased since liberalization policy taken by the government. Heavy remittance has also helps to increase the amount of deposits in bank. On the other hand, due to political crisis, economic sectors have been fully damaged. Most of the projects have been withdrawn due to security problem. Therefore, bank has maximum liquidity due to lack of safety investments sectors. NB bank has utilized most funds in the form of credit and advances. More than 75% of total deposits of the bank have been forwarded to customers as a credit and advances. Therefore, it is the major part of utilizing deposits and income generating sectors. If the bank has high deposits, bank can provide money to its customers as credit and advances. Therefore, there is highly positive correlation between total deposits and credit and advances of NB bank is 0.978 times. Therefore, bank is providing different schemes to attract good customers. After attracting deposits from the customers, bank has issued the deposits to the needy area to make profit for the bank.

The main statement of the problem of his research is the commercial banks in Nepal have been facing various challenges and problems. Some of them arising due to the economic condition of the country and arising due to lack of policy clarity of government and many of them arising due to default borrowers. After liberalization of economy, banking sector has growth and various opportunities have emerged. However, the financial institutions do not seem to be performing well. Liquidity is high with the financial institutions. Hence, the banks and financial institutions are competing among themselves to advance credit to limited sectors available. Banks and financial institutions are investing in house loan, hire purchase loan for safety purpose. Due to lack of good lending opportunities, banks appear to be facing problems of excess liquidity. Nowadays, Banks have increasing amount of deposits in fixed and saving accounts but have decreasing trend in lending behaviors. Therefore, this has caused major problems to the commercial banks. Due to competition among banks the interest rate for loan is in a decreasing trend.

Paudyal (2006) ,Interest income from loan and advances are the main sources of income, which will increases profit of commercial bank. The main ratio of interest income to total income of NSBL is higher than that HBI. NRB has restricted the gap between the interest taken in loan and advances and interest offered in deposit. HBL have higher mean ratio of interest income to interest expenses and total income to expenses ratio than that of NSBL. HBL has maintained high return in every reflect than that of NSBL. Among the various measurement of profitability ratios return to equity and earning per share, reflects the relative measure of profitability. The performance of NBL is higher than that of NSBL. Coefficient of correlation between deposit and loan and advances total income and loan and advances of both bank have positive value there is significant relationship between deposit and loan and advances total income and loan and advances. Coefficient of correlation between net profit and loan and advances of both bank have positive relationship. But the number of HBI is greater than number of NSBL. There is no significant relationship between net profit and loan and advances of both banks. They are greater than number of both banks.

Gautam (2006) states that many joint venture banks are operating in Nepal as commercial and merchant banks. The growth is still going on as so many new banks are coming into existence after this study. Therefore, JVB's are operating with higher technology and new efficient methods in banking sector. However, this study has been undertaking only three JVB's viz. SCBNL and NBBL to examine and evaluation the financial data. Besides latest financial statement of six year from 1999 to 2004 have been conferred for the purpose of the study. All JVB's has used high percentage purpose of the study. All JVB's have used high percentage of total debt in raising the assets. The higher ratio constitutes that the outsider's claim in total assets of the bank is owner's claim. The on an average, NBBL bank constitutes 16.27 times of D/E ratio, which should be reduce as quickly as possible. The financial risk of the banks NBBL average degree of finance leverage constitutes 3.73 times which indicates the higher degree of financial risks 3.73 times which indicates the higher degree of financial risks. The average ROE of JVB's i.e. SCBL and NBBL area 37.36% and 21.75% respectively.

Sedai (2007) study "An analysis on lending policy and strength of Nepal Investment Bank Ltd" highlighted that aggregate performance of NIBL is satisfactory and pushing upward. Lending strength of NIBL in term of exposure of loan and advances is good and appreciable. The contribution made by bank in industrial as well as agriculture sector of the economy is highly appreciable and its bust up towards national prosperity. The ratio of loan and advances to total asset, loan and advance to shareholder's equity indicate a good performance of NIBL in its lending activities. Looking at the asset management ratio the performance of NIBL seems good in the area of lending, productivity and impact on national economy. The activity ratio also reflects to the soaring performance of NIBL. The decreasing loss loan provision ratio indicate that bank is good enough to judgment in their value customer. The better activity ratio of this bank been a major contributor in managing the lending portfolio according to the demand of the profit oriented business. The high volume of lending activity of NIBL has put this bank in the top position in absolute term. Thus looking at the various summaries and findings, we can conclude that the bank has accelerated its performance in the year 2002/3 and has continued till 2004/5 and the bank has the potentiality to become a leading bank in Nepal.

The recommendations are forwarded according to finding and conclusion. It is recommended that extend their credit and branch in rural area, continue to maintain or further increase the performance, decrease the NPL and make proper loss loan provision, required proper market analysis, diversify the investment sector etc. finally however performance of NIBL seems to be good till the date. There are still many opportunities for further growth of the bank. NIBL is suggested to further improve current position of lending portfolio. The bank should concentrate on financial strength, pe5rsonal integrity and credibility of the borrower of loan disbursement. It should maintain high level of monitoring and control system over the disbursed loan and advances. To create opportunity of business new and attractive lending scheme would be launched to the customer.

The main objective and target of this study is to observe the loan disbursement of Nepal Investment Bank Ltd. its shows the actual lending position, strength and weakness. The specific purpose are study of loan and advances provided to customer, amount loan investing in industrial sector, trend of loan disbursement, process are according to NRB rules & regulation and position of bank and its profitability.

Burlakoti (2008), in her theses, “Credit Policy Analysis of Commercial Bank with Special Reference to Everest Bank Limited”, has the main objective to find out the credit management position of Everest Bank Limited. The specific objectives of the study are;

a. To evaluate the various financial ratios of the EBL.
b. To determine the impact of deposit in liquidity and its effect on lending practices.

c. To analyse trend of deposit utilization toward loan and advance and net profit.

The major findings of the study are;

Cash and bank balance to current deposit of the bank shows the fluctuating trend during the study period. Similarly, cash and balance to interest sensitive ratio of EBL is also in fluctuating trend. Credit and advance to fixed deposit ratio of EBL is fluctuating trend. The mean ratio is 2026 times in the study period. However, non-performing assets to total assets of EBL, is in declining trend, whose mean ratio is 0.978%.The debt to assets ratio of EBL, is excessively high or in other words they have excessively geared capital structure. On an average 93% of assets if finance through debt capital that is outsiders cost bearing fund. Return on loan and advances of EBL area also in fluctuating trend. The mean ratio is 2.2%. This shows the normal earning capacity of EBL.

Thakuri (2009), in his thesis, "A comparative study on Credit Management of Commercial Banks; with special Reference to NABIL and ACBNL", has the main objective to explore the credit efficiency of inefficiency and its management in commercial banks. The specific objectives of the study are;

a. The credit practice of NABIL in terms of total to deposit ratio is fund to be more than SCBNL (i.e.0.6298>0.3660). It indicates that NABIL has been strong to mobilize its total deposit as loan.
b. In terms of interest income to loan and advance ratio, NABIL has mean score of 0.0932 and SCBNL has the mean score of 0.0858. From this point, NABIL bank has the best performance in earning interest income.
c. Lending policy of SCBNL with regard to non-performing loan to total loans and advances was found to be the lowest with the value with 0.0351 as compare to NABIL Bank. The result indicates that if non-performing loan increase, the overall banking business will be negatively affected.

d. The ratio of loans and advances to total assets was found greater in NABIL in comparison with SCBNL which shows the good lending performance of NABIL, whereas in terms of loan and advance to current assets ratio ,NABIL has highest mean than of SCBNL, this meant that NABIL has relatively better practice in short term lending.

e. Lending policy of SCBNL in terms of loan loss provision to total loans and advances was found relatively better than that of NABIL.

Simkhada (2010), in her thesis, "Credit Policy of Commercial Banks in Nepal", has the objective to provide the credit practices in NIBL and SBI bank. The specific objectives are;

a. To examine the liquidity and assets management of NIBL and SBI.

b. To evaluate the investment policy of NIBL and SBI

c. To study the growth ratio of loan and advances.

d. To analyse the investment to total deposit and net profit NIBL and SBI.

The major findings of the study are;

Both banks current have exceeded the current liabilities therefore the ratio is considered satisfactory. But the cash reserve ratios have fluctuated in high degree.NIBL has maintained both current ratio and cash reserve ratio better than that of SBI.The assets management ratio shows that deposit utilization of NIBL is less effective than SBI.NIBL has invested lower amount of government securities and share and debenture than that of NIBL.The growth ratio of total deposit ,loan and advance, total investment and net profit of NIBL are less than that of SBI.

2.4 Research Gap

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make this study meaningful and purpose. There are various researchers conduct on lending practice, financial performance and credit management of commercial bank. Some of the researchers have compared the financial performance between two or three different commercial bank. In order to perform those analysis researchers have used ratio analysis. Thesis done by shrestha an credit management of commercial bank with special refers to Nepal SBI bank ltd on 2004 and Bista done by financial performance of NABIL bank on 2002.however no one has done study on “credit policy with special refers to Everest Bank Ltd”. Thesis of Adhikari (2008)“Credit Management of Everest Bank” has not used standard deviation, coefficient of variance and trend analysis. This study tries to define credit management by applying and analyzing various financial tools like liquidity ratio, leverage ratio, profitability ratio and lending efficiency ratio as well as different statistical tools like coefficient of variance and tend analysis. Probably this will be the appropriate research in the area of credit management of bank and financial institutions.

CHAPTER - III
RESEARCH METHODOLOGY

In this chapter research methodology is presented for achieving the predetermined objective which is already stated. One various statically and financial instrument will be used for the required purpose. It counts on the resources and techniques available and to the extent of their reliability and validity in this chapter. This research methodology has primary sought the evaluation of the credit practices of the targeted joint venture bank i.e. Everest Bank Ltd. The research methodology adopted in this chapter follows some limited but crucial steps aimed to achieve the objective of the research. Research methodology refer to the various sequential steps (along with a rationale of each such steps) to be adopted by researcher in studying a problem with certain objective in view.

3.1 Research Design

This research is to analyze the soundness of Everest Bank Limited in relation to credit disbursement and recovery as well. Decision regarding what, when, how, when by what means concerning an enquiry of a research study constitute a research design. “A research design is the arrangement of conditions for collection and analysis of data in manner that aims to combine relevance to the research purpose with economy in procedure.” In fact the research constitutes the blueprint of the collection, measurement and analysis of data. As such the design includes an outline of what the researcher will do from writing the hypothesis and its operational implication to the final analysis of data.

This study mainly depends on the secondary data. The research process includes collecting, verifying and evaluating the past evidence systematically and objectively to reach the final conclusion. Some statistical and accounting tools have been adopted to examine factors in this study and descriptive and analytical research designs have also been used.

According to Kerlinger(1986) “Research Design is the plan structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance . The plan is the overall scheme or program of the research. It includes an outline of what the investigator will do from writing the hypothesis and their operational implications to the final analysis of data the structure of the research is more specific it is the outline, the scheme the paradigm of the operation of the variables and their relation juxtaposition; we build structural schemes for accomplishing operational research purpose. Strategy as used here is also more specific than plan. In other words, strategy implies how the research objectives will be reached and how the problems encountered in the research will be tackled” (p.275)

3.2 Population and Sample

Commercial banks are the principal agents of the money market which is turn is the major instrument of the financial system. Thus commercial banks and their lending transaction obviously affect the national economy. Moreover lending and borrowing transaction that takes place through the commercial banks influence the daily livings of each national. And at the same time from the government side a great concern should be taken as the misleading by the commercial banks can violate the total economic system. Commercial banks, financial management system can contribute the economic growth too because this bank is the major variable of financial market. The total 31 commercial banks shall constitute the population of the data and single bank under the study constitute the sample under the study. Reason under this study is very few researcher have study under EBL in this topic, it is one of the leading bank and data can be easily available in website. So among the various commercial banks in the banking industry, Everest Bank Limited is taken sample for the study.

3.3 Sources of Data

Necessary data collected from both sources: primary and secondary. Even though adequate data are collected from secondary sources.

3.4 Secondary Sources

1. Economy survey of NG, Ministry of finance.
2. Annual general report of EBL.
3. National newspaper, journals and magazine.
4. Internet.
5. NRB directives.

3.5 Method of Data Analysis Technique

For the purpose of the study all collected primary as well as secondary data are arranged, tabulated under various heads and them after disunities and statistical analysis have been carried out to enlighten the study.

1. Financial method.
2. Statistical method

3.5.1 Financial Method

3.5.2 Financial Tool

Stakeholders of a business firm perform several types of analyses on a bank is financial statements. All of these analyses rely on comparisons or relationship of data that enhance the utility or practical value of accounting information.

