A COMPARATIVE STUDY ON CREDIT MANAGEMENT PRACTICES OF COMMERCIAL BANKS IN NEPAL

(With Reference to Everest Bank Ltd. and Nepal SBI Bank Ltd.)

A THESIS

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RECOMMENDATION

This is to certify that the Thesis

Submitted by

Sujan Kumar Bista

Entitled:

"A Comparative Study on Credit Management Practices of Commercial Banks in Nepal (With Reference to Everest Bank Ltd. and Nepal SBI Bank Ltd.)"

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

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VIVA-VOCE SHEET

We have conducted the viva-voce of the thesis presented

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and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the Degree of Master of Business Studies (M.B.S.)

<u>Viva-Voce Committee</u>

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DECLARATION

I, hereby, declare that the work reported in this thesis entitled **"A Comparative Study on Credit Management Practices of Commercial Banks in Nepal (With reference to Everest Bank Ltd. and Nepal SBI Bank Ltd.)"** submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done for the partial fulfillment of the requirement for the Masters of Business Studies (MBS) under the supervision of Mr. Nischal Risal, Lecturer of Nepal Commerce Campus, Tribhuvan University.

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Sujan Kumar Bista

December, 2014

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Sujan Kumar Bista
December, 2014
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ABBREVIATIONS

ABBS	Any Branch Banking System
ALM	Asset Liability Management
AMA	Advances Measurement Approach
ATM	Automated Teller Machine
BCBS	Basel Committees on Banking Supervision
C.V.	Coefficient of Variation
C/D Ratio	Credit to Deposit Ratio
CAMELS	Capital Adequacy, Asset Quality, Management Quality, Earnings, Liquidity, Sensitivity for Market Risk
CC	Cash Credit
CEO	Chief Executive Officer
CPG	Credit Policy Guidelines
CRA	Credit Rating Agency
DP	Drawing Power
DSCR	Debt Service Coverage Ratio
EBL	Everest Bank Limited
EMI	Equated Monthly Installment
EPS	Earnings per Share
FAQ	Frequently Asked Questions
FDR	Fixed Deposit Receipts
GM	General Manager
HP	Hire Purchase
I/D Ratio	Investment to Deposit Ratio
IAS	International Accounting Standards
JVBS	Joint Venture Banks
L & A	Loans and Advances
L/C	Letter of Credit

MBA	Master in Business Administration
NBA	Non-Banking Assets
NBL	Nepal Bank Limited
NDFC	National Development Finance Corporation, Pakistan
NIBL	Nepal Investment Bank Limited
NPA	Non-Performing Assets
NRB	Nepal Rastra Bank
NSBI	Nepal SBI Bank Limited
OD	Overdraft
PNB	Punjab National Bank
Pvt. Ltd.	Private Limited
RBB	Rastriya Banijya Bank
S.D.	Standard Deviation
SBI	State Bank of India
TL	Term Loan
TR	Trust Receipt
U.S.	United States
WTO	World Trade Organization
YOA	Yield on Advances

CHAPTER I

INTRODUCTION

1.1 Background of the study

In this era of globalization, the economic activities are soaring up in the international market. Nepal does not have its own long history of the economic activities. As the time passed by economic activities are also increasing in the country which led to the establishment of first commercial bank of Nepal viz. Nepal Bank Limited. Thus, the history of development of financial institutions in Nepal is not very long. Nepal Bank Ltd. is the first commercial bank of Nepal, which was established in 1994 B.S. in government sector.

Economic structures have a critical role to play in the overall development of the nation. Financial institutions are the backbone of a country's economy and catalyst to the economic growth. The development process of a country involves the mobilization and development of resources. Development of trade, commerce and industry are the prime requisites for the attainment of the economic, political and social goals. To fulfill the purpose of planning, financial functions are more important than the other functions. "There is always lack of finance in underdeveloped economy because natural resources are either underutilized in productive sectors or even other purpose i.e.: social welfare and so on. Likewise, undeveloped countries are not deficient in land, water, mineral, forest or power resources, though they may be untapped: constituting only potential resources." So, in these countries for the rapid development of the economy, there should be proper mobilization of resources. So, banks and other financial institutions play a vital role to encourage thrift by mobilizing resources.

Banking is a vital part of national economy and a vehicle for the mobilization of economy's financial resources and extension of credit to the business and service enterprises. Commercial banks are the heart of the financial system. They hold the deposits of individuals, government establishment and business units. They make funds available through their lending and investing activities to borrowers, individuals, business firms and government establishments. In doing so, they assist both the flow of goods and services from the producers to consumers and the financial activities of the government. They provide large portion of medium of exchange and they are the media through which monetary policy is affected. These facts show that the commercial banking system of a

nation is very important to the functioning of its economy. Proper financial decision making is extremely important in banking transaction for its efficiency and profitability.

Nepal Rastra Bank, the central monerary authority of Nepal, was established in 2013 B.S. with an objective of supervising, protecting and directing the functions of commercial banking activities. Consequently, another commercial bank fully owned by the government, named as Rastriya Banijya Bank was established in 2022 B.S. under the Banijya Bank Act 2021 B.S. In the fiscal year 2039/40, new banking policy was introduced for the establishment of new banks by the joint investment of foreign nations. Its objective was to create healthy competitive banking system and to provide cheap banking facilities to the people. The establishment of joint venture banks gave a new horizon to the financial sector of the economy. Nepal Arab Bank Limited (NABIL) is the first joint venture commercial bank incorporated in 2041 B.S. In 2043 B.S., the second JVBS, Nepal Indosuez Bank Ltd (currently Nepal Investment Bank Limited) was established. In the same year, Nepal Grindlays Bank Limited (currently Standard Chartered Bank Nepal Limited) in the form of JVB was also established. But most JVBS came into existence after the initiation of government's policy of economic liberalization and privatization in 2049 B.S. They are Himalayan Bank Ltd (2049), Nepal SBI Bank Ltd (2050), Nepal Bangladesh Bank Ltd (2051), Everest Bank Ltd (2051) and Bank of Kathmandu (2052) came into existence in chronological order. Under favorable environment, various other banks were established thereafter.

In a global prospective, joint ventures are the mode of trading through partnership among nations and also a form of negotiations between various groups and services for sharing comparative advantages. A joint venture is the joining of forces between two or more enterprises for the purpose of carrying out a special operation (industrial or commercial investment, production or trade). These JVBS came into existence to accelerate the pace of economic development and financial system of the nation. A bank is an institution that accepts deposits of various types, withdrawals by cheque and advances loans of different kinds. Bank is a link between collected deposits of the depositors with the lending of same to the credit customers. The major income of the bank is the difference of spread rate between deposit and lending by which bank makes profit and distributes dividend to its stakeholders. A well-developed banking system is a necessary pre-condition for economic development in a modern economy.

Main function of the bank is to mobilize the resources by investing the same in a profitable manner. The resources may include capital of shareholders, deposits of people,

borrowing and profit capitalization. The profit need to be adequate to meet its reward for risk bearing. Though their activities are guided by some social obligations but some profits are always desirable for their existence and growth. 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.

Credit management is a term used to identify accounting functions usually conducted under the umbrella of accounts receivables. Essentially, this collection processes involves qualifying the extension of credit to a customer, monitors the reception and logging of payments on outstanding invoices, the initiation of collection procedures, and the resolution of disputes or queries regarding charges on a customer invoice. The process of credit management begins with accurately assessing the credit worthiness of the customer base and setting setting specific criteria that a customer must meet before receiving this credit. Several factors are used as part of the credit management process to evaluate and qualify a customer for the receipt of some form of commercial credit. This includes gathering data on the potential customer's current financial condition, including the current credit score. The current ratio between income and outstanding financial obligations will also be taken into consideration. Competent credit management seeks to not only protect the vendor from possible losses, but also protect the customer from creating more debt obligations that cannot be settled in a timely manner.

Credit management refers management of credit exposure which are the main source of investment in commercial banks and return on such investment is supposed to be main source of income. It analyzes the credit risks. Credit risk is defined as the possibility that the borrower will fail to meet its obligations in accordance with the agreed terms and conditions. The goal of the credit risk management is to maximize a bank's risk adjusted rate of return by maintaining the credit risk exposure within acceptable parameters. For most banks, loans are the largest and most obvious sources of credit risk. However, other source of credit risk exists throughout the activities of the bank in financial instruments, acceptances, interbank transactions, guarantees and settlements of transactions. 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 collects money from those who have surplus of it and then lends the same to them who needs. Thus, it acts as an agent for the flow of capital. Collected fund in the form of various deposits such as fixed, current, savings and call deposits are spread to various individuals and entities in the form of advances such as term loan, overdraft loan, working capital loan, trust receipt loan etc. Hence, if such type of lending of banks is in risk then the deposit funds i.e. savings from the hard earned money of large number of people is in risk. Hence, such risk of the bank's loan not only affects the single bank but also affects the whole economy of the country. Crisis on Nepal Bangladesh Bank Ltd. on 2006 is the evidence of unsystematic management of the loan management. Observing the crisis, the NRB took over the management of NB Bank. The risk of bank assets mainly loan and advances make huge effect on bank's goodwill and in some time lead to the collapse of the bank. The recent crisis on banking industry like Gurkha Development Bank Ltd., Capital Merchant Banking & Finance Ltd., and Nepal Share Market and Financial Institutions Ltd., had suffered with the poor management of its loan and advances. After the news published media, Gurkha Development Bank Ltd., was shut down and Capital Merchant Bank & Financial Institution Ltd. had to stop its daily transactions. The key person of Nepal Share Market & Financial Institution Ltd. were undergrounded due to the crisis arose in the bank.

Managing a commercial bank is basically the risk management of its assets, mainly its loan and advances and investments. Profitability of the bank and even its survival depend 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. Banks have to manage their assets in various ways. There is asset selection procedure, calculation of risk associated in lending decision and risks mitigation. 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 any sign of sickness is shown, remedial action should be taken on time. This will prevent the loan default and also will enable bank to make necessary corrections and to take immediate actions in the course likely situation arising in loan default. The banks must have loss absorbing capacity. There must be enough capital to absorb the loss before it

passes on to the deposit holders. This study intends to dissert the asset management practices of two major joint venture commercial banks of Nepal i.e. 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 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. Both the banks have made growth on every aspect of banking indicators and are known to be the best banks of Nepal.

Points to be considered while analyzing credit management:

i. Credit record of the client should be clean as far as possible. If the credit record of the client is clear then it will be easy to avail the loan from the financial institution.

ii. A single bad mark on the credit record will be difficult to obtain good interest rate. This will also impact on negative rating on credit file. Hence, Credit file should be kept clean to avail the various banking facilities on discounted rate.

iii. Due to bad credit, additional interest rates are charged to the customers. This additional interest rate is enough to cover most debt payments for someone with good credit. To reduce such expenses, credit should be managed effectively.

iv. Responsible credit management is very important for saving money and insuring that every individual is not overpaying for items which they own.

v. Everyone is capable of making responsible credit decisions, if they are careful and select their choices carefully.

vi. Numerous good credit decisions can always ensure multiple choices to select. So that, best credit management option can be selected.

1.2 Statement of the problem

Credit management is a basic management of bank which involves risk analysis of lending decision. Every lending decision has inherent risk in it but banks can't survive without lending because interest income that comes from the lending is the major source of income for the banks. So the major fundament to survive in the business is by managing the risk taken. The single criterion for measuring the bank's performance is the profitability measurement which further measures the soundness and efficiency of bank. The lending decision and quality of assets determines the profitability and hence measures the soundness as well. The less quality of the risk assets of banks shall attract the provision on it and the profitability of banks declines. When these assets turn into non-performing assets then not only the return even principals of deposit holders and owners come to risk.

Everest Bank Ltd. and Nepal SBI Bank Ltd. are the pioneer banks in Nepal. Both started their operation in similar time and follows similar management practice. Both 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 issues of the banks under study;

   i.   What is the procedure to analyze the loan and advances selection in Nepal SBI Bank and Everest Bank Ltd.?

   ii.   What is the process of periodic review of performance of loan and advances in Nepal SBI Bank and Everest Bank Ltd.?

  iii.   What is the position of non-performing assets in Nepal SBI Bank and Everest Bank Ltd.?

  iv.   What is the capital adequacy ratio maintained in Nepal SBI Bank and Everest Bank Ltd.?

   v.   Which bank is better in terms of loss absorbing capacity and liquidity?

1.3   Objectives of the study

The major objective of the research is to study the credit management practices of commercial banks in Nepal with reference to Everest Bank Limited and Nepal SBI Bank. The specific objectives are as follows:

   i.   To evaluate and analyze structure of loan and advances held by Nepal SBI Bank and Everest Bank Ltd.

   ii.   To examine the assets selection procedure of Nepal SBI Bank and Everest Bank Ltd.

  iii.   To analyze the NPA composition of loan and advances in Nepal SBI Bank and Everest Bank Ltd.

  iv.   To examine the capital adequacy position of Nepal SBI Bank and Everest Bank Ltd.

   v.   To examine liquidity, earning power, efficiency and risk diversification of Nepal SBI Bank and Everest Bank Ltd.

1.4   Focus/Significance of the study

This study is focused on the assets management policies and practices of two sample banks viz. Nepal SBI Bank Ltd. and Everest Bank Ltd. The study has focused 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.

1.5   Limitations of the study

The research has been conducted for the partial fulfillment of the requirement for the Master of Business Studies but not a comprehensive study. Hence, the study will be limited by following factors:-

i.   The time is one of the factors of limitations. The scope of the present study has been limited in terms of period of study as well as sources and nature of data.

ii.   This study is only focused on two commercial banks among 30 commercial banks. Hence, this project cannot be generalized in whole banking industry.

iii.   Availability of the data is also a major problem. The study is primarily based on the secondary data. So, the regulating body cannot interfere the bank on the basis of this report and this study cannot be used as evidence to action bank.

iv.   Secondary data is analyzed to interpret results. So, the result depends on the accuracy and reliability of the secondary data.

v.   Present study could not address all the aspects of credit position. Some study is based on self-reputed response of the employee. It is therefore, the response collected from the employees might not be valid measure.

vi.   The secondary analysis covers time span of five fiscal years (from 2065/66 to 2069/70). However, the study tries to find out the credit position and its importance in selected commercial banks.

1.6   Organization of the study

This study has been organized into five different chapters. Each chapter deals with the specific aspects of the study. The brief descriptions of this research are as follows;

Chapter I

The first chapter mainly deals with the introduction part of the study. It includes concept and development of economy and commercial banking, background of the study, importance of credit management, and principle for credit management, developing credit management policy, statement of problem, significance of the study, objectives of the study, limitation of the study and organization of the study.

Chapter II

The second chapter had focused on the review of literature which includes concept on credit management, commercial banks, non-performing assets, assets and different banking terms, profile of the selected banks, review of books, journals and annual reports published by the banks and other related authorities, review of related articles and studies and previous thesis as well.

Chapter III

The third chapter includes the interpretation parts which includes the research methodology of the study. It includes research design, nature and sources of data, population and sampling, compilation and presentation of data and tools for analysis which are ratio analysis and statistical tools.

Chapter IV

The fourth chapter deals with the presentation and analysis of relevant data and information through a definite course of research design. Analysis is the systematic and careful examination of available facts so that certain conclusion can be drawn and inferences can be made. Data are organized in tabulation form and presented in different graphical methods. It consists of the findings of the research.

Chapter V

This is the last chapter of the study which provides summary and conclusions, suggestions and recommendations for the improvement in the future performance of the sample banks. Summaries are done after the finalization of the study and some recommendations are made according to the conclusions drawn. Finally, an extensive bibliography and appendices are also presented at the end of the thesis work.

CHAPTER II

REVIEW OF LITERATURE

2.1   Conceptual framework

The review of literature is very important aspect of the research. It is reviewing of research studies of other relevant proposition in related area of the study. The main purpose of literature review is to find out what works have been done in the area of the research problem under the study and what has not been done in the field of the research study being undertaken. With reference to the study, credit management in Nepalese commercial banks. This unit of the study tries to describe about the credit. Beside these, this chapter highlights the literature that is available in concerned subject as to my knowledge, research work, relevant study on this topic and review of project work performed previously.

In the event of inadequate management of credit, any bank will result into the collapse of the bank. Every lending decision is associated with inherent risk in it. But banks are also business entities and are there to earn profit. Here, the paradox lies, lending are a risk and banks can't survive without lending because interest income that comes from the lending is major income source 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 fund 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 an 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 then not only the returns even principals of deposit holders and owners come to risk. The quality and performances of assets held by banks are measured by various parameters. They are like NPA percentage, average spread, average yield, credit deposit ratio, capital adequacy, percentage of interest income to total income, percentage of other income to total income, operating cost to net interest income etc.

2.2 Meaning of a commercial bank

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, saving 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 is 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, requiring that commercial banks engage only in banking activities (i.e. deposits, loans and 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.

2.3 Profile of the selected banks

Everest Bank Limited (EBL)

Everest Bank Limited started its operation in October 18, 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 53 branches, 74 ATM outlets, 5 extension counters and 23 revenue collection centers across the nation, making it a very efficient and accessible bank for its customers, anytime, anywhere. Punjab National Bank, the joint venture partner of the bank (holding

20% equity in the bank) is the largest nationalized bank in India having more than 100 years of banking history. PNB is a technology driven bank serving over 35 million customers through a network of over 6,000 branches and 7000 ATMs spread all across the India with a total business of around INR 2178.74 billion. In terms of the Technical Services Agreement between PNB and the EBL, the PNB provides management support to the bank through its expatriate officers including Managing Director who is also the CEO of the Bank. The bank has been conferred with the "Best Managed Commercial Bank" by Asian Paint Newbiz Award 2013 and the "Bank of the Year 2006, Nepal" by The Banker, a publication of The Financial Times, London. The bank adjudged as "Number 1 Bank" under CAMELS (along with customer base and branch network) ratings conducted by the Karobar National Daily (a leading business media house of Nepal). The bank was bestowed with the "NICCI Excellence Award" by Nepal India Chamber Of Commerce for its spectacular performance under finance sector.

The bank has employed around 700 numbers of staff members. The bank has highest earning per share in the country of Rs. 86.04 for every Rs. 100.00 similarly based on Ashad end 2071 balance sheet the bank has highest reserved capital of around 165% (as a Percentage to the paid up capital). The deposit of the bank has been increased up to Rs. 6,210.81 crores and Loan and advance has been increased up to 4,845.03 crores. The shareholding pattern of the bank is Local owner ship 80% and 20% Punjab National Bank.

Nepal SBI Bank Limited (NSBI)

Nepal SBI Bank Ltd. is the first Indo-Nepal joint venture in the financial sector of Nepal established on July 7, 1993. It is a subsidiary of State Bank of India which has 55 percent of ownership and rest is held by the local partner viz., Employee Provident Fund of Nepal (15%) and general public (30%). 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 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. 55.05% of the total share capital of the Bank is held by the State Bank of India, 15.01% is held by the institutions and 29.94% is held by the general public. The bank has employed 538 numbers of staff members. The bank has total deposit of Rs. 5,449.30 crores whereas loans and advances are Rs. 3,527.96 crores as on Ashad end 2071.

2.4 Concept on credit management

Credit management is defined as the management of the risks and costs associated with allowing customers time to pay. The use of the word credit in the context of this policy relates to the provision of goods or services for payment at a later date. Prudent extension of credit means supplying goods and services with payment due generally on receipt of invoice. Payment periods (i.e. credit) may be offered where necessary to ensure that services remain accessible but will vary from service to service. Balancing the financial risk means evaluating the financial risk of providing goods and services in advance of payment and the likely protest of recovering the sums due. For non-statutory services this necessarily involves the checking of creditworthiness to inform decisions to provide services in advance of payment, or alternatively to insist on payment first where creditworthiness is in doubt.

Efficient collection of income means encouraging people to pay on time by offering a wide variety of payment methods, including direct debit and repayment and using cost effective collection methods, such as automated reminder letters, telephone calls and personal visits. It also means making decisions on the advancing of credit and the collection of debt in an equitable manner. A manner which considers financial status only (i.e. ability to pay) and not discriminating by age, gender, disability and ethnicity. Customer care and client sensitivity means handling all customer enquiries with courtesy and sensitivity and meeting the needs and expectations of different client groups, including offering flexible payment options and wide variety of payment methods.

2.5 Assets of a bank

The assets of a bank can be broadly classified under following categories;

Loans and advances

This is the major assets of a bank commanding higher proportion of total assets of any 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. 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. It is the failure to pay back a loan.

Investment

Investment is buying of 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. 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.

Fixed assets

These are items of value which the organization 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.

Non-banking assets

When a loan defaults, banks may have to take possession of a certain asset charged in its favor 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 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%.

Cash and equivalents

This includes other assets of banks like stationeries, accrued interest, sundry debtors, accounts and bills receivables, staff loans, cash in transit etc.

2.6 Loans and advances

Banks extend various types of loans and advances. They are classified as follows;

Overdrafts/Cash credits

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. 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.

Demand loans

This type 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.

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.

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 and machinery, land and building and 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.

Bridge loans

Sometimes, when a lending institution fails to disburse the loans already sanctioned either for want of completion of documentation formalities or for want of resources, a commercial bank is requested to extended loans for a temporary period as a stop gap arrangements which is known as "Bridge Loan". Some other bank bridges that gap in providing loan by the agreed institution, hence it call bridge gap loan.

Consortium loans

When the demand of the advance by the borrower is large and two or more banks agree to advance jointly in certain agreed proportion against a common security, it is called participation loans or consortium loan. As per the lending matrix and risk weighted exposure and capital adequacy of the bank, a single bank may not be able to fulfill the financial requirement of the large scale industries; in such cases these types of loans are facilitated.

Time loans

Time loan is also a working capital loan, given for a period of less than one year and has a fixed maturity date. Time loans can be one time specific the borrower is not allowed to withdraw once settled, and revolving once is settled, further drawing is allowed within the validity of the limit.

Pre-shipment loans

It is time loan of revolving nature provided to exporters to manufacture goods for export, against the security of an Export Letter of credit.

Post-shipment loans

After completion of manufacturing of goods, the exporter ships the goods as per the letter of credit terms and submits all required documents to the bank and requests for a loan which is called Post-Shipment Loan.

2.7 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 was 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. Housing Loans, Vehicle Loans, Education Loans, Personal Overdrafts etc. are some examples of it. These loans also helped banks to diversify their risks. Nowadays, these types of loans constitute 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.

2.8 NRB directives on non-performing assets (NPA)

Non-performing asset means an asset or account of borrower, which has been classified by a financial institution as sub-standard, doubtful or loss asset, in accordance

with the directions relating to asset classification issued by Nepal Rastra Bank. NRB Directives 2069 point no. 2 is relating to credit classification and provisioning.

Pass loan

Loan and advances whose principal amount is not past due and past due for a period up to 3 months shall be included in this category. These are classified and defined as performing loan.

Sub-standard loan

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

Doubtful loan

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

Loss loan

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

Additional arrangement in respect of pass credit

Loans and advances fully secured by gold, silver, fixed deposit receipt and securities of Nepal Government shall be included under "Pass" category. However, where collateral of FDRs, Nepal Government securities or NRB bonds is placed against loan for other purposes, such loan has to be classified on the basis of ageing. Loans against FDRs or other banks shall also qualify for inclusion under pass credit.

Additional arrangement in respect of loss credit

Even if the credit is not past due, loans having any or all of the following discrepancies shall be classified as "Loss".

i. No security at all or security that is not in accordance with borrower's arrangement with the bank

ii. The borrower has been declared bankrupt

iii. The borrower is absconding or cannot be found

iv. Purchase or discounted bills are not realized within 90 days from the due date.

v. The credit has not been used for the purpose originally intended.

vi. Owing to non-recovery, initiation as to auctioning of the collateral has passed six months and if the recovery process is under litigation.

vii. Loans provided to borrowers included in the blacklist and where the credit information bureau blacklists the borrower.

Loan loss provisioning

The provisioning on outstanding loans and advances as per NPA directives, shall be as follows:

Table 2.1

Loan Loss Provisioning

S. No.	Classification of Credit	Loan Loss Provision
1	Pass	1%
2	Substandard	25%
3	Doubtful	50%
4	Loss	100%

Source: NRB Directives 2069 point no. 2

Loan loss provision set aside for performing credit is defined as "General Loan Loss Provision" and loan loss provision set aside for non-performing loan is defined as "Specific Loan Loss Provision".

Rescheduling and restructuring of credit

In respect of loans and advances falling under the category of substandard, doubtful or loss, banks may reschedule or restructure such credits only upon receipt of a written plan of action from the borrower citing the following reason:

i. The internal and external causes contributing to deterioration of the quality of credit.

ii. The reduced degree of risk inherent to the borrower/enterprise determined by analyzing its financial statements to estimate cash flows, in addition to assessing market conditions

iii. Evidence of existing of adequate loan documentation

iv. An evaluation of the borrower/enterprise's management with particular emphasis on efficiency, commitment and high standards of business ethics.

Loan loss provisioning in respect of reschedule, restructured or swapped credit

i. Except for priority sector, in respect of all types of reschedule or restructures or swapped credit, is such credit falls under pass category according to NRB directives, loan loss provisioning shall be provided at minimum 12.5%.

ii.   In case of rescheduling or restructuring or swapping of insured or guaranteed priority sector credit, the loan loss provisioning shall be provided at one fourth of the % mentioned in clause (a).

iii.   In respect of swapped credits, the bank accepting the credit in swapping has to provide loan loss provision classifying the credit under the same classification as were exiting. The bank accepting the credit in swapping shall obtain certification from the concerned bank of financial institution as to the existing classification.

2.9   Overdue and interest suspense

The loan or installment of loan which is not paid within its due date is called overdue loan. The loan account 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 is not paid within due date then it becomes overdue. The revolving credit account becomes overdue when the loan is not renewed within expiry date. More than this the early sign of the sickness is shown by the Interest Suspense. Nowadays, 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.

2.10   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. 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 banks in Nepal, operating expenses includes staff expenses, rent, utility bills, insurance, stationary and periodicals, repairs and maintenance and exchange fluctuation losses etc.

2.11 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 14% return on its advances and has to pay 10% interest on its deposit. Then the interest spread of the bank is 4% which must cover all the cost of the bank and provide profit.

2.12 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.

2.13 Capital adequacy framework

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. 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.

Basel capital accord I

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. 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.

Tier I capital

Capital that is fully paid up and having no fixed servicing or dividend costs attached to it and freely available to absorb losses qualify 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 includes:

i.   Paid Up Equity Capital

ii.   Irredeemable non-cumulative preference shares

iii.   Share Premium

iv.   Proposed Bonus Equity Share

v.   Statutory General Reserve.

vi.   Retained Earnings available for distribution to shareholders.

vii.   Un-audited current year cumulative profit

viii. Capital Redemption Reserves created in lieu of redeemable instruments.

ix.   Capital Adjustment reserves

x.   Dividend Equalization Reserves.

Figure 2.1

Sources of Capital as per Basel I

```
                        ┌─────────────────────────┐
                        │      Bank Capital        │
                        └─────────────────────────┘
                                    │
                ┌───────────────────┴───────────────────┐
      ┌──────────────────┐                  ┌──────────────────────┐
      │      Tier I      │                  │        Tier II       │
      │   Core Capital   │                  │ Supplementary Capital│
      └──────────────────┘                  └──────────────────────┘
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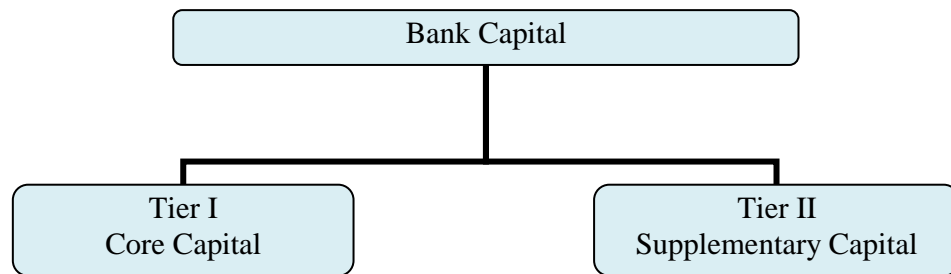
Tier II capital

It is the secondary capital of the bank. It consists of;

i.   Cumulative and/or Redeemable Preference Share

ii.   Subordinated Term Debt

iii.   Hybrid Capital Instruments

iv.   General Loan Loss Provision

v.   Assets Revaluation Reserve

vi.   Exchange Equalization Reserve

vii.   Investments Adjustment Reserve

viii. Other Reserves

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

Rate of proposed capital requirement

i.   Tier I capital of not less than 6% of total risk weighted exposure.

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

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 risk, market risk and operational risk.

Basel capital accord II

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 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.

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.

Figure 2.2

Three Pillars as per Basel II
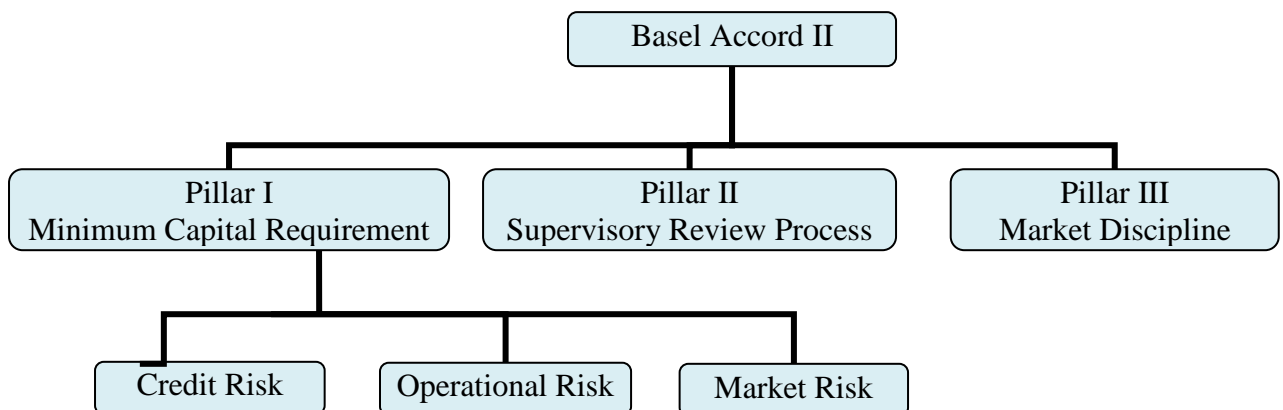
With a view of adopting the international best practices, NRB has already expressed its intention to adopt the Basel II framework in a simplified form. In line with

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.

Table 2.2

Risk Calculation Approaches of Basel II

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	Net Open Position

Source: NRB Capital Adequacy Framework 2008

A major innovation of the Basel II is the introduction of distinct options for the calculation of risks. Banks can select the most appropriate approach to the stage of development of bank's operations and of the financial market infrastructure. Nepal is following simplified Standardized Approach for Credit Risk, Basic Indicator Approach for Operational Risk and Net Open Position Approach for Market Risk.

2.14 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 S.D. of the historical 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. There are various sources of risk which sums up to a total risk of project. They are:

Interest rate risk

Interest Rate Risk is defined as the potential variability of return caused by change in the market interest rates. There might have been regular change in interest both in the deposits and lending due to which the bank has risk of interest.

Industry risk

Industry risk is that portion of a 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, taxes, labor union problems, environmental restrictions, raw material availability, and similar factors interact and affect all the firms in an industry.

Benefit shortfall (demand risk)

A benefit shortfall results from the actual benefits of a venture being lower than the estimated benefits. Sometimes the terms "demand shortfall" or "revenue shortfall" are used instead of benefit shortfall. 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. Sometime legal risk has been also occurred due to not obtaining the full legal documents from the client. Hence, bank has to obtain the complete legal documents at the time of disbursement of the loan.

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. Regardless the changes that cause political risk are sought by political or economic interests, the resulting variability of return is called political risk if is accomplished through legislative, judicial, or administrative branches of the government.

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 wield enormous power within their organization, they are mortal of marking 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.

2.15 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 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.

There are three primary strategies used in improving diversification:

  i.   Spread the portfolio among multiple investment vehicles

  ii.   Vary the risk in the projects.

  iii.   Vary your exposure by industry, or by geography.

Figure 2.3

Benefits of Diversification
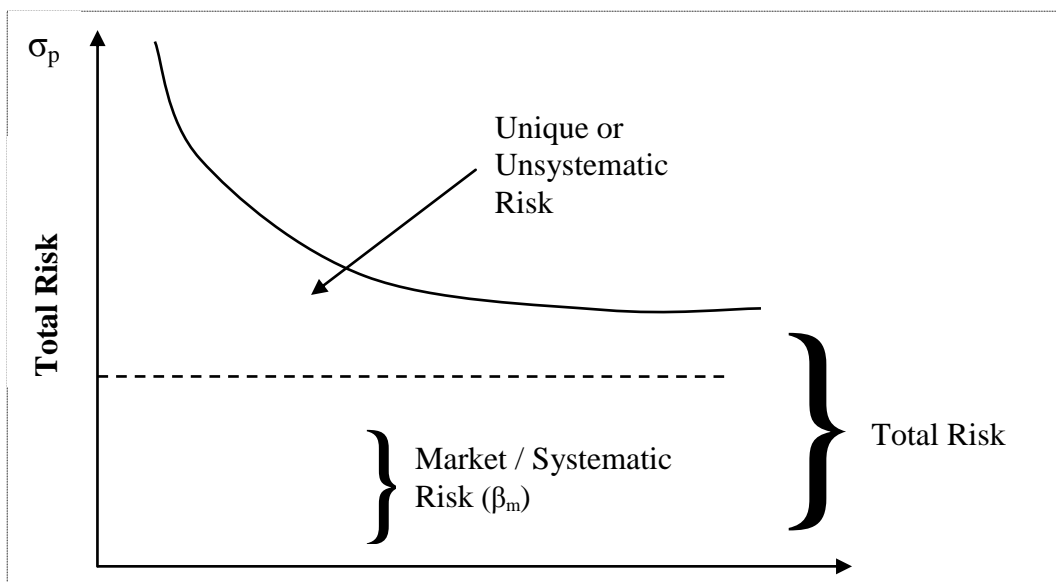
Source: Van Horne & Wacowicz; (2001), 102

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. 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.

2.16 Asset selection procedure (Pre-sanction appraisal)

The lending process may vary according to size and type of loan and the bank. The general steps in lending process followed by most banks are:

Loan application

Loans arise from a direct request from a customer who approaches bank or marketing from loan officers who solicits the targeted customers. The applicant then fills a loan application form. The application form has all information i.e. loan amount, purpose, name and address of the loan applicant, repayment plan, 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.

Site visit

In the site visit, physical existence and activity of the borrower and his business is verified. The officer verifies the collateral property, its location, sale ability, access, infrastructure conditions etc. Site visit also helps to verify the accuracy of the information provided by the applicant and reveals the degree of customer's sincerity and character.

Reference check

The loan officer may contact other creditors/customers who knows the applicant from other personal/official, formal/informal sources. The reference check enables loan officers to know the past history of client, their past banking relationship and their credibility and credit worthiness.

Documentation

If everything is favorable, the customer is asked to submit several documents to evaluate the loan request, including complete financial statements and other legal papers.

2.17 Credit analysis

Once all the 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 to the appropriate authority for approval. It is this stage where analysis of 5 C's of Credit is done and approaches taken by different banks are different.

2.17.1. Five C's of credit

Character

Character is vital area of credit appraisal. Even if having good financial indicators, the character of the clients associated with credit application is found to be negative then the appraisal process should be stopped. It is important to know the willingness to pay of the clients who are ready to take any credit facility. 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.

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. 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.

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. It is also termed as equity portion as well. It measured with borrower's margin in project, Debt/Equity ratio. There is thumb rule in the project financing that debt equity should be 60:40 whereas, working capital financing can be done in 70:30. But the debt equity ratio is different based on the credit decision of commercial bank.

Collateral

Collateral is represented by fixed assets generally land and building the customer offers as a pledge for security for the credit extended. Banks lend on the basis to distress value of the property. In normal practice, generally 70% of market value and 30% of government value is taken as fair market value which is further lowered to 70% of either at 80% of fair market value as distress value. There are different practices on banks to arrive at distress value and in collateral coverage sought.

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 obligations. Generally, certain powers are delegated to branch level; the loan sizes beyond that power are forwarded to the appropriate authorities at corporate office.

At, corporate office the loan proposal is reassessed by the Credit Control Cell and forwarded to appropriate authority. The loan is sanctioned as recommended or by reducing limits, adding extra covenants as deemed necessary by the authority.

2.18 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 monthly, quarterly, semiannually or annually to ensure that the unit is running satisfactorily, the asset quality is not degrading; all the terms and conditions are fully complied with. They 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.

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 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 makes sense to the borrower that the bank cares. This can be done on yearly or half yearly basis.

For the business loans, 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 misused. Different banks set different conditions for this. 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.

2.19 Asset liability management (ALM)

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 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. Some of the preventive measures that a banker has to follow to safeguard the lending are;

Corporate good governance

NRB has issued a code of conduct for directors, CEO and staff in relation to good corporate governance of a bank.

Capital adequacy

Credit risk of a bank should be adequately covered by the banks stakeholder's resources. For this, banks have been instructed to raise their paid up capital as per the minimum paid up capital requirement of a financial institution.

Formulate and implement credit policy guidelines

Every lending institution must have an internal credit policy guideline (CPG) in order to pursue prudent credit management procedure as per NRB regulations.

Prudent loan classification and provisioning

In order to safeguard a bank from default risk, classification of loan and loan loss provisioning standard has been prescribed as per international standard. In the situation of loan write-off the provisioned amount sets-off the bad debts.

Concentration of assets

High concentration of loan in one particular industry means high risk to the bank. As per NRB guidelines, loans are to be extended in at least 14 sectors.

Proper system of collection of interest and principal

High interest earning and good assets quality is the prime motivational factors in the banking business but aggressive lending jeopardizes it. Hence, banks are instructed to account the interest and principal earned only after realizing it on cash with due diligence.

Discourage to invest against risky assets

Investment against shares, debenture, bonds etc. is a risky business. High concentration of loan against such securities must be discouraged by the central bank.

Rehabilitation of sick industries

If the unit is genuinely suffering from cash crunches due to acceptable reasons, bank has to provide additional fund to revive and nourish the unite bank to health again. For this purpose, NRB has provided refinance facility for the rehabilitation of sick industries since 2001-2002.

Reschedule or restructure loans

In order to give room to sick industries, banks extend the due date of loan, lowers interest rate, delays payment date of the principal or a combination of these. Rescheduling means rearranging the payment dates of a term loan. Restructuring means to change the type of loan with the payment dates.

Credit rating agency (CRA)

Credit Rating Agencies assesses the credit risk a borrower inherits in a professional way. This helps to identify and avoid the risk for banks. Basel-II accord also demands the presence of CRAs in the financial system.

2.20   Principles for good lending

Banks perform lending activities from which they earn about 80 % of income. In order to mitigate risk, they should follow the following principles of good lending;

Principle of safety

When lending is made, a banker must ensure that the advance made is safe and secured. This means the money will definitely come back to the bank. A good banker should know his customer and be able to judge not only his integrity but also his ability to use the bank's money to his advantage and repay it within the stipulated period.

Principle of liquidity

Bank often make a tuning of their deposit with their lending such as long term deposit with long term lending and short term deposit with short term lending. A bank should not forget the principle of liquidity while it is following its investment policy. Bank should try to move the liquidity and profit together.

Principle of profitability

The objective of the commercial bank is to earn profit. The bank should follow the objective by focusing it on the sectors in which it can earn much profit. The bank should keep on investing the means and materials in appropriate and safe area with an appropriate investment policy in such a sectors from which it can earn.

Principle of marketability

A bank should adopt the principle of marketability in investment policy. In a certain way, the bank moves its investment or flows loan against security. In such, the bank should follow the policy of taking the security of high quality, reasonable price and marketability as far as possible.

Principle of national interest, suitability

A bank, while it applies its investment policy should give importance to the national interest and social responsibility; however an application of such policy will not earn much profit. The objective of the bank to gain profit should not go against the national interest and it should follow the rules and regulations of Nepal Rastra Bank.

Principle of price stability

Security of the property which is taken by the bank must be durable. But, it cannot be said that the price stability of any property will always remain the same. Therefore, the bank should make investment by keeping the securities that keep the price stable.

Principle of spread

It would be appropriate to quote the saying *"Do not put all your eggs in one basket".* A successful banker is the person who can assess risks and spreads the lending over a large number of borrowers, various sectors, different industries and areas and against different types of securities.

2.21 Review of related articles

Ahmad, (2001) had concluded that forward looking approach should be taken while making credit appraisals. He suggested 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. He stated that lending officer should have reliance on identifiable cash flows for the first way out to repay the loan rather than the security itself.

Muniappan, (2002) had revealed 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. 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. He further explained that banks should manage their lending within the appropriate exposure limits.

Subedi, (2002) had found that there has been noticeable increase in credit outflow by the commercial banks except of NBL and RBB in the first six month of fiscal year 2002/03. 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%. 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. HBL has the highest growth

of 18.47% in CD ratio over the last year. Similarly, NABIL, EBL and NSBI have recorded growth rates of 6.28%, 1.83% and 7.45% respectively in their CD ratio.

2.22   Review of books

Shrestha, (2007) had stated that commercial banks offer two types of credit facilities namely funded facility and non-funded facility. In the case of funded facilities offered, cash is involved such as in overdraft, short term and long term loans etc. And, in the case of non-funded facility, cash is not involved but only the contingent liabilities are increased such as LC and guarantee offered by banks. Normally, commercial banks offer short- term facilities, as the major portion of deposit, they maintain are of short- term in nature. Short term facilities can be on secured basis (when there is tangible security) and on unsecured basis (without any security)

2.23   Review of dissertations

Some of the relevant thesis works have been reviewed are presented below:

Poudel, (2002) had found that the banks do not have constant and consistent liquidity and investment policy. Liquidity position and investment growth of EBL is comparatively better than NABIL. He further revealed that there is no uniform rate for maintaining liquidity by the commercial bank. So, banks should 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.

Khaniya, (2003) had concluded that mean return on total assets of all banks SCBNL, HBL and NBBL have good performance except EBL. SCBNL and EBL have mobilized their funds in investment higher than the standard ratio, whereas NABIL bank's investment is slightly below the standard ratio. NABIL, SCBNL and HBL has been investing low amount of deposits on loan and advances, which is lower than industry average, and NBBL and EBL have invested a high amount of deposit to loan and advances, which is higher than industry average. Similarly, looking at EPS, SCBNL has highest EPS and EBL has the lowest EPS. NABIL is almost equal and HBL has above mean EPS in comparison to industry average. There is negative correlation between investment in government securities and portfolio return of JVBs. Likewise, there is negative correlation between loan and advances in private sector and portfolio return of five JVBs in Nepal.

Bajracharya, (2006) had found that the total investment of development financing increased from Rs. 7.13 billion in FY 057/58 to Rs. 12.85 billion in FY 063/64 registering an annual average growth trend of Rs. 0.82 billion or 10.43%. The total collection of

development financing increased from Rs. 5.34 billion in FY 057/58 to Rs. 11.84 billion in FY 063/64 registering an annual average growth trend of Rs. 0.93 billion or 14.22%. The total outstanding of development financing increased from Rs. 12.89 billion in FY 057/58 to Rs. 22.18 billion in FY 063/64 registering an annual average growth trend of Rs. 1.33 billion or 9.53%. He further concluded that actual loan investment/disbursement, collection and outstanding of short term is gradually increased every year. The lowest percentage of loan collection to disbursement is 76.46% in FY 060/61 and the highest is 87.33% in FY 063/64.

Bhandari, (2007) had concluded that the deposit rates and lending rates have slightly increased after liberalization of interest rates on August 31, 1989 after that these rates started to decline. Commercial banks 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.

Neupane, (2009) had revealed that cash and bank balance to current deposit of the bank shows the fluctuating trend during the study period. Similarly, cash and Bank balance to interest sensitive ratio of EBL is also in fluctuating trend. Credit and advance to fixed deposit ratio of EBL is fluctuating trend. The mean ratio is 2.26 times in the study period. However, non-performing assets to total assets of EBL is in declining trend, whose mean ratio is 0.978%. The debt to access ratio of EBL is excessively high or in other words they have excessively geared capital structure. On an average 93% of assets is financed through debt capital that is outsiders cost bearing fund. Return on loan and advances of EBL are also in fluctuating trend. The mean ratio of 2.2% shows the normal earning capacity of EBL.

Singh, (2012) had stated that the performing loan of Everest Bank Ltd is in increasing trend and the NPL ratio is in decreasing trend which shows EBL is efficient in utilizing their assets and are successful in decreasing their NPL ratio. He found that EBL has highest management efficiency ratio due to high quality management experience of PNB – India. EBL has the increasing trend of EPS. It has the highest EPS in the banking industry. He further concluded that EBL has maintained all of the NRB standards such as CAR, CCR, and CRR for the protection of depositor and investors.

2.24   Research gap

The purpose of this research is to develop some expertise in one's area, to see what new contribution can be made and to receive some ideas, knowledge and suggestion in

relation to credit management of selected commercial banks (i.e. NSBI and EBL) as they are strong Indian joint venture bank. Previous studies also cannot be ignored because they provide the foundation to the present study. This research is different than other research due to following points;

- In previous study, researcher has not provided the practical example. However to simplify this study, some practical example has been given which will be easier to understand the terms related to credit.

- This research has been based on two commercial banks i.e. NSBI and EBL as they are joint venture with two big state banks of India.

- The research is different in terms of various analytical tools used during the research. Such tools are not used on previous study.

- In other words, this research is different because similar research has not been done by other researcher during the study period.

- Researcher found the gap between the previous study as most of the previous study is based on portfolio management showing the risk and return analysis of the stock of commercial banks, liquidity, credit management of single bank, portfolio management of banks assets mainly of investments, but none of the researches are able to analyze of all round credit management focusing loans, NPA, efficiency of assets.

- Previous research was also not able to show the real picture about how the banks are managing their credit, like earning power assets, asset quality, monitoring of assets, liquidity management and loss absorbing capacity.

CHAPTER III

RESEARCH METHODOLOGY

Research methodology is the process of arriving to the solution of the problem through planned and systematic dealing with collection, analysis and interpretation of facts and figure. It is a way to systematically solve the research problem; it may be misunderstood as a science of studying how research is done scientifically. In this we study the various steps that are generally adopted by a researcher in studying the research problem along with the logic behind them. It is inquiry time into any subject matter, which is an endeavor to discover to find out valuable fact, which would be useful for future application or utilization. A systematic research study needs to be followed to achieve predetermined objectives. So in this study Research Methodology has been paid due attention to achieve the objectives of the study.

3.1   Research design

A research design is the specification of methods and procedures for acquiring the information needed. It is the overall operational pattern of framework for the project that stipulates what information is to be collected from which sources and by what procedures. Thus a research design is a plan for the collection and analysis of data. For research there exist different types of research design which are Historical Research, Descriptive Research, Case Study Research, Field Study Research, Analytical Research, and True Experimental Research. Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance. A descriptive as well as deductive research has been carried out for the purpose of this research. Descriptive research is a major research design since this research is going to describe the secondary data obtained from the various sources. Further the data used in this research is quantitative. The findings of this research are based upon the secondary data. Hence, the finding is totally based on the data and facts published by the both entity.

3.2   Population and sample

A small portion chosen from the population for studying its properties is called a sample and the number of units in the sample is known as the sample size. The method of selecting for study a small portion of the population to draw conclusion about characteristics of the population is known as sampling. Sampling may be defined as the

selection of part of the population on the basis of which judgment or inference about the universe is made.

There are 30 commercial banks in Nepal till this date as per NRB web site. Among these banks, this study intends to dissert the asset management practice of 2 sample commercial banks. For selecting the samples, non-random sampling method is used here, among different methods. The samples are taken out only from commercial banks. The sample commercial banks are:

i. Everest Bank Ltd.

ii. Nepal SBI Bank Ltd.

Likewise, financial statement of five years (from 2065/66 to 2069/70) is selected as samples for the purpose of it.

3.3   Nature and sources of data

Basically this study will include the secondary data relating to the investment and policies regarding the credit of the commercial banks. This study includes secondary data relating to "Credit" e.g. deposit, loans and advances, and profit/loss that have been collected from profit and loss account, balance sheet of related banks and annual report of auditors. Other relating data are obtained directly from the related authorized persons of concerned banks, regulating authorities' i.e. annual reports of Security Exchange Board of Nepal and Nepal Rastra Bank, banking statistics, fiscal and monetary policies, newspaper journals, previous studies and books. According to the need and objective of the study, all the secondary data will be collected, observed, processed and tabulated in the time series. The annual reports and other details of the sample banks are taken from the websites of concerned banks.

3.4   Data collection procedures

Since, most of the data have been obtained from secondary sources, after collection of financial reports, master sheet of financial data have been extracted and tabulated as per the need of this study. Most of the data have been compiled in one form and processed and interpreted as required. To some extent, opinion survey or informal interview and questionnaire are conducted to obtain more information and to prove the reliability of the different published data.

3.5   Data processing and presentation

The information and data obtained from the different sources are in raw form. For the study, only required data are taken from the secondary sources and presented. Likewise, in some case, graphical presentation is also made. Calculations that are related

to this study are done with the help of scientific calculator as well as computer software program.

3.6 Tools of data analysis

To achieve the objective of this study some statistical and accounting tools have been used. The data extracted from financial statement and other available information are processed and tabulated in various tables and charts under different heading according to their nature. These data are then used for required calculations like ratio analysis, statistical analysis, growth ratio and accounting tools are used to examine the financial strengths and weakness of the bank. Also some absolute figures and growth percentages are measured. Following are the brief introductions of the financial and statistical tools used in this study:

3.6.1 Financial tools : Ratio analysis

Financial ratios are calculated to ascertain the financial condition of the firm. It is the relationship between financial variables contained in the financial statements (i.e. balance sheet, income statements etc.). It helps the related parties to spot out the financial strength and weakness of the firm. There are several financial tools, which can be applied in order to analyze the performance of commercial banks. Some of them are as follows;

NPA percentage

The ratio of total non-performing asset (NPA) to gross loans and 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. It is expressed as;

$$\% \text{ age NPA} = \frac{\text{Total NPA}}{\text{Gross Loans and Advances}}$$

Credit to 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. This is given by;

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

Investment to 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. It is calculated by;

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

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 is better the earning capacity of the 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. It is shown as;

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

Yield on investments

This ratio shows the earning capacity of Investment. Higher the ratio is better the position of the bank. However, higher ratio also may be due to investment in risky and illiquid securities. It is expressed by;

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

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. It is shown as;

Average Spread = Yield on Advances - Cost of Deposit

Operating expenses to 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. This is given as;

$$Ratio = \frac{Operating\ Expenses}{Total\ Assets}$$

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. It is calculated as;

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

Fixed assets to Total loans and advances

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

$$Ratio = \frac{Fixed\ Assets}{Total\ Loans\ and\ Advances}$$

Capital adequacy ratio

Capital acts as 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 and Tier II Capital is Total Capital or Capital Fund.

So there are three types of capital adequacy ratios. They are;

    i.   Core Capital/Total Risk Weighted Asset

    ii.   Supplementary Capital/Total Risk Weighted Asset

    iii.   Capital Fund/Total Risk Weighted Asset

3.6.2 Statistical tools

Various financial tools mentioned above are used to analyze the credit management. Likewise, the relationship between different variables related to the study topics can also be drawn using statistical tools. The statistical tools used in this research study are explained briefly as follows:

Simple arithmetic mean or Average

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. The mean or average values are a single value within the range of the data that is used to represent all the values in the series. Since an average is somewhere within the range of the data, it is also called a measure of central value or central tendency. Arithmetic mean is also known as the arithmetic average. Average value is obtained by adding together all the terms and dividing this by the total number of items. Mean or average is represented as:

$$\text{Average/Arithmetic Mean } (\bar{X}) = \frac{\sum X}{N}$$

Where,

$\sum X$ = Sum of total value of observation

N= Number of observations

Standard deviations (S.D.)

The measurement of the scatterness of the mass of figures in a series about an average is known as dispersion. The standard deviation is the measure that is most often

used to describe variability in data distributions. It can be thought of as a rough measure of the average amount by which observation deviate on either side of the mean. The S.D. measure the absolute dispersion which is extremely useful for judging the representatives of the mean. The greater the amount of dispersion indicate greater the standard deviation. A small S.D. means a high degree of uniformity of the observation as well as homogeneity of the series. It is presented as:

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum(x - \bar{x})^2}{N}}$$

Where,

$\sum(x - \bar{x})^2$ = Sum of squares of the deviations measured from the arithmetic average

N = Number of Items

Coefficient of variation (C.V.)

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. . It can also be thought of as the measure of relative risk. Larger the coefficient of variation is, greater the risk relative to the average of variables. Mathematically,

$$\text{Coefficient of Variation (C.V.)} = \frac{\sigma}{X} \times 100$$

3.6.3 Trend analysis

Under this topic, analyzing the trend of deposit, loan and advances, interest income and non-performing asset of NSBI and EBL from F/Y 2065/66 to F/Y 2069/70 are analyzed that helps to make forecasting for next five years up to 2074/75. The following trends of the concerned banks have been computed for the analysis:

- Trend analysis of Total Deposit
- Trend analysis of Gross Loan and Advances
- Trend analysis of Net Interest Income
- Trend analysis of Non - Performing Asset.

The trend analysis of related variable can be calculated as; Y = a + bx

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Analysis of ratios

This is the analytical part of the study, this chapter deals with the presentations, analysis and interpretation of the relevant data of NSBI and EBL in order to fulfill the objective of this study. The main purpose of this chapter is to analyze and evaluate the data through the major financial and statistical tool.

An arithmetic relation between two figures is 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. 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 done on the basis of information provided by the ratio analysis with the help of financial statement which 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 and advances

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

Table 4.1
Gross Loans and Advances of EBL & NSBI

(Amount in Millions)

Year	2065/66	2066/67	2067/68	2068/69	2069/70	Average	S.D.	C.V.
EBL	24,469.56	28,156.40	31,661.84	36,616.83	44,197.76	33,020.48	7,010.25	21.23%
Growth %	29.91%	15.07%	12.45%	15.65%	20.70%	18.76%	8.83%	29.91%
NSBI	15,612.05	17,963.64	21,718.79	26,463.67	29,193.90	22,190.41	5,094.79	22.96%
Growth %	22.48%	15.06%	20.90%	21.85%	10.32%	18.12%	5.47%	30.18%

Source: Appendix 1

Figure 4.1

Gross Loans and Advances of EBL and NSBI
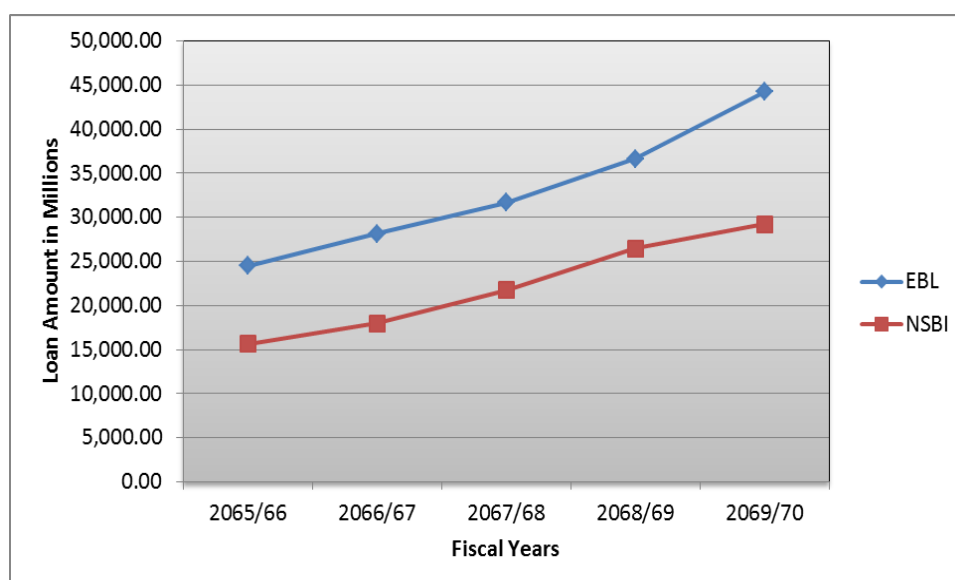
The above table and figure shows that the gross amount of loans and advances of two banks on respective years are growing in volumes. However, the growth rate of loans and advances of both banks during the study period is fluctuating. The growth rate of EBL is on decreasing trend from the beginning and has taken an increasing trend in the last two study periods from 2068/69. The growth rate of NSBI is fluctuating over the study period. It has decreased in the year 2066/67 and 2069/70. Average growth rate of EBL during the study period is 18.76% and that of NSBI is 18.12%. The average growth rate of EBL and NSBI has slight difference. The gross loans and advances of EBL in each year are higher than that of NSBI which is mainly due to aggressive lending strategy of EBL.

Table 4.2

Loans and Advances, No. of Branches and Business per Branch

(Amount in Millions)

Year	EBL			NSBI		
	Loans & Advances	No of Branches	Business per Branch	Loans & Advances	No of Branches	Business per Branch
2065/66	24,469.56	32	764.67	15,612.05	32	487.88
2066/67	28,156.40	37	760.98	17,963.64	43	417.76
2067/68	31,661.84	43	736.32	21,718.79	50	434.38
2068/69	36,616.83	47	779.08	26,463.67	50	529.27
2069/70	44,197.76	50	883.96	29,193.90	56	521.32

Source: Appendix 2

Table 4.2 clearly shows the growth of loans and advances volumes of EBL and NSBI is in increasing trend. NSBI has expanded its branch network rapidly from the year 2065/66 to 2067/68 and remained constant for one year and again made expansion of 6 branches in the final year of study period. Business per branch of the NSBI is fluctuating during the study period may be due to the huge branch expansion costs. EBL has continuously expanded its branch network during the study period. Its branches have reached from 32 branches at the beginning to 50 branches at the end. Branch business is on decreasing trend till 2067/68 and has taken a growth from 2068/69. From the figures above, it can be also concluded that both banks are focused on branch expansion during this research period.

4.3 Non - performing assets (NPA) to Total loans and advances

Table 4.3

NPA percentage of EBL and NSBI

Year	2065/66	2066/67	2067/68	2068/69	2069/70	Average	S.D.	C.V.
EBL	0.90%	0.45%	0.34%	0.84%	0.62%	0.63%	0.36%	57.17%
NSBI	3.40%	2.74%	1.10%	0.54%	0.37%	1.63%	1.33%	81.37%

Source: Appendix 3

The above table presents that the NPA as a percentage of total credit of both banks is on decreasing trend during the study period. However, it has highly increased in the year 2068/69 of EBL. The NPA figures of EBL are always lower than that of NSBI except in the year 2068/69 and 2069/70. Average NPA % of EBL during the study period is 0.63% which is far lower than that of NSBI having 1.63%. During the study period variability of NPA% of NSBI is higher than that of EBL shown by CV of 81.37% against 57.17% of EBL. NSBI has made considerable recovery during the study period. The following table (Table 4.4) showing NPA amount in rupees, growth percentage of NPA and growth percentage of loans and advances sheds some light on it.

Table 4.4 shows better NPA recovery of both banks. There is only marginal amount of NPA growth compared to the growth in loans and advances. However, on 2068/69, the NPA of EBL has increased significantly. During the year NPA of EBL has grown by 183.37% with the NPA amount of Rs. 307.49 million where total credit grew by 15.65%. The growth on advances of banks is on fluctuating trend. EBL has taken a decreasing trend since the beginning and has increased only in the final year. Whereas, NSBI has decreasing trend at the beginning but has been increased from the year 2067/68 and decreased in the final year. All other years are highly satisfactory for the both banks.

Table 4.4

NPA Amount, NPA Growth and Loans and Advances Growth

(Amount in Millions)

Year	EBL			NSBI		
	NPA in Rs.	Growth % of NPA	Growth % of L&A	NPA in Rs.	Growth % of NPA	Growth % of L&A
2065/66	220.96	-21.41%	29.91%	530.88	-30.62%	22.48%
2066/67	125.56	-43.18%	15.07%	492.58	-7.21%	15.06%
2067/68	108.51	-13.58%	12.45%	239.30	-51.42%	20.90%
2068/69	307.49	183.37%	15.65%	143.85	-39.89%	21.85%
2069/70	276.20	-10.18%	20.70%	108.69	-24.44%	10.32%

Source: Appendix 4

Figure 4.2

Non – Performing Assets of EBL and NSBI
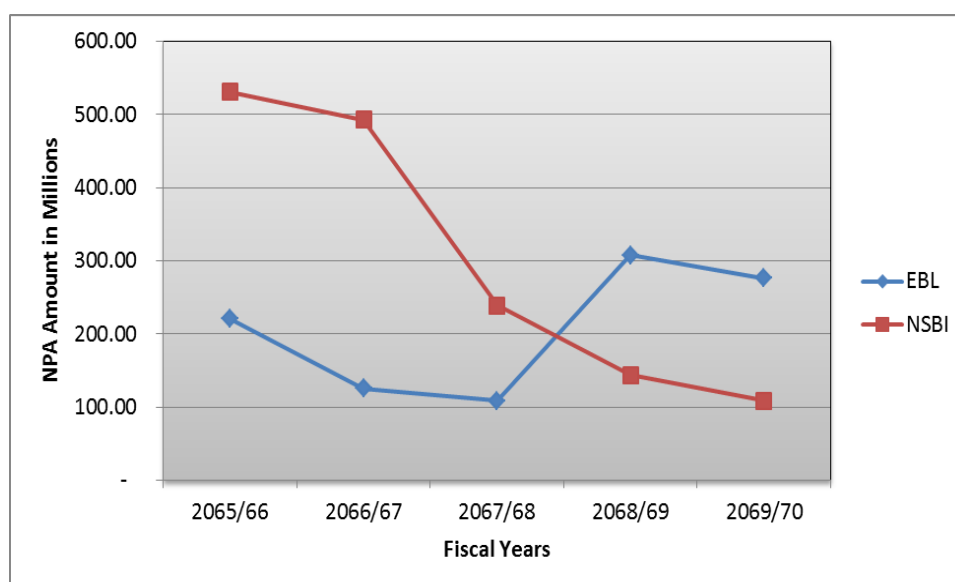
Figure 4.2 shows that NPA of the NSBI is in decreasing trend during the study period. Trend line of NSBI shows that recovery trend is improving. NPA of the EBL is in decreasing trend up to 2067/68 then after it has increased in 2068/69 but again has decreased in the final study period. Trend line of the EBL shows that recovery of the loan is low as compared to NSBI and it has taken a fluctuating trend.

4.3.1 Composition of non – performing assets

Composition of NPA constitutes the breakdown of NPA figures into Substandard, Doubtful and Loss. Some of the banks deliberately hide their NPA showing it in rescheduled/restructured heading. Though this figure does 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 4.5

Composition of Non – Performing Assets of EBL

(Amount in Millions)

Year	Restructured		Substandard		Doubtful		Loss		Total NPA in Rs.
	Amount	% age	Amount	% age	Amount	% age	Amount	% age	
2065/66	102.98	46.60%	1.36	0.62%	28.51	12.90%	88.11	39.88%	**220.96**
2066/67	81.85	65.19%	5.47	4.36%	12.63	10.06%	25.60	20.39%	**125.56**
2067/68	14.21	13.09%	72.92	67.20%	4.41	4.06%	16.97	15.64%	**108.51**
2068/69	0.75	0.24%	77.41	25.18%	10.45	3.40%	218.88	71.18%	**307.49**
2069/70	0.00	0.00%	6.46	2.34%	10.41	3.77%	259.33	93.89%	**276.20**

Source: Annual reports FY 2065/66 to 2069/70

Figure 4.3

Composition of Non – Performing Assets of EBL
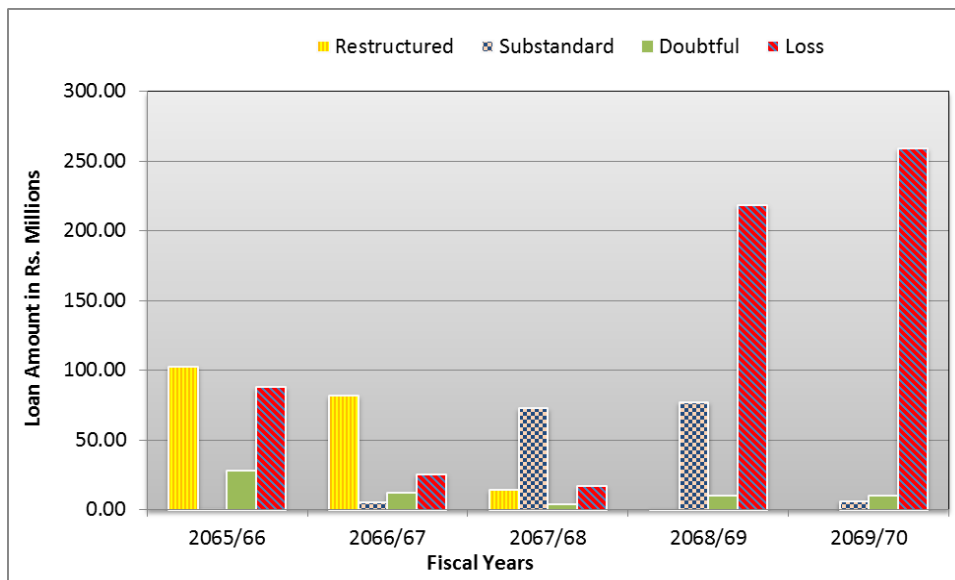
The above table and figure shows that a non–performing asset of EBL is fluctuating during the study period. It has decreased till the year 2067/68 and increased in the year 2068/69. The composition of NPA shows that the EBL has high volume of rescheduled loans at the beginning of Rs. 102.98 million which has been nullified at the end. And the bad loan loss volume has been highly increased to Rs. 259.33 million at the end from Rs. 88.11 million in the beginning. Some portion of the NPA has been transferred to the substandard and doubtful category also.

Table 4.6

Composition of Non – Performing Assets of NSBI

(Amount in Millions)

Year	Restructured		Substandard		Doubtful		Loss		Total NPA in Rs.
	Amount	% age	Amount	% age	Amount	% age	Amount	% age	
2065/66	214.93	40.48%	13.24	2.49%	11.34	2.14%	291.38	54.89%	**530.88**
2066/67	227.45	46.17%	12.98	2.63%	1.11	0.23%	251.04	50.97%	**492.58**
2067/68	139.94	58.48%	2.40	1.00%	1.80	0.75%	95.16	39.77%	**239.30**
2068/69	106.40	73.97%	4.58	3.19%	2.85	1.98%	30.01	20.86%	**143.85**
2069/70	27.63	25.42%	0.00	0.00%	0.00	0.00%	81.06	74.58%	**108.69**

Source: Annual reports FY 2065/66 to 2069/70

Figure 4.4

Composition of Non – Performing Assets of NSBI
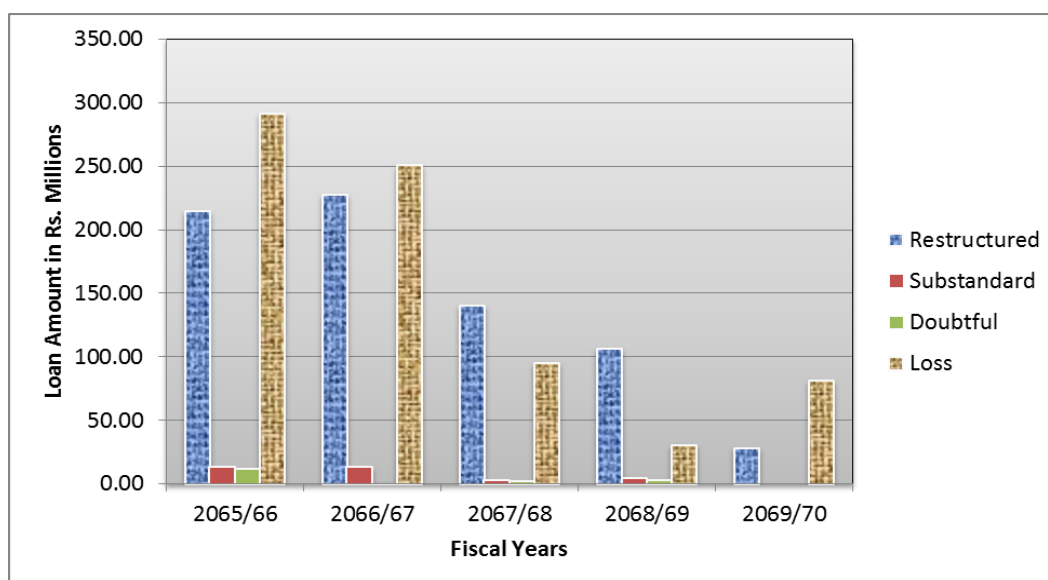
The above table and figure shows that non–performing asset of NSBI is decreasing during the study period. It has decreased from Rs. 530.68 million to Rs. 108.69 million. High volume of NPA has been grouped under restructured and bad loan category and some portion has been transferred to the substandard and doubtful category. The rescheduled loan is highest in the year 2068/69 as 73.97% of total NPA when the loss loan is 20.86%. Whereas, the loss loan is highest in the year 2069/70 being 74.58% when there is 25.42% of restructured loans. EBL has reduced its higher NPA in loss category transferring it to substandard and doubtful category. Similarly NSBI has higher NPA in bad category with the reduction in volume of NPA yearly.

4.4 Credit to Deposit ratio (C/D ratio)

This ratio shows the utilization of available earning asset of bank. The deposit is the resource of the bank and credit is the product. 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 4.7

Credit Deposit (C/D) Ratio of EBL and NSBI

Year	2065/66	2066/67	2067/68	2068/69	2069/70	Average	S.D.	C.V.
EBL	73.43%	76.24%	76.98%	73.22%	76.57%	75.29%	2.34%	3.11%
NSBI	55.84%	51.48%	51.20%	49.62%	49.55%	51.54%	2.32%	4.49%

Source: Annual reports FY 2065/66 to 2069/70 & Appendix 5

Figure 4.5

Credit Deposit (C/D) Ratio of EBL and NSBI
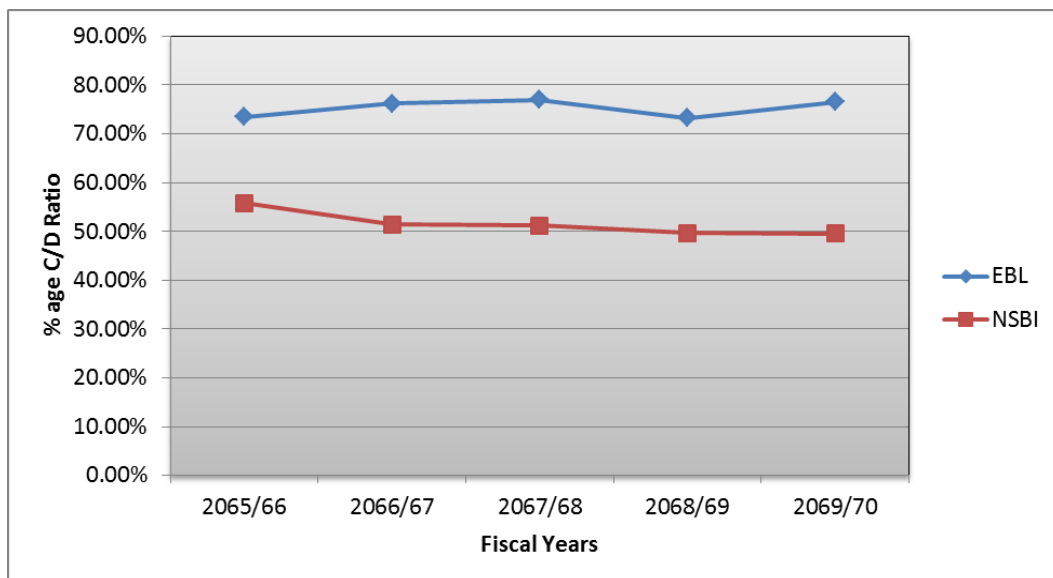
Table 4.7 shows that C/D ratio of EBL is in fluctuating trend. It has decreased in the year 2068/69 from its increasing trend. The C/D ratio of NSBI is in decreasing trend for the overall period. NSBI seems to be in comparatively easier position in terms of liquidity with the ratio hovering around 50% - 55%. During the study period average CD ratio of EBL is 75.29% with standard deviation of 2.34% and coefficient of variation of 3.11%, the same of NSBI respectively being 51.54%, 2.32% and 4.49%. NSBI is in comfort position in terms of liquidity. CV of the NSBI is highly variability during the study period. However, EBL liquidity position is slightly tight.

4.5 Investment to Deposit ratio (I/D ratio)

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

Table 4.8

Investment Deposit (I/D) Ratio of EBL and NSBI

Year	2065/66	2066/67	2067/68	2068/69	2069/70	Average	S.D.	C.V.
EBL	17.85%	13.56%	18.83%	15.73%	16.05%	16.40%	3.04%	18.50%
NSBI	47.52%	46.73%	44.59%	45.87%	43.97%	45.73%	1.75%	3.82%

Source: Appendix 6

Figure 4.6

Investment Deposit (I/D) Ratio of EBL and NSBI
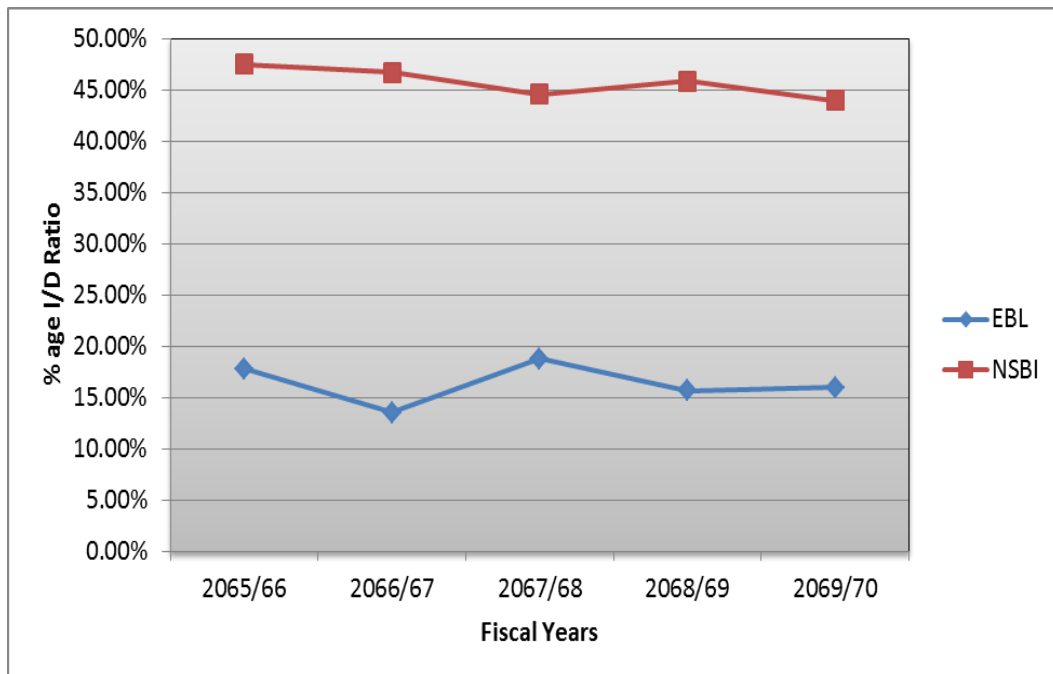
Table 4.8 shows that I/D ratio of both banks are on fluctuating trend during the research period. I/D ratio of EBL are floating around 13 to 19% and the same of NSBI is floating around 43 to 48%. During the study period average I/D ratio of EBL is 16.40% with standard deviation of 3.04% and coefficient of variation of 18.50%, the same of NSBI respectively being 45.73%, 1.75% and 3.82%. The average ratio of NSBI and the variability of EBL is higher during the study period. The table and figure shows that NSBI has more investment in other alternative securities compared to EBL.

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 4.9

Yield on Loans and Advances of EBL and NSBI

Year	2065/66	2066/67	2067/68	2068/69	2069/70	Average	S.D.	C.V.
EBL	7.57%	9.95%	12.22%	12.30%	10.49%	10.51%	2.44%	23.24%
NSBI	7.56%	9.80%	11.24%	11.27%	11.20%	10.21%	1.77%	17.34%

Source: Appendix 7

Figure 4.7

Yield on Loans and Advances of EBL and NSBI
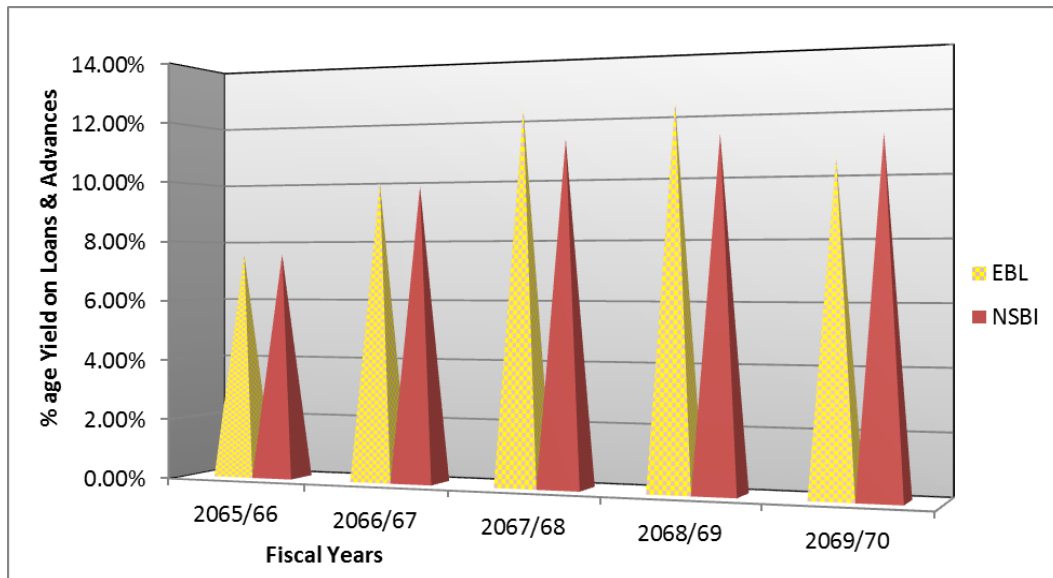
Table 4.9 clearly shows that yield on advances of both banks are in increasing trend. This is due to increasing interest rate over the period. However, it has decreased in the year 2069/70 for both of the banks due to market fluctuation in interest rate. Yield of EBL is consistently higher than that of NSBI. Only in the year 2069/70 yield of NSBI has been greater than that of the EBL. Average yield of EBL during the period is 10.51% and that of NSBI is 10.21%. EBL has higher variability in yield on advances shown by 23.24% CV against 17.34% of NSBI. However, S.D. of EBL is slightly higher of 2.44% than compared to 1.77% S.D. of NSBI. This analysis results that EBL has more focus on retail lending (personal & small sized) lending than that of NSBI where there is higher interest

rate. On the other hand, NSBI has higher volume of corporate lending where the yield is lower. However, this lower yield is offset by lower operating expenses to manage assets.

4.7 Yield on investments

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 4.10

Yield on Investments of EBL and NSBI

Year	2065/66	2066/67	2067/68	2068/69	2069/70	Average	S.D.	C.V.
EBL	5.34%	5.57%	5.75%	5.45%	2.97%	5.01%	1.27%	25.27%
NSBI	0.97%	1.29%	2.10%	1.40%	0.58%	1.27%	0.97%	76.71%

Source: Appendix 8

Figure 4.8

Yield on Investments of EBL and NSBI
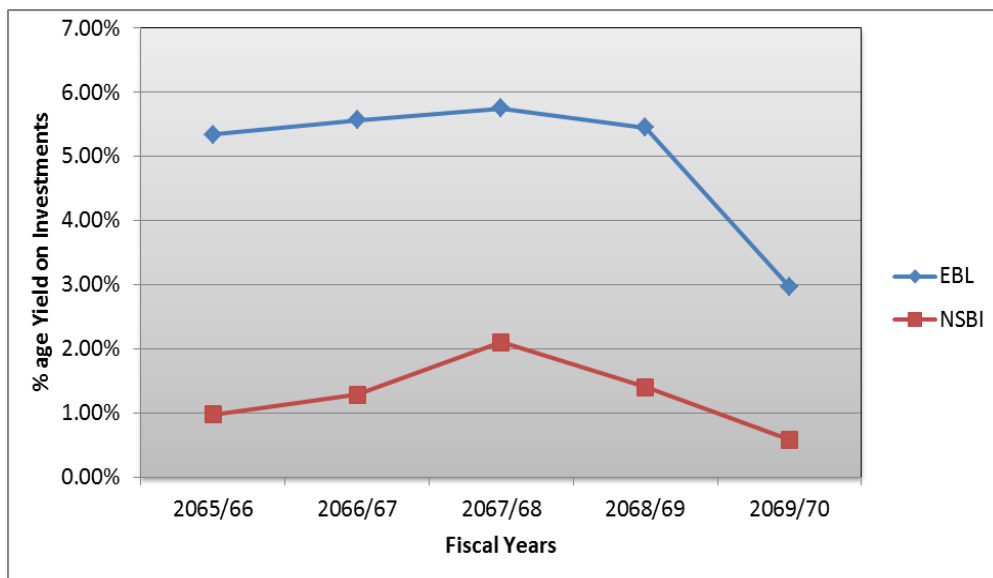
The above table and figure shows that the yield on investments of both commercial banks are on increasing trend in the beginning and has started to decline at the end. The yield of EBL has declined in the year 2069/70 only but the yield of NSBI has started declining form the year 2068/69. This may be due to high unmanaged investments and market fluctuation in interest rate. Average Yield on Investment of EBL during the study period is of 5.01% with standard deviation of 1.27% and coefficient of variation of 25.27%. NSBI has average of 1.27%, with standard deviation of 0.97% and CV of 76.71%. Yield of EBL is higher than that of NSBI and it also has low variability.

4.8 Average spread

Average Spread is the weighted average difference between interest received on advances and interest to be paid on deposits. It is the gross margin which covers all of the expenses of the banks. Banks with higher spread has the higher level of differential interest earnings with better position and better fund management of the bank.

Table 4.11

Average Interest Rate Spread of EBL and NSBI

Year	2065/66	2066/67	2067/68	2068/69	2069/70	Average	S.D.	C.V.
EBL	4.40%	4.78%	4.60%	5.32%	5.68%	4.96%	0.59%	11.96%
NSBI	2.84%	2.76%	2.86%	2.70%	3.38%	2.91%	0.25%	8.51%

Source: Annual reports FY 2065/66 to 2069/70 & Appendix 9

Figure 4.9

Average Interest Rate Spread of EBL and NSBI
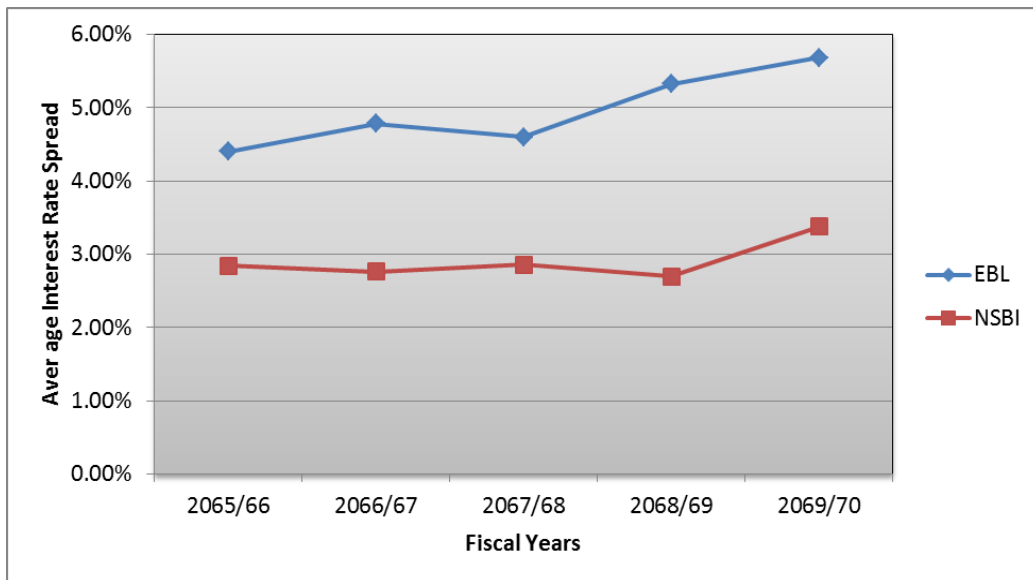
The above table and trend lines represents that the weighted average interest rate spread of EBL is consistently higher than that of NSBI. During the study period, average spread of EBL is on increasing trend except it has decreased in the year 2067/68. However, the average spread of NSBI is on fluctuating trend during the whole period. The mean average spread of EBL during the study period is 4.96% which is higher than the periodic mean average of NSBI i.e. 2.91%, 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. However, the variability of EBL i.e. 11.96% is higher compared to that of NSBI i.e. 8.51%.

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 4.12

Operating Expenses to Total Assets Ratio of EBL and NSBI

Year	2065/66	2066/67	2067/68	2068/69	2069/70	Average	S.D.	C.V.
EBL	1.30%	1.40%	1.46%	1.47%	1.48%	1.42%	0.08%	5.60%
NSBI	1.12%	1.25%	1.52%	1.28%	1.38%	1.31%	0.25%	19.05%

Source: Appendix 10

Figure 4.10

Operating Expenses to Total Assets Ratio of EBL and NSBI
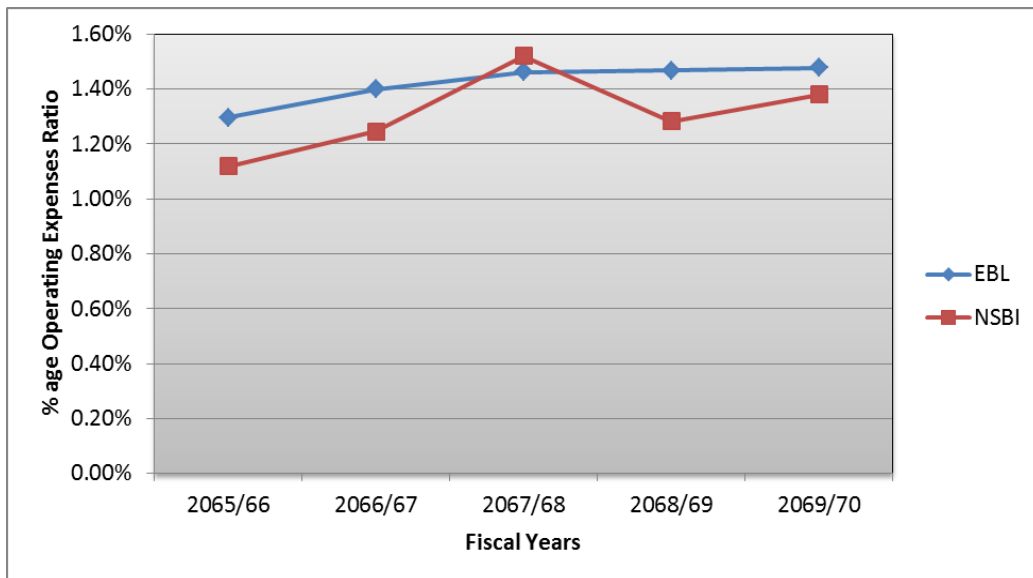
Table 4.12 clearly shows that NSBI is consistently efficient than EBL. The operating expenses ratio of EBL is on increasing trend. However, the ratio of NSBI has increased till the year 2067/68 and decreased in the year 2068/69. The average ratio of EBL is 1.42 % and of NSBI is 1.31%, showing higher efficiency of NSBI. However, NSBI has higher variability shown by CV of 19.05% against 5.60% of EBL during the study period. The above graph shows that NSBI is more efficient in the starting years of the research period compared to the later years.

4.10 Net interest income to Total operating income

This ratio shows the dependence of banks on interest income to generate 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, agency and treasury income. Modern banks rely less on traditional Interest Income and more on other incomes like fees and commission.

Table 4.13

Net Interest Income to Total Operating Income of EBL and NSBI

Year	2065/66	2066/67	2067/68	2068/69	2069/70	Average	S.D.	C.V.
EBL	75.98%	79.34%	81.86%	79.96%	81.76%	79.78%	2.98%	3.74%
NSBI	76.72%	74.63%	70.95%	66.72%	73.90%	72.58%	3.83%	5.28%

Source: Appendix 11

Figure 4.11

Net Interest Income to Total Operating Income of EBL and NSBI
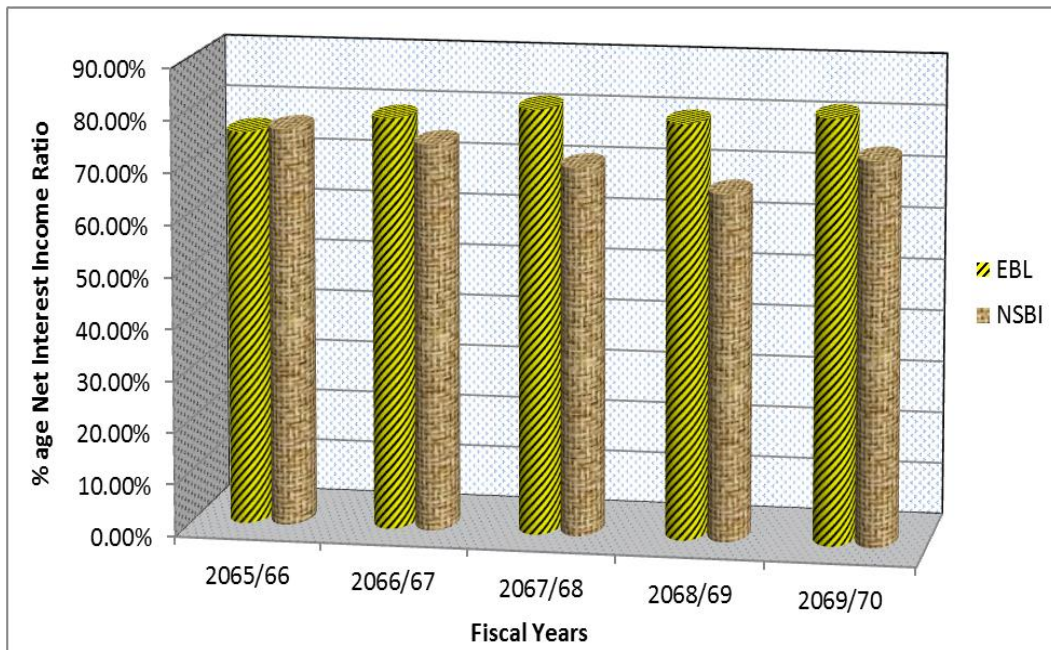
Table 4.13 shows that the both bank Net Interest Income is floating around 65% to 85%. However, the ratio is in increasing trend for EBL except it has decreased in the year 268/69. This shows that the EBL's total income is more dependence on fund based income than the fee based income. NSBI has the downward ratio from the starting year which means that the composition of NSBI's total income has comparatively lower dependence on fund based income and more dependence on fee based income. During the study period average ratio of NSBI is 72.58% against 79.78% of EBL; it also has high volatility shown by CV during the study period 5.28% of NSBI against 3.74% of EBL during the period.

4.11   Fixