

CHAPTER -I

INTRODUCTION

1.1 Background of the study

A bank is an institution that accepts deposits of various types, withdrawal by cheque and advances loans of different kinds. Bank is an institution whose debts are widely accepted in settlement of other people's debts to each other. A well-developed banking system is a necessary pre-condition for economic development in a modern economy. Besides providing financial resources for the growth of industrialization, banks can also influence the direction in which these resources are to be utilized. The underdeveloped country like Nepal, the banking facilities are limited in urban areas and the banking activities are limited mostly to trade and commerce and paying little attention to industry and agriculture. Structural as well functional reforms in the banking system are needed to perform creative role in under developing countries.

In modern economy, bank plays the vital role for development in every sector from our day to day life to big industrial sector. It's like the relationship between the heart and the blood. Banks are to be considered not merely as dealers in money but also the leaders in development. They are not only the collector of the country's wealth but also the resources supplier for economic development. In the 18th and 19th centuries, the growth of commercial bank facilitated the occurrence of industrial revolution in Europe. Similarly, the economic process development in the present day largely depends upon the growth of sound banking system in these economies.

Integrated and speedy development of the country is possible only when competitive banking services reaches the nooks and corners of the country. A commercial bank is an institute that offers a broad range of deposit accounts, including checking, savings, and time deposits, and extends loans to individuals and businesses. Thus it is engaged in capital formation. Commercial banks collect money from those who have surplus of it, in the form of deposits,

and then lends the same to them who needs it in the form of loans and advances. Thus it acts as agent for the flow of capital.

In fact the banks do not lend their own money. The banks collect the fund from the deposit holders and lend the same fund, who needs it. So when this lending of banks is in risk then the funds from deposit holders is in risk, savings from the hard earned money of large number of people is in risk. So the riskiness of the banks assets affects the whole economy of the country. This was also evident form the crisis on Nepal Bangladesh Bank Limited on 2006. The crisis aroused when the news came out on Thursday, November 9, 2006 that the bank has the deteriorating financial health. The report has also leaked out that there was manipulation in the minute book of the Board of Directors (BOD) meetings. Similarly, the huge sum of money has gone to be bad loan taken by some of the members of BOD of the NB Bank.

After the leakage of the information & news among the general public, dramatic breakdown came among the NB Bank's depositors confidence. There was a withdrawal of over Rs.1.9 billion in three days. Observing the crisis, the NRB took over the management of NB bank. (Vaidya; 2007, Nepal Bangladesh Bank's Crisis)

Managing a commercial bank is basically the risk management of its assets, mainly its Loans & Advances and Investment. Profitability of the bank and even its survival depends upon the risk management. Of course banks are there to lend, however banks have to think hundred times before taking lending decision as every lending has inherent risk associated with it. They have to ensure that borrowers are and will be able to serve their debt obligations in time. Other wise let the interest, principal amount itself will not return back.

Banks have to manage their assets in various ways. There is asset selection procedure; this is how the banks select its assets. How they calculate risk inherent in every assets created and ways to mitigate it. Banks have to lend and also make sure that it returns back. To mitigate the risk they also must diversify the risk among various borrowers and among various sectors. Also there must be system to continuously monitor and evaluate the performance of existing

assets. If is any sign of sickness is shown remedial action should be taken on time. This will prevent the loan default.

The banks also must have loss absorbing capacity. There must to enough capital to absorb the loss before it pass on to the deposit holders.

This study intends to dissert the asset management practice of two major joint venture banks of Nepal, Everest Bank Limited and Nepal SBI Bank Limited. The two banks are chosen because of similarity between both of them. They both started operation in similar time, both are the in joint ventures with two biggest state owned banks of India and management of both banks are being handled by the two largest state owned banks of India viz State Bank of India and Punjab National Bank

1.2 Introduction of Organizations under Study

Everest Bank Limited

Everest Bank Limited (EBL) started its operation in 1994 with a view and objectives of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer friendly services through a network of 26 branches across the nation. Punjab National Bank (PNB), joint venture partner of the bank (holding 20% equity in the bank) is the largest nationalized bank in India having 113 years of banking history. PNB is a technology driven bank serving over 35 million customers through a network of over 4,500 branches spread all over the country with a total business of around INR 2178.74 billion. Management of the EBL is being handled by PNB under the Management Service Contract. The bank has been conferred with “Bank of the Year 2006, Nepal” by the banker, a publication of financial times, London. The bank was bestowed with the “NICCI Excellence award” by Nepal India chamber of commerce for its spectacular performance under finance sector.

(<http://www.everestbankltd.com/briefProfile.php>) The bank has employed 449 numbers of staff members, has 11 ATMs and 26 branches. The shareholding pattern of the bank is 50%

promoters, 30% public and 20% Punjab National Bank. The bank has total business portfolio of Rs 428,127 lacs as on Ashad end 2065. (Annual Report 2007/08 EBL).

Nepal SBI Bank Limited

Nepal SBI Bank Ltd. (NSBL) is the first Indo-Nepal joint venture in the financial sector sponsored by three institutional promoters, namely State Bank of India, Employees Provident Fund and Agricultural Development Bank of Nepal. The management team and the Managing Director who is also the CEO of the Bank are deputed by SBI. SBI also provides management support as per the Technical Services Agreement. State Bank of India (SBI), joint venture partner of the bank (holding 50% equity in the bank) is the largest nationalized bank in India having 200 years of banking history. SBI is a technology driven bank serving over 150 million customers through a network of over 10,000 branches spread all over the country with a total business of around INR 7,728.57 billion. Fifty percent of the total share capital of the Bank is held by the State Bank of India, fifteen percent is held by the Employees Provident Fund, five percent is held by the Agricultural Development Bank Nepal and thirty percent is held by the general public. The bank has employed 249 numbers of staff members, has 16 ATMs and 15 branches. The bank has total business portfolio of Rs 264,796 lacs as on Ashad end 2065. (Annual Report 2007/08, NSBL).

1.3 Statement of the Problem

In present competitive financial market, managing commercial bank is a great challenge. Due to growing competition in the industry, the banks have to make their decision fast, in other way they have to become efficient in the market also in the other hand they also have to maintain their asset quality for long run survival. The growing competition is forcing banks to take the hasty decision forging the credit appraisal norms. This may put the banks in great danger up to the verge of collapse.

Managing a bank is basically a risk management. Every lending decision has inherent risk in it. But banks are also business entities and are there to earn profit. Lending is a risk and banks can't survive without lending because interest income that comes from the lending is major source of income for the banks. The interest income must cover the interest to be paid to its

deposit holders and other operational costs like staff expense, utility bills, stationary expenses, rent etc. So the major funda to survive in the business is by managing the risk taken. This may be done from various ways viz careful asset selection, periodic review of performance of assets, maturity management of assets, diversification etc.

Profitability of the banks and even its survival depends on how efficiently banks manage their assets. However, it's not a easy job and there is no single formula to achieve it. If the assets of a bank are of good quality then health of the bank is sound and will earn good return for its deposit holders and owners. But when these assets turn into Non-Performing Assets (NPAs) then let the return even principals of deposit holders and owners come to risk.

Everest Bank Limited and Nepal SBI Bank Limited are the pioneer joint venture banks in Nepal. Both banks have started their operation in Nepal in similar time and follows similar management practice. The banks are joint venture partners of two large state owed banks in India, Punjab National Bank and State Bank of India.

The followings are the major research questions that have been identified for the purpose of this study:

- What is the procedure of asset selection in these banks?
- What is the process of periodic review of performance of assets?
- What is the position of Non Performing Assets (NPA) in these banks?
- How these banks are managing their NPAs.
- Which bank is efficient in using their resources like deposit and manpower?
- Which bank is better in terms of loss absorbing capacity and liquidity?
- What is the return on funds mobilized?
- How the banks are diversifying their risks?

1.4 Objectives of the Study

The major objective of the commercial banks is to earn good return over their investment. Banks hold the risky assets mainly in form of loans advances. There will be always doubt that the assets created will perform and earn return or not. Banks can achieve good return on

investment only through efficient asset management (primarily loans & advances) of the bank. The main objective of this study is to examine the efficiency of the sample banks on various asset management practice. The specific objectives are:

- To access the growth of the banks.
- To analyze structure of assets held by two banks
- To access the assets selection procedure of two banks.
- To analyze the NPA composition of the assets.
- To highlight the mitigation structures and initiatives taken by the banks to control NPA.
- To examine the capital adequacy position of two banks.
- To examine liquidity, earning power, efficiency, risk diversification of two banks.

1.5 Limitations of the study

Managing a commercial bank in today competitive banking environment is challenge. Decisions should be by a manager on various areas to achieve success. Various factors also affect the efficient operation. Considering all the factors is not possible due to various reasons. Among many factors and area of commercial bank management, asset management is one of the most important aspects; hence the study focuses on one of the key area: “Asset Management”. The asset management is an effective tool to maintain confidence of depositors and society at large, to earn good return over investment and long term survival of the organization. This also ensures the goodwill of company. This study is only a partial fulfillment of MBS programs. So, the study will be limited by following factors:

- The time is the major limitation of the study. As this is the study for the partial fulfillment for the degree of Masters of Business Studies there is very limited time for this study.
- Only the sample of two commercial banks is taken.
- Availability of the data is also a major problem. The study is primarily based on the secondary sources of data published in annual reports of the companies.
- Secondary data is analyzed to interpret result so the result depends on the accuracy and reliability of the secondary data .
- The study period only covers five years fiscal years beginning from 2003/04 to 2007/08.

1.6 Focus/Significance of the study

This proposed study aims to discuss the assets management practice of two major joint venture banks of Nepal, Nepal SBI Bank Limited and Everest Bank Limited. The study will focus on diversification of the assets, assets selection procedure, composition of assets, periodic review of assets, risk of assets, capital adequacy, composition of Non Performing Assets, and risk mitigation practices.

This study can be effective guideline for the policy makers and the persons in the implementation body. On the other hand this study will help the management of commercial banks and the regulatory body NRB. The study will find strength, weakness, cause of weakness and suggest ways to mitigate it.

1.7 Organization of the Study

The proposed study will be organized into five chapters, each chapter deals with the specific aspects of the study which will be as follows;

- Chapter One: Introduction
- Chapter Two: Review of Literature
- Chapter Three: Research Methodology
- Chapter Four: Presentation and Analysis Data
- Chapter Five: Summary, Conclusion and Recommendation

The first chapter incorporates general background, statement of problem, objectives of the study, benefits of study, limitations of the study, organization of the study and introduction of the organizations under consideration.

Chapter two deals with framework of study and reviews of major empirical work in the area. This study is based on the framework provided by the chapter.

Chapter third is research methodology. The chapter carries out research design, sources and types of data, data gathering instrument, data gathering procedure and tools for analysis.

Chapter four is the main part of this study. It deals with the empirical analysis of the study. Analysis is the systematic and careful examination of available facts so that certain conclusion can be drawn and inferences can be made.

Chapter five is summary, conclusion and recommendation. The chapter is summarizes the whole spectrum of the study. It also offers recommendation for the improvement in future. Bibliography, appendices and a vitae sheet of the researcher are also enclosed at the end of the research report.

CHAPTER - II

REVIEW OF LITERATURE

Managing a bank is basically a risk management. Every lending decision has inherent risk in it. But banks are also business entities and are there to earn profit. Here, the paradox lies, lending is a risk and banks can't survive without lending because interest income that comes from the lending is major source of income for the banks. The interest income must cover the interest to be paid to its deposit holders and other operational costs like staff expense, utility bills, stationary expenses, rent etc. So the major funda to survive in the business is by managing the risk taken. This may be done from various ways viz careful asset selection, periodic review of performance of assets, maturity management of assets, diversification etc.

Profitability of the banks and even its survival depends on how efficiently banks manage their assets. However, it's not a easy job and there is no single formula to achieve it. If the assets of a bank are of good quality then health of the bank is sound and will earn good return for its deposit holders and owners. But when these assets turn into Non-Performing Assets (NPAs) then let the return even principals of deposit holders and owners come to risk.

The quality and performance of assets held by banks are measured by various parameters they are like NPA percentage, average spread, average yield, Credit Deposit (CD) ratio, Capital Adequacy, percentage of Interest Income to Total Income, Percentage of Other income to Total Income, Operating Cost to Net Interest Income etc.

2.1 Meaning of Commercial Bank

A commercial bank is institution that accepts demand deposits, makes commercial and industrial loans, and performs other banking services for the public. The term commercial bank is synonymous with full service bank because many commercial banks supply trust services, foreign exchange, trade financing, and international banking. Bank that makes loans to businesses, consumers, and non-business institutions. Early commercial banks were limited to accepting deposits of money or valuables for safekeeping and verifying coinage or

exchanging one jurisdiction's coins for another's. By the 17th century most of the essentials of modern banking, including foreign exchange, the payment of interest, and the granting of loans, were in place. It became common for individuals and firms to exchange funds through bankers with a written draft, the precursor to the modern check. Because a commercial bank is required to hold only a fraction of its deposits as cash reserves, it can use the money deposited by its customers to extend loans. Commercial banks also offer a range of other services, including savings accounts, safe-deposit boxes, trust services and foreign exchange services.

A commercial bank is a type of financial intermediary and a type of bank. Commercial banking is also known as business banking. It is a bank that provides checking accounts, savings accounts, and money market accounts and that accepts time deposits. After the Great Depression, the U.S. Congress required that banks engage only in banking activities, whereas investment banks were limited to capital market activities. As the two no longer have to be under separate ownership under U.S. law, some use the term "commercial bank" to refer to a bank or a division of a bank primarily dealing with deposits and loans from corporations or large businesses. In some other jurisdictions, the strict separation of investment and commercial banking never applied. Commercial banking may also be seen as distinct from retail banking, which involves the provision of financial services direct to consumers. However, many banks offer both commercial and retail banking services. This is what people normally call a "bank". The term "commercial" was used to distinguish it from an investment bank. Since the two types of banks no longer have to be separate companies, some have used the term "commercial bank" to refer to banks that focus mainly on companies. In some English-speaking countries outside North America, the term "trading bank" was and is used to denote a commercial bank. During the great depression and after the stock market crash of 1929, the U.S. Congress passed the Glass-Steagall Act 1933-35 (Khambata: 1996: 320) requiring that commercial banks engage only in banking activities (accepting deposits and making loans, as well as other fee based services), whereas investment banks were limited to capital markets activities. This separation is no longer mandatory.

It raises funds by collecting deposits from businesses and consumers via checkable deposits, savings deposits, and time (or term) deposits. It makes loans to businesses and consumers. It

also buys corporate bonds and government bonds. Its primary liabilities are deposits and primary assets are loans and bonds.

Commercial banks engaged in the following activities:

-) processing of payments by way of telegraphic transfer, internet banking, or other means
-) issuing bank drafts and bank cheques
-) accepting money on term deposit
-) lending money by overdraft, installment loan, or other means
-) providing documentary and standby letter of credit, guarantees, performance bonds, securities underwriting commitments and other forms of off balance sheet exposures
-) safekeeping of documents and other items in safe deposit boxes
-) currency exchange
-) sale, distribution or brokerage, with or without advice, of insurance, unit trusts and similar financial products as a “financial supermarket”.

2.2 Development

Banks have influenced economies and politics for centuries. Historically, the primary purpose of a bank was to provide loans to trading companies. Banks provided funds to allow businesses to purchase inventory, and collected those funds back with interest when the goods were sold. For centuries, the banking industry dealt only with businesses, not consumers. Banking services have expanded to include services directed at individuals, and risk in these much smaller transactions are pooled.

The name bank derives from the Italian word banco "desk/bench", used during the Renaissance by Florentine bankers, who used to make their transactions above a desk covered by a green tablecloth. However, traces of banking activity can found even in ancient times.

In fact, the word traces its origins back to the Ancient Roman Empire, where moneylenders would set up their stalls in the middle of enclosed courtyards called macella on a long bench called a bancu, from which the words banco and bank are derived. As a moneychanger, the

merchant at the bancu did not so much invest money as merely convert the foreign currency into the only legal tender in Rome- that of the Imperial Mint.

Nepal's banking history had begun with the establishment of Nepal Bank Ltd. in 1937. Nepal Bank Ltd. was the first commercial bank with 51% government equity and 49% owned by general public. It was established under the special banking Act 1936 having elementary functions of a commercial bank. Because of the non-existence of a central bank in the country, the commercial bank had to act as its own central bank, and keep enough resources in hand for meeting emergencies.

Later on, the central bank was established, with an objective of supervising, protecting and directing the function of commercial banking activities. Rastriya banijya Bank came into existence in 1966, fully government ownership with the authorized capital of Rs. 10 million and paid up capital of Rs. 2.5million.

Similarly, with the establishment of a cooperative bank which was later on converted into Agricultural Development Bank in 1967 added more bricks in the construction of the banking sector of Nepal. Agricultural Development Bank was established as the main financing institution for small rural agro-industries and cooperative sectors. It has started depository function of a commercial bank from 1986 with similar deposit rates.

In 1980, the government introduced 'Financial Sector Reforms'. Nepal allowed the entry of foreign bank as joint venture with up to a maximum of 50% equity participation. Now there are altogether 25 commircial banks operating in Nepal to contribute in trade and commercial sector of the nation. "When government decided to establish banks with joint venture, two benefits were expected. First, that competition would force the domestic banks, Nepal Bank Ltd., and Rastriya Banijya Bank to improve their services and efficiency. Second, that introduction of new banking procedures, methods and technology would occur." (Madilin & Snock: 2005) The first joint venture bank was Nepal Arab Bank Ltd (NABIL). It was established in 1984.

After restoration of peace in Nepal the pace of establishing new banks has increased. Existing banks are also expanding their branch network. So now there is fierce competition in the commercial banking sector of Nepal. To overcome this competition the banks in Nepal are focussing more on retail and personal financing like: house loans, personal overdrafts, vehicles loans to extend their market. To increase the lending figures haphazard lending without accessing the risk associated properly is also occurring. This may keep the deposit holders in great risk.

2.3 Products of a Bank

Deposit

A deposit account is a account at a banking institution that allows money to be deposited and withdrawn by the account holder, with the transactions and resulting balance being recorded on the bank's books. Some banks charge a fee for this service, while others may pay the customer interest on the funds deposited.

Although restrictions placed on access depend upon the terms and conditions of the account and the provider, the account holder retains rights to have their funds repaid on demand. The customer may or may not be able to pay the funds in the account by [cheque](#), internet banking or other channels depending on those provided by the bank and offered or activated in respect of the account.

The banking terms "deposit" and "withdrawal" tend to obscure the economic substance and legal essence of transactions in a deposit account. From a legal and financial accounting standpoint, the term deposit is used by the banking industry in financial statements to describe the liability owed by the bank to its depositor, and not the funds (whether cash or checks) themselves, which are shown an asset of the bank. For example, a depositor opening a checking account at a bank in Nepal with NPR 100 in currency surrenders legal title to the NPR 100 in cash, which becomes an asset of the bank. On the bank's books, the bank debits its "currency and coin on hand" account for the NPR 100 in cash, and credits a liability account (called a "demand deposit" account, "checking" account, etc.) for an equal amount. In the financial statements of the bank, on the balance sheet, the NPR 100 in currency would be

shown as an asset of the bank on the left side of the balance sheet, and the deposit account would be shown as a liability owed by the bank to its customer, on the right side of the balance sheet. The bank's financial statement reflects the economic substance of the transaction -- which is the bank has actually borrowed NPR 100 from its depositor and has contractually obliged itself to repay the customer according to the terms of the demand deposit account agreement. To offset this deposit liability, the bank now owns the actual, physical funds deposited, and shows those funds as an asset of the bank.

Typically, an account provider will not hold the entire sum in reserve, but will loan the money at interest to other clients. It is this process which allows providers to pay out interest on deposits.

By transferring the ownership of deposits from one party to another, they can replace physical cash as a method of payment. In fact, deposits account for most of the "money supply" in use today. For example, if a bank in the Nepal makes a loan to a customer by "depositing" the loan proceeds in the customer's checking account, the bank typically records this event by debiting an asset account on the bank's books (called loans receivable or some similar name) and credits the deposit liability or checking account of the customer on the bank's books. From an economic standpoint, the bank has essentially created "economic money". The customer's checking account balance has no "rupee bills" in it, as a demand deposit account is simply a liability owed by the bank to its customer. In this way, commercial banks are allowed to increase the money supply.

Types of deposit account

-) Demand account
-) Savings deposit
-) Time deposit

Demand Accounts

A Demand account is a deposit account held at a bank or other financial institution, for the purpose of securely and quickly providing frequent access to funds on demand, through a

variety of different channels. Because money is available on demand these accounts are also referred to as demand accounts or demand deposit accounts.

These accounts are meant neither for the purpose of earning interest nor for the purpose of savings, but for convenience of the business or personal client; hence they tend not to bear interest. Instead, a customer can deposit or withdraw any amount of money any number of times. In Nepal, such types of accounts are popular as Current Accounts. For a bank such types of accounts are much preferable as they provide cost free funding for them.

Savings Accounts

Saving accounts pay interest to the depositors, but have no specific maturity date on which the funds need to be withdrawn or reinvested. Any amount can be withdrawn from a saving account up to the amount deposited. Under normal circumstances, customers can withdraw their money from a saving account simply by presenting cheques drawn to the bank. Withdrawals can also be made using their automated teller machine (ATM). Savings accounts are highly liquid. They are different from demand accounts, however, there is limit on amount in cheques and frequency of withdrawals. (Singh, 2063: 170).

The deposit carries low interest rate. It is designed to attract funds from customers, who wish to have security of their fund, have liquidity convenience and also wants to earn some interest on funds deposited.

Legally, a bank can insist on receiving prior notice of a planned withdrawal from saving deposit. (Singh, 2063:170).

Now a day, in Nepal the Saving deposit has all the features of demand deposit and also earns some interest. Almost all the banks now allow unlimited withdrawal also on the Savings accounts. They represent low cost fund for the banks.

Time deposit

A time deposit (also known as a term deposit or fixed deposit) is a money deposit at a banking institution that cannot be withdrawn for a certain "term" or period of time. When the term is over it can be withdrawn or it can be held for another term. Generally speaking, the longer the term the better the yield on the money. A certificate of deposit also is a time-deposit product.

The opposite is a Demand deposit or a sight deposit which can be withdrawn at any time, without any notice or penalty; e.g. money deposited in a checking account or savings account in a bank. These accounts represent high cost deposit.

Loans

The banks extend fund to the ones who need it in form of loans. The borrower initially receives an amount of money from the lender, to be paid back, usually but not always in regular installments, to the lender. In addition to the principal, the lending institution generally charges the borrower a fee, referred to as interest on the debt, for the privilege of using fund. The lender acts merely as an intermediary between the borrower and the party providing the goods or services that the borrower obtains with her loan money.

Agency

Banks also act as agent for their customers. They provide documentary and standby letter of credit, guarantees, securities underwriting commitments and other forms of off balance sheet exposures.

Remittance

Banks also provide services of remitting funds from one place to another. Previously these functions are mainly done via Bank Drafts, and Travellers Cheques. But now a days these medium are replaced by the electronic fund transfer. Most of the banks today in Nepal have ABBS (Any Branch Banking System) hence remitting funds from the one branch of a bank to another branch of the same banks has become very easier. Also most of the banks now have their own online remittance service for remitting funds from Middle East Countries to the country.

2.4 Assets of a bank

Loans and Advances

This is the major assets of a bank commanding higher proportion of total assets of any bank. This is also a primary function of bank. Primarily, banks are there to accept deposit and to advance credit. Legally, a loan is a contractual promise between two parties where one party, the creditor, agrees to provide a sum of money to a debtor, who promises to return the money to the creditor either in one lump sum or in parts over a fixed period in time. In addition to the principal, the lending institution generally charges the borrower a fee, referred to as interest on the debt, for the privilege of using this newly-created money. This interest is the major source of income for any bank, which covers interest to be paid to deposit holders and other operational costs like staff salary, rent, utility bills, stationaries etc. Where there is lending there always is risk of default. In finance, default occurs when a debtor has not met its legal obligations according to the debt contract, e.g. it has not made a scheduled payment, or has violated a loan covenant (condition) of the debt contract. It is the failure to pay back a loan. Default may occur if the debtor is either unwilling or unable to pay their debt.

Investment

In finance, investment is the buying securities or other monetary or paper (financial) assets in the money markets or capital markets, or in fairly liquid real assets, such as gold or real estate, or collectibles. Types of financial investments include shares, other equity investment, and bonds (including bonds denominated in foreign currencies). These financial assets are then expected to provide income or positive future cash flows, and may increase or decrease in value giving the investor capital gains or losses.

Banks also invest some of their fund in the government bonds, bonds and shares of other companies in order to manage liquidity and also earn some return on the fund. This is comes under the Investment heading in their balance-sheet.

Fixed Assets

These are items of value which the organisation has bought and will use for an extended period of time; fixed assets normally include items such as land and buildings, motor vehicles, furniture, office equipment, computers, fixtures and fittings, and plant and machinery. Fixed Assets are items of property, plant and equipment engaged by a business entity in the generation and expansion of revenue. According to International Accounting Standard (IAS) 16, Fixed Assets are assets whose future economic benefit is probable to flow into the entity, whose cost can be measured reliably. The cost of a fixed asset is its purchase price, including import duties and other deductible trade discounts and rebates. In addition, cost attributable to bringing and installing the asset in its needed location and the initial estimate of dismantling and removing the item if they are eventually no longer needed on the location.

Non Banking Asset

When a loan defaults, banks may have to take possession of a certain asset charged in its favour on account of the failure of a debtor to repay the loan in time by settling the loan. This is shown in the bank's balance-sheet as Non Banking Asset (NBA). NBA is booked when the collateralized asset can't be sold on auction. While booking NBA, NBA account is debited and loan account is credited hence settling the NPA loan. However, banks have to dispose off the asset as early as possible. In the year of acquisition of asset provision of 25% should be provided, next year it is increased to 50%, next year to 75% and the following year to 100%.

2.4.1 Cash & Equivalent

2.4.2 Other Assets

These include stationeries, accrued interest, sundry debtors, receivables, staff loans, cash in transit etc.

2.5 Loans and Advances

Banks extend various types of loans and advances. The forms of advances can be broadly classified into following categories:

2.5.1 Overdraft/Cash Credit

In this type of facility a credit limit is given to the borrower. A credit limit is the maximum amount of credit that a bank will extend to a borrower. This limit is based on a variety of factors ranging from an individual's ability to make interest payments, an organization's cash flow and/or ability to repay the principal, need of the borrower to the credit standards employed by the lender. A credit limit is also based on the borrower's recoverable assets in the event of default. There is no restriction on deposit and withdrawal of funds up to the credit limit and interest is charged only on the amount utilized. Interest is recovered on quarterly basis. Such line of credit is extended initially for a year but renewable for further period. This type of facility is generally extended to businesses for meeting their working capital need.

2.5.2 Demand Loan

These types of facility has no specific maturity date, but payable at any time. But for convenience in practice it is generally extended for period ranging from 3 months to 3 years. Only interest is paid until the principal is paid off, or until the lender demands repayment of principal. The borrower may, however, pay off the loan early, without incurring a prepayment penalty.

2.5.3 Trust Receipt Loans

These types of loans are generally extended against import documents like bills and letter of credit. When any borrower import some merchandise via Letter of Credit, then these documents are retired by booking the Trust Receipt Loans. As these types of facilities can be closely monitored they bear lower interest rate than Cash Credit/Overdraft accounts as they are considered comparatively safe. These types of loans are extended for maximum 90 days, as directed by Nepal Rastra Bank (NRB).

2.5.4 Term Loans

These are the types of loans that have maturity period more than one year. These types of loans are generally extended for acquisition of fixed assets like Plant & Machinery, Land & Building, Vehicles etc. The loan is repayable in fixed installments and repaid amount can't be

withdrawn again. The non payment of installment is considered serious. These types of loans are repaid from the Cash Accruals of the business but not from the Sales Revenue.

2.6 Retail and Corporate Lending

During the period of Maoist Insurgency the investment climate of the country deteriorated dramatically. There was no place to lend as no industry were performing satisfactory. In this scenario the banks diverted to retail lending for their survival. Retail lending can be classified as personal finance and financing small businesses. This avenue helped banks to survive in the era of conflict and now standing as major venture of banks. Housing Loans, Vehicle Loans, Education Loans, Personal Overdrafts etc are some examples of it. These loans also helped banks to diversify their risks. Now a days these types of loans constitutes 20-30% of total lending of banks and banks are eager to increase this ratio.

Corporate lending refers to the loans extended to the businesses. Project financing, working capital financing, Letters of Credit, Trust Receipts, Export Credits, Documentary bills purchase etc all are done in corporate lending.

2.7 Introduction to Non Performing Assets (NPA)

Non Performing Asset means an asset or account of borrower, which has been classified by a bank or financial institution as sub-standard, doubtful or loss asset, in accordance with the directions or guidelines relating to asset classification issued by Nepal Rastra Bank.

2.7.1 Classification of Loans & Advances

Pass

All Loans & Advances the principal of which are not past due or past due for a period up to three months are included in this category. (Unified NRB Directives 2008, R. Bajracharya & Co, Chapter II, Page 1) The banks should make a loan loss provisioning of minimum 1% on outstanding loan for this category of loan.

Substandard

All loans and advances the principal of which are past due for a period of more than 3 months and up to 6 months are included in this category. (Unified NRB Directives 2008, R.

Bajracharya & Co, Chapter II, Page 1) The banks should make a loan loss provisioning of minimum 25% on outstanding loan for this category of loan.

Doubtful

All loans and advances the principal of which are past due for a period of more than 6 months and up to 12 months (1 year) are included in this category. (Unified NRB Directives 2008, R. Bajracharya & Co, Chapter II, Page 1) The banks should make a loan loss provisioning of minimum 50% on outstanding loan for this category of loan.

Loss

All loans and advances the principal of which are past due for a period of more than 1 year are included in this category. (Unified NRB Directives 2008, R. Bajracharya & Co, Chapter II, Page 1) The banks should make a loan loss provisioning of 100% on outstanding loan for this category of loan.

Performing Loan means Pass loans and Non-Performing Loans means Substandard, Doubtful or Loss loans. (Unified NRB Directives 2008, R. Bajracharya & Co, Chapter II, Page 1)

Loan Rescheduling and Restructuring

When the loan becomes NPA due to factors beyond control of the borrower and the borrower is not a willful defaulter and the borrower wants to repay loan according to his capacity then the loan can be rescheduled or restructured. The term “reschedule” means process of extending repayment period and the term ”restructure” means process of changing the nature or conditions of loan/facility, adding or deleting of conditions and change the limit. (Unified NRB Directives 2008, R. Bajracharya & Co, Chapter II, Page 5) The banks should make a loan loss provisioning of minimum 12.5% on outstanding loan for this category of loan

2.8 Overdue and Interest Suspense

The loan or installment of loan which is not paid within its due date is called overdue loan. Suppose Housing Loan borrower has to pay monthly installment of Rs 20,000 at the end of each month, if the borrower fails to pay the same installment by the month end then it becomes overdue. If he subsequently fails to pay his installments then the loan becomes

overdue for 2 months, 3 months as so on. The loans accounts which comes in this list is the early sign of sickness of the account.

In case of TR loans and Demand Loans if the loan amount (principal+interest) is not paid within due date then it becomes overdue. For instance, a TR loan is generally granted for 90 days, if A company is granted TR loan on 1 Jan then it must pay it back by 31 March. If not paid within 31 March then the TR becomes overdue. We can also do aging for measuring the seriousness of the problem.

The revolving Credit Account or Line of Credit becomes overdue when the loan is not repaid, or renewed within expiry date or interest of the account is overdue. These overdue accounts should be classified as per the NRB norms.

More than this the early sign of the sickness is shown by the Interest Suspense. Now a days interest income is taken on Cash basis and interest should be recovered on quarterly basis as per Nepali calendar as per NRB norms. If the interest is not realized within the last day of quarter itself then the amount goes to Interest Suspense and can't be taken as income. So, monitoring of this account is crucial both from point of view of curbing NPA and generation of income.

2.9 Operating Expenses

An operating expense is an on-going cost for running a business. Its counterpart, a capital expenditure, is the cost of developing or providing non-consumable parts for the product or system. For example, the purchase of a photocopier is the Capital Expenditure, and the annual paper and toner cost is the operating expenses. For larger systems like businesses, operating expenses also include the cost of workers and facility expenses such as rent and utilities. On an income statement, "operating expenses" is the sum of a business's operating expenses for a period of time, such as a month or year.

For the commercial banks in Nepal operating expenses includes staff expenses, other operating expenses which includes rent, utility bills, insurance, stationary and periodicals, repair and maintenance etc and exchange fluctuation losses.

2.10 Interest Spread

This is the difference in yield on advances and cost of deposit. This is the gross margin for commercial banks. This ratio determines the profitability of the banks. Higher the spread higher will be the income other things remaining constant. For example if a bank earns on average 9% return on its advances and has to pay 4% interest on its deposit. Then the interest spread of the bank is 5% which must cover all the cost of the bank and provide profit.

2.11 Net Interest Income

The net interest income is the gap between the total interest income and total interest expenses. This is yielded by subtracting total interest expenses from total interest income. It is often called interest margin. It is usually a key determinant for bank profitability. (Singh, 2063:121).

2.12 Capital Adequacy

This denotes the risk management and risk absorbing capacity of the bank. There must be enough equity capital with the bank to take the risky ventures. It can't play with the fund of deposit holders. These measures also affect the profitability of the banks, which induces banks to invest in less risky ventures.

Banks must maintain capital fund on the basis of amount of assets held and riskiness of the assets held. They must maintain certain percentage of capital fund of the total risk weighted exposure. Risk weight is assigned according to the riskiness of the exposure. For example risk weight of loan against residential property is lower than risk weight against commercial property. So with the same amount of capital banks can lend lower amount against commercial property vis-à-vis against residential property.

Till now Nepalese banks were adopting simple capital adequacy norms based on weighted risk weighted exposure. But from FY 2007/08 Basel II capital adequate norms is implemented.

2.12.1 Basel II Capital Adequacy framework

Prior to 1988, there was no uniform international regulatory standard for setting bank capital requirements. In 1988, the Basel Committee on Banking Supervision (BCBS) developed the Capital Accord, which is known as Basel I, to align the capital adequacy requirements applicable especially to banks in G-10 countries. Basel I introduced two key concepts. First, it defined what banks could hold as capital, as well as designating capital as Tier 1 or Tier 2 according to its loss absorbing or creditor-protecting characteristics. The second key concept introduced in Basel I was that capital should be held by banks in relation to the risks that they face. The major risks faced by banks relate to the assets held on balance sheet. Thus, Basel I calculated banks' minimum capital requirements as a percentage of assets, which are adjusted in accordance to their riskiness and assigning risk weights to assets. Higher weights are assigned to riskier assets such as corporate loans, and lower weights are assigned to less risky assets, such as exposures to government.

The BCBS released the "International Convergence of Capital Measurements and Capital Standards: Revised Framework", popularly known as Basel II, on June 26, 2004. This framework was updated in November 2005 and a comprehensive version of the framework was issued in June 2006. Basel II builds significantly on Basel I by increasing the sensitivity of capital to key bank risks. In addition, Basel II recognizes that banks can face a multitude of risks, ranging from the traditional risks associated with financial intermediation to the day-to-day risks of operating a business as well as the risks associated with the ups and downs of the local and international economies. As a result, the new framework more explicitly associates capital requirements with the particular categories of major risks that banks face.

The new capital framework also recognizes that large, usually internationally active banks have already put in place sophisticated approaches to risk measurement and management based on statistical inference rather than judgment alone. Thus, the framework allows banks,

under certain conditions, to use their own ‘internal’ models and techniques to measure the key risks that they face, the probability of loss, and the capital required to meet those losses. In developing the new framework, the Basel Committee wanted to incorporate many elements that help promote a sound and efficient financial system over and above the setting of minimum capital requirements. With this in mind, the Basel II framework incorporates three complementary ‘pillars’ that draw on the range of approaches to help ensure that banks are adequately capitalized in commensurate with their risk profile.

The Basel Committees on Banking Supervision's (BCBS) recommendations on capital accord are important guiding framework for the regulatory capital requirement to the banking industry all over the world and Nepal is no exception. Realizing the significance of capital for ensuring the safety and soundness of the banks and the banking system, at large, Nepal Rastra Bank (NRB) has developed and enforced capital adequacy requirement based on international practices with appropriate level of customization based on domestic state of market developments. The existing regulatory capital is largely based on the Basel committee's 1988 recommendations.

With a view of adopting the international best practices, NRB has already expressed its intention to adopt the Basel II framework, albeit in a simplified form. In line with the international development and thorough discussion with the stakeholders, evaluation and assessment of impact studies at various phases, this framework has been drafted. This framework provides the guidelines for the implementation of Basel II framework in Nepal. Reminiscent of the International convergence of capital measurements and capital standards, this framework also builds around three mutually reinforcing pillars, viz. minimum capital requirements, supervisory review process and disclosure requirements. (NRB, Capital Adequacy Framework 2008, 5-6)

Objective:

The main objective of this framework is to develop safe and sound financial system by way of sufficient amount of qualitative capital and risk management practices. This framework is intended to ensure that each commercial banks maintain a level of capital which

- is adequate to protect its depositors and creditors.
- is commensurate with the risk associated activities and profile of the commercial bank.
- Promotes public confidence in the banking system.
- (NRB, Capital Adequacy Framework 2008, 6)

Pre-Requisites

The effective implementation of this framework is dependent on various factors.

Some such pre-requisites are:

- i. Implementation of Basel Core Principles for effective Banking Supervision
- ii. Adoption of the sound practices for the management of Operational Risk
- iii. Formulation and adoption of comprehensive risk management policy
- iv. Adherence to high degree of corporate governance.

(NRB, Capital Adequacy Framework 2008, 6-7)

Approaches of Basel II

A major innovation of the Basel II is the introduction of distinct options for the calculation of three types of risk. For credit, operational and market risk, there are different approaches of increasing risk sensitivity to allow banks and supervisors to select the approach or approaches that they believe are most appropriate to the stage of development of bank’s operations and of the financial market infrastructure. The following table identifies primary approaches available by risk type.

Credit Risk	Operational Risk	Market Risk
Standardized Approach	Basic Indicator Approach	Standardized Approach
Foundation IRB Approach	Standardized Approach	Internal Model Approach
Advanced IRB Approach	Advances Measurement Approach (AMA)	Net Open Position

Currently, Nepal is following simplified Standardized Approach for Credit Risk, Basic Indicator Approach for Operational Risk and Net Open Position Approach for Market Risk. (NRB, Basel II FAQ 2008)

Basic characteristics of Basel II

- It captures the risk through its three pillar
 - a. Minimum Capital Requirement
 - b. Supervisory review process
 - c. Market discipline
- It addresses not only the credit & market risk but also the Operational risk.
- The risk is computed based on the actual risk profile of the counter part. It is not ad-hoc or general. Hence, the capital is truly risk based.

(NRB, Basel II FAQ 2008)

Tier I & Tier II capital

Capital that is fully paid up and having no fixed servicing or dividend costs attached to it and freely available to absorb losses quality as Tier I capital. Capital also needs to have a very high degree of permanence if it is to be treated as Tier I. Tier I capital is also subject to specified deductions from it. Tier I capital includes:

1. Paid Up Equity Capital
2. Irredeemable non-cumulative preference shares
3. Share Premium
4. Proposed Bonus Equity Share
5. Statutory General Reserve.
6. Retained Earnings available for distribution to shareholders.
7. Un-audited current year cumulative profit
8. Capital Redemption Reserves created in lieu of redeemable instruments.
9. Capital Adjustment reserves
10. Dividend Equalization Reserves.
11. Any other type of reserves notified by NRB from time to time for inclusion in Tier1 capital.

(NRB, Capital Adequacy Framework 2008, 9)

Tier II capital consists of

1. general loan loss provision
2. revaluation reserve

3. exchange equalization reserve
4. investments adjustment reserve
5. other reserves
6. Redeemable preference share and subordinated term debt.

Tier II capital is subject to the certain limitations and restrictions. (NRB, Basel II FAQ 2008).

Sum of Tier I and Tier II capital is Total Capital.

Rate of proposed capital requirement

1. Tier I capital of not less than 6% of total risk weighted exposure
2. Total Capital (Tier I+ Tier II) of not less than 10% of its total risk weighted exposure.

What is risk weighted exposure?

Risk weighted exposure is of maximum amount of risk attached to a portfolio or a transaction or underlying assets. It is the sum of risk weight for Credit Weight, Market Risk and Operational Risk. (NRB, Basel II FAQ 2008).

2.13 Risk

Risk is the probability that an investment's actual return will be different than expected. This includes the possibility of losing some or all of the original investment. Some regard a calculation of the standard deviation of the historical returns or average returns of a specific investment as providing some historical measure of risk. Financial risk may market-dependent, determined by numerous market factors, or operational, resulting from fraudulent behavior.

2.13.1 Sources of Risk

There are various sources of risk which sums up to a total risk of a project. Some of them are:

Interest Rate Risk

Interest Rate Risk is defined as the potential variability of return caused by change in the market interest rates. (Francis,1991:3).

Industry Risk

An industry may be viewed a group of companies that compete with each other to market a homogeneous product. Industry risk is that portion of an total risk caused by events that affect the products and firms that make up an industry. The stage of industry's life cycle, international tariffs and/or quotas on the products produced by an industry, product-or industry related taxes, industry-wide labour union problems, environmental restrictions, raw material availability, and similar factors interact and affect all the firms in an industry simultaneously. (Francis, 1991:9).

Benefit Shortfall (Demand Risk)

A benefit shortfall results from the actual benefits of a venture being lower than the projected, or estimated, benefits of that venture. If, for instance, a company is launching a new product or service and projected sales are Rs 4 million per year, whereas actual annual sales turn out to be only Rs 3million, then the benefit shortfall is said to be 25 percent. Sometimes the terms "demand shortfall" or "revenue shortfall" are used instead of benefit shortfall. Public and private enterprises alike fall victim to benefit shortfalls. Prudent planning of new ventures will include the risk of benefit shortfalls in risk assessment and risk management.

Legal Risk

This is the risk caused by governments change the law in a way that adversely affects a bank's position.

Operational Risk

An operational risk is a risk arising from execution of a company's business functions. As such, it is a very broad concept including e.g. fraud risks, legal risks, physical or environmental risks, etc. This is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Political Risk

Political Risk arises from the exploitation of a political weak group for the benefit of a politically strong group, with the efforts of various groups to improve their relative positions

increasing the variability of return from the affected assets. Regardless of whether the changes that cause political risk are sought by political or economic interests, the resulting variability of return is called political risk if it is accomplished through legislative, judicial, or administrative branches of the government. (Francis,1991:8).

This risk is caused by changes in environmental regulations, zoning requirements, fees, licenses, and most frequently taxes. The taxes may be property taxes, sales taxes, income taxes, or employment taxes.

Default Risk

This risk is the risk of non repayment of loan by the borrower. Due to various reasons the borrower may not be able or do not want to repay the loan it owed to the bank. The borrower may partly or wholly default the loan.

Management Risk

Though many top executives earn princely salaries, occupy luxurious office, and wield enormous power within their organization, they are mortal and capable of making a mistake or a poor decision. The risk failure due to the poor decision making of management or conflict within management or incompetence of management is Management Risk. Furthermore, errors made by business managers can harm those who invested in their firms. (Francis,1991:5).

2.13.2 Types of Risk

Systematic Risk

The systematic or undiversifiable risk is the portion of the total risk which arises due to market factors. The market factors affect to the whole market are the sources of the systematic risk. Because of the systematic nature; investors can not reduce the risk whatever efficient portfolio they hold. Thus this type of risk is also called un-diversifiable risk. This risk is market pervasive in nature.

Unsystematic Risk

Unsystematic risk or diversifiable risk is the portion of the total risk which is unexplained by overall market movements. It can be diversified away.

Events such as labour strikes, management errors inventions, advertising campaigns, shifts in consumer inventions, advertising campaigns, shifts in consumer taste and lawsuits cause systematic variability in the value of a market asset.

2.14 Diversification

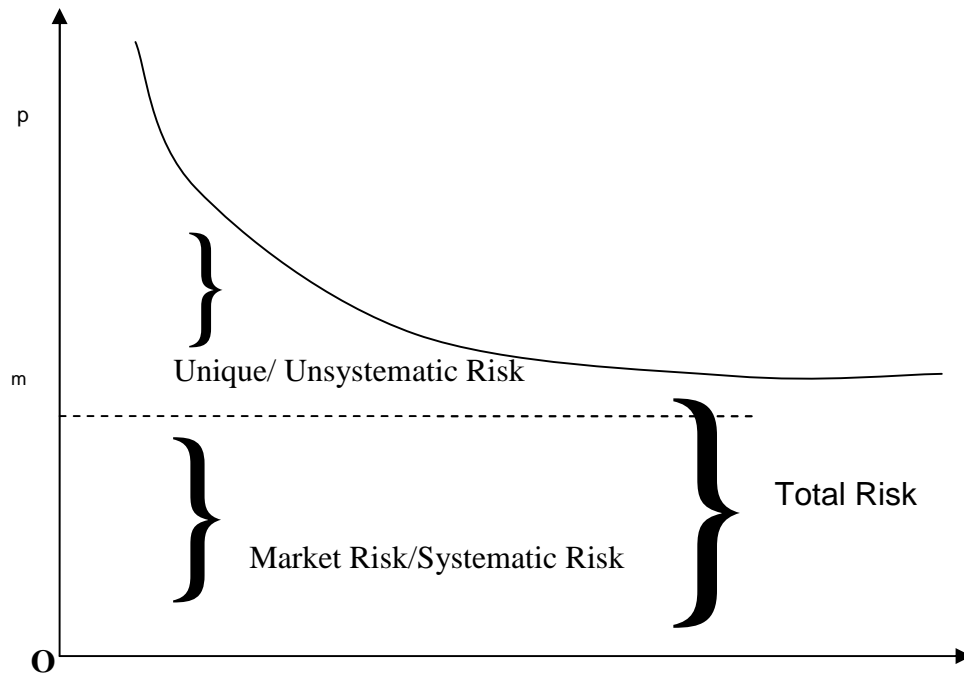
Diversification means not putting all the eggs in one basket. This idea is to spread risks across a number of assets or investments. It is less risky to spread your fund over 10 assets than over 2 assets. Diversification in is a risk management technique, related to hedging, that mixes a wide variety of investments within a portfolio. It is the spreading out investments to reduce risks. Because the fluctuations of a single security have less impact on a diverse portfolio, diversification minimizes the risk from any one investment.

A simple example of diversification is the following: On a particular island the entire economy consists of two companies: one that sells umbrellas and another that sells sunscreen. If a portfolio is completely invested in the company that sells umbrellas, it will have strong performance during the rainy season, but poor performance when the weather is sunny. The reverse occurs if the portfolio is only invested in the sunscreen company, the alternative investment: the portfolio will be high performance when the sun is out, but will tank when clouds roll in. To minimize the weather-dependent risk in the example portfolio, the investment should be split between the companies. With this diversified portfolio, returns are decent no matter the weather, rather than alternating between excellent and terrible.

There are three primary strategies used in improving diversification:

1. Spread the portfolio among multiple investment vehicles
2. Vary the risk in the projects.
3. Vary your exposure by industry, or by geography.

Figure 2.1
Benefit of Diversification



Source: Van Horne & Wacowicz, (2001:102).

Diversified portfolio has reduced risk for the same level of return or higher return for given level of risk. Hence, it is referred to as "The only free lunch in finance."

Banks diversify the risk in various ways, they lend to various types of borrowers. There is good mix of corporate and retail portfolio. Previously banks wanted to take exposure only in the corporate sector and reluctant to go in the retail segment due to high operational cost. But now due to increased competition, squeezed investment able corporate sector and also seeing risk spreading opportunity banks are going to retail segment and wanting to have more share of in the pie.

Banks are also spreading risk among various industry (sector), like trading, industry, service, agriculture and mining etc. Banks are also going into different geographical location. In this front banks having large branch network has upper hand. They are spreading their investment all over the country. This also helps them to spread risk over various industry and type of

loans. Birgunj has more of manufacturing units, Birtamod is a trading hub, Kathmandu Valley has more potential on personal lending, Bhairahawa is hub for cement and agro products and Nepalgunj is known for herbs trading. (Garg,2009).

2.15 Asset Selection Procedure (Pre sanction appraisal)

The lending process may vary according to size of loan, type of loan and the bank. However, there is certain lending process followed by most banks. The principal lending process has the following steps in general:

Loan Application

Loans arise from a direct request from a customer who approaches bank or marketing from bank's loan officers, marketing officers or other staff members. The applicant then fills a loan application form. The application form has all the information needed by bank or by regulatory body like name, address, contact no, purpose of loan, loan amount required, repayment programme, repayment source etc.

Loan Interview

Once a customer decides to request a loan, an interview with a loan usually follows right away, giving the customer the opportunity to explain his or her credit needs. That interview is particularly important because it provides an opportunity for the loan officer to assess the customer's character, need and sincerity of purpose. If the customer appears to lack sincerity in acknowledging the need to follow to the terms of the loan, this must be recorded as a strong factor evaluating against approval of the loan request. (Singh,2063: 201).

Site Visit

After loan interview bank officials usually makes a site visit. In the site visit physical address of borrower is verified, physical existence and activity of his business is verified. The officer also verifies the property offered as collateral its location, sale ability, access, infrastructure conditions etc. Site visit also helps to verify the accuracy of the information provided by the applicant. It also reveals the degree of customer's sincerity and character. (Singh,2063: 201).

Reference Check

The loan officer may contact other creditors, who have previously lent to this borrower to see what their experience had been. Did the customer fully adhere to previous loan agreements and keep satisfactory deposit balances? This payment record often reveals much about customer's character, sincerity of purpose, and sense of responsibility in making use of bank's loan. (Singh,2063:201). Reference Check can also be done from existing customers who knows the applicant and from other personal/official, formal/informal sources.

Documentation

If every thing up to this point is favorable, the customer is, then asked to submit several crucial documents to fully evaluate the loan request, including complete financial statements and other legal papers. (Singh,2063: 201).

2.15.1 Credit Analysis

Once all documents are on file the credit analysis division of the bank conducts a through financial analysis of them aimed at determining whether the customer needs financing, amount of financing needed, also whether he has sufficient cash flow and backup assets to repay the loan. The credit analysis division then prepares a brief summery and recommendation. This recommendation goes to the appropriate authority for approval. It is this stage where analysis of 5 C's of Credit are done and approaches taken by different banks are different for asset selection.

2.15.2 Five C's of Credit

Character

Character has to do with the probability that a customer will try to honor his or her obligations. This factor is of considerable importance because credit transaction implies a promise to pay. Will the creditor make an honest effort to pay the debts, or is this credit applicant likely to try to get away with something? Experienced credit managers frequently insist that character is the most important issue in credit evaluation. (Weston & Copeland,1987: 796).

Capacity

Capacity describes a subjective judgment of the customer's ability to pay. It is gauged by customers past business performance record, supplemented by physical observation of the plant or store and business methods. (Weston & Copeland,1987: 796). This is judged by Cash Flow, viability/feasibility, profitability, business risks, risk mitigates, interest/debt service coverage ratio etc. Different banks use different measures to measure the capacity. For example, in case of Housing Loan accounts, EBL seeks that the income of the customer is double of EMI to be paid, where as NSBL seeks sufficient uncommitted monthly income to serve the EMI, it wants uncommitted monthly income of at least 1.33 times of EMI payable.

Capital

Capital is measured by the general financial position of the firm as indicated by a financial ratio analysis, with special emphasis on the tangible net worth of the enterprise. (Weston & Copeland, 1987:796). It measured with borrowers margin in project, Debt/Equity ratio. Here also many banks differs in their practice. For working capital facility EBL wants to keep 50% margin on receivables, where as NSBL allows it on 25% margin. For project finance NSBL is comfortable with 20 % margin whereas EBL wants 30% minimum margin. However, both banks pursue for higher margin.

Collateral

Collateral is represented by assets generally land and building the customer offers as a pledge for security for the credit extended. (Weston & Copeland,1987:796). Here also different banks take different approach. In case of Nepal, audited financial are hard to trust so seeking collateral is normal practice, especially on small lendings and lending to new borrowers. Banks lend on the basis to Distress Value of the property. There is different practice among banks to arrive at distress value. Also there is difference in collateral coverage seeked. Also there is difference in importance kept on collateral coverage.

Conditions

Condition has to do with the impact of general economic trends on the firm and special developments in certain areas of the economy that may affect the customer's ability to meet the obligation. (Weston & Copeland,1987: 796).

After doing all these credit analysis there is internal system for sanction of the loan. Generally certain powers are delegated to dealing level or branch level, the loan sizes beyond that powers are forwarded to the appropriate authorities at the regional office and corporate office. At, corporate office the loan proposal is again reassessed by the Credit Control Cell and forwarded to appropriate authority. Different level of powers and influence are exercised also by Credit Control Cell at different banks. The loan is sanctioned as recommended or by reducing limits, adding extra covenants as deemed necessary by the authority.

2.16 Post Sanction Monitoring

After advancing loan to the customer, it seems to be the end of the process. But in fact, it is the beginning of the process. Credit Officers can't put the signed loan documents on the shelf and forget it. The account should be continuously monitored to ensure that the unit is running satisfactorily, the asset quality is not degrading, all the terms and conditions are fully complied with. They also must be continuously followed up for payment of principal and interest, timely renewal, insurance coverage expiry etc. This is the way to keep the asset portfolio healthy and performing and take remedial action in early sign of sickness. This is where the two large state owned banks failed and now facing huge burden of NPAs.

Post Sanction Monitoring is nearly the same for the most of the retail/personal loans among banks. For personal loans no much follow-up is required if the debt obligations are serviced timely and other necessary documents like insurance are submitted timely. Just periodic visit to the borrower for verification of the collateral security and income source is sufficient. This also helps to keeps good relation with the borrower. This makes sense to the borrower that the bank cares. This can be done on yearly or half yearly basis.

For the business loans accounts post sanction monitoring is crucial. For working capital finance, level of current assets should be continuously monitored to control drawing power, to ensure that fund is not being diverted or misused. Different banks set different conditions for this. NSBL seeks quarterly visit by its officials and quarterly submission of stocks and receivables position by the borrower. EBL seeks monthly visit of unit and monthly submission of stocks and receivables statement.

Early sign of sickness are shown by accounts by coming into interest suspense account and overdue TL installments. So these accounts are closely monitored, how closely and how efficiently these accounts are monitored are different in different banks.

2.17 Asset Liability Management

In banking, asset liability management is the practice of managing risks that arise due to mismatches between the assets and liabilities (debts and assets) of the bank. Banks face several risks such as the liquidity risk, interest rate risk, credit risk and operational risk. Asset Liability management (ALM) is a strategic management tool to manage interest rate risk and liquidity risk faced by banks, other financial services companies and corporations. Banks manage the risks of Asset liability mismatch by matching the assets and liabilities according to the maturity pattern or the matching the duration, by hedging and by securitization. Modern risk management now takes place from an integrated approach to enterprise risk management that reflects the fact that interest rate risk, credit risk, market risk, and liquidity risk are all interrelated. Increasing integrated risk management is done on a full mark to market basis rather than the accounting basis that was at the heart of the first interest rate sensitivity gap and duration calculations.

The importance of ALM management can be understood with following example:

Consider a bank that borrows Rs 100 at 3.00% for a year and lends the same money at 3.20% to a highly-rated borrower for 5 years. For simplicity, assume interest rates are annually compounded and all interest accumulates to the maturity of the respective obligations. The net transaction appears profitable—the bank is earning a 20 basis point spread—but it entails

considerable risk. At the end of a year, the bank will have to find new financing for the loan, which will have 4 more years before it matures. If interest rates have risen, the bank may have to pay a higher rate of interest on the new financing than the fixed 3.20 it is earning on its loan. Suppose, at the end of a year, an applicable 4-year interest rate is 6.00%. The bank is in serious trouble. It is going to be earning 3.20% on its loan and paying 6.00% on its financing. This is why the banks have to focus on ALM.

2.18 Definition of Ratios

NPA Percentage

The ratio of total Non Performing Asset (NPA) to gross loans of advances is NPA percentage. This is the crucial figure to any bank. This ratio shows the efficiency of all the credit related jobs like credit appraisal, credit monitoring. This ratio also shows the health of the bank. Lower the ratio better the position of bank. For lowering the ratio banks must curb their bad loan, this also enhances their earning capacity. The ratio is calculated by dividing total amount of NPA loans by Total Loans & Advances and expressed in percentage.

$$\text{NPA \%} = \frac{\text{Total NPA}}{\text{Gross Loans \& Advnaces}}$$

Credit Deposit Ratio

This ratio shows the utilization of the available resources. The deposit is the resource of the bank and Credit is the product. Credit is provided from the fund collected as deposit. So how much percentage of total resource is being utilized as earning asset. However, excessive amount of this ratio may cause liquidity and insolvency problem. So there must tradeoff between liquidity and utilization of available opportunity. The ratio in the range of 70 to 80% is considered healthy. The ratio is calculated by dividing Total amount of credit by total amount of deposit and express in percentage.

$$\text{C/D Ratio} = \frac{\text{Total Credit}}{\text{Total Deposit}}$$

Investment Deposit Ratio

A bank can't invest all of the funds collected as deposit in loans. It also must maintain some liquidity to meet contingent large withdrawal. If the bank can't pay its obligation to deposit holders in time negative message will go in the market. Banks, instead of putting all the liquidity as non earning cash banks invest in financial instrument which has high liquidity and also earn some return. This ratio shows the investment made from deposit amount. Excessive amount of this ratio may show inability to invest the funds in profitable manner. This ratio is calculated by dividing total amount of investment made by total deposit amount.

$$\text{I/D Ratio} = \frac{\text{Total Investment}}{\text{Total Deposit}}$$

Yield on Advances

This is the weighted percentage of interest earned p.a. on total loans and advances. This ratio shows the earning capacity of Loans & Advances. Higher the ratio, better the earning capacity of bank's assets. However, very high ratio also may be due to investment in risky assets earning higher return or investment in the assets having higher operating cost, like retail lending. The ratio is calculated by dividing interest income on loans and advances by average loans and advances in the year.

$$\text{Yield on Advances} = \frac{\text{Interest Income on Loans \& Advances}}{\text{Total Loans \& Advances}}$$

Yield on Investment

This ratio shows the earning capacity of Investment. Higher the ratio better the position of the bank. However, higher ratio also may be due to investment in risky and illiquid securities. The ratio is calculated by dividing interest income on investment by average investment in the year

$$\text{Yield on Investment} = \frac{\text{Interest Income on Investment}}{\text{Total Investment}}$$

Average Spread

Average Spread is weighed average on interest received on Loans & Advances and interest to be paid on deposit. It is the gross margin for banks. It is this margin which must cover all the expenses of the banks and earn profit. Higher the ratio better and position of the bank and shows better fund management of the bank Higher spread can be achieved either by increasing the yield on advances or decreasing the cost of deposit. The ratio is calculated by subtracting cost of deposit from the yield on advances.

$$\text{Average Spread} = \text{Yield on Advances} - \text{Cost of Deposit}$$

Operating Expenses/Total Assets

This ratio shows amount of operating expenses needed to manage a Rupee of Asset. The expenses like staff expenses, rent, utility bills, stationary etc are required to manage assets. Higher the amount of assets with a rupee of operating expenses, efficient the bank yielding more return. Lower the ratio higher will be the efficiency, other things held constant. The ratio is calculated by dividing total operating expenses amount by total assets of the bank.

Employee Expenses/Total Assets

This ratio shows efficiency of employees. It is amount of employee expenses needed to manage a Rupee of Asset. Lower the ratio higher will be the efficiency, other things held constant. The ratio is calculated by amount of employee expenses in a year by average amount of asset in the year.

Per Employee Business

This ratio shows efficiency of employees. It is a total business (total loans & advances plus total deposit) handled a employee. Higher the ratio better the efficiency of the employees and organization, other things held constant. This is calculated as:

$$\frac{(\text{Total Loans \& Advances} + \text{Total Deposit})}{\text{No. of employees}}$$

Net Interest Income to Total Operating Income

This ratio shows the dependence of banks on interest income to generate total income. Interest income is generated from the fund based facility, hence more risky. Lower the ratio safer is the bank. Lowering this ratio also means banks are relying more on other non fund based incomes like remittance, commission/fee and treasury income. This also shows the modernization of banks. Modern banks rely less and less on traditional Interest Income and more and more on other incomes like commission. The ratio is calculated by dividing net interest income by total operating income in the year.

$$= \frac{\text{Net Interest Income}}{\text{Total Operating Income}}$$

Fixed Asset/Total Loans & Advances

Fixed assets are required for the bank for its smooth operation. Fixed assets include vehicles, computers, furniture & fixtures, software etc. However, fixed assets of the firm don't earn income for the bank like other assets, loans and investment. So being a non-earning asset, it should be utilized efficiently. Lower the ratio higher will be the efficiency, other things held constant. The ratio is calculated by dividing total fixed assets by total loans and advances.

Capital Adequacy Ratio

Equity capital acts as a cushion for absorbing loss before it passes on to the deposit holders. Higher the capital higher the loss absorbing capacity of the bank so safer for deposit holders point of view. This also shows the strength of the bank. There are two types of capital

- i. Core Capital (Tier I Capital)
- ii. Supplementary Capital (Tier II Capital)

Sum of Tier I Capital and Tier II Capital is Total Capital or Capital Fund.

So there are three types of capital adequacy ratio

- i. Core Capital/Total Risk Weighted Asset
- ii. Supplementary Capital/Total Risk Weighted Asset
- iii. Capital Fund/Total Risk Weighted Asset

2.19 Review of Related Studies:

Mr. Ahmad, S. F. in his article titled “Credit appraisal techniques” in the Nov 12-18, 2001 issue of “Finance & Market”, Pakistan’s leading business magazine suggests that forward looking approach should be taken while making credit appraisals. The author has honors degree in Economics / Accounting and a MBA, both from British Universities. Subsequently he has gained over 20 years lending experience with Citibank and American Express Bank, in Pakistan and the Middle East. He has served on the Board of Directors of NDFC and Orix Investment Bank besides other Companies and is presently working as a Credit Advisor with Pakistan Kuwait Investment Company (Pvt.) Ltd. He suggests not to be overwhelmed by marketing or profit center reasons to book a loan but to take a balanced view when booking a loan, taking into account the risk reward aspects. Generally we remain optimistic during the upswing of the business cycle, but tend to forget to see how the borrower will during the downturn, which is a shortsighted approach. Furthermore we tend to place greater emphasis on financials, which are usually outdated; this is further exacerbated by the fact that a descriptive approach is usually taken, rather than an analytical approach, to the credit. Thus a forward looking approach should also be adopted, since the loan will be repaid primarily from future cash flows, not historic performance; however both can be used as good repayment indicators. He suggests analyzing followings carefully while making short term lending decision:

- Company Profile / Ownership
- Proposed Transaction
- Source of repayment
- Security
- Financial Analysis
- Management Evaluation
- Organization Culture, Corporate strategy
- Risk Areas
- Reference Checking

He focuses that lending officer should have reliance on identifiable cash flows for the first way out to repay the loan rather than the security itself.

Mr. Muniappan, G.P. (2000). the then Deputy Governor of India in his address at CII Banking Summit 2002 at Mumbai on April 1, 2002 suggests that “the efficiency of a bank is not

always reflected only by the size of its balance sheet but by the level of return on its assets. NPAs do not generate interest income for the banks, but at the same time banks are required to make provisions for such NPAs from their current profits.” He opines that NPAs are not the concern of only lenders but beneficiaries of the financial system as well, as bank credit is the catalyst to the economic growth of the country and any bottleneck in the smooth flow of credit. NPAs have a deleterious effect on the return on assets in several ways:

- They erode current profits through provisioning requirements
- They result in reduced interest income
- They require higher provisioning requirements affecting profits and accretion to capital funds and capacity to increase good quality risk assets in future,
- It has carrying cost on non earning assets and
- They limit recycling of funds, set in asset-liability mismatches, etc

So management of NPA is must for the banks this can be done via having no excess reliance on collateral while lending decision, exchange of credit information among banks, close monitoring of loan accounts especially the large ones.

It is common to for banks running after the same borrower/borrower groups and taking exposures beyond the prescribed exposure limits. It should be kept in mind that running after niche segment may be fine in the short run but is equally fraught with risk. Banks should rather manage within the appropriate exposure limits. A linkage to net owned funds also needs to be developed to control high leverages at borrower level.

Mr. Subdei, K. (2002). In an article published in *New Business Age*, titled “Growth in Major Commercial Banks” has compared between the first six month of fiscal year 2002-03, which shows that there has been noticeable increase in credit outflow by the commercial banks except of Nepal Bank Limited and Rastriya Banijya Bank (RBB). There has been increase in credit deposit (C/D) ratios of all commercial banks except of NBL and RBB in which case it has gone down by 10.41% and 5.99% respectively. It may be because their concentration was only on recovery of the huge Non Performing Assets (NPA). However, Mr. Subedi pointed out that no matter what the size of NPA is and the circumstances are, each bank has to collect

deposit in order to create a lending and to invest in the new ventures. Except RBB all banks have increment in deposit collection (New Business Age, 2002:47-48).

A decrease in Credit Deposit ratio signifies the presence of high liquidity and comparatively lower fund mobilization and vice versa. High liquidity and idle funds will result in lower profits. HBL has the highest growth of 18.47% in CD ratio over the last year. Similarly, NABIL, EBL and NSBL have recorded growth rates of 6.28%, 1.83% and 7.45% respectively in their CD ratio.

Shrestha M.K. (1995), with best of his efforts tried to provide conceptual glimpse as well as the realities surrounding the practices of finance companies in Nepal. He had stated that finance companies are the outcomes of the government's economic liberalization policy. In a situation when the existing financial institutions, especially commercial banks are unable to carry capital market activities and also not in a position to meet consumer needs for credit, it is timely to encourage the growth and operation of finance companies to meet the individual credit needs, undertake fee-based merchant banking functions. The analysis of their lending and investment activities shows only very few companies have aggressive investment strategy compared to most of them following conservative strategy. Major part of their lending is in consumer durable through hire purchase and then to housing loan. But, later on there has been a gradual shift in lending policy towards term loan that consists of business and industrial loan.

The interest rate on various time deposits proved to be attractive compared to commercial banks. They have also provided various alternatives to depositor in enabling them to deposit according to their needs and preference. The need to strengthen the institutionalization of finance companies is important to have meaningful relationship between finance companies and national development through shift of credit to the productive industrial sectors. At the same time, the service of reforms such as consolidation of finance companies and commercial banks, directing attention to venture capital financing, appropriate risk return trade-off by linking credit to timely repayment schedules, deposit insurance scheme, achieving expectation impacts of depositors and clients, avoiding imperfections, allow funds transfer, need of strong

supervision and monitoring form NRB, professional culture within finance companies, etc. All these are necessary to ensure better future performance of finance companies that have already been established and growing in Nepal

Sherstha S. (1995) in her study “Portfolio behavior of commercial banks in Nepal” has made remarkable efforts to examine various portfolio behavior of commercial banks in Nepal such as investment portfolio, liability portfolio, assets portfolio etc. According to her, commercial banks invest in government securities, national saving bonds, debentures and Company’s shares. On the basis of this study she found that the supply of bank credit was expected to depend on total deposit, lending rate, bank rate, lagged variables and the dummy variables. Similarly demand of banks credit was assumed to be affected by national income, lending rate, Treasury bill rate and other variables. The resources of commercial banks expected to be related with variables like total deposit, cash reserve requirement, bank rate and lending rate. On the basis of her study following conclusion has been made:

- The relation of banks portfolio variables as found to be best explained by log-linear equation.
- Demand of deposit for commercial banks in Nepal is positively affected by the GDP from non-agriculture and the deposit rate and lending rate of interest.
- The investment of commercial banks on government securities has been observed to be affected by total deposit; cash reserve requirements, Treasury bill rates and lending rates.
- The investment of commercial banks in shares and securities is normal and not found to have strategic decisions towards in investment in shares and securities.
- The loan loss ratio has been found to increase with low recovery of loan.

Unpublished Thesis

Very few thesis works have been done in the field of asset management of Nepalese banks. However, some relevant thesis works have been reviewed here. They are presented below:

Poudel K. (2002), in his thesis “Liquidity and Investment Position of Joint Venture Commercial Banks in Nepal” had made an attempt to evaluate liquidity and investment of joint venture banks special reference to Everest Bank Ltd and Nabil with the help of different

financial statistical tools like ratio analysis, correlation coefficient. He has conducted that liquidity position of EBL is comparatively better than Nabil. Growth rate of investment is higher in EBL than Nabil. He further found the banks do not have constant and consistent liquidity and investment policy. There is no standard and uniform rate or ratio for maintaining liquidity assets by the commercial bank at its own judgment may decide to maintain an appropriate level of liquid assets. So he has recommended exploring such investment and to increase its investment on shares and debenture. The bank should have laid down policy for timely review of portfolio and to maintain risk and return.

Joshi, R. (2003). On “Financial Analysis of NIBL” has found out that the analysis of the bank shows that the deposits have been increasing gradually during the study period i.e. (1996/97-2000/01). However the rate of increase was comparatively low in the year 1997/98 than in the year 2000/01. Total loans and advances have also been increasing. The total investment of banks has been increasing over the years, which is mainly due to bank strategy of safe lending.

As the loan and advances from the bank is increasing provision for loan loss has also been increasing. The bank has been holding adequate provision for losses over the years and the general loan loss provision was 4% in average.

In her study, she has recommended that the bank should focus more on non risky lending opportunities such as mortgages, housing loans and personal loans. It should carefully examine safety of principle as well as sources of repayment, capital structure, requirement and credit worthiness of a borrower for providing credits. In other words, credit manager should evaluate credit risk by considering well-known 5C's of credit viz, character, capacity, capital, collateral and conditions.

The financial analysis of NIBL has been analyzed and interpreted in this thesis. Analysis on terms of loan and advances is simply presented with comparison with previous year data only. On the loans and advances part, it has only simple comparison been done. Whether, the

loan classification and provisioning of loans, investment in priority and deprived sector loan investment regulation of NRB's directives has been followed or not has not been explained.

Khaniya, K. (2003), prepared the thesis on entitled "Investment Portfolio Analysis of Joint Venture Banks", five listed joint venture banks: NABIL, SCBNL, HBL, NBBL & EBL as samples. The main objective of the study was to study portfolio structure of NABIL banks Ltd. as compared to other joint venture banks. From her findings the investment portfolio structure of NABIL banks is almost similar to other joint venture banks investment portfolio. Hence, NABIL is following market trend in composing investment. Portfolio in various sectors as most of the investment is concentrated into loans & advances to private sector enterprises and securities investment is to purchase of government securities. The financial performance of NABIL banks is at moderate position to other joint venture banks, some of banks earn high and some banks earn low then NABIL banks.

Bhatta, D. (2003) prepared a thesis entitled "Portfolio Management of Listed Finance Companies in Nepal." The main objective of the study was to identify the present situation of portfolio management of finance Company in Nepal with the help of risk return and other relevant variables. This concludes that the most of finance companies have enough unsystematic risk (diversifiable risk) that means there is no effective portfolio management of listed finance companies. In the context of portfolio risk and return of Nepalese finance companies investor has to bear a higher portfolio risk to increase little bid of portfolio return.

The major problem to manage the portfolio is volatility of different securities in Nepalese capital market. For the selection of portfolio in Nepal technical analysis does not work effectively but fundamental analysis work effectively. In Nepalese stock market passive strategy is more suitable than active strategy to achieve better results. Corporate investor think portfolio evaluation is necessary but lack of specific knowledge, they depend on conventional method.

Kisi, S.R. (2006). Entitled "Portfolio Analysis of Commercial Banks in Nepal." Mr. Satya Ram Kisi has made an effort to examine the concept of investment and loans and advances

portfolio of commercial banks. In this study he has analyzed financial performance and portfolio of commercial banks with ratio analysis, investment portfolio analysis, loans and advances portfolio, risk and return analysis and trend analysis. He concluded that commercial banks are investing considerably higher amount of their fund in government securities. They are investing very low amount of their fund in shares of other companies i.e. less than 1% on average. The banks are providing very high amount of their funds on private sector i.e. more than 82% on average. Joint venture banks are giving second priority to the foreign bills purchase and discount. The beta coefficient of commercial banks has higher than 1, the commercial banks have some risky assets. The return of CBs lies above the security market line, which indicates that commercial banks stock, is under price and accepted. Through the trend of loans and investment and total deposits of CBs are increasing, the percentage change in each year is decreasing. The financial performance of CBs the joint venture banks are found to be performing better than the domestic Nepalese banks operating in the same environment.

Bhandari, D. R. (2007). in his thesis “A Study on Impact of Interest Rate Structure on Investment Portfolio of CBs of Nepal”. The main objective of his study was to see the impact of interest rate structure on investment portfolio of CBs by analyzing their deposit, loans and advances, interest spread investment and bills purchased and discounted. He has concluded that the deposit rates and lending rates of the CBs have been changing time to time. It is found that the deposit rates and lending rates slightly increased after liberalization of interest rates on august 31, 1989 after that these rates started to decline. CBs investment in government and other securities dramatically increased which is due to lack of proper utilization of collected resources in other sectors. He further found that commercial banks invest a small part of their resources in non fund based areas such as purchase and discount of bills. His recommendation was to attract more deposits, commercial banks offer more incentives and other low yields securities.

2.20 Research Gap

From the above study the researcher found the gap that all of the previous research on portfolio management has been based on showing the risk and return analysis of the stock of commercial banks, portfolio management of banks assets mainly of investments, but none of the researches are able to analyze of all round asset management focusing loans, NPA, efficiency of assets and riskiness of assets. Previous research was not able to show the real picture about how the banks are managing their assets, like earning power assets, asset quality, monitoring of assets, liquidity management and loss absorbing capacity. Not any research has been done on sampled banks. Also because of time period the previous research has become obsolete.

CHAPTER – III

RESEARCH METHODOLOGY

Research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objectives in view. (Kothari,1989:189). Research methodology describes the methods and process, which has been applied in the entire aspect of the study. So in this study Research Methodology has been paid due attention to achieve the objectives of the study.

3.1 Research Design

The research design is an organized approach and not a collection of loose, unrelated parts. It is an integrated system that guides the researcher in formulating, implementing and controlling the study. Useful research design can produce the answers to the proposed research questions. The research design is thus an integrated frame that guides the researcher in planning and executing the research works. This Study Follows Descriptive cum Exploratory designs.

3.2 Population and Sample

There are 27 commercial banks in Nepal till this date. Among these, this study intends to dissert the asset management practice of two major joint venture banks of Nepal, Nepal SBI Bank Limited and Everest Bank Limited. The two banks are chosen because of similarity between both of them. They both started operation in same time, both are the in joint ventures with two biggest state owned banks of India and management of both banks are being handled by the two largest state owned banks of India viz State Bank of India and Punjab National Bank.

3.3 Source of Data

The research study is mainly based on secondary data. The secondary data is gathered mainly from annual reports of the Banks, quarterly financial publications of concerned banks, web sites of both banks and web site of NRB.

3.4 Variable and Measures

According to research objectives, to analyze asset management practice of two banks. Loans & Advances being major asset of the banks mainly figures related to loans and advances will be collected. Various ratios NPA percentage, Credit Deposit ratio, Yield on Loans & Advances, Yield on Investment, capital adequacy, operating expenses to total assets, total income to total assets, staff expenses to total assets, per employee loans and advances, interest suspense to total L&A etc will be examined. Also some absolute figures and growth percentages is also measured. The following financial tools are described below:

NPA Percentage

This ratio shows the total NPA loan in the percentage of Gross Loans & Advances and calculated as.

$$\text{NPA \%} = \frac{\text{Total NPA}}{\text{Gross Loans \& Advnaces}} .$$

Credit Deposit Ratio

This ratio shows the utilization of the available resources. The deposit is the resource of the bank and Credit is the product. So how much percentage of total resource is being utilized as earning asset. However, excessive amount of this ratio may cause liquidity and insolvency problem

$$\text{C/D Ratio} = \frac{\text{Total Credit}}{\text{Total Deposit}}$$

Investment Deposit Ratio

This ratio shows the utilization of the liquidity position. Investment is done to maintain liquidity and also to earn some return on it. However, excessive amount of this ratio may show inability to invest the funds in profitable manner.

$$\text{I/D Ratio} = \frac{\text{Total Investment}}{\text{Total Deposit}}$$

Yield on Advances

This is the weighted percentage of interest earned p.a. on total loans and advances. This ratio shows the earning capacity of Loans & Advances.

$$\text{Yield on Advances} = \frac{\text{Interest Income on Loans \& Advances}}{\text{Total Loans \& Advances}}$$

Yield on Investment

This ratio shows the earning capacity of Investment.

$$\text{Yield on Investment} = \frac{\text{Interest Income on Investment}}{\text{Total Investment}}$$

Average Spread

Average Spread is weighed average on interest received on Loans & Advances and interest to be paid on deposit. It is the gross margin for banks. It is this margin which covers all the expenses of the banks. Higher the ratio better and position of the bank and shows better fund management of the bank

$$\text{Average Spread} = \frac{\text{Yield On Advances}}{\text{ZCost of Deposit}}$$

Operating Expenses/Total Assets

This ratio shows amount of operating expenses needed to manage a Rupee of Asset. Lower the ratio higher will be the efficiency, other things held constant.

Employee Expenses/Total Assets

This ratio shows efficiency of employees. It is amount of employee expenses needed to manage a Rupee of Asset. Lower the ratio higher will be the efficiency, other things held constant

Per Employee Business

This ratio shows efficiency of employees. It is a total business (total loans & advances plus total deposit) handled a employee. This is calculated as:

$$\frac{(\text{Total Loans \& Advances} + \text{Total Deposit})}{\text{No. of employees}}$$

Net Interest Income to Total Operating Income

This ratio shows the dependence of banks on interest income to generate total income. The ratio is calculated as:

$$\frac{\text{Net Interest Income}}{\text{Total Operating Income}}$$

Interest income is generated from the fund based facility, hence more risky. Lower the ratio safer is the bank. Lowering this ratio also means banks are relying more on other incomes like remittance, commission/fee and treasury income. This also shows the modernization of banks. Modern banks rely less and less on traditional Interest Income and more and more on other incomes like commission.

Fixed Asset/Total Loans & Advances

Fixed asset of the firm being non earning asset, it should be utilized efficiently. Lower the ratio higher will be the efficiency, other things held constant.

Capital Adequacy Ratio

This ratio shows the loss absorbing capacity of the banks. There are two types of capital

- iii. Core Capital (Tier I Capital)
- iv. Supplementary Capital (Tier II Capital)

Sum of Tier I Capital and Tier II Capital is Total Capital or Capital Fund.

So there are three types of capital adequacy ratio

- Core Capital/Total Risk Weighted Asset
- Supplementary Capital/Total Risk Weighted Asset
- Capital Fund/Total Risk Weighted Asset

3.5 Statistical Tools

The statistical tools are used are explained briefly as follows:

3.5.1 Simple Arithmetic Mean

Arithmetic mean or simply a mean of a set of observation is the sum of all observations divided by the number of observations. Arithmetic mean is also known as the arithmetic average.

3.5.2 Standard Deviations

The measurement of the scatter ness of the mass of figures in a series about an average is known as dispersion. The standard deviation measure the absolute dispersion. The greater the amount of dispersion indicate greater the standard deviation. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of the series. In this study, standard deviation is calculated for selected dependent and independent variables specifies in the models presented above.

3.5.3 Coefficient of Variation

The standard deviation as stated above is an absolute measure of dispersion. The corresponding relative measure is known as the coefficient of variation. It is used in such problems where we want to compare the variability of two or more than two series. The series for which the coefficient of variation is greater is said to be more variable or conversely less consistent, less stable or less homogeneous and vice versa. In this study coefficient of variation is used to analyze the variance of average key variables. The formula used for determining the coefficient of variation is as follows:

$$C.V = \frac{S.D}{\bar{X}}$$

3.6 Data Analysis

The collected data is categorized, tabulated, processed and analyzed different methods. Data are analyzed in comparison. To make the data more readable figures and charts are also used.

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Analysis of Ratios

A Relation between two figures is termed as a ratio. In other words the relationship between two accounting figures expressed in mathematical term is known as financial ratio. Ratio is always computed by dividing one item of relationship with the other. In other words ratio simply means one number expressed in terms of another.

Ratio analysis is a technique of analysis and interpretation of financial statement. To evaluate the performance of an organization by creating the ratios from the figures of different accounts included in the balance sheet and income statement is known as ratio analysis. It is very helpful for decision making. It is on the basis of information provided by the ratio analysis with the help of financial statement helps in decision making on any financial activity.

In this chapter, important financial ratios are analyzed to compare the asset management practice of Everest Bank Limited and Nepal SBI Bank Limited. On that basis the conclusion and recommendation will be drawn.

4.2 Gross Loans & Advances

Gross Loans & Advances is the total amount of loans and advances outstanding including bills purchase.

Table No 4.1
Gross Loans and Advances of EBL & NSBL

(Amount Rs in lacs)

Year	2003/04	2004/05	2005/06	2006/07	2007/08	Average	S.D	CV
EBL	60,958	79,000	101,362	140,827	188,364	114,102	45,712	40.06%
Growth %	20.72%	29.60%	28.31%	38.93%	33.76%	30.26%	6.05%	19.98%
NSBL	55,318	67,393	82,414	100,650	127,462	86,647	25,425	29.34%
Growth %	15.35%	21.83%	22.29%	22.13%	26.64%	21.56%	3.61%	16.69%

Source: Annual reports FY 2003/04 to 2007/08

Figure 4.1

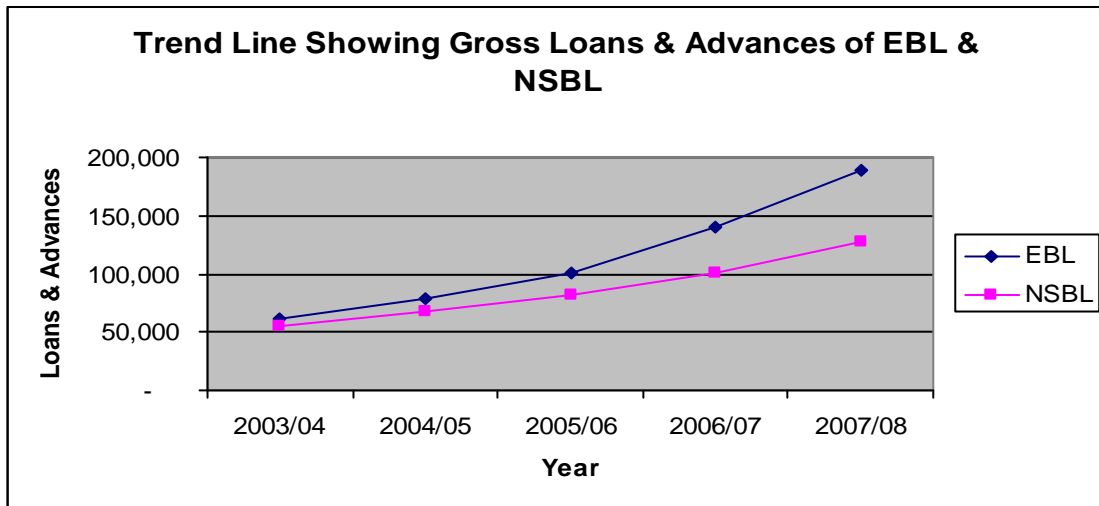


Table 4.1 and Figure 4.1 shows the gross amount of loans & advances of two banks on respective years. The above table shows that loans & advances of both banks are growing at growing rate. EBL grew rapidly till 2006/07 but in year 2007/08 the growth rate was bit slowed down, however, NSBL is growing at increasing rate slowly. Average growth rate of EBL during the study period is 30.26% and that of NSBL is 21.56%. Growth rate of NSBL dropped marginally in the year 2006/07 compared to previous year. Growth rate of EBL is far higher than growth rate of NSBL. In the year 2003/04 Loans & Advances figures of both

banks were nearly similar, however when we reached at year 2007/08 advances of EBL was nearly 50% higher than that of NSBL. This also can be explained by the rapid expansion of branch network by EBL. The same is presented in the following table of loans & advances, no of branches and business per branch table:

Table No 4.2
Loans & Advances, No of branches and business per branch

(Amount Rs in lacs)

Year	EBL			NSBL		
	Loans & Advances	No of branches	Loans & Advances per branch	Loans & Advances	No of branches	Loans & Advances per branch
2003/04	60,958	14	4,354.14	55,318	11	5,028.91
2004/05	79,000	16	4,937.50	67,393	12	5,616.08
2005/06	101,362	18	5,631.22	82,414	13	6,339.54
2006/07	140,827	21	6,706.05	100,650	15	6,710.00
2007/08	188,364	26	7,244.77	127,462	15	8,497.47

Source: Annual reports FY 2003/04 to 2007/08

Table 4.2 clearly shows the growth of Loans & Advances figures of EBL is attributed to the rapid branch expansion by the bank. The table clearly shows that NSBL lagged behind in branch expansion. Otherwise, per branch business of NSBL is consistently higher than EBL.

4.3 Percentage of Non Performing Assets to Total Loans & Advances

The following table (Table No 4.3) shows the NPA percentage of both banks for past five years.

Table No 4.3
NPA percentage of EBL & NSBL

Year	2003/04	2004/05	2005/06	2006/07	2007/08	Average	S.D.	C.V.
EBL	1.72%	1.63%	1.27%	0.80%	0.68%	1.22%	0.42%	34.55%
NSBL	6.25%	6.54%	6.13%	4.56%	3.83%	5.46%	1.07%	19.57%

Source: Annual reports FY 2003/04 to 2007/08

Table 4.3 shows that the NPA as a percentage of total credit of both banks is decreasing. The NPA figures of EBL is always and far lower than that of NSBL. In fact, EBL today has lowest percentage of NPA in Nepalese banking industry. Average NPA % of EBL during study period is 1.22% which is far lower than that of NSBL having 5.46%. However, during study period variability of NPA% of NSBL is lower than EBL shown by CV of 19.57% against 34.55% of EBL. NSBL has made considerable recovery in the year 2006/07. This decrease of NPA % can be attributable to various factors, actual recovery or the just increase of L&A figures. The following table (Table 4.4) showing NPA amount in Rs, growth percentage of NPA and growth percentage of Loans & Advances sheds some light on it.

Table No 4.4

Absolute amount of NPA, NPA growth percentage and Loans & Advances Growth Percentage

(Amount Rs in lacs)

Year	EBL			NSBL		
	NPA in Rs	Growth % of NPA	Growth % of Loans & Advances	NPA in Rs	Growth % of NPA	Growth % of Loans & Advances
2003/04	1,047	-5.85%	20.72%	3,458	-18.99%	15.35%
2004/05	1,288	23.02%	29.60%	4,410	27.53%	21.83%
2005/06	1,292	0.31%	28.31%	5,053	14.58%	22.29%
2006/07	1,131	-12.46%	38.93%	4,588	-9.22%	22.13%
2007/08	1,273	12.56%	33.76%	4,884	6.46%	26.64%

Source: Annual reports FY 2003/04 to 2007/08

Figure 4.2

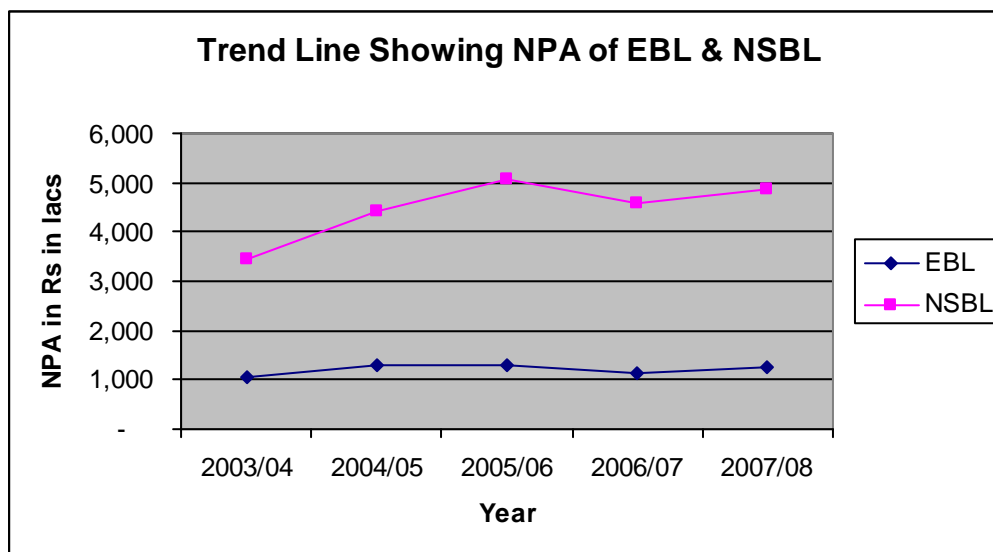


Table 4.4 shows better NPA recovery of both banks. There is only marginal amount of NPA growth compared to the growth in Loans & Advances. Exception being the year 2004/05. In this year NPA of both banks has increased significantly. In the year NPA of EBL has grown by 23.02% where total credit grew by 29.6%, nearly at the same rate. For NSBL NPA has grown by 27.53% where total credit has grown nearly 21.83%. Except the year 2004/05, all other years are highly satisfactory for the both banks. NPA is growing marginally compared to growth in credit. In fact, in year 2006/07, both banks have reduced the actual amount of NPA by 12.46% and 9.22% where credit grown by 38.93% and 22.13%. Showing some sure recovery.

4.3.1 Composition of NPA

Composition of NPA is breakdown of NPA figures into Substandard, Doubtful and Loss figures. As some banks have tendency to hide NPA by forcefully showing it in rescheduled/restructured heading. Though this figure do not formally fall in NPA, they are past NPAs and also have tendency to fall back in NPA so considering the figures may be helpful to see clear picture of NPA.

Table No 4.5
Composition of NPA and rescheduled/restructured Loans of EBL

(Amount Rs in lacs)

	Substandard	Doubtful	Loss	Restructured/ Rescheduled
2003/04	11,082,572 (10.58%)	40,494,733 (38.66%)	53,178,064 (50.76%)	- (0.00%)
2004/05	4,408,738 (3.42%)	1,977,471 (1.54%)	122,421,536 (95.04%)	318,076,527 (246.94%)
2005/06	10,669,326 (8.26%)	683,784 (0.53%)	117,882,680 (91.22%)	249,823,522 (193.31%)
2006/07	4,218,482 (3.73%)	2,353,289 (2.08%)	106,607,165 (94.19%)	218,884,136 (193.40%)
2007/08	6,306,745 (4.95%)	745,926 (0.59%)	120,257,697 (94.46%)	153,852,318 (120.85%)

Source: Annual reports FY 2003/04 to 2007/08

Figure 4.3

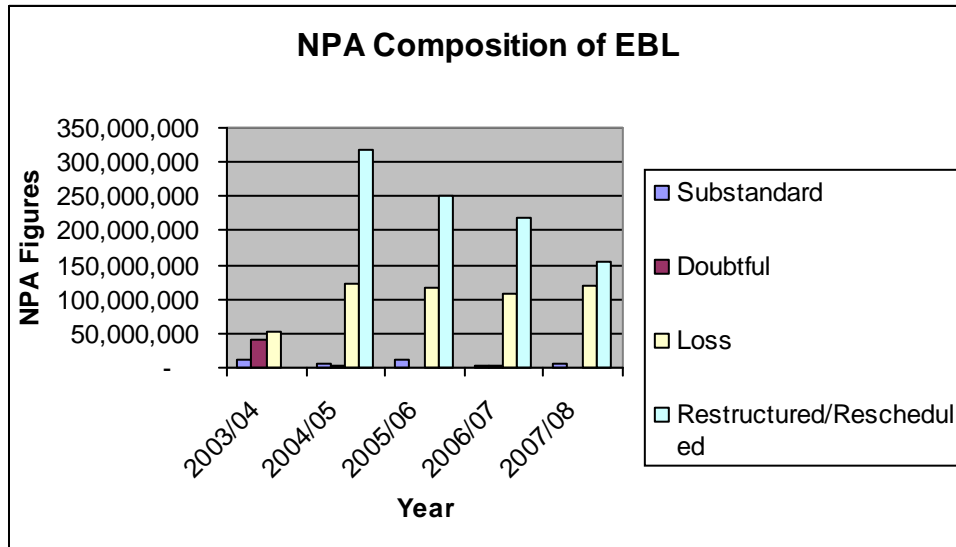


Table No 4.6

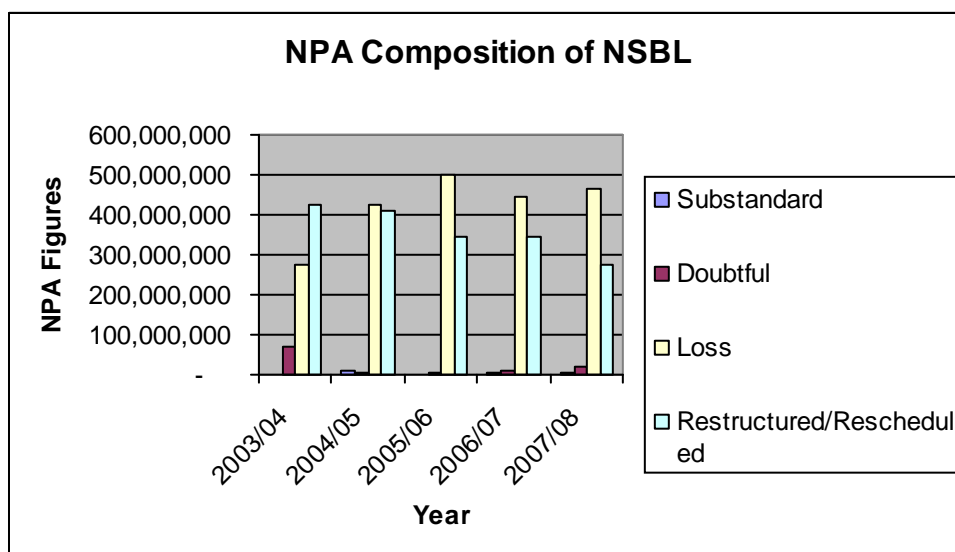
Composition of NPA and rescheduled/restructured Loans of NSBL

(Amount Rs in lacs)

	Substandard	Doubtful	Loss	Restructured/Rescheduled
2003/04	1,116,600 (0.32%)	69,303,360 (20.04%)	275,401,498 (79.64%)	423,421,920 (122.44%)
2004/05	11,912,170 (2.70%)	6,515,490 (1.48%)	422,589,350 (95.82%)	411,539,060 (93.32%)
2005/06	1,797,016 (0.36%)	3,842,595 (0.76%)	499,697,308 (98.88%)	342,821,915 (67.84%)
2006/07	3,284,812 (0.72%)	11,167,991 (2.43%)	444,302,938 (96.85%)	343,624,701 (74.90%)
2007/08	3,874,789 (0.79%)	21,626,680 (4.43%)	462,908,600 (94.78%)	276,747,296 (56.66%)

Source: Annual reports FY 2003/04 to 2007/08

Figure 4.4



Both banks have tendency of having higher percentage of NPA in Loss category in line of 90 plus percentage, both substandard & doubtful loans are very few. Also, there is considerable amount of Restructured/Rescheduled loan in proportion of total NPA. EBL has this proportion

even higher, it has higher amount of Loans Rescheduled/Restructured than total NPA. NSBL has restructured/reschedule category ranging from 56.66% to 122.44% of total NPA. NSBL has declining figure of restructured/rescheduled loan.

4.4 Credit Deposit Ratio

This ratio shows the utilization of the available resources. The deposit is the resource of the bank and Credit is the product. So how much percentage of total resource is being utilized as earning asset. Low ratio denote banks inability of invest and higher ratio may cause liquidity and insolvency problem and lower the ratio the bank is in better position in terms of liquidity. There is trade-off between earning, liquidity and readiness for coming opportunity. A ratio of 70% to 80% is considered healthy.

Table No 4.7

Credit Deposit Ratio of EBL & NSBL

Year	2003/04	2004/05	2005/06	2006/07	2007/08	Average	S.D.	C.V.
EBL	75.60%	78.20%	73.40%	77.40%	78.60%	76.64%	1.92%	2.51%
NSBL	76.85%	77.87%	69.32%	82.66%	88.32%	79.00%	6.32%	8.00%

Source: Annual reports FY 2003/04 to 2007/08

Figure 4.5

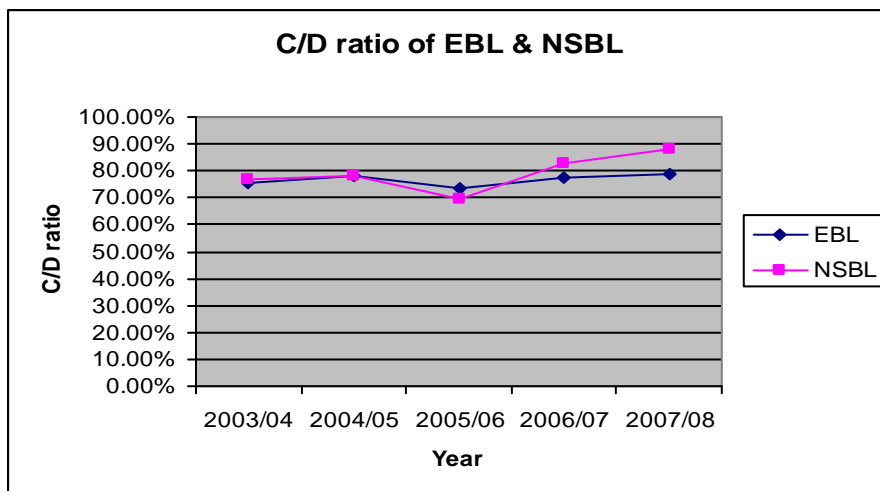


Table 4.7 shows that C/D ratios of both banks are increasing except for the year 2005/06, when the ratio of both banks dropped. EBL seems to be in a comparatively easier position in terms of liquidity with the ratio hovering around 70-80%. During the study period, the average CD ratio of EBL is 74.64% with a standard deviation of 1.92% and a coefficient of variation of 2.51%, the same of NSBL respectively being 79%, 6.32% and 8%. NSBL is in a tight position in terms of liquidity. It also has high variability as shown by a higher CV during the study period. The ratio of NSBL is constantly increasing and reached 88.32% in year 07/08. The bank may be in a tight position in terms of liquidity. It should focus more on increasing its deposit base. In fact, the bank has taken action on it. It has opened rural branches to focus on the deposit business.

4.5 Investment Deposit Ratio

This ratio shows the investment in liquid assets like government securities and other corporate shares out of total deposit. A higher ratio is better in terms of liquidity but also shows a bank's inability to invest in a profitable sector. Investment is done to maintain liquidity and also to earn some return on it.

Table No 4.8

Investment Deposit Ratio of EBL & NSBL

Year	2003/04	2004/05	2005/06	2006/07	2007/08	Average	S.D.	C.V.
EBL	31.44%	21.08%	30.44%	27.41%	21.11%	26.30%	4.45%	16.92%
NSBL	26.50%	30.13%	32.82%	23.24%	22.52%	27.04%	3.95%	14.62%

Source: Annual reports FY 2003/04 to 2007/08

Figure 4.6

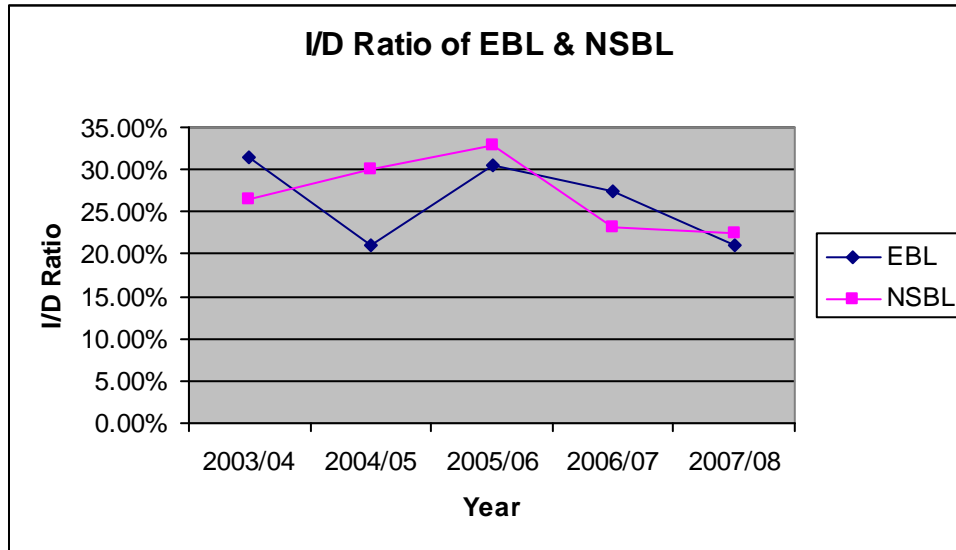


Table 4.8 shows that I/D ratio of both banks are hovering around 20-30%. During the study period average I/D ratio of EBL is 26.3% with standard deviation of 4.45% and coefficient of variation of 16.92%, the same of NSBL respectively being 27.4%, 3.95% and 14.62%. The average ratio NSBL is slightly higher during the study period, variability of ratio for NSBL is lower during the study period.

4.6 Yield on Advances

Yield on Advances is average rate of return earned on Loans & Advances. Higher ratio means investment in profitable sector and results higher profit. Banks should try to increase this ratio.

Table No 4.9

Yield on Advances of EBL & NSBL

Year	2003/04	2004/05	2005/06	2006/07	2007/08	Average	S.D.	C.V.
EBL	9.24%	8.02%	7.60%	6.87%	7.06%	7.76%	0.84%	10.88%
NSBL	8.10%	7.72%	7.38%	7.01%	6.75%	7.39%	0.48%	6.54%

Source: Annual reports FY 2003/04 to 2007/08

Figure 4.7

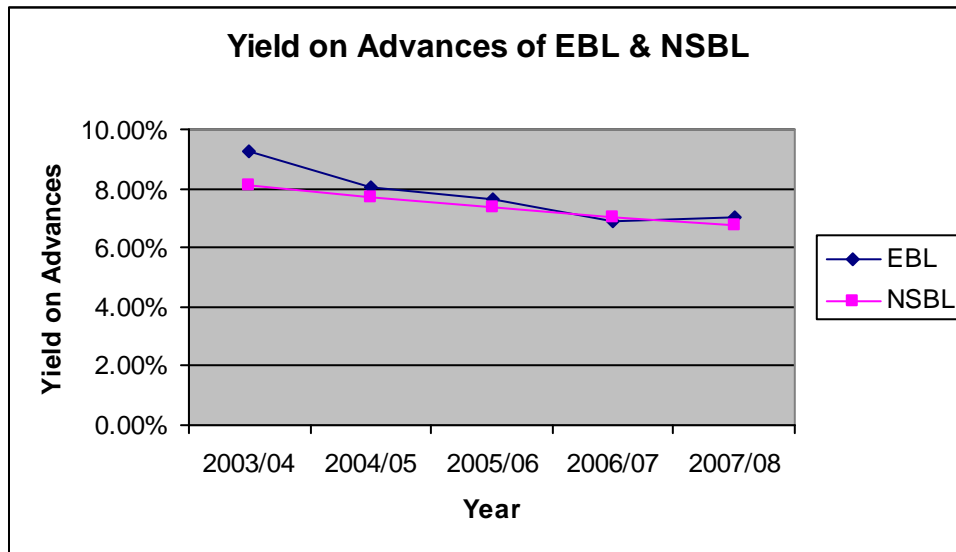


Table 4.9 clearly shows that Yield on Advances (YOA) of both banks are in declining trend. This is in tune with the declining interest rate over the period. YOA of EBL is consistently higher than that of NSBL. Only in the year 2006/07 yield of NSBL is higher than EBL. However, EBL has recovered on year 07/08 and YOA increased from 6.87% to 7.06%. Average YOA of EBL during study period is 7.76% and that of NSBL is 7.39%. EBL has higher variability in YOA shown by 10.88% CV against 6.54% of NSBL.

This may be that EBL has more focus on retail lending (personal & small sized) lending than that of NSBL where there is higher interest rate. On contradictory NSBL has higher chunk of corporate lending where the yield is lower. But this lower yield is offset by lower operating expenses to manage assets.

4.7 Yield on Investment

Yield on Investment is average rate of return earned on Investment. Higher ratio means investment in profitable sector and results higher profit. Banks should try to increase this ratio.

Table No 4.10

Yield on Investment of EBL & NSBL

Year	2003/04	2004/05	2005/06	2006/07	2007/08	Average	S.D.	C.V.
EBL	3.65%	3.66%	2.32%	2.69%	3.82%	3.23%	0.60%	18.74%
NSBL	2.03%	1.92%	2.53%	4.12%	3.02%	2.72%	0.80%	29.38%

Source: Annual reports FY 2003/04 to 2007/08

Average Yield on Investment of EBL during the study period of 3.23% with standard deviation of 0.6% and coefficient of variation of 18.74%. NSBL has average of 2.72%, with standard deviation of 0.8% and CV of 29.38%. Yield of EBL is higher than NSBL and it also has low variability.

4.8 Average Spread

Average Spread is weighed average on interest received on Loans & Advances and interest to be paid on deposit. It is the gross margin for banks. It is this margin which covers all the expenses of the banks. Higher the ratio better and position of the bank and shows better fund management of the bank.

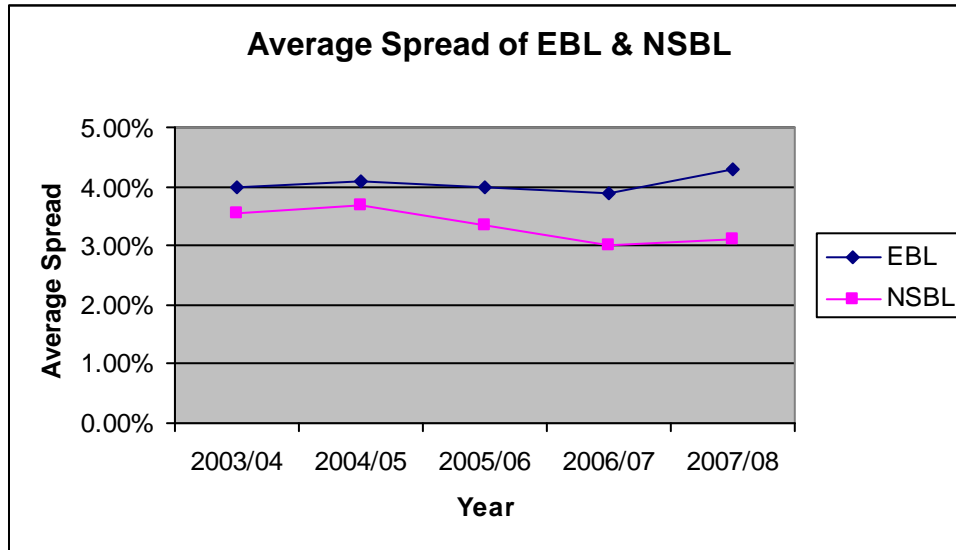
Table No 4.11

Average Spread of EBL & NSBL

Year	2003/04	2004/05	2005/06	2006/07	2007/08	Average	S.D.	C.V.
EBL	4.00%	4.10%	4.00%	3.90%	4.30%	4.06%	0.14%	3.34%
NSBL	3.55%	3.68%	3.33%	3.01%	3.11%	3.34%	0.25%	7.60%

Source: Annual reports FY 2003/04 to 2007/08

Figure 4.8



Spread of EBL is consistently higher than NSBL. During the study period average spread of EBL is 4.06% and that of NSBL is 3.34%, a far lower figure. This is both due to higher yield on advances and lower cost of deposit of EBL. This shows the better fund management by EBL. EBL also has lower variability of spread compared to NSBL.

4.9 Operating Expenses to Total Assets

This ratio shows the efficiency of the firm. It is the amount of operating expenses required to manage a rupee of Assets. Lower the ratio higher the efficiency of the bank.

Table No 4.12

Operating Expenses to Total Assets of EBL & NSBL

	2003/04	2004/05	2005/06	2006/07	2007/08	Average	S.D.	C.V.
EBL	1.59%	1.62%	1.34%	1.23%	1.44%	1.44%	0.15%	10.07%
NSBL	1.36%	1.29%	1.15%	1.25%	1.32%	1.27%	0.07%	5.69%

Source: Annual reports FY 2003/04 to 2007/08

Figure 4.9

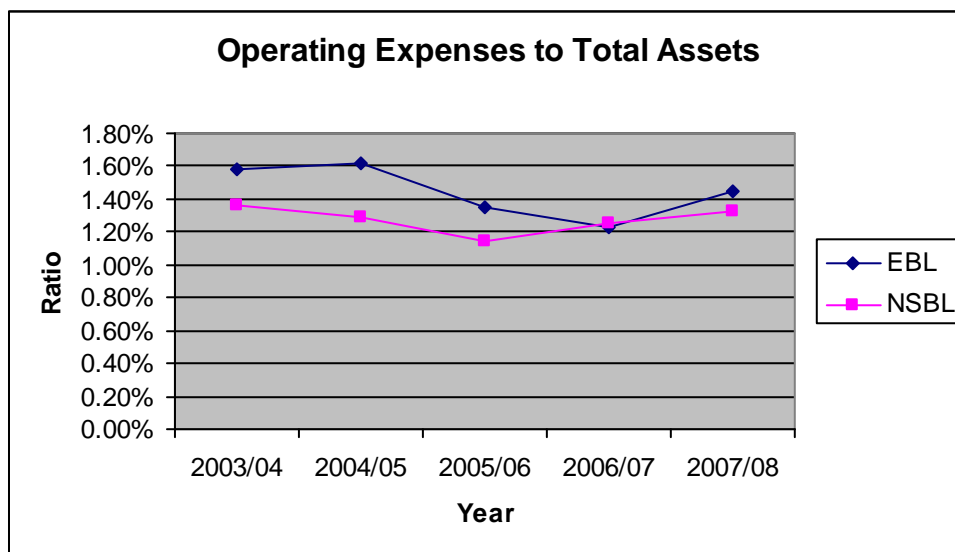


Table 4.12 clearly shows that NSBL is consistently efficient in this front than EBL. Average of EBL is 1.44% and of NSBL is 1.27%, showing higher efficiency of NSBL. NSBL also has lower variability shown by CV of 5.69% against 10.07% of EBL during the study period.

4.10 Employee Expenses to Total Assets

This ratio shows the efficiency of employees the firm. It is the amount of employee expenses required to manage a rupee of Assets. Lower the ratio higher the efficiency of the bank or this also may be lower payment by bank to its staff members.

Table No 4.13

Employee Expenses to Total Assets of EBL & NSBL

	2003/04	2004/05	2005/06	2006/07	2007/08	Average	S.D.	C.V.
EBL	0.50%	0.52%	0.44%	0.40%	0.58%	0.49%	0.06%	12.67%
NSBL	0.39%	0.38%	0.39%	0.38%	0.44%	0.39%	0.02%	5.42%

Source: Annual reports FY 2003/04 to 2007/08

Figure 4.10

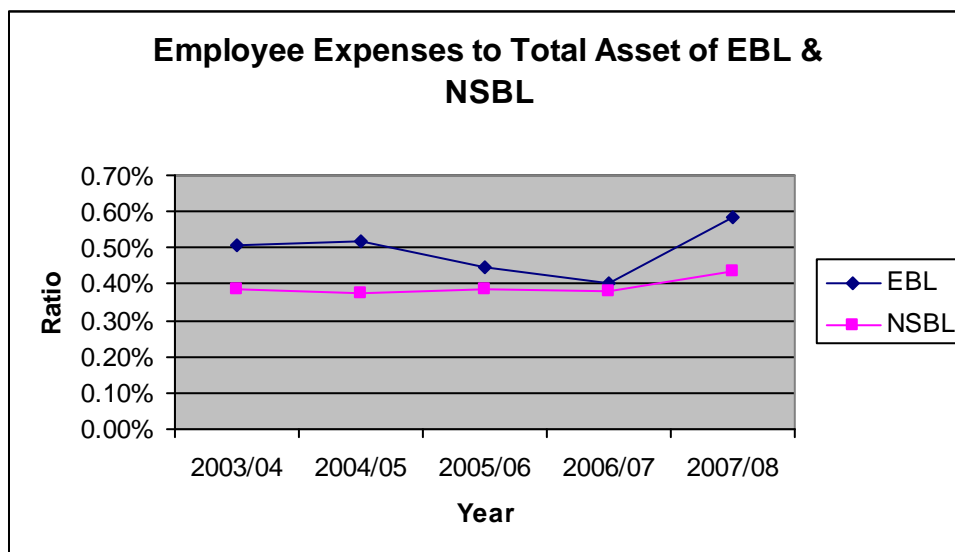


Table 4.13 clearly shows that NSBL is consistently efficient in this front than EBL. The ratio is in declining trend till 2006/07 showing efficiency is increasing of both banks. However, ratio of both banks rose in year 2007/08. This is due to hefty increment by both banks in year 2007/08. Average of EBL during the study period is 0.49% with standard deviation of 0.06% and CV of 12.67% same of NSBL respectively being 0.39%, 0.02% and 5.42%. NSBL not only has higher efficiency but also has lower variability. The higher efficiency may be due to higher efficiency of employees or lower payment by the bank. This will be clear by Expenses per employee.

4.11 Expenses per employee

This ratio shows the average remuneration paid to each employee in a year by the bank.

Table No 4.14

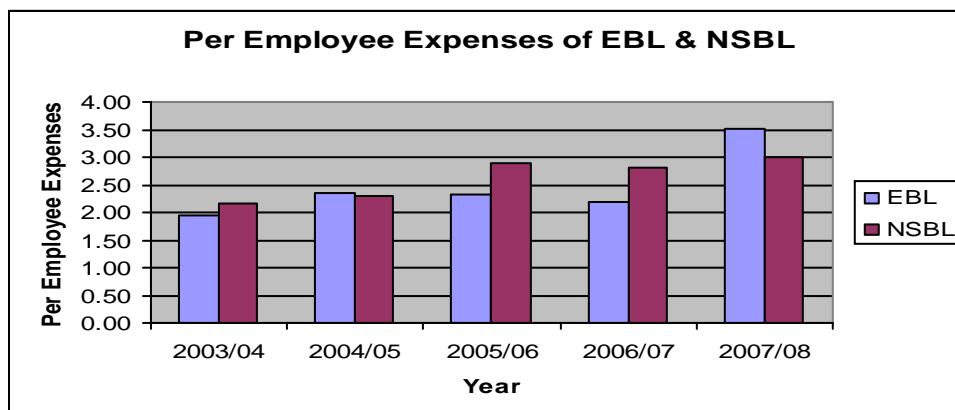
Expenses per employee of EBL & NSBL

(Amount Rs in lacs)

	2003/04	2004/05	2005/06	2006/07	2007/08	Average	S.D.	C.V.
EBL	1.94	2.36	2.32	2.19	3.52	2.46	0.55	22.18%
NSBL	2.15	2.29	2.90	2.81	3.01	2.63	0.34	13.08%

Source: Annual reports FY 2003/04 to 2007/08

Figure 4.11



The table 4.14 shows that expenses per employee of NSBL is higher than that of EBL till 2006/07. This ratio confirms that employees of NSBL are deployed efficiently than that of EBL. Average payment to employees of EBL during the study period is Rs 2.46 lacs with standard deviation of Rs 0.55 lacs and CV of 22.18%. NSBL has average payment of Rs 2.63 lacs, with standard deviation of Rs 0.34 lacs and CV of Rs 13.08%. Average payment of NSBL is higher with low variability. However, in the year 2007/08 average payment of EBL is suddenly increased and surpassed that of NSBL.

4.12 Per Employee Business

This ratio shows business (Loans & Advances + Deposit) made by an employee and measures the efficiency of employees.

Table No 4.15

Per employee Business of EBL & NSBL

(Amount Rs in lacs)

Year	2003/04	2004/05	2005/06	2006/07	2007/08	Average	S.D.	C.V.
EBL	566.39	700.30	782.31	821.09	953.51	764.72	128.54	16.81%
Growth %	-	23.64%	11.71%	4.96%	16.13%	14.11%	6.79%	48.13%
NSBL	843.05	938.66	1,105.94	1,138.11	1,062.71	1,017.70	110.51	10.86%
Growth %	-	11.34%	17.82%	2.91%	-6.62%	6.36%	9.17%	144.22%

Source: Annual reports FY 2003/04 to 2007/08

Figure 4.12
Per employee business of EBL & NSBL

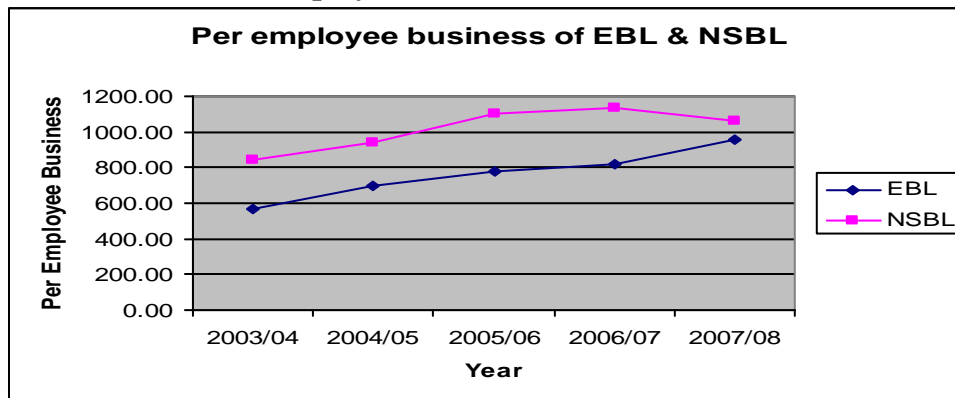


Table 4.15 shows that per employee business of both banks are increasing, NSBL is consistently better than EBL in this front. However, there is serious concern for NSBL that the ratio dropped on year 2007/08. Average business per employee during the study period of EBL is Rs 764.12 lacs and that of NSBL is Rs 1,017.7 lacs. However, ratio of EBL is increasing at higher rate. Average growth rate of EBL during study period is 14.11% and that of NSBL is 6.36% only. From 2003/04 to 2007/08 ratio of EBL increased by 68.35% but of NSBL it is increased merely by 26.06%. This also is because that the ratio of NSBL dropped in year 2007/08. This is serious concern for NSBL.

4.13 Net Interest Income to Total Operating Income

This ratio shows the dependence of banks on interest income to generate total income. Interest income is generated from the fund based facility, hence more risky. Lower the ratio safer is the bank. Lowering this ratio also means banks are relying more on other incomes like remittance, agency and treasury income. This also shows the modernization of banks. Modern banks rely less and less on traditional Interest Income and more and more on other incomes like commission.

Table No 4.16

Net Interest Income to Total Operating Income of EBL & NSBL

Year	2003/04	2004/05	2005/06	2006/07	2007/08	Average	S.D.	C.V.
EBL	73.02%	75.43%	75.82%	74.55%	75.71%	74.91%	1.04%	1.39%
NSBL	66.83%	78.75%	80.43%	78.50%	80.80%	77.06%	5.20%	6.74%

Source: Annual reports FY 2003/04 to 2007/08

Figure 4.13

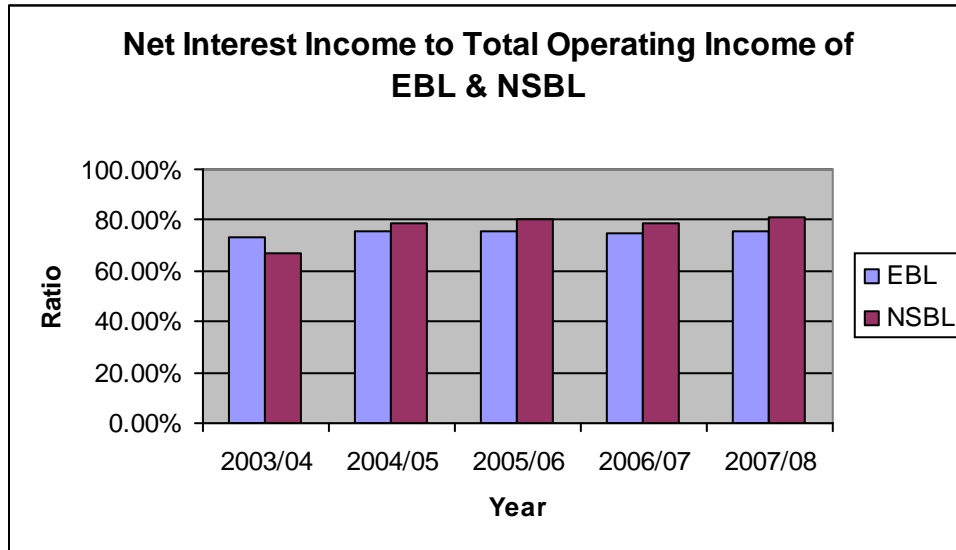


Table 4.16 shows that the reliance of EBL on Net Interest is nearly constant hovering around 73% to 76%. The matter is more serious for NSBL, in the year 2003/04 the ratio was lower than that of EBL and is at very good position. However, the ratio is in increasing trend and in year 2007/08 reached 80.80%, showing more reliance on fund based income. During the study period average ratio of NSBL is 77.06% against 74.91% of EBL, it also has high volatility shown by CV during the study period 6.74% of NSBL against 1.39% of EBL during the period. The reason is NSBL has very low amount of commission income (nearly 1/3rd of EBL), Other operative Income (nearly 1/6th of EBL). In these two non fund based income NSBL is lagging far behind EBL. NSBL is seriously lagging behind on LC/Guarantee Commission, Service Charge, Renewal Fee, Remittance Fee etc. Now NSBL should focus more on other income.

4.14 Fixed Assets to Total Loans and Advances

Fixed assets are required for smooth operation for business; however, these are non earning assets. They are required to enhance efficiency of operation.

Table No 4.17

Fixed Assets to Total Loans & Advances of EBL & NSBL

Year	2003/04	2004/05	2005/06	2006/07	2007/08	Average	S.D.	C.V.
EBL	1.94%	1.70%	1.50%	1.21%	1.91%	1.65%	0.27%	16.58%
NSBL	1.13%	0.99%	0.81%	0.97%	0.94%	0.97%	0.10%	10.47%

Source: Annual reports FY 2003/04 to 2007/08

Figure 4.14

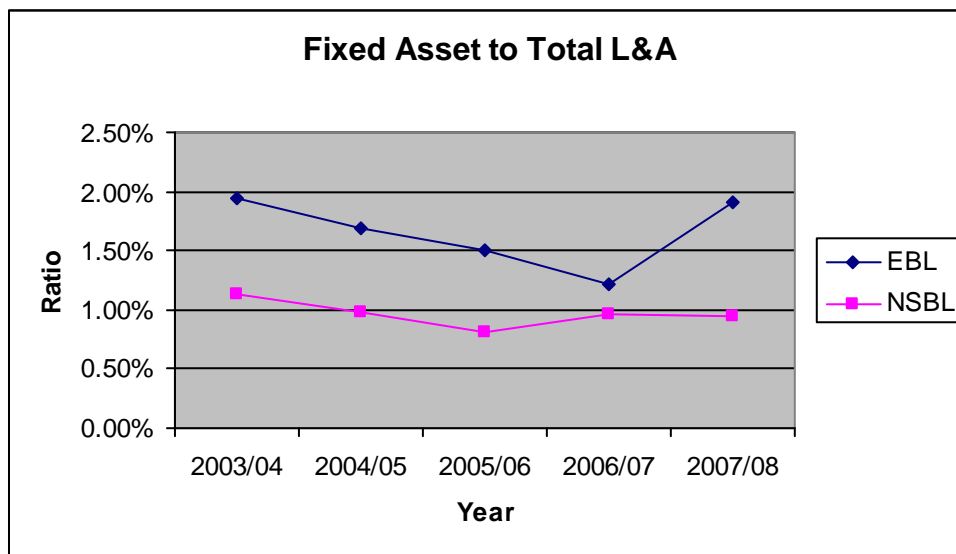


Table 4.17 shows that in this front also NSBL is more efficient than EBL. The average ratio of EBL during the study period is 1.65% and of NSBL is 0.97% showing that NSBL is efficiently deploying its fixed assets. Also CV of EBL is 16.58% and of NSBL is 10.47% showing low variability on NSBL part. The difference was narrowing till 2006/07 but the ratio of EBL again suddenly jumped in the year 2007/08.

4.15 Capital Adequacy

This denotes the risk management and risk absorbing capacity of the bank. There must be enough equity capital with the bank to take the risky ventures, this equity capital acts as cushion to absorb loss before it passes on to the deposit holders. These measures also affect the profitability of the banks, which induces banks to invest in less risky ventures.

Banks must maintain capital fund on the basis of amount of assets held and riskiness of the assets held. They must maintain certain percentage of capital fund of the total risk weighted exposure. Risk weight is assigned according to the riskiness of the exposure. For example risk weight of loan against residential property is lower than risk weight against commercial property. So with the same amount of capital banks can lend lower amount against commercial property vis-à-vis against residential property.

Till now Nepalese banks were adopting simple capital adequacy norms based on weighted risk weighted exposure. From FY 2065/66 (2008/09) Basal II capital adequate norms will be fully implemented. In order to ensure a smooth transition to new approach prescribed by this framework, a parallel run for the whole year from Mid July 2007 (Fiscal Year 2064/065) was conducted. The returns submitted by the banks during this period were minutely reviewed by NRB to identify any anomalies. The identified shortcoming on the returns was advised to the bank management so that they could be rectified before we move onto full fledged implementation. Based on the findings of the parallel run, amendments and modifications have been incorporated in the framework wherever deemed necessary. However, there was no penalty for not meeting norms of Basel II during FY 2007/08.

Table No 4.18
Capital Adequacy of EBL & NSBL

Year	EBL			NSBL		
	Core Capital	Supplementary Capital	Capital Fund	Core Capital	Supplementary Capital	Capital Fund
2003/04	9.60%	1.50%	11.10%	9.47%	1.47%	10.94%
2004/05	8.90%	4.70%	13.60%	8.68%	0.79%	9.47%
2005/06	8.20%	4.10%	12.30%	10.53%	3.04%	13.57%
2006/07	7.80%	3.40%	11.20%	10.53%	2.76%	13.29%
2007/08	9.04%	2.40%	11.44%	9.97%	2.35%	12.32%

Source: Annual reports FY 2003/04 to 2007/08

Table 4.18 shows the capital adequacy position of both banks as per older capital adequacy norms. As per the norms core capital should be 6% of total risk weighted assets and Capital Fund should be 12 % of total risk weighted assets. The above table shows that both banks meet the regulatory requirement. NSBL is more comfortable on capital adequacy on recent years.

4.15.1 Capital Adequacy as per Basel II norms

Basel II capital adequacy norms were implemented in Nepal from FY 2007/08, with parallel run. The same will be implemented fully from FY 2008/09. The following table shows capital adequacy position of EBL and NSBL for FY 2007/08 as per Basel II norms.

Table No 4.19
Capital Adequacy of EBL & NSBL as per Basel II norms for FY 2007/08

Amount Rs in lacs

	EBL		NSBL	
	Amount	Percentage	Amount	Percentage
Tier I Capital	15,608.59	7.44%	13,940.64	8.67%
Tier II Capital	7,875.31	3.75%	3,281.23	2.04%
Capital Fund	23,483.90	11.20%	17,221.87	10.71%
Risk Weighted Exposure	209,748.62		160,860.13	

Source: Annual reports FY 2007/08

The capital required as per regulatory requirement is Tier I capital not less than 6% of total risk asset exposure and Capital Fund not less than 10% of total risk weighted exposure. Both banks have fulfilled this regulatory requirement. However, NSBL seems to be in little tight position. In future either it will have to either increase capital base or reduce risk exposure.

4.15.2 Breakdown of risk weighted exposure

As per Basel II norms total risk exposure is divided into three components viz Credit Risk, Market Risk and Operational Risk.

Table No 4.20
Breakdown of Risk Exposure of EBL & NSBL for FY 2007/08

(Amount Rs in Lakhs)

	EBL		NSBL	
	Amount	% of Total Exposure	Amount	% of Total Exposure
Credit Risk	195,097.98	93.02%	145,653.74	90.55%
Operational Risk	920.71	0.44%	6,532.68	4.06%
Market Risk	13,729.94	6.55%	8,673.71	5.39%
Total Risk Weighted Exposure	209,748.63		160,860.13	

Source: Annual reports FY 2007/08

On total risk weighted exposure both banks have higher percentage of Credit Risk (above 90%) which is normal. But comparatively NSBL has lower percentage of Credit Risk but higher percentage of Operational Risk (nearly ten times).

4.15.3 Breakdown of Credit Risk

As per Basel II norms Credit Risk is further subdivided into following 11 categories. As per the riskiness different risk weight is assigned to each category.

Table No 4.21
Breakdown of Credit Risk Exposure of EBL & NSBL for FY 2007/08

Amount Rs in lacs)

	EBL	% of Total Exposure	NSBL	% of Total Exposure
Claims on Government & Central Bank	-	0.00%	-	0.00%
Claims on other official Entities	-	0.00%	6,000.00	4.12%
Claims on Banks	10,913.52	5.59%	2,937.99	2.02%
Claims on corporate & securities firms	84,307.88	43.21%	81,339.65	55.84%
Claims on regulatory retail portfolio	29,012.55	14.87%	8,212.19	5.64%
Claims secured by residential property	30,039.73	15.40%	13,774.20	9.46%
Claims secured by commercial real estate	5,676.75	2.91%	-	0.00%
Past due claims	2,390.27	1.23%	323.68	0.22%
High Risk Claims	-	0.00%	231.31	0.16%
Other Assets	6,788.39	3.48%	2,852.78	1.96%
Off Balance Sheet Items	25,968.89	13.31%	29,981.95	20.58%
Total	195,097.98	100.00%	145,653.75	100.00%

Source: Annual reports FY 2007/08

Table 4.21 shows higher concentration on “Claims secured by corporate & securities firms” which seems normal for commercial banks. However, in this front NSBL seems to be ahead of EBL. But EBL seems to be in better position in low risk claims like “Claims on regulatory retail portfolio” and “Claims on residential property”.

4.16 Diversification

Banks diversify risk various ways. They do simple diversification by spreading risk among large number of borrowers. They also diversify risk in various sectors, there is also good geographical diversification when they lend via various branches.

4.16.1 Diversification among number of borrowers

More the credit clients more will be the benefit of diversification. On year end of 2007/08 EBL has 12,245 account for total loan outstanding of Rs 188,364 lacs. The average loan size of EBL is Rs 15.41 lacs.

On the same time NSBL has 5,114 accounts for total loan outstanding of Rs 127,462 lacs. The average loan size of NSBL is Rs 24.93 lacs. EBL is more diversified.

4.16.2 Sector wise lending

Banks diversify their lending investment in various sectors. These sectors can be broadly categorized in five sectors:

- Construction and Manufacturing
- Trading
- Service Sector
- Agriculture & Mining
- Others

Table No 4.22
Sector-wise exposure of EBL & NSBL as on year end 2007/08

(Amount Rs in lacs)

Sectors	EBL		NSBL	
	Amount	Percentage	Amount	Percentage
Construction & Manufacturing	61,457.03	32.63%	63,348.02	49.70%
Trading	58,648.12	31.14%	25,509.81	20.01%
Service	24,865.96	13.20%	19,579.99	15.36%
Agriculture & Mining	1,445.55	0.77%	1,547.61	1.21%
Others	41,947.67	22.27%	17,476.57	13.71%
Total	188,364.33	100.00%	127,462.00	100.00%
Average	37,672.87	20.00%	25,492.40	20.00%
Standard Deviation	22,362.28	11.87%	20,521.26	16.10%
Coefficient of Variation	59.36%	59.36%	80.50%	80.50%

Source: Annual report FY 2007/08

Figure 4.15

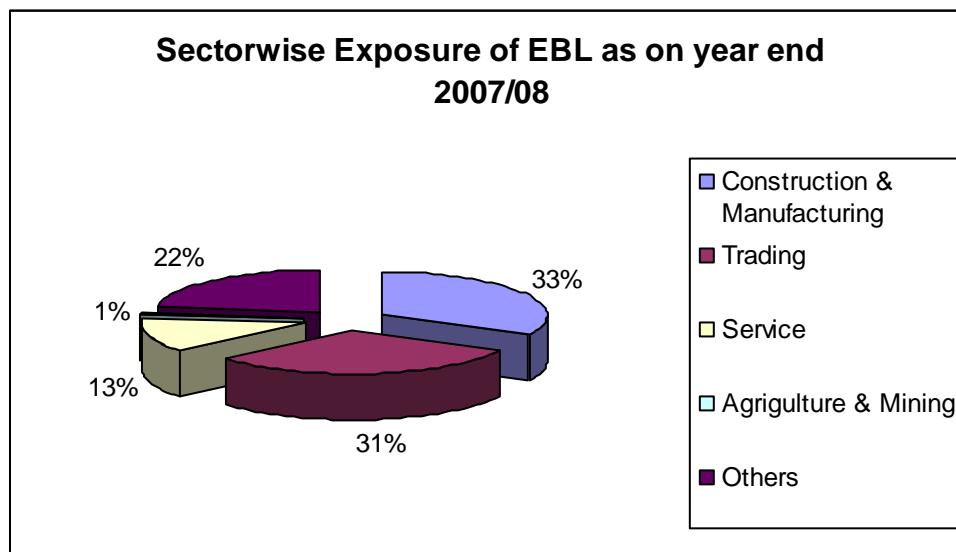
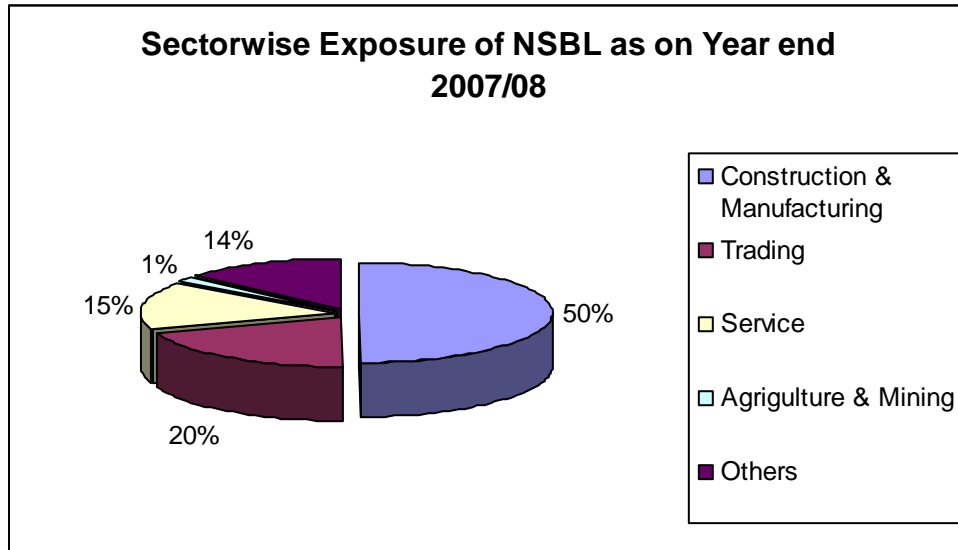


Figure 4.16



EBL has more concentration on Manufacturing and Trading sector with 33% & 31% of total lending being done in that sector, NSBL also has higher concentration on Manufacturing and Trading Sector with 50% and 20% of total lending being in that sector. Lending of EBL is more diversified among sectors as shown by Coefficient of variation.

4. 16.3 Collateral wise lending

Banks lend against various types of collateral security like moveable property, fixed property, against guarantee of other banks, against FDR, against export documents etc.

Table No 4.23
Collateral wise lending of EBL & NSBL as on year end 2007/08

(Amount Rs in lacs)

	EBL		NSBL	
	Amount	Percentage	Amount	Percentage
Moveable/Immovable assets	183,526.10	97.43%	113,776.07	89.26%
Guarantee of local licensed Institutes	-	0.00%	5,061.33	3.97%
Export Documents	-	0.00%	1,194.39	0.94%
Fixed Deposit Receipt	3,996.79	2.12%	3,001.05	2.35%
Government Bond	465.39	0.25%	92.37	0.07%
Personal Guarantee	24.96	0.01%	82.50	0.06%
Other Securities	351.08	0.19%	4,254.43	3.34%
Total	188,364.32	100.00%	127,462.14	100.00%

Source: Annual report FY 2007/08

Both banks have higher proportion of lending against Moveable/Immovable assets, which is normal. Lending by NSBL against guarantee of other licensed institutes, export documents etc shows more amount of commercial banking practice shown by it.

4.16.3 Geography wise lending

Banks open branch at various locations of country and lends from there. Besides, enhancing customer service, increasing network of the bank and adding on business and profit figure of the banks it also serves a vital role, diversification of risk to various geographical sector. We can take a recent example. Recent flood at Koshi river blocked the road. This caused the isolation of the eastern part of the country from rest of the country. This crippled the business environment of that region. If the banks had lend only in that region they would have faced serious problem due to nationwide diversification the impact of crisis was no so serious on banks.

Table No 4.24

Branch-wise Distribution of Credit of EBL & NSBL as on year end 2007/08

(Amount Rs in lacs)

	EBL	NSBL
Number of Branches/Centers	24	16
Average Lending Per Branch	7,848.50	7,966.38
Standard Deviation	6,751.16	11,838.71
Coefficient of Variation	86.02%	148.61%

Source: Annual reports FY 2007/08

Table 4.24 shows that EBL has diversified its lending across 24 branches. Average lending per branch is Rs 7,848.5 lacs and standard deviation is Rs 6,751.16 lacs with Coefficient of Variation of 86.02%. This shows wide dispersion of lending across branches. Lending is concentrated in New Baneshwor, New Road and other valley branches. Old branches has higher amount of lending which seems obvious.

NSBL has diversified its lending across 16 centers. Average lending per branch is Rs 7,966.38 lacs and standard deviation is Rs 11,838.71 lacs with Coefficient of Variation of 148.61%. This shows very wide dispersion of lending across branches. Lending is concentrated in Corporate Credit, Birgunj, Biratnagar, Durbarmarg & New Road branches. Branches which are concentrating on corporate lending and are old has higher amount of lending.

Both the banks have branches concentrated at business centers of Terai region and Kathmandu valley. The banks are not going to remote areas also due to insecurity in the past. Now as the conflict has resolved banks are going to remote areas also.

4.17 Major Findings

- From the year 2003/04 to 2007/08. Loans and Advances figures of the EBL have grown by nearly three times where as NSBL has grown only 2.3 times. Average growth rate of EBL is 30.26% where as that of NSBL is 21.56%. Growth of EBL has fuelled by its rapid

branch expansion and management. EBL is better in terms of resource mobilization and growth.

- Average NPA % of EBL during study period is 1.22% which is far lower than that of NSBL having 5.46%. However, during study period variability of NPA% of NSBL is lower than EBL shown by CV of 19.57% against 34.55% of EBL. NSBL has made considerable recovery on year 2006/07. NPA as a percentage of total credit of both banks is decreasing. The NPA figures of EBL is always and far lower than that of NSBL Regarding NPA figures EBL has left NSBL far behind. EBL is better in managing NPA. However, NSBL also is managing its NPA. Its NPA figure as percentage of Gross Loans & Advances figure is declining again it has to achieve a lot in this front. As per view taken with management of NSBL, there is insignificant amount of NPA addition in last three years.
- Regarding composition of NPA both banks has higher proportion of Loss loans (above 90%). This also reveals improper loan classification by both banks. Loans are being managed and shown as pass loan by window-dressing when they show early sign of sickness. Later when they become unmanageable they are directly shown as Loss loans.
- Average CD ratio of EBL is 76.64% with CV of 2.51%, the same of NSBL is 79% and 8%. EBL is far better in terms of liquidity shown by its lower C/D ratio and variability. It's deposit base is strong and C/D ratio is lower than NSBL. It may be preparing itself for huge investment needed for upcoming hydro power financing. NSBL crossed C/D ratio of 80% in past two years, NSBL is in tough position in terms of liquidity especially during past 2 years. NSBL should take immediate action to enhance its deposit base. In fact, it has started that by opening rural branches targeting deposit business and instructing its staff members to focus more on deposit.
- I/D ratio of both banks are hovering around 20-30%. During the study period average I/D ratio of EBL is 26.3% with standard deviation of 4.45% and coefficient of variation of 16.92%, the same of NSBL respectively being 27.4%, 3.95% and 14.62%. The average ratio NSBL is slightly higher during the study period, variability of ratio for NSBL is lower during the study period.
- Yield on Advances of both banks are in declining trend. This is in tune with the declining interest rate over the period. YOA of EBL is consistently higher than that of NSBL. Only

in the year 2006/07 yield of NSBL is higher than EBL. However, EBL has recovered on year 07/08 and YOA increased from 6.87% to 7.06%. Average YOA of EBL during study period is 7.76% and that of NSBL is 7.39%. EBL has higher variability in YOA shown by 10.88% CV against 6.54% of NSBL EBL is better in terms of Yield on advances. However, gap in narrowing. This is due to high amount of small lending and Retail lending by EBL where yield is higher. EBL is also bearing higher operating expenses for the same purpose.

- Average Yield on Investment of EBL during the study period is 3.23% with standard deviation of 0.6% and coefficient of variation of 18.74%. NSBL has average of 2.72%, with standard deviation of 0.8% and CV of 29.38%. Yield of EBL is higher than NSBL and it also has low variability.
- During the study period average spread of EBL is 4.06% and that of NSBL is 3.34%. EBL also has lower variability on average spread as shown by lower CV of 3.34% against 7.6% of NSBL. EBL is consistently better in terms of weighted average spread. This is both due to higher yield on advances and lower cost of deposit. Cost of deposit is lower for EBL due to high percentage of low cost deposit mainly Savings Account.
- Average operating expenses to total asset of EBL is 1.44% and of NSBL is 1.27%, showing higher efficiency of NSBL. NSBL also has lower variability shown by CV of 5.69% against 10.07% of EBL during the study period. Average employee expensed to total assets of EBL during the study period is 0.49% with standard deviation of 0.06% and CV of 12.67% same of NSBL respectively being 0.39%, 0.02% and 5.42%. NSBL not only has higher efficiency but also has lower variability. In the efficiency front, NSBL has beaten EBL. NSBL has efficiently employed its staff-members, per employee business is higher than that of EBL even if it employees are paid better than EBL till 2006/07.
- Reliance of EBL on Net Interest is nearly constant hovering around 73% to 76%. The matter is more serious for NSBL, in the year 2003/04 the ratio was lower than that of EBL and is at very good position. However, the ratio is in increasing trend and in year 2007/08 reached 80.80%, showing more reliance on fund based income. During the study period average ratio of NSBL is 77.06% against 74.91% of EBL, it also has high volatility shown by CV during the study period 6.74% of NSBL against 1.39% of EBL during the period. Both banks have higher dependence on interest income. This dependence of EBL is

somewhat constant but dependence of NSBL on interest income is increasing which is not good sign.

- Fixed asset to total L&A ratio EBL during the study period is 1.65% and of NSBL is 0.97% showing that NSBL is efficiently deploying its fixed assets. Also CV of EBL is 16.58% and of NSBL is 10.47% showing low variability on NSBL part. NSBL is ahead of EBL to efficiently manage its fixed assets
- In terms of capital adequacy both banks have met the minimum capital requirement. As per Basel II norms NSBL is more comfortable in terms of Tier I capital where as EBL is more comfortable in Capital Fund. NSBL is improving its capital adequacy as shown by its unaudited first quarter and second quarter financial results for FY 2008/09.
- EBL has credit risk of 93.02% of total risk weighted exposure and NSBL has 90.55% on 2007/08. Both banks have higher proportion of Credit Risk in proportion of total risk which is obvious. NSBL has higher proportion of Operational risk than that of EBL as shown by 4.06% of total risk weighed exposure against 0.44% of EBL.
- In terms of breakdown of Credit Risk. NSBL has more proportion of claims on corporate which demonstrates its strong corporate lending. EBL has higher proportion of low risk categories like claims secured by residential property and claims on regulatory retail portfolio.

CHAPTER -V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

A bank is an institute that offers a broad range of deposit accounts, including checking, savings, and time deposits, and extends loans to individuals and businesses. Thus it is engaged in capital formation. Commercial banks collect money from those who have surplus of it, in the form of deposits, and then lend the same to them who need it in the form of loans and advances. Thus it acts as agent for the flow of capital. A well-developed banking system is a necessary pre-condition for economic development in a modern economy. Besides providing financial resources for the growth of industrialization, banks can also influence the direction in which these resources are to be utilized. In modern economy, bank plays the vital role for development in every sector from our day to day life to big industrial sector. It's like the relationship between the heart and the blood. Banks are to be considered not merely as dealers in money but also the leaders in development. They are not only the collector of the country's wealth but also the resources supplier for economic development. In the 18th and 19th centuries, the growth of commercial bank facilitated the occurrence of industrial revolution in Europe. Similarly, the economic process development in the present day largely depends upon the growth of sound banking system in these economies.

In fact the banks do not lend their own money. The banks collect the fund from the deposit holders and lend the same fund, who needs it. So when this lending of banks is in risk then the funds from deposit holders is in risk, savings from the hard earned money of large number of people is in risk. So the riskiness of the banks assets affects the whole economy of the country. Managing a commercial bank is basically the risk management of its assets, mainly its Loans & Advances and Investment. Profitability of the bank and even its survival depends upon the risk management.

Banks have to manage their assets in various ways. There is asset selection procedure; this is how the banks select its assets. How they calculate risk inherent in every assets created and

ways to mitigate it. Banks have to lend and also make sure that it returns back. To mitigate the risk they also must diversify the risk among various borrowers and among various sectors. Also there must be system to continuously monitor and evaluate the performance of existing assets. If is any sign of sickness is shown remedial action should be taken on time. This will prevent the loan default. The banks also must have loss absorbing capacity. There must to enough capital to absorb the loss before it pass on to the deposit holders.

This study intends to dissert the asset management practice of two major joint venture banks of Nepal, Everest Bank Limited and Nepal SBI Bank Limited. The specific objectives are: (i) to access the growth of the banks, (ii) to analyze structure of assets held by two banks, (iii) to access the assets selection procedure of two banks, (iv) to analyze the NPA composition of the assets, (v) to highlight the mitigation structures and initiatives taken by the banks to control NPA, (vi) to examine the capital adequacy position of two banks and (vii) to examine liquidity, earning power, efficiency, risk diversification of two banks.

In this research study, the various financial tools mainly ratio analysis statistical tools like percentage, mean, standard deviation, coefficient of variance is used for the purpose of analysis and interpretation of data. The data which are used in the study are mainly secondary in nature but also primary data in form of questionnaire is used. These data are obtained from the annual reports of EBL and NSBL from the fiscal year 2003/04 to 2007/08. Likewise, the news and journals published in different period are also been the great source of data collection. As we know today's world is the world of computer and IT, so internet also has been an effective means of data collection.

Detail analysis asset management practice followed by the banks has been carried out. Analysis of figures such as Loan & Advances figures and growth, NPA figures and composition, earning capacity, efficiency ratios, capital adequacy, diversification practice and asset selection procedure and post sanction monitoring practice are carried out to find the present position of the selected banks. Statistical tools such as mean, standard deviation, coefficient of variance have also been used to interpret at the data.

The study show that EBL is ahead of NSBL in many asset management practices but NSBL is ahead in efficiency and setting up realistic banking norms.

5.2 Conclusions

The study led to conclude that the overall performance of both bank is satisfactory. Both banks are growing and improving their performance in various asset management practices like, curbing NPA, maintaining liquidity enhancing efficiency etc. These banks are acting as financial intermediaries, which provide a link between borrowers and lenders by mobilizing the scattered funds towards productive investment. Both banks are performing satisfactorily and growing with steady pace Based on the analysis and findings of the study, the following conclusion can be drawn.

- EBL has surpassed NSBL in many areas, it has higher growth. In fact during past 3-4 years EBL has grown rapidly and healthily. EBL is aiming to be number 1 bank among private sector banks in near future and it is showing traits of the same.
- EBL is also better in terms of NPA management, liquidity management and risk diversification. In fact in NPA management it has left all the banks behind, it has the lowest level of NPA in the banking industry. Thanks to its better asset selection, and better monitoring of accounts. It also has better managed its liquidity and better diversified the risk.
- EBL also has higher yield and higher spread enhancing its profitability.
- NSBL is better than EBL in the efficiency front. It has better mobilized its manpower and assets to generate business and income.
- Both the banks have high reliance on interest income. This is the sign of traditional banking. Both should focus on other commission and fee based non fund based business.

5.1 Recommendation

On the basis of the analysis and findings, the following suggestions (recommendation) can be forwarded to overcome weakness, inefficiency and to improve the overall asset management practice as well as fund mobilization of EBL and NSBL.

- Many shortcomings of NSBL in comparison to EBL, like lower growth, less retail lending, higher C/D ratio, higher proportion of interest income has come due to small numbers of branches. Opening more branches will surely add up its business figure, enhance network hence increase customer base. This will also help to increase brand image and awareness among general public. The branch should be full fledged providing all the services like LC, Guarantee, Remittance etc and equipped with competent, experienced and customer friendly manpower. In fact, NSBL has moved towards this direction. By the end of this FY it has plans to open 17 more branches to reach 32. It must try to be first among banks at virgin potential market.
- NSBL has poor customer base as shown by no of credit client (5,114 credit clients as on year end 2007/08 against 12,245 of EBL). So it has to diversify risk among numbers of customers by increasing its customer base. This also helps it in increasing business figure in future. As shown by higher C/D ratio NSBL also has low deposit base which it must increase. It also has to increase proportion of low cost deposit like Savings account and Current Accounts.
- Both banks have high reliance on interest income. Interest Income being fund based has high risk. So both banks should try to increase its commission income like agency commission, remittance etc. This must be focused particularly by NSBL. NSBL is lagging far behind on LC/Guarantee Commission, Service Charge, Renewal Fee, Remittance Fee etc.
- EBL is always lagging behind NSBL at efficiency front. It has to train its employees, hire more competent man power and avoid duplication in works to enhance its per employee business.
- Performance of EBL in terms of managing NPA is outstanding. NSBL to learn more from it on this arena. NSBL is also gradually decreasing its NPA percentage but the same is not sufficient. It has to try to curb the NPA from its early sign like high utilization of limits, interest suspense, overdue TR and overdue installments.

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