3.5.3 Liquidity Ratio

It measures the adequacy of firm's cash resources to meet its near-term cash obligations. Short-term lenders such as suppliers and creditors use liquidity analysis to assess the risk level and ability of a firm its current obligations. Satisfying these obligations requires the use of the cash resources available as of the balance sheet date and the cash to be generated through the operating cycle of the firm.

3.5.1.1 Cash Reserve Ratio

Deposit is one of the major liabilities of the commercial bank. Bank has to manage its liquidity meet depositors demand. This ratio measures the availability of the banks liquid or immediate fund to meet its unanticipated calls on all types of deposit. Total deposit includes current deposit saving, fixed deposit, call short deposit, and other types of deposit.

$$\text{Cash Reserve Ratio} = \frac{\text{Cash and bank balance}}{\text{Total deposit}}$$

3.5.2.1.2 Cash and Bank Balance to Interest Sensitive Deposit Ratio

Saving deposit is deposited by public in a bank with objectives of increasing their wealth; interest rate plays important in the follow of interest sensitive deposit. Fixed and current deposits are not interest sensitive. Fixed deposits have a fixed term to maturity and Current deposits are not sensitive toward interest rate. The ratio of cash and bank balance to interest sensitive deposits measure the bank ability to meets its sudden out flow of interest sensitive deposits to the change interest rate.

$$\text{Cash and bank balance to interest sensitive deposit ratio} = \frac{\text{Cash and bank balance}}{\text{sensitive deposit}}$$

3.5.1.3 Cash and Bank Balance to current Assets Ratio

Cash and bank balance are the liquid current assets. This ratio measures the percentage of liquid fund with the current assets. Higher ratio indicates the banks sound ability to meet the daily cash requirement of their customers' deposit. If bank maintain low ratio, bank may not able to make the payment of against cheque. So bank has to maintain cash and bank balance to current assets ratio properly.

$$\text{Cash and bank balance to current assets ratio} = \frac{\text{cash and bank balance}}{\text{current assets}}$$

3.5.2.2 Assets Management Ratio

Assets management ratio measures the proportion of various assets and liabilities in balance sheet. Commercial bank should manage its assets and liabilities properly to earn profit. Assets management ratio measures its efficiency in performing assets. Following are the various assets management ratio, which measures the lending strength and effective use of assets.

3.5.2.1 Loan Advances to Total Deposit Ratio

The main sources of banks lending is its deposit. This ratio is calculated to find out now successfully the banks are utilizing their deposits on loan and advances for profit generating activities. Greater ratio indicates better utilization of total deposits.

$$\text{Loan and advances to total deposits ratio}=\frac{\text{Loan and advances}}{\text{Total deposits}}$$

3.5.2.2 Interest Spread Rate

The ratio measures the contribution made by investment in total loan and advances. The proportion between investment to loan and advances and investment measures the management attitude towards risk assets and safety assets. Investment and loan and advances in whole do not provide the quality of assets that a bank has created. The low ratio indicates the mobilization of funds in safe area and vice versa.

$$\text{Interest spread rate} = \frac{\text{Interest Income}}{\text{Loan and advances}} - \frac{\text{Interest Expenses}}{\text{Deposit}}$$

3.5.2.3 Non-performing Assets to Total Assets Ratio

This ratio shows the relationship of Non-Performing assets and total assets and is to determine how efficiently management has used the total asset. Higher ratio shows the low efficient operating of the credit management and lower ratio shows the more efficient operating of credit management.

$$\text{Non-performing assets to total assets ratio} = \frac{\text{Non-performing assets}}{\text{Total assets}}$$

3.5.3 Profitability Ratios

This ratio shows the profitability conditions of the bank. Profit is essential for the survival of bank so it is regarded as the engine that drives the banking business and indicates economic progress. Profitability ratios are calculating to measure the management ability regarding how well they have utilized their funds. Lending is one of the major functions of commercial bank so following are the various types of ratio, which should the contribution of loan and advances in profit and help to be investor whether to invest in particular firm or not.

3.5.3.1 Net Profit to Gross Income Ratio

The ratio measures the position of profitability of the company to total income. This shows the sound and weakness of the company to utilize its resources. Higher ratio shows the higher efficiency of management and lower ratio shows the lower efficiency of the management. The formula of net Profit to Gross income ratio is-

$$\text{Net Profit to Gross income ratio} = \frac{\text{Net profit}}{\text{Gross income}}$$

3.5.3.2 Interest Income to Total Income Ratio

The ratio measures the volume of interest income to total income. The high ratio indicated the banks performance on other fee-based activities. The high ratio indicates the high contribution made by lending and investing activities.

$$\text{Interest income to total income ratio} = \frac{\text{Interest income}}{\text{Total income}}$$

3.5.3.3 Operating Profit to Loan and Advances Ratio

Operating profit to loan and advances ratio measure the earning capacity of commercial bank. Operating profit to loan and advances ratio is calculated by dividing operating profit by loan and advances.

$$\text{Operating profit to loan and advances ratio} = \frac{\text{Operating profit}}{\text{Loan and advances}}$$

3.5.3.4 Return on Loan and Advances Ratio

This ratio measures the earning capacity of the commercial bank through it fund mobilization as loan and advances. Higher ratio indicated greater success to mobilize fund as loan and advances and vice versa. Mostly loan and advances includes cash, credit, bank overdraft, bills purchased and discounted.

$$\text{Return on loan and advances} = \frac{\text{Net profit}}{\text{Loan and advances}}$$

3.5.3.5 Net Profit to Total Assets

This ratio shows the relationship of Net profit and total assets and is to determine how efficiently the total assets and is to determine how efficiently the total assets have been used by the management. This ratio indicates the ability of generating profit per rupees of total assets. It also evaluates the present return on the total assets as a guide for return expected on future purchase of assets. Higher the ratio shows the more efficient operating of management and lower the ratio shows the low efficient operating of management. This ratio is computed by –

$$\text{Net profit to total assets ratio} = \frac{\text{Net profit}}{\text{Total assets}}$$

3.5.3.6 Earning Per Share (EPS)

Earning per share measures the profit available to the cash equity holders. It only measures the overall operational efficiency bank. It is the profit tax figure EPS tells us what profit the common share holder get for every share.

$$\text{Earning per share} = \frac{\text{Profit after tax}}{\text{No. of common share}}$$

3.5.3.7 Price Earning Ratio

This ratio shows the relationship between earning per share and market value per share. This ratio measures the profitability of the firm. Higher ratio shows the higher efficiency of the management and lower ratio shows the lower efficiency of the management. The ratio is computed by-

$$\text{Earning per share} = \frac{\text{Earning per share}}{\text{Market value per share}}$$

3.5.4 Lending Efficiency Ratio

This ratio is concerned with measuring the efficiency of bank. This ratio also shows the utility of available fund. One following is the various types of lending efficiency ratio.

3.5.4.1 Loan Loss Provision to Total Loan and Advances ratio

Loan loss provision to total loan and advances describes the quality assets that a bank holding. The provision for loan loss reflects the increasing probability of non-performing loan. The provision of loan mean the net profit of the banks will come down by such amount. Increase in loan loss provision decreases in profit result to decreases in dividends but its positive impact is that strengthens financial conditions of the bank by controlling the credit risk and reduced the risks related deposits. So, it can said that loan suffer it only for short term while the good financial conditions and safety of loans will make banks prosperity regulating increasing profits for long term.

The low ratio indicates the good quality of assets in total volume of loan and advances. High ratio indicates more risky assets in total volume of loan advances.

$$\text{Loan loss provision to total loan and advances} = \frac{\text{Loan loss provision}}{\text{Total loan and advances}}$$

3.5.4.2 Non-Performing Loan to Total Loan and Advances

This ratio shows the relationship of Non-Performing loan and total loan and advances and is to determine how efficiently the total loan and advances have been used by management. Higher ratio shows the low efficient operating of the management and lower ratio shows the more efficient operating of credit management.

$$\text{Non-performing loan to total loan and advances} = \frac{\text{Non-performing loan}}{\text{Total Loan and advances}}$$

3. 5.4.3 Interest Expenses to Total Deposit Ratio

This ratio measures the percentage of total interest paid against total deposit. A high ratio indicates higher interest expenses on total deposit. Commercial banks are dependent upon its ability to generate cheaper fund. The cheaper fund has more the probability of generating loans, advances, and vice versa.

$$\text{Non-performing loan to total loan and advances} = \frac{\text{Non-performing loan}}{\text{Total Loan and advances}}$$

3.5.4 Statistical Method

For supporting the study statistical tool such as mean, has been used under this.

Arithmetic Means (average)

Arithmetic mean also called 'the mean' or 'average' as most popular and widely used measure of central tendency. Arithmetic mean represents the entire data by a single value. It provides the gist and gives the birds' eye view of the huge mass of a widely numerical data. It is calculated as:

$$\bar{X} = \frac{1}{n}\sum_{i=1}^{n} X_i$$

Where:

$\bar{X}$ = mean value or arithmetic mean

$\sum_{i=1}^{n} X_i$ = sum of the observation

N =number of observation

Standard Deviation (S.D)

Karl Pearson first suggested standard deviation in 1893 A.D. as a measure of dispersion. It is usually denoted by sigma (σ). The measurement of the scatter ness of the mass of figures in a series about an average is known as dispersion and standard deviation measures the absolute dispersion. Greater the amount of dispersion greater will be the standard deviation and vice versa. A small standard deviation means high degree of uniformity of the observation as well as homogeneity of a series. A large standard deviation refers low uniformity and homogeneity of the series.

Symbolically,

Standard Deviation,

$$\mathrm{SD}\,(\sigma) = \sqrt{\frac{\sum\left(\mathrm{X} - \bar{\mathrm{X}}\right)^2}{\mathrm{N}}}$$

Coefficient of variation (C.V.): -

The relative measure of dispersion based on standard deviation is known as coefficient of standard deviation. Coefficient of dispersion based on standard deviation multiplied by 100 is known as coefficient of variation (C.V.)

$$\text{C. V.} = \frac{\text{S. D.}}{\text{Mean}} \times 100\,\%$$

The coefficient of variation reflects the relationship between standard deviation and mean. Since C.V. is independent of unit, two distributions can bitterly be compared with the help of it for their variability. Higher CV denotes higher variability, i.e., lesser uniformity and consistency and vice versa.

Time Series:

When a series of data pertaining to a series of continuing periods should be studied its characteristics and its future direction is best estimated by the time series. Time series analyses a series of data keeping in mind the various short term and long term fluctuations. The least squares method of trend analysis has been adopted to measure the trend behaviors of these financial institutions. The method is widely used in practices. The straight-line trend of a series of data is represented by the following formula:

$$Y = a + bX$$

Here, "Y" is used to designate the trend values to distinguish them from the actual "Y" values, "a" is the "Y" intercept or the computed trend figures of the "Y" variables when "X=0", "b" represents the slope of the trend line of the amount of change in "Y" variable that is associated with a change of one unit in "X" variable in time series represents time.

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

In the chapter, the data collected from various sources have been analyzed and major findings of the study are presented systematically. Data have been analyzed according to the research methodology as mentioned in third chapter. The purpose of this chapter is to introduce the mechanics of data analysis and interpretation. With the help of this analysis efforts have been made to highlight credit management of Everest Bank Limited.

4.1 Measuring Liquidity Position of the Bank

A commercial bank must maintain its satisfactory liquidity position to satisfy the credit needs to meet demands for deposit withdrawal, pay maturity obligation in time and convert non-cash assets into cash to satisfy immediate needs without loss to the bank and without consequent impact on long run profitability of the bank. To measure the liquidity position of the bank the following measures of liquidity ratio has been calculated and a brief of the same has been done as be low.

4.1.1 Cash Reserve ratio

Cash and bank balance are the liquid current assets. This ratio measures the percentage of liquid fund with the bank to make immediate payment to the depositors. Both higher and lower ratios are not desirable. The reserve requirement below 10% of deposit liabilities is noted as fully liberalized, 10%-15% as largely liberalized, 15%-25% as partially repressed and above 25% as completely repressed, it is ranked by 3, 2, 1 and 0 respectively.

Table 4.1

Cash Reserve Ratio

(Amount in Rs. Lakhs)

Year	Cash	bank balance	Total Deposit	Cash Reserve Ratio(Times)
2006	2593	12936	138024	0.11
2007	5350	18564	181863	0.13
2008	8230	18449	239763	0.11
2009	9447	52196	333229	0.18
2010	10915	67273	369323	0.21
Mean				0.15
S.D				0.04
C.V				15.46

Source: EBL of annual report

Cash Reserve Ratio

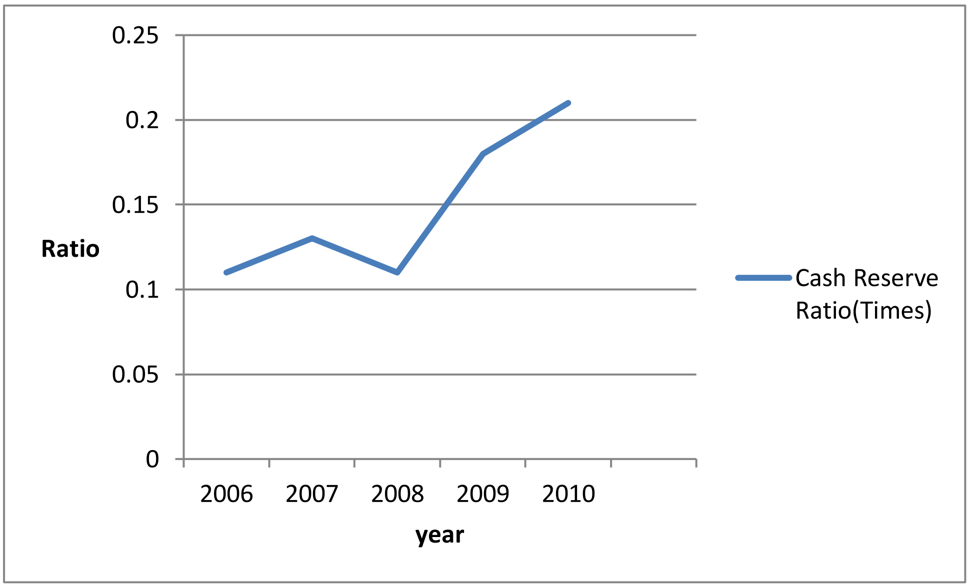

Figure 4.1

Above figure and table show that the cash and bank balance to total deposit ratio of EBL is in fluctuating trend. The highest ratio is 0.21 times in year 2010 and lowest ratio 0.11times in 2006 and 2008. The mean ratio is 0.15 times in the study period. This means that the bank is able to maintain this ratio in the good liquidity position of the bank. Ratio is 0.21 times in year 2010. This shows that a high liquidity position of the bank. Ratios are 0.11, 0.13 and 0.11 times in year 2006, 2007 and 2008. These shows that low liquidity position of the bank. And the standard deviation is 0.04 and coefficient of variation is 15.46%

4.1.2 Cash and Bank Balance to Interest Sensitive Deposit Ratio.

The ratio of cash and bank balance to interest sensitive deposits measures the ability to meet its sudden outflow of interest sensitive deposits due to the change in interest rate.

Table 4.2

Cash and Bank balance to Total deposit Ratio

(Amount in Rs. Lakhs)

Year	Cash	Bank balance	Sensitive Deposit	Cash and bank balance to interest sensitive ratio(Times)
2006	2593	12936	69292	0.22
2007	5350	18564	90293	0.26
2008	8230	18449	118839	0.22
2009	9447	52196	147823	0.41
2010	10915	67273	133600	0.58
Mean				0.33
SD				0.14
CV				42.42

Source; Annual report of EBL

From above table and figure below show that the cash and bank balance to interest sensitive ratio of EBL is in fluctuating trend. The mean ratio is 0.33times. This means that the bank is able to maintain this ratio in the good financial condition. The highest ratio is 0.58 times in year 2010 and lowest ratio 0.22 times in year 2006 and 2008. In year, 2010 this bank mobilized deposits 0.58 times and it maintained good financial condition. In the year 2006 and 2008, this bank is mobilizing deposit 0.22 times each and does not maintain good financial condition. And the standard deviation is 0.14and coefficient of variation is 42.42%.Therefore, credit management neither good nor bad position of the EBL. Cash, bank balance and interest sensitive deposit are presented in bar diagram as follows:

Cash and Bank Balance to Interest Sensitive Ratio

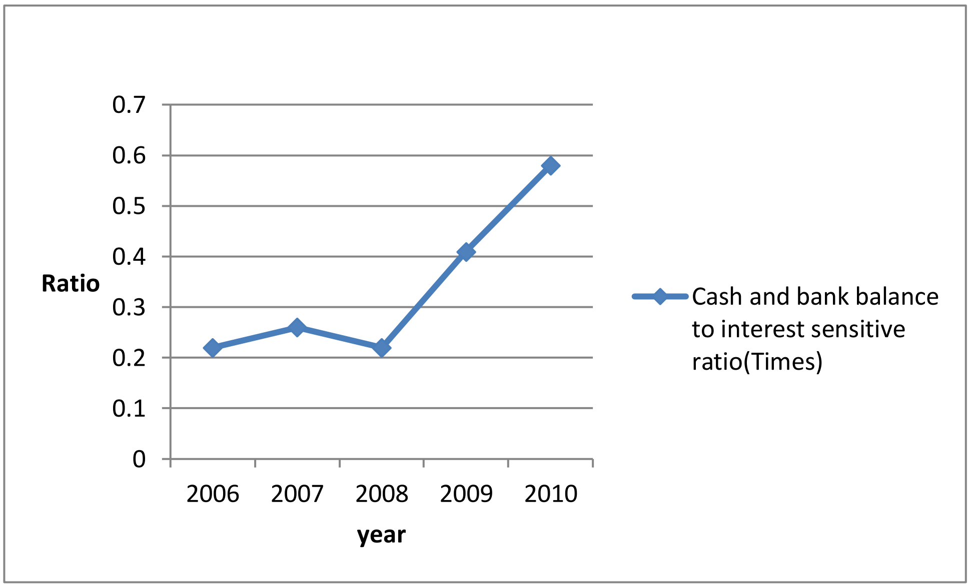

Fig-4.2

4.1.3 Cash and bank balance to current assets ratio

This ratio shows the percentage of the banks liquid fund over current assets of the bank. Higher ratio indicates the bank's sound ability to meet the daily cash requirement of their customer's deposit. Low ratio is also dangerous. If bank maintain low ratio, bank may not be able to make the payment against of cheques.

Table 4.3

Cash and Bank Balance to Current Assets Ratio

(Amount in Rs. Lakhs)

Years	Cash	Bank balance	Current assets	Cash and bank balance to current assets ratio(Times)
2006	2593	12936	116067	0.13
2007	5350	18564	162782	0.14
2008	8230	18449	217293	0.12
2009	9447	52196	305412	0.20
2010	10915	67273	359114	0.21
Mean				0.16
SD				0.037
CV				23.96

Source: Annual report of EBL

Given table and figure below show that the cash and bank balance to current assets ratio of EBL is in fluctuating trend. The highest ratio is 0.21 times in year 2010 and lowest ratio 0.12 times in year 2008. The mean ratio is 0.16 times. This means that the bank's sound ability to meet the daily cash requirement of their customers deposit. Ratios are 0.13, 0.14, 0.20 times in year 2006, 2007 and 2009 respectively; the bank may not be able to make the payment against cheque.And the standard deviation is 0.037 and coefficient of variation is 23.96%.Thus, credit management is not in good position of the bank. Cash, bank balance and current assets are presented in bar diagram as follows:

Cash and Bank Balance to Current Assets Ratio

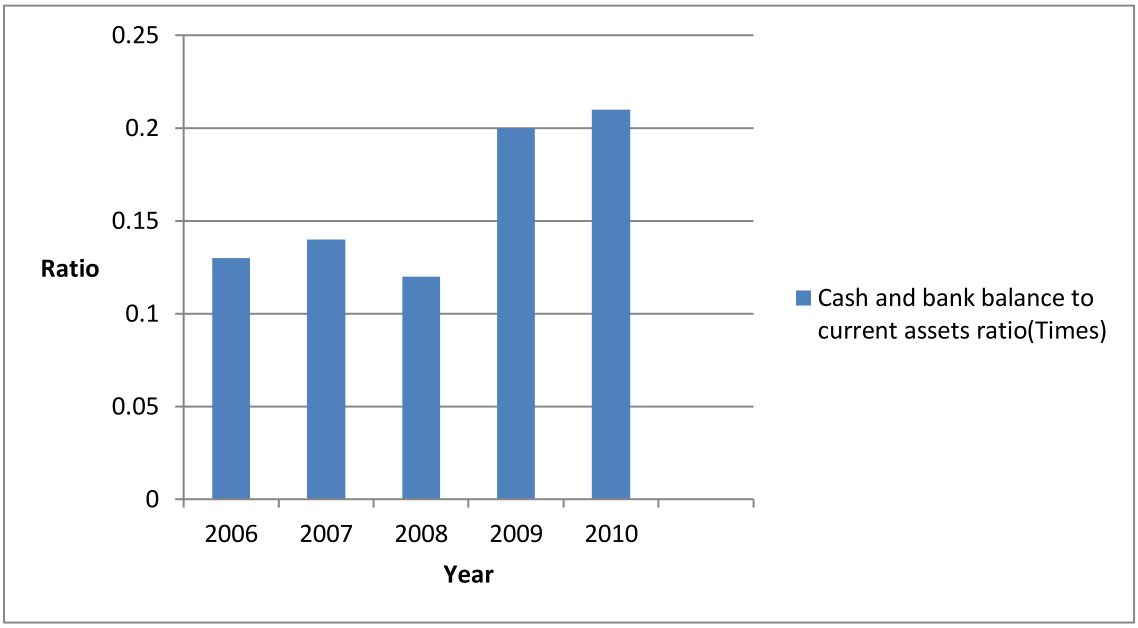

Fig-4.3

4.2 Assets Management Ratio

This ratio measures the efficiency of commercial bank generate sales in the fund mobilization. A commercial bank must be able to manage its assets properly to earn high profit maintaining the appropriate level of liquidity. Assets management ratio measures the efficiency of the bank. By the help of the following ratios, asset management of Everest bank limited has been analyzed.

4.2.1 Loan and Advances to Total Deposit Ratio

This ratio measures the extent to which the bank is successful to manage its total deposit on loan and advances for the purpose of income generation. A high ratio indicates better mobilization of collected deposit and vice-versa. However, it should be noted that too high ratio might not be better from liquidity point of view

Table 4.4

Loan and Advances to Total Deposit Ratio

(Amount in Rs. Lakhs)

Year	Loan and advances	Total deposit	Loan and advances to total deposit ratio (in %)
2006	101362	138024	73.44
2007	140827	181862	77.44
2008	188364	239763	78.56
2009	244696	333229	73.43
2010	281564	369323	76.24
Mean			75.82
SD			2.0821
CV			2.746

Source: Annual report of EBL

Loan and advance and total Deposit

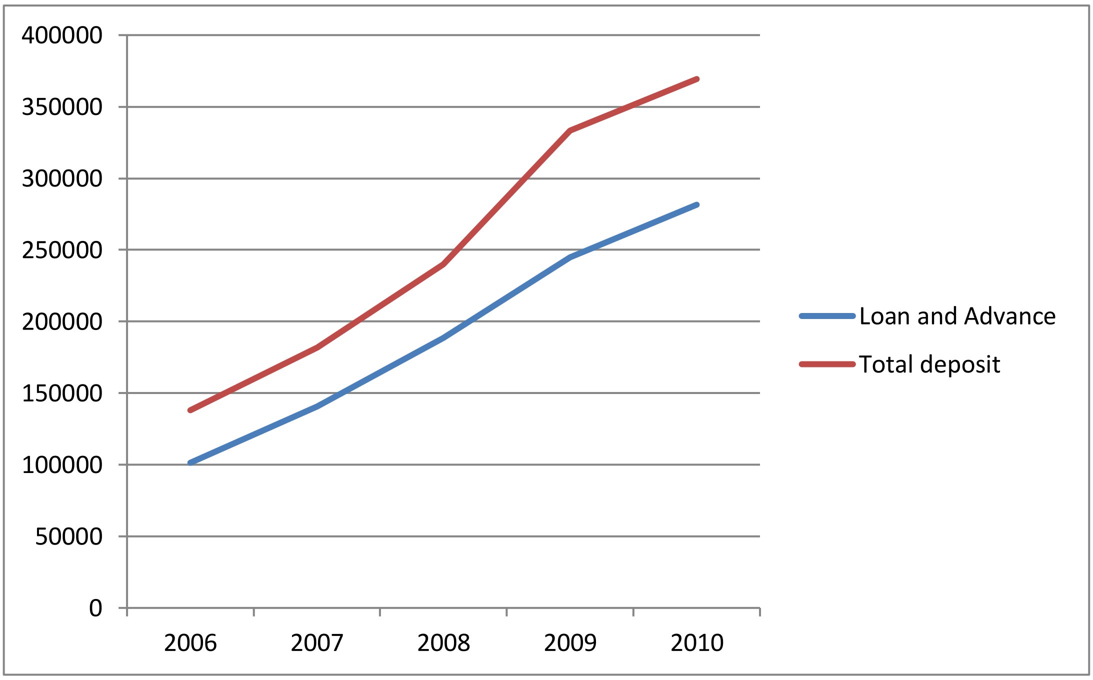

Figure 4.4

Above table and figure show that the total loan advances to total deposit ratio of EBL is in fluctuating trend. The highest ratio is 78.56% in year 2008 and lowest ratio 73.43% in year 2009. The mean ratio is 75.82% in the study period. This means that the bank is able to mobilization of collected deposit. According to NRB directives above 70% to 90% of loan and advances to total deposit ratio is able to better mobilization of collected deposit. And the standard deviation is 2.08 and coefficient of variation is 2.7467%.So all of the year the bank has met the NRB requirement or it has utilized its deposit to provide loan.

4.2.2 Interest Spread Rate

The ratio measures the contribution made by investment in total loan and advances. The low ratio indicates the mobilization of funds in safe area and vice versa.

Table 4.5

Interest Spread Rate

(Amount in Rs. Lakhs)

Year	Interest income	Interest expenses	Loan and advances	Deposit	Interest spread rate (%)
2006	9034	4013	101362	138024	6.01
2007	11444	5172	140827	181862	5.53
2008	15486	6326	188364	239763	5.59
2009	21868	10129	244696	333229	5.9
2010	31024	15728	281564	369323	6.76
Mean					5.95
SD					0.4095
CV					6.881

Source: Annual report of EBL

Interest spread rate

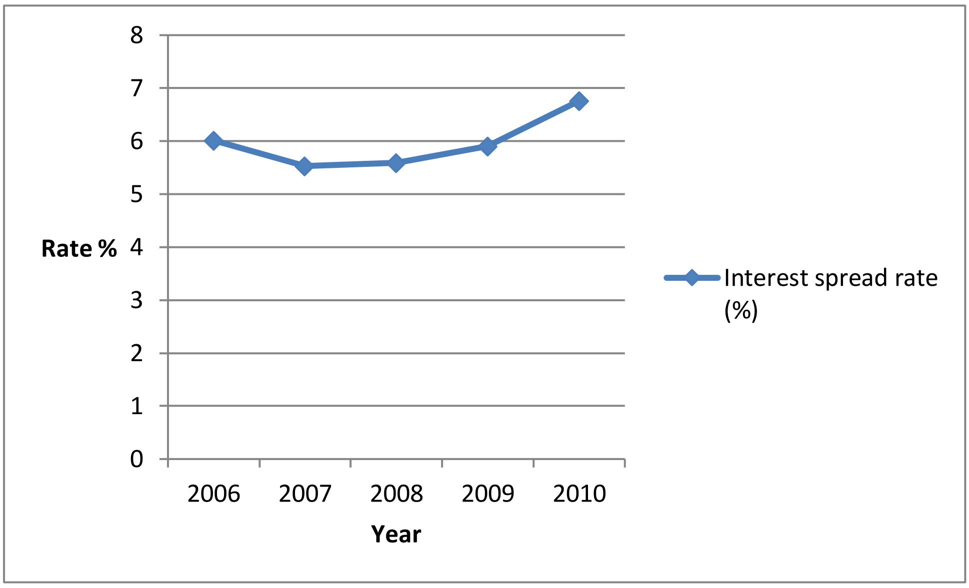

Figure 4.5

From the figure and table show that the interest spread rate ratio of EBL is in fluctuating trend. The highest ratio is 6.76% in year 2010 and lowest ratio 5.53% in year 2007. The mean ratio is 5.95%. This indicates the mobilization of funds in the better area. Ratios are 6.01 %, 5.59%, 5.9% in 2006, 2008 and 2009 respectively. And the standard deviation is 0.4095 and coefficient of variation is 6.88%.These indicate the mobilization of funds in the better earning area. This indicates the mobilization of funds in safe area.

4.2.3 Non-Performing Assets to Total Assets Ratio

Lower the non-performing assets ratio is good and higher the ratio is bad. This ratio measures lending opportunity of the bank.

Table 4.6

Non-performing assets to Total assets ratio

(Amount in Rs. Lakhs)

Year	Non-performing Assets	Total Assets	Non-performing Assets to Total Assets ratio (%)
2006	1292	159592	0.81
2007	1132	214326	0.53
2008	1273	271493	0.47
2009	1180	369168	0.32
2010	437	413828	0.10
Mean			0.45
SD			0.2349
CV			52.21

Source: Annual report of EBL

Above table show that the total non-performing assets to total assets ratio of EBL is decreasing trend. The highest ratio is 0.81% in year 2006 and lowest ratio 0.10% in year 2010. The mean ratio is 0.45%. The bank is able to obtain higher lending opportunity. Ratios are 0.53%, 0.47%, 0.32% in year 2007, 2008 and 2009 respectively. And the standard deviation is 0.2349 and coefficient of variation is 52.21% These are able to obtain higher lending opportunity. Therefore, credit management is in good position of the bank. According to the direction of NRB to the commercial banks, the ratio of non-performing assets to total assets should be less than 5%.With referring to this table, EBL is able to keep the level of non-performing assets as an adequate position, which is on an average of 1.00%. Non-performing assets to total assets ratio is represented in bar diagram as follows:

Non-performing assets to Total assets ratio

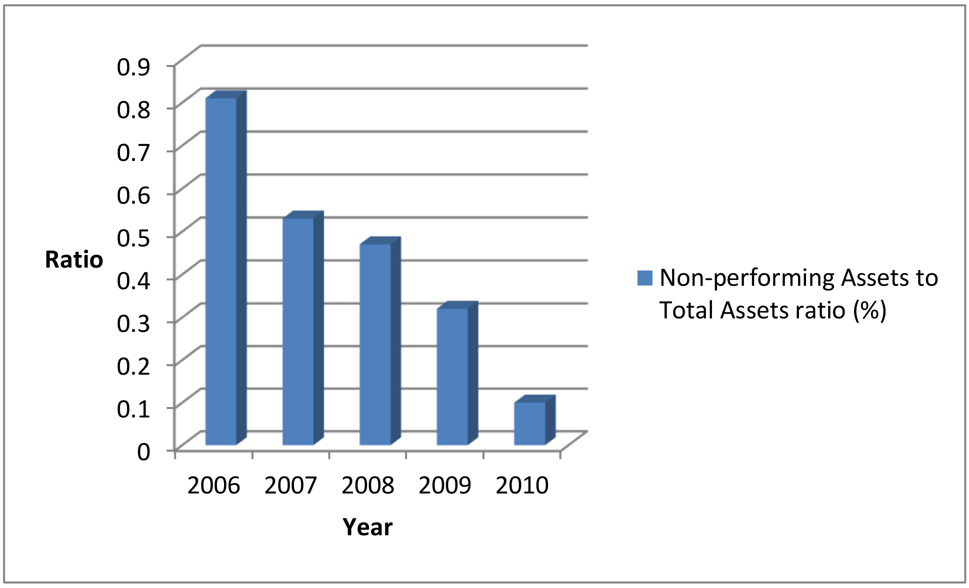

Fig-4.6

4.3 Profitability Ratio

Profitability ratios are very helpful to measure the overall efficiency in operation of a financial institution. In the context of banks, no bank can survive without profit. Profit is one the major indicates or efficient operation of a bank. The banks acquire profit by providing different services to its customers or by providing loan and advances and making various kinds of investment opportunities. Profitability ratios measure the efficiency of bank. A higher profit ratio shows the higher efficiency of a bank. The following ratios are calculated:

4.3.1 Net Profit to Gross Income Ratio

The ratio measures the volume of gross income. The high ratio measure the higher efficiency of the bank and lower ratio indicates the lower efficiency of the bank.

Table 4.7

Net Profit to Gross Income Ratio

(Amount in Rs. Lakhs)

Years	Net profit	Gross Income	Net profit to Gross income ratio (%)
2006	2372	10665	22.24
2007	2964	13707	21.62
2008	4512	18481	24.41
2009	6386	25653	24.89
2010	8318	35355	23.52
Mean			23.33
SD			1.24
CV			5.33

Source: Annual report of EBL

Net profit to Gross Income Ratio

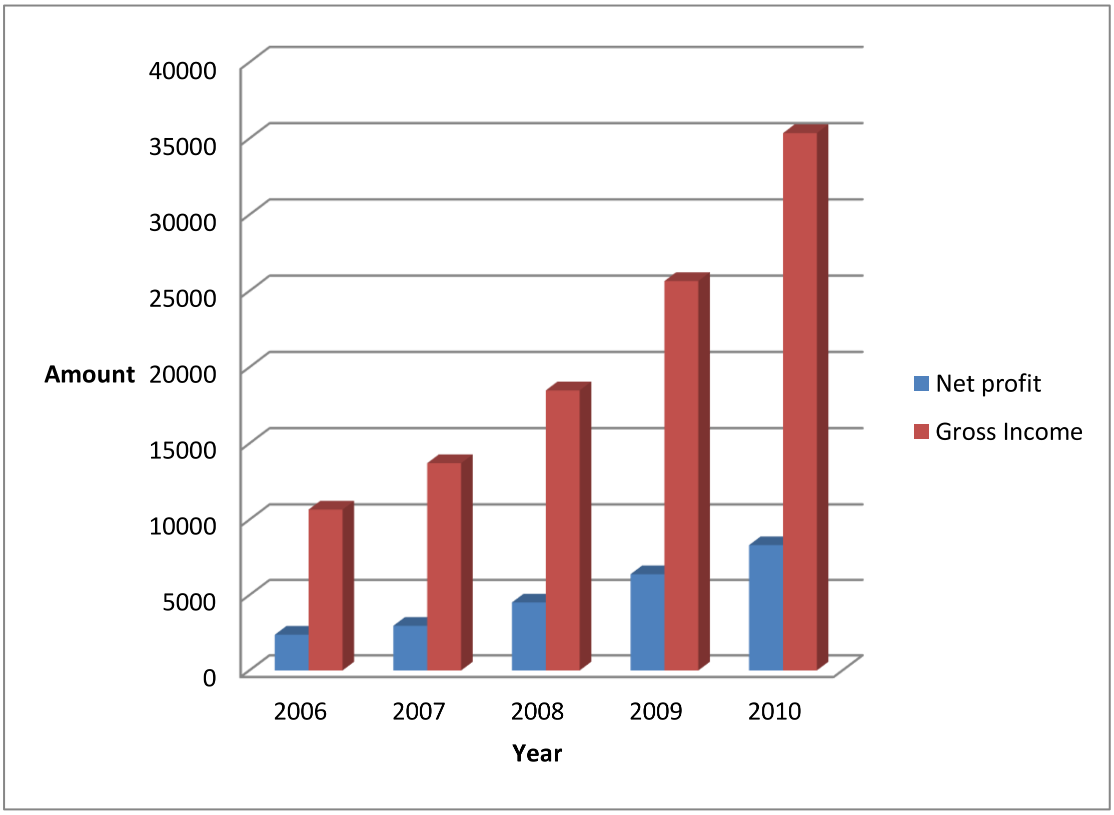

Fig: 4.7

From the given table show that the total net profit to gross income ratio of EBL is in fluctuating trend. The highest ratio is 24.89% in year 2009 and lowest ratio 21.62% in year 2007. The mean ratio is 23.33%. The bank is able to obtain higher efficiency. Ratios are 22.24% , 24.41% and 23.52% in year 2006, 2008 and 2010 respectively. And the standard deviation is 1.24 and coefficient of variation is 5.33%. These are able to obtain higher efficiency of the bank.

4.3.2 Interest Income to Total Income Ratio

This ratio measures the volume to total income. The ratio indicates the high contribution made by lending and investing activities.

Table 4.8

Interest Income to Total Income Ratio

(Amount in Rs.Lakhs)

Years	Interest income	Total income	Interest income to total income ratio(Times)
2006	9034	10665	0.85
2007	11444	13707	0.83
2008	15486	18481	0.83
2009	21868	25653	0.85
2010	31024	35355	0.87
Mean			0.84
SD			0.0173
CV			2.06

Source: Annual report of EBL

Interest Income to Total income Ratio

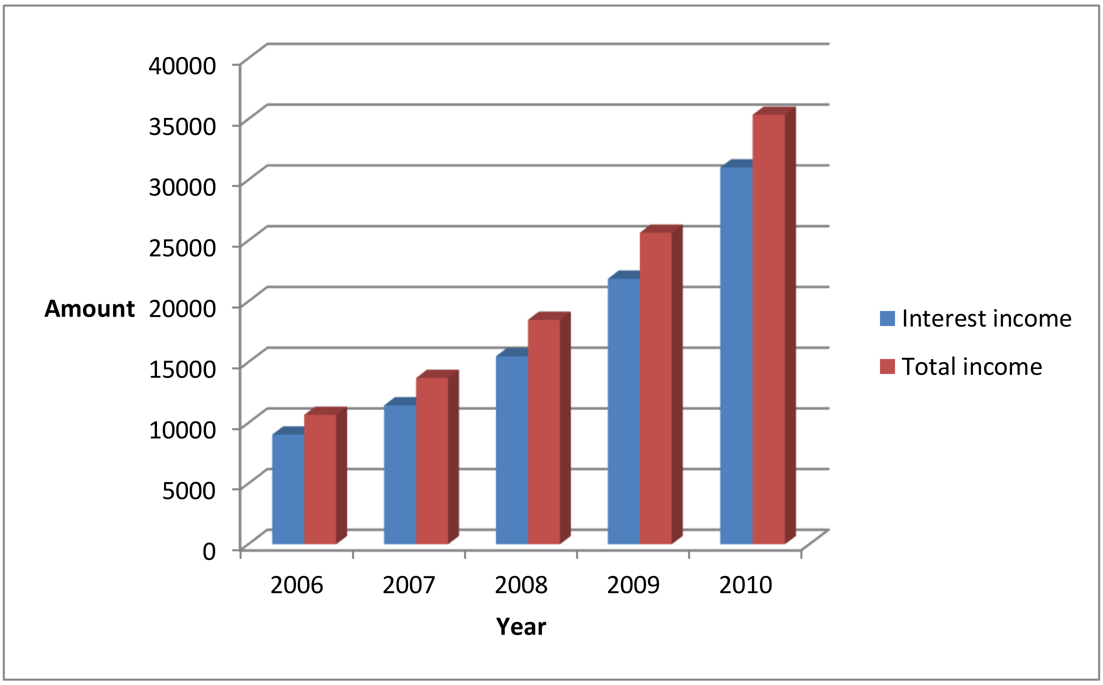

Fig: 4.8

Above table and figure show that the total interest income to total income ratio of EBL is in increasing trend. The highest ratio is 0.87 times in year 2010 and lowest ratio 0.83 times in year 2007 and 2008. The mean ratio is 0.84 times in the study period. The ratio indicates the high contribution made by lending and investing activities. Ratios are 0.85 times, 0.85 times in year 2006, and 2009 respectively. These indicate that high contribution made by lending and investing activities. Ratio is 0.83 times in year 2007. These indicate that high contribution do not made by lending and investing activities in 2007. And the standard deviation is 0.0173 and coefficient of variation is 2.06%

4.3.3 Operating Profit to Loan and Advances Ratio

Operating profit to loan advances ratio measures the earning capacity of commercial bank.

Table 4.9

Operating profit to Loan and advances ratio

(Amount in Rs. Lakhs)

Years	Operating profit	Loan and advances	Operating profit to loan and advances ratio(in%)
2006	3772	101362	3.72
2007	4880	140827	3.57
2008	7188	188364	3.82
2009	9729	244696	3.95
2010	12721	281564	4.52
Mean			3.91
SD			0.3266
CV			8.35

Source: Annual report of EBL

Operating Profit to Loan and Advances Ratio

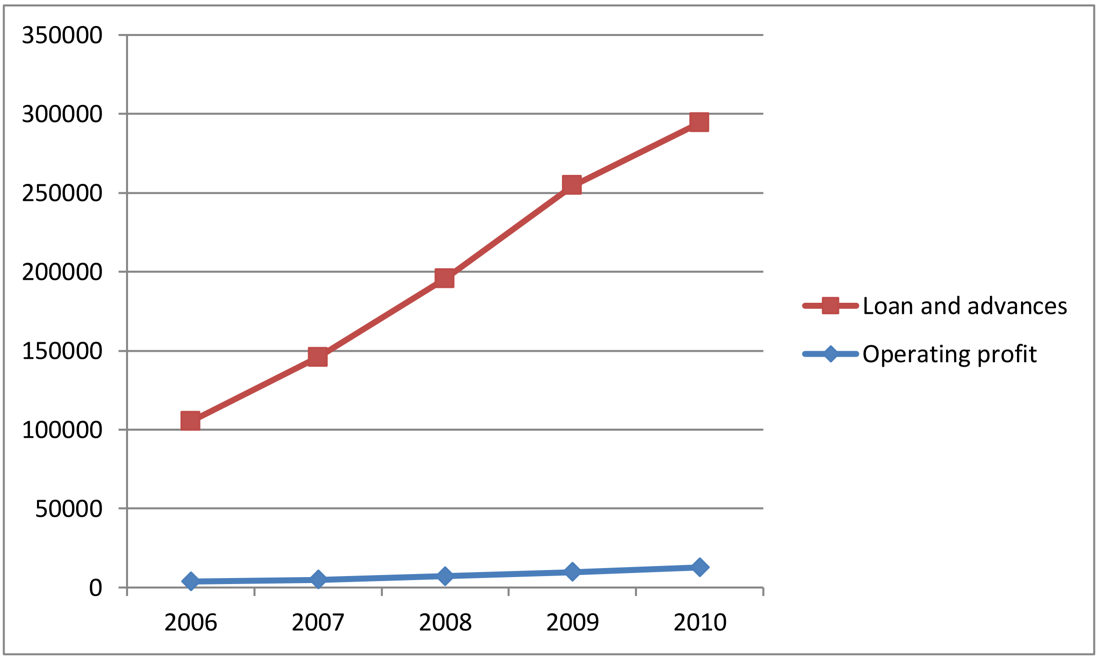

Fig:4.9

As per given table and figure show that the operating profit to loan and advances ratio of EBL is in increasing trend. The highest ratio is 4.52% times in year 2010 and lowest ratio 3.57% in year 2007.The mean ratio over the period is 3.90% times. This shows the better profitability position of the bank. Ratios are 3.72%, 3.82% and 3.95% in year 2006, 2008 and 2009 respectively. These shows the better profitability position of commercial bank .Ratio is 3.57% in year 2007. It doesn't show the better profitability position of the bank in year2007. And the standard deviation is 0.3266 and coefficient of variation is 8.35%

4.3.4 Total Income to Total Expenses Ratio.

Total income to total expenses ratio measures the productivity of expenses to generate income. The high ratio indicates the higher productivity of expenses.

Table 4.10

Total Income to Total Expenses Ratio

(Amount in Rs. Lakhs)

Years	Total income	Total expenses	Total income to total expenses ratio(Times)
2006	10665	6134	1.74
2007	13787	7728	1.50
2008	18481	10243	1.80
2009	25653	14918	1.71
2010	35355	21517	1.64
Mean			1.67
SD			0.103
CV			6.16

Source: Annual report of EBL

Total income and Total Expenses

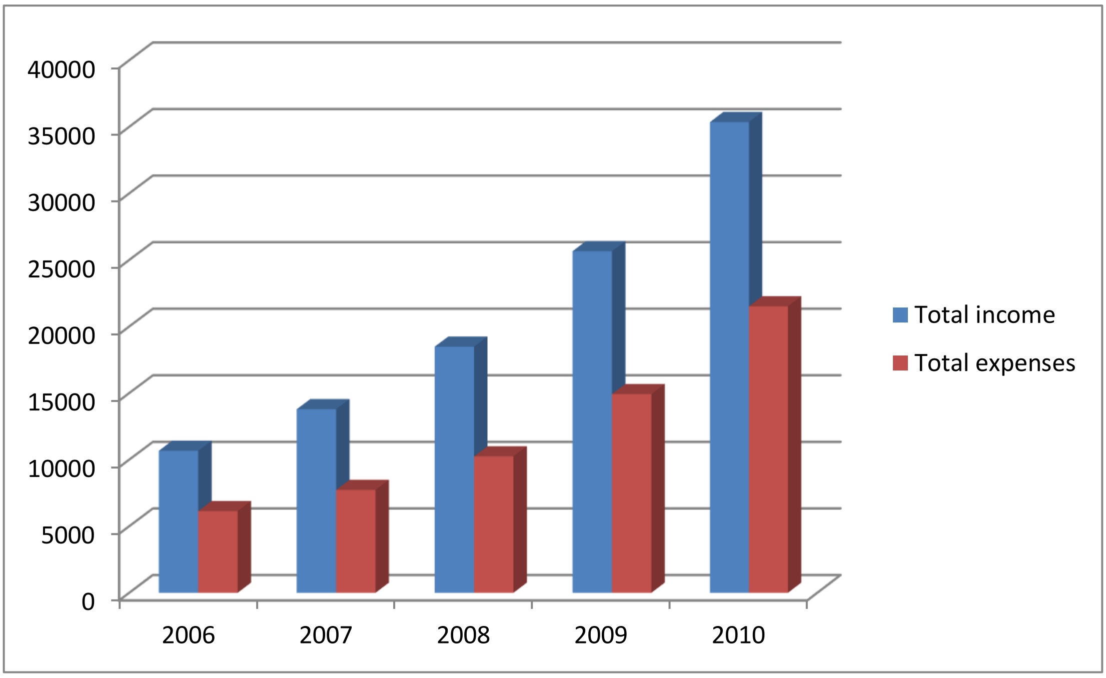

Figure 4.10

According to above figure and table show that the total income to total expenses ratio of EBL is in increasing trend .The highest ratio is 1.78 times in year 2005 and lowest ratio 1.44 times in year 2003.The mean ratio is 1.62 times in the study period; this indicates that higher productivity of expenses. Ratios are 1.44 times and 1.50 times in year 2003and 2007 respectively. These do not indicate the higher productivity of expenses. Ratios are 1.68 times and 1.74 times in year 2004 and 2005 respectively. These indicate the higher productivity of expenses. And the standard deviation is 0.1030 and coefficient of variation is 6.16%

4.3.5 Return on Loan and Advances Ratio

This ratio measures the earning capacity of commercial banks through its fund mobilization as loan advances and vice-versa.

Table 4.11

Return on Loan and Advances Ratio

(Amount in Rs. Lakhs)

Years	Net profit	Loan and advances	Return on loan and advances ratio (in%)
2006	2372	101362	2.34
2007	2964	140827	2.17
2008	4512	188364	2.39
2009	6386	244696	2.61
2010	8318	281564	2.95
Mean			2.49
SD			0.2791
CV			11.27

Source: Annual report of EBL

Return on Loan and Advances Ratio

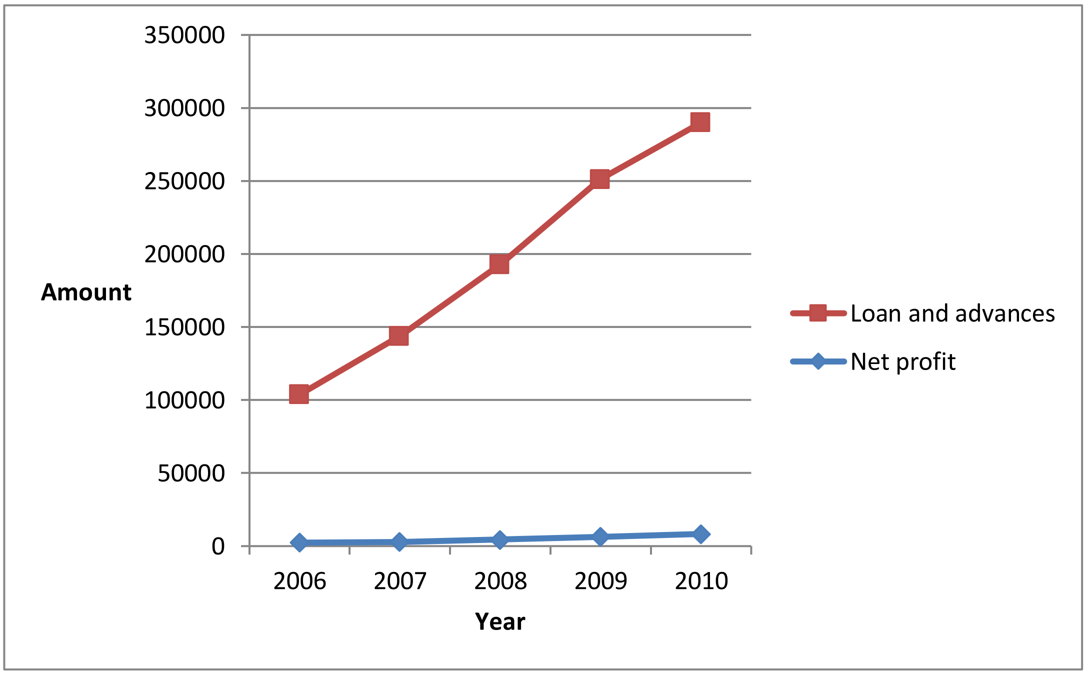

Fig: 4.11

In above table and figure show that return on loan and advances ratio of EBL is in increasing trend. The highest ratio is 2.95% in the year 2010 and lowest ratio 2.17% in year 2007. The mean ratio is 2.49%. This shows the normal earning capacity of EBL in loan and advances. Ratios are 2.34% and 2.39 % in year 2006 and 2008 respectively. These show the normal earning capacity in loan and advances. Ratios are 2.17% and 2.61 % in year 2007 and 2009 respectively. And the standard deviation is 0.2791 and coefficient of variation is 11.21%. These do not show the normal earning capacity in loan and advances.

4.3.6 Earning per Share

It measures the profit available to equity shareholders on per share basis i.e. the amount they can get each share held. The objective of computing this ratio is to measure the profitability of the firm on per equity share basis. This ratio is commutated by dividing the net profit after preference dividend by the number of equity.

Table 4.12

Earning Per Share

(Amount in Rs.Lakhs)

Years	Net profit	No. of equity shares	Earning per share (In Rs.)
2006	2372	38	62.42
2007	2964	38	78.42
2008	4512	49.13	91.82
2009	6386	64	99.99
2010	8318	83.04	100.16
Mean			86.56
SD			14.43
CV			16.67

Source: Annual report of EBL

Earning per share

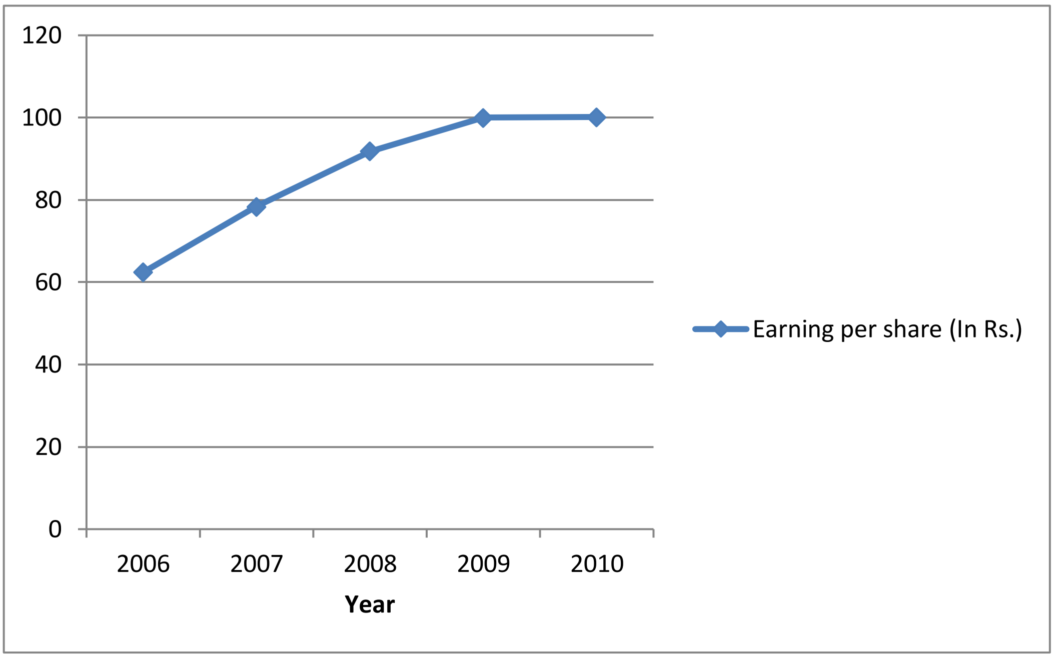

Fig: 4.12

Above given table and figure show that the Earning per share of EBL is in increasing trend. The highest EPS is RS.100.16 in year 2010 and lowest EPS Rs.62.42 in year 2006. The mean EPS of the EBL is Rs.86.56 in the study period. This shows the better profitability in the coming last years. And the standard deviation is 14.43 and coefficient of variation is 16.67%.Earning per shares are Rs.78.42, Rs.91.82 and Rs.99.99 in year 2007, 2008 and 2009 respectively; these mean that the better profitability in the coming last years. EPS are Rs.62.42 and Rs.78.42 in year 2006 and 2007 respectively; these mean that the bank don't have good profitability position . But in overall, profitability is in good position.

4.3.7 Price Earning Ratio

Price earning ratio measures the profitability of the firm. Higher ratio measures the higher profitability of the firm lower ratio measures lower profitability of the firm.

Table 4.13

Price Earning Ratio

(Amount in Rs. Lakhs)

Years	Market price per share	Earning per share	Price earning ratio(Times)
2006	1379	62.78	21.97
2007	2430	78.42	30.99
2008	3132	91.82	34.11
2009	2455	99.99	24.55
2010	1630	100.16	16.27
Mean			**25.57**
SD			**6.36**
CV			**24.90**

Source: Annual report of EBL

Price Earning Ratio

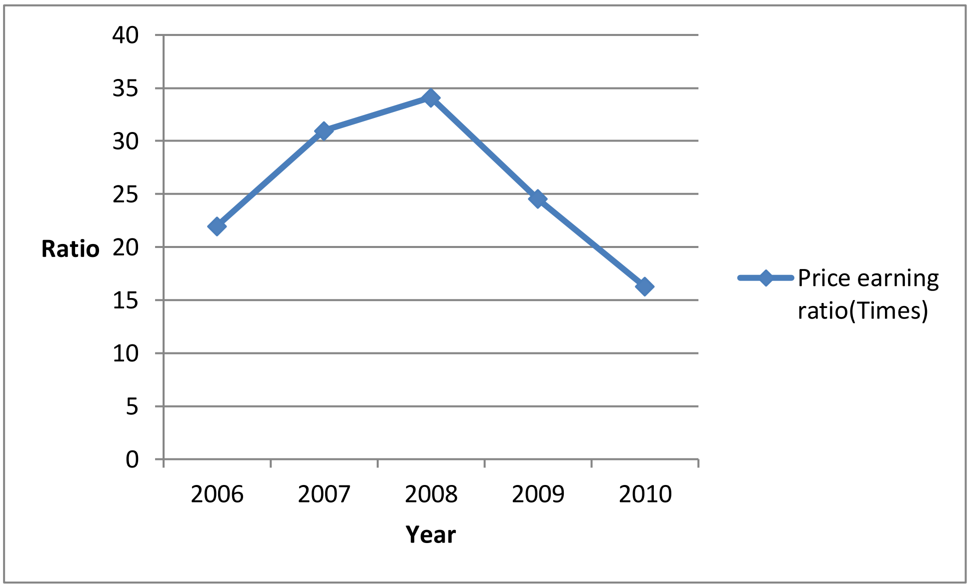

Fig: 4.13

As per above table that price earning ratio of EBL is in fluctuation trend. The highest price earning ratio is 34.11 times in year 2008 and lowest ratio 16.27 times in year 2010.The mean ratio of the EBL is 25.57 times in the study period. Ratio is 34.11 in 2008.It means that the better profitability in the last years. Ratios are 21.97, 24.55, and 16.27 times,2006, 2009 and 2010 respectively. These ratios are lower than mean ratio but in 2007 and 2008 ratio are higher than mean. And the standard deviation is 6.36 and coefficient of variation is 24.9%. In overall profitability position of the bank is satisfactory in last year.

4.4 Lending Efficiency Ratio

The efficiency of firm depends largely on the efficiency with which its assets are managed and utilized. This ratio is concerned with measuring the efficiency of bank. This ratio also shows the utility to available fund. The following are the various type of lending efficiency ratio:

4.4.1 Loan Loss Provision to Total Loan and Advances Ratio

Loan loss provision to total loan and advances describes the quality of assets that a bank holding. The amount of loan loss provision in balance sheet refers to general loan loss provision. The provision for loan loss reflects the increasing probability of non-performing loan. The provision of loan means the profit of the banks will come down by such amount. Increase in loan loss provisions decreases in profit result to decrease in dividends but its positive impact is that strength financial conditions of the banks by controlling the credit risk and reduced the risks related to deposits. Therefore, it can be said that banks suffer it only for short-term loan while the good financial conditions and safely of loans will make bank’s prosperity resulting increasing profit for long term. Loan loss provision is not more than 1.25% of risk bearing assets.

Table 4.14

Loan Loss Provision to Total Loan and Advances Ratio

(Amount in Rs. Lakhs)

Years	Loan loss provision	Loan and advances	Loan loss provision to Loan and advances ratio (%)
2006	705	101362	0.70
2007	897	140827	0.64
2008	993	188364	0.53
2009	931	244696	0.38
2010	770	281564	0.27
Mean			0.50
SD			0.16
CV			32

Source: Annual report of EBL

Loan Loss Provision to Total Loan and Advances Ratio

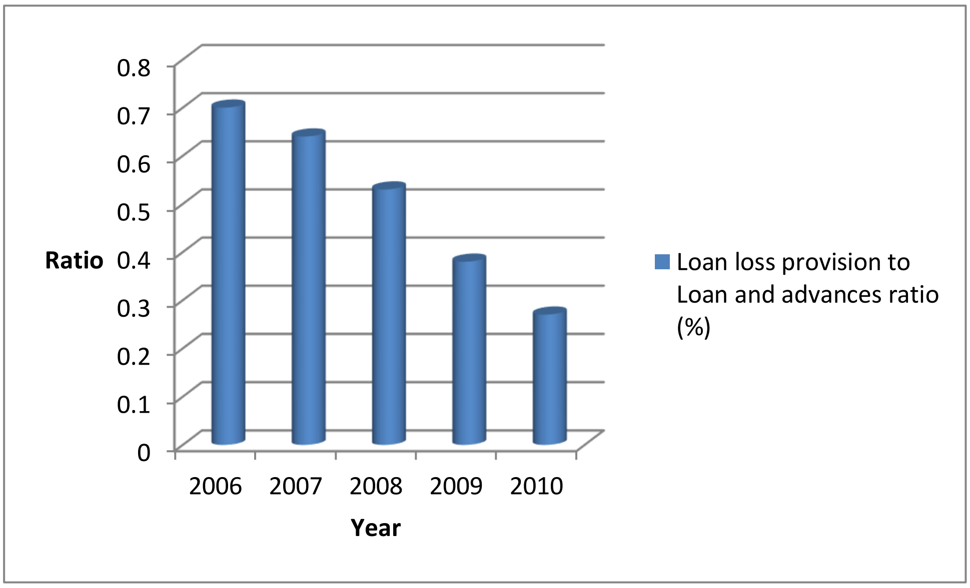

Fig-4.14

In above given table and figure show that loan loss provision to total loan and advances ratio of EBL is in decreasing trend. The highest ratio is 0.70% in year 2006 and lowest ratio 0.27% in year 2010.The mean ratio of the study period is 0.50%. This shows that good quality of assets in total volume of loan and advances. Ratios are 0.64%, 0.53% and 0.38% in the year 2007, 2008 and 2009 respectively. These indicate the good quality of assets in total volume of loan and advances. And the standard deviation is 0.16 and coefficient of variation is 32%

4.4.2 Interest Expenses to Total Deposit Ratio

The ratio measures the percentage of total interest against total deposit. Commercial banks are dependent upon its ability to generate cheaper fund. The cheaper fund has more the probability of generating loans and advances and vice-versa.

Table 4.15

Interest Expenses to Total Deposit Ratio

(Amounts in Rs. Lakhs)

Years	Interest expenses	Total deposit	Interest expenses to total deposit ratio (%)
2006	4014	138024	2.91
2007	5172	181863	2.84
2008	6326	239763	2.64
2009	10129	333229	3.04
2010	15728	369323	4.26
Mean			3.13
SD			0.5876
CV			18.77

Source: Annual report of EBL

From the table, it can be seen that that interest expenses to total deposit ratio of EBL is in fluctuating trend. The highest ratio is 4.26% in the year 2010 and lowest ratio 2.64% in 2008. From mean point of view, interest expenses to total deposit ratio of EBL is 3.13% during the study period. That this ratio does not indicate higher interest expenses on total deposit. Commercial banks are dependent upon its ability to generate cheaper fund. Ratio 4.26%, in 2010 indicate that higher interest expenses on total deposit than in average. Ratios are 2.91%, 2.84% ,2.64% and 3.04% in year 2006, 2007,2008 and 2009 respectively. These do not indicate that the higher interest expenses on total deposit. And the standard deviation is 0.5876 and coefficient of variation is 18.77%. It can be seen in following figure below.

Interest Expenses to Total Deposit Ratio

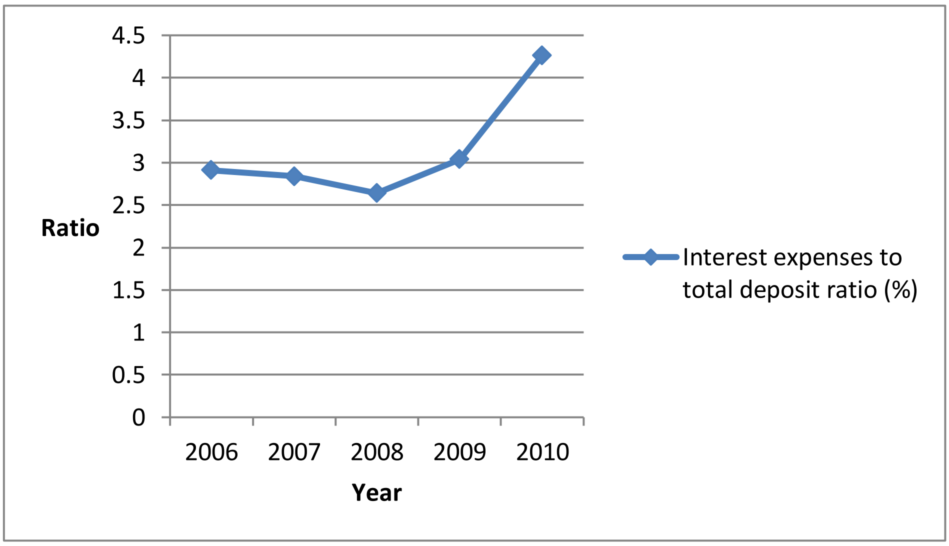

Fig-4.15

4.4.3 Non-Performing Loan to Total Loan and Advances Ratio

Higher ratio shows the low efficient operating of the management and lower ratio shows the more efficient operating of credit management.

Table 4.16

Non-Performing Loan to Total Loan and Advances

(Amounts in Rs. Lakhs)

Year	Non-performing loan	Loan and advances	Non-performing loan to loan and advances (%)
2006	1292	101362	1.27
2007	1132	140827	0.80
2008	1273	188364	0.67
2009	1180	244696	0.48
2010	437	281564	0.15
Mean			0.67
SD			0.3697
CV			55.18

Source: Annual report of EBL

Non-Performing Loan to Total Loan and Advances

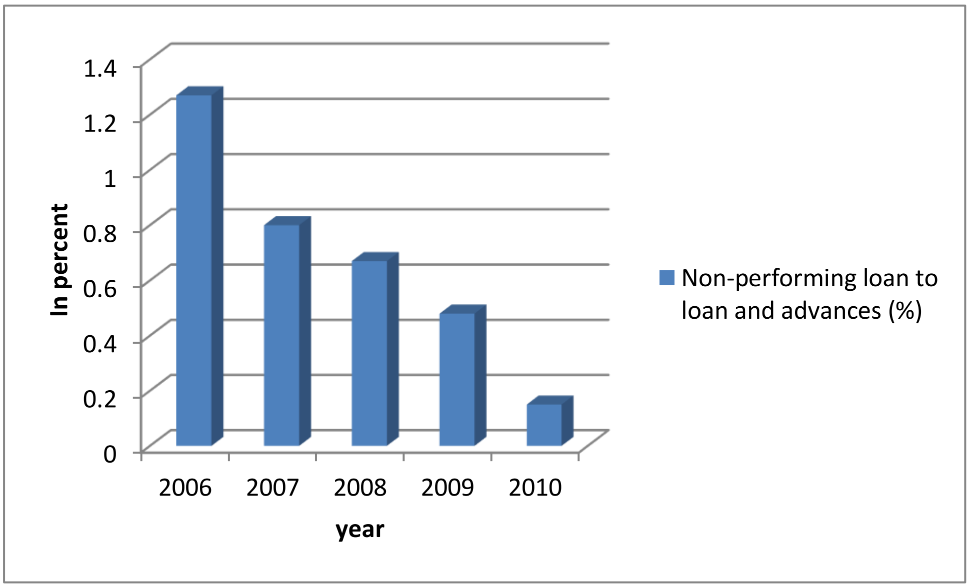

Fig: 4.16

Above figure and table show that interest expenses to total deposit ratio of EBL is in decreasing trend. The highest ratio is 1.27 % in the year 2006 and lowest ratio 0.15 % in the year 2010. From mean point of view, non-performing loan to total loan and advances ratio of EBL is 0.67 % during the study period. This ratio indicates the more efficient operating of credit management. Ratios are 0.80 %, 0.67 % & 0.48 % in year 2007, 2008 and 2009 respectively. These ratios indicate the higher efficient of credit management. In overall credit management is in good position. And the standard deviation is 0.3697 and coefficient of variation is 55.18%

4.5 Trend Analysis

Trend analysis is a statistical tool, which will highlight the previous trend of th financial performance an helps in forecasting the future financial results of th bank. Trend analysis shows the behavior of given variable in series of time. This trend analysis is carried out to see average performance of the bank for next five years. Here, trend analysis of total deposit and loan and advance is projected for five years.

Trend analysis is base on some assumption.

- All the other things will remain unchanged
- The bank will run in present condition.
- The economy will remain in present stage.
- NRB will not change its guidelines to commercial banks.
-

4.5.1 Trend Analysis of Total Deposit

Deposit are important part in banking sector hence its trend for nest five years will be forecasted for future analysis. This is calculated by least square method.

Y=a +bx

Where, Y= dependent variable

a=Y-intercept

b=slope of trend line of annual growth rate,

x=deviation from some convenient time periods,

Trend Analysis of Total Deposit(Table.4.17)

Amount in Lakhs

Year(x)	Total Deposit
2006	129647
2007	246300.7
2008	252440.2
2009	313836.7
2010	375233.2
2011	436629.2
2012	498026.2
2013	559422.7
2014	620819.2
2015	682215.7

Sources ;annual report of EBL

Appendix I

The following graph helps to show the trend line of total deposit for the projected five years. The equation $Y=252440.2+61396.5X$

Trend of Total Deposit

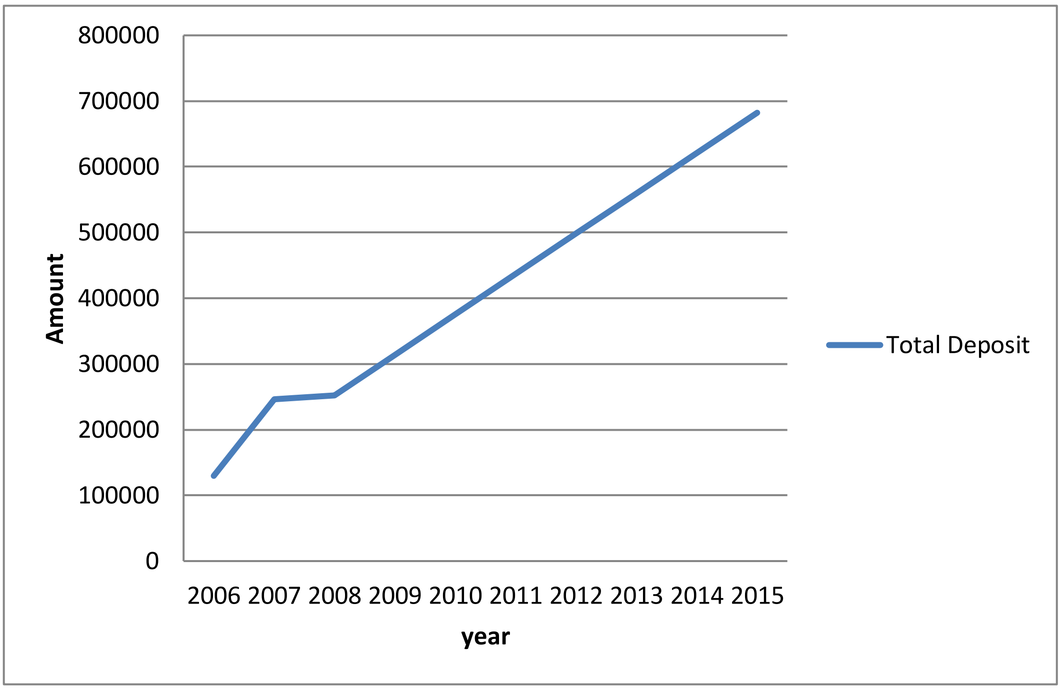

Fig .4.17

Above table and figure show that the total deposit of EBL.The trend of total deposit of EBL is in increasing trend. The rate of increment of total deposit for EBL seems to be smoothly increasing trend. The trend analysis shows the projected deposited amount in fiscal year FY 2011 to 2015.

4.5.2 Trend Analysis of Total Loan and Advance.

Trend of Total Loan and Advance (Table.4.18)

Amount in lakhs

Year(x)	Loan and Advance
2006	98508
2007	144935.3
2008	191362.6
2009	237789.9
2010	284217.2

2011	330644.5
2012	377071.8
2013	423499.1
2014	469926.4
2015	516353.7

Sources ;annual report of EBL

Appendix II

The following graph helps to show the trend line of total deposit for the projected five years. The equation Y=191362.6+46427.3X

Trend of Total Loan and Advance

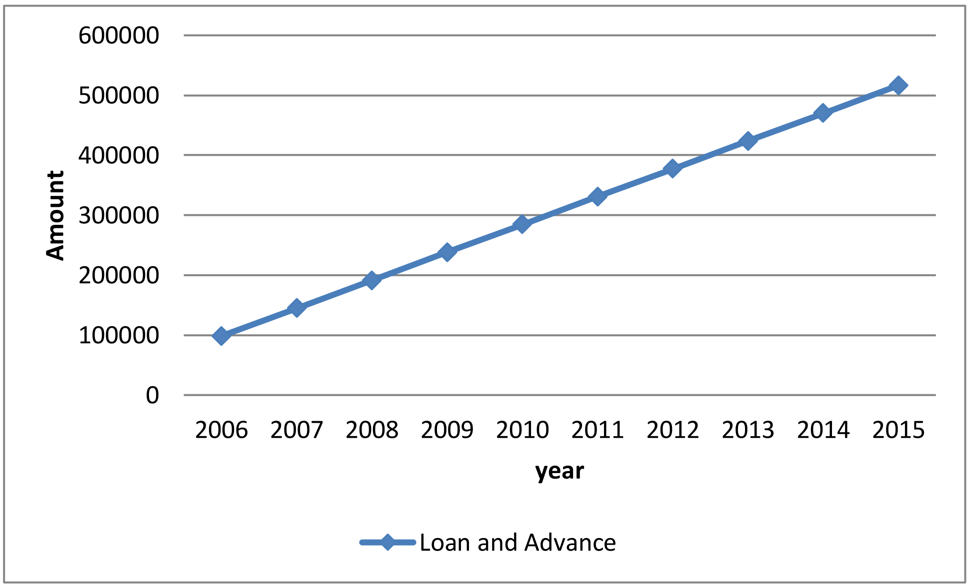

Fig 4.18

According to given table and figure show that the total loan and advance of EBL.The trend of total loan and advance is in increasing. It is suggested to increase in loan and advance in a same way to make better profit. The trend analysis shows the projected deposited amount in fiscal year FY 2011 to 2015.

4.5.3 Trend Analysis of of Total Assets

Trend of Total Assets (Table.4.19)

Amount in lakhs

Year(x)	Total Assets
2006	153018.6
2007	219350
2008	285681.4
2009	352012.8
2010	418344.2
2011	484675.6
2012	551007
2013	617338.4
2014	683669.8
2015	750001.2

Sources ;annual report of EBL

Appendix III

The following graph helps to show the trend line of total deposit for the projected five years. The equation Y=285681.4 + 66331.4X

Trend Analysis of Total Assets

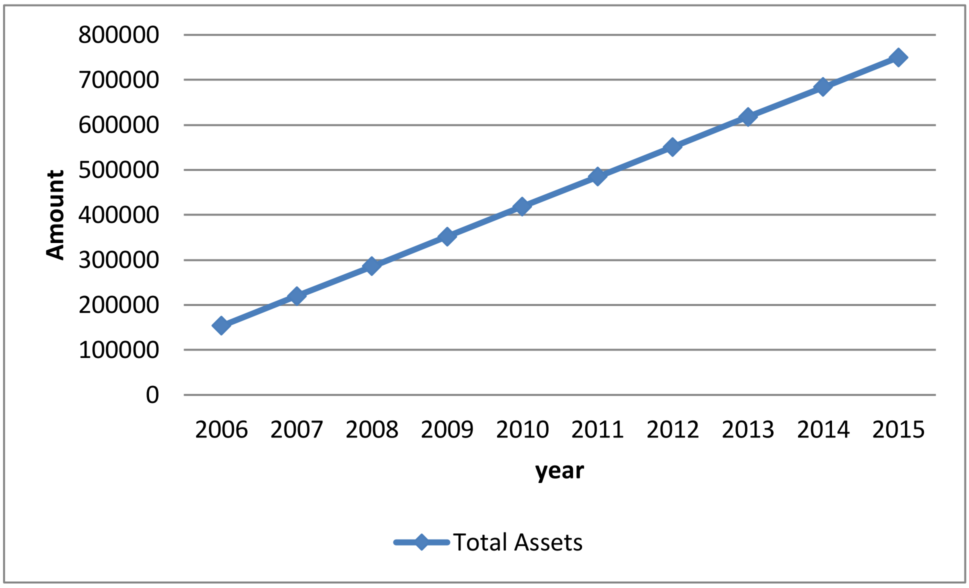

Fig 4.19

Above table and figure shows that trend of Total Assets of EBL.The trend of total assets is moderately increasing. It is better for the company. This type of increment should maintain regularly The trend analysis shows the projected deposited amount in fiscal year FY 2011 to 2015.

4.5.4 Trend Line of Net Profit.

Trend analysis of Net Profit (Table.4.20)

Amount in lakhs

Year(x)	Net Profit
2006	1847.6
2007	3379
2008	4910.4
2009	6441.8
2010	7973.2

2011	9504.6
2012	11036
2013	12567.4
2014	14098.8
2015	15630.2

Sources ;annual report of EBL

Appendix IV

The following graph helps to show the trend line of total deposit for the projected five years. The equation Y=4910.4 + 1531.4X

Trend Analysis of Net Profit

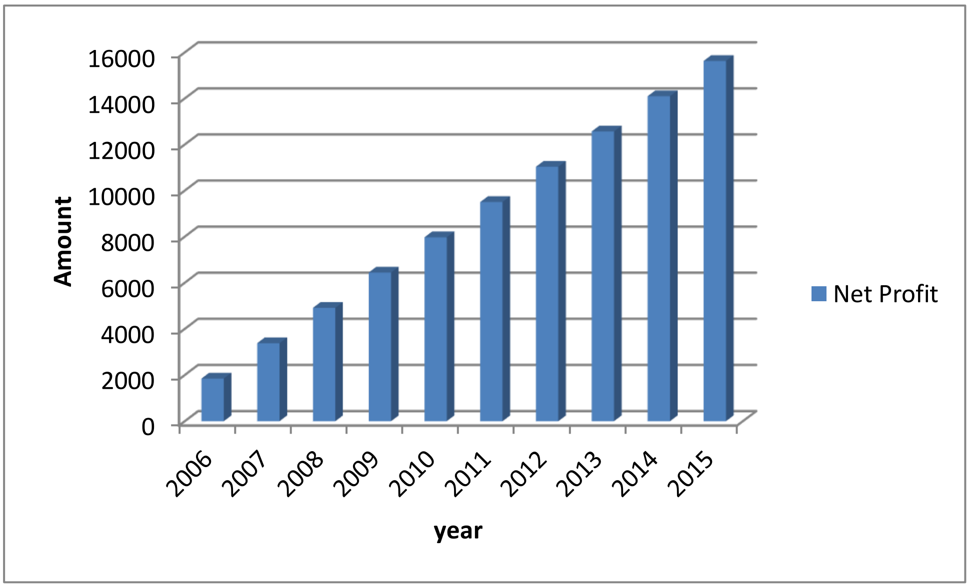

Fig 4.20

As per table and figure it can be seen that trend of the net profit of EBL.The trend of total profit EBL is in increasing trend The rate of increment of total profit for EBL seems to be aggressively increasing trend. It is better for the company but this type of increment should maintain regularly The trend analysis shows the projected deposited amount in fiscal year 2011 to 2015.

4.6 Major Findings of the Study

Based on the analysis of data the main findings are summarized as follows:

4.6.1 Liquidity Ratio

The cash reserve ratio of the bank shows the fluctuating trend during the study period. The mean ratio is 0.15 times in the study period. This means that the bank is able to be maintained in the good liquidity position of the bank. Therefore, that credit management is in good position of the EBL.

Cash and bank balance to interest sensitive ratio of EBL is also in fluctuating trend. The mean ratio is 0.33 times. This means that the bank is able to maintain neither the good nor bad financial condition. Thus, credit management is not in good or bad position.

Cash and bank balance to current assets ratio of EBL is also in fluctuating trend. The mean ratio is 0.16 times. The bank is in sound ability to meet the daily cash requirement of their customer's deposit.

4.6.2 Assets Management Ratio

Loan and advances to total deposit ratio of EBL is also in fluctuating trend. The mean ratio is 75.82% times in the study period. The ratio indicates that it has used its deposit in loan and advance in proper way.

Interest spread rate ratio of EBL is also in increasing trend. The mean ratio is 5.95%; this indicates that collection of fund in low cost and use fund high rate.

Non-performing assets to total assets ratio of EBL is also in increasing trend. The mean ratio is 0.45%. According to the direction of NRB to the commercial banks, the ratio of non-performing assets to total assets should be less than 5%.With referring to this table; EBL is able to keep the level of non-performing assets as an adequate position. The bank is able to obtain higher lending opportunity.

4.6.3 Profitability Ratios

Profit to gross income ratio of EBL is also in fluctuating trend . The mean ratio is 23.33%. The bank is able to obtain higher efficiency in overall.
Interest income to total income ratio of EBL is also in fluctuating trend. The mean ratio is 0.84 times in the study period. The ratio indicates the high contribution made by lending and investing activities.

Operating profit to loan and advances ratio of EBL is also in fluctuating trend. The mean ratio over the period is 3.91%. This shows the better profitability position of the bank.

Total income to total expenses ratio of EBL is also in fluctuating trend. The mean ratio is 1.67 times in the study period. This indicates that higher productivity of expenses. Thus, credit management is in good position.

Return on loan advances ratio of EBL is also in increasing trend except in 2007. The mean ratio is 2.49 times. This shows the normal earning capacity of EBL in loan and advances.

Earning per share of EBL is in increasing trend. The mean EPS of the EBL is Rs.86.56 in the study period. This shows the better profitability in the coming last years. In overall, profitability of bank's belongs to equity shareholder is in normal condition.

Price earning ratio earning of EBL has fluctuating trend. The mean EPS of the EBL is 25.57 times in the study period. This shows the better profitability in the coming last years.

4.6.4 Lending Efficiency Ratio

Loan loss provision to total loan advances ratio of EBL is also in decreasing trend. The mean ratio of the study period is 0.50times. This shows that good quality of assets in total volume of loan advances.

Interest expenses to total deposit ratio of EBL is also in fluctuating trend. From mean point of view, interest expenses to total deposit ratio of EBL is 3.13% during the study period. This ratio does not indicate higher interest expenses on total deposit. Thus, credit management is in good position.

Non-performing loan to total loan advances ratio is also in decreasing trend. From mean point of view, Non-performing loan to total loan advances ratio of EBL is during the study period is 0.67. This means that efficient operating of credit management.

4.6.5 Trend Analysis

The trend of total deposit of EBL is in increasing trend. The rate of incremental of the total deposit for EBL seems to be smoothly increasing trend.

Also the trend values of loan and advance of EBL is increasing trend. It is suggest to increase in loan and advance in same way to make better profit.

In the same way the trend of Total Assts of EBL is in increasing trend. The rate of increment of Total Assets for EBL seems to be moderately increasing trend. It is better for company. This type of increment should maintain regularly.

As above the trend of Total profit of EBL is also increasing trend. The rate of increment of Total profit for EBL seems to be aggressively increasing trend. This type of increment should maintain regularly, it is better for company.

CHAPTER - V

SUMMARY CONCLUSION AND RECOMMENDATION

5.1 Summary

In this chapter, summary conclusion and recommendation are included. Recommendation has made which would be beneficial for the management of the bank.

Commercial banks need to keep optimum relation between deposit collection procedure and loan policy. The idle money collected by the commercial banks as deposits should be properly utilized either by granting loan to the needy parties or by making investment in the productive sector to earn more profit. CB should have sound investment policy for mobilization of the available fund. A CB mainly focuses on its two functions i.e. collection of deposit through various scheme and granting those amount as loan to the customers by providing various facilities.

Here the study has been conducted on Credit Management of Commercial Banks with special reference to Everest Bank Limited the effort has been made with the objectives of providing true insight of credit management. . To achieve the objectives of the study different financial and statistical tools have been adopted. All of the analysis made revolves within the secondary data that have been collected mainly through the account department of concerned banks and their web sites.

For the convenience, the study has been divided mainly into five main chapters, viz, a) Introduction, b) Review of Literature, c) Research Methodology, d) Data Presentation and Analysis and e) Summary, Conclusion and Recommendations. A study of five years period (2006 to 2010) of loan, advance and overdraft shows that loan assets

In the aspect of liquidity position, cash reserve ratio shows the more liquidity position. Cash and bank balance to interest sensitive ratio shows the bank is able to maintain neither good nor financial condition. Cash and bank balance to current assets ratio shows that the bank's sound ability to meet the daily cash requirement of their customers deposit. That is why liquidity position of the bank is the better. How ever it must enhance cash and bank balance for the purpose of meeting its interest sensitive deposit demanded.

By analyzing the assets management ratio, loan advances to total assets ratio shows the better performance but loan and advances to total deposit position in minimum than the averages. Whereas investment in loan and advances is safely and not taking more risk. Interest spread rate is in fluctuating trend so it should increase in interest spread rate in latest year.

In the aspect of profitability position, interest income to interest expenses ratio shows the more profitable situation. In addition, total income to total expenses ratio shows the overall predominance of the bank. Operating income of bank is also in satisfactory position however it is not in good condition. Interest income to total income ratio of EBL is higher which is good from view point of bank in short run but in long run it is not good. Bank should generate its income from extra sources (like exchange gain, commission and discount, remittance service) other than interest for the survival in long run.

After analyzing the lending efficiency of the bank, the loan loss provision to loan advances indicator shows the better performance in the latest year. The interest expenses to total deposit ratios shows the improving efficiency of the bank. And decreasing trend of NPL to total loan and advance shows non-performing loan as an adequate position according to Nepal Rastriya bank directives.

Today, commercial banks in Nepal have been facing several challenges, some of them arising due to lack of smooth functioning of economy, some due to confused policies and many of them due to default of the borrowers. The liberalization of the financial sector demands a new technology of lending to cope up with the rising pressure on the profitability of banks and financial institutions.

5.2 Conclusion

EBL bank has sufficient liquidity. It shows that bank has not got investment sectors to utilize their liquid money. Now in Nepal, many banks and other financial institution are functioning to collect deposits and invest money somewhere in the investable sectors. Therefore monetarization have been increased since liberalization policy taken by the government. Remittance has also help to increase the amount of deposit in bank. On the other hand due to political crisis economic sectors have been damaged. Most of the projects have been withdrawn due to security problem. Therefore banks have maximum liquidity due to lack of safety investment sectors.

Provision for credit loss has been increasing year by year of EBL bank and decreases in the year 2006. Due to political disturbance in the country credit takers are not getting good return from their investment sectors. On that situation credit customers do not return money of the bank in the stipulated time period therefore the non-performing credit of the bank increases.

Equity portion of the bank is slightly increasing in the recent years due to issue of directives by Nepal Rastra Bank (NRB) the entire bank to increases it’s paid up capital. NRB has issued that direction to provide more safety to the customers. Therefore bank has issued new share in the market. That’s why the bank leverage ratio is decreasing. The trend of total Deposit, Total Assets, Loan and Advance and Total Profit of EBL is in increasing trend.

5.3 Recommendations

According to the analyses the following suggestions are highlight to put forward for the future improvement of EBL bank.

- Cash and bank balance of EBL bank is high. Banks efficiency should be increased to satisfy the demand of depositor at low level of cash and bank balance does not provide return to the bank. Therefore some percentage of the cash and bank balance should be invested in profitable sectors.
- EBL bank should avoid extending credits merely based on oral information presented at the credit interview. Historical financial and trade records should be obtained for proper assessment of the proposal.
- Operating income of bank is also in satisfactory position however it is not in good condition. So it should enhance its operating income.
- Interest income to total income ratio of EBL is higher which is good from view point of bank in short run but in long run it is not good. Bank should generate its income from extra sources (like exchange gain, commission and discount, remittance service) other than interest for the survival in long run.
- Bank should regularly follow of the credit customers. If the customers have utilized their credit for same purpose or not committed of the time of taking credit from the bank.
- EBL bank should be fulfilling some social obligations by extending their resources to rural areas and promoting the development of poor and disadvantages group. In order do so; they should open their branches in the remote area with the objective to provide the banking services. The minimum deposit amounts should be reduced.
- The economic liberalization policy adopted by Nepal Government has created an environment of cutthroat competition in the banking sectors. In this context EBL bank is suggested to formulate and implement sound and effective financial and non-financial strategies to minimize their operational expenses to meet required level of profitability.

- International relations of the EBL bank are limited in comparison to others banks. Therefore, the bank should make negotiation with the international banks to increase its transactions in the international areas.
- The study felt to improve internal system more effectively and introducing of new strategies and major functions for effective existing credit management for all selected banks.
- Interest spread rate ratio of EBL is also in fluctuating trend. However, fluctuating trend is not better for the bank it should be in upward trend. Therefore it should invest its deposit in high rate and borrow fund in low rate.
- The increase in loan loss provision of commercial banks is reflecting the inefficiency of management. The bank needs to reduce its loan loss provision. This can be done by proper risk management, which includes
  - Carefully screening of loan application
  - Proper valuation of security
  - Proper appraisal of projects
- Profit is life blood of any organization. Value as well as wealth maximization is the main objectives of any organization so banks are recommended to diversify it's investment on more profitable sector and adopt sound investment policy
- Future researchers are recommended to focus into non-financial performance indicators such as job satisfaction, services quality performance, customers satisfaction, stakeholders support, government rating, supervisor's teamwork, human resource development, human resource planning, human resource management, etc.

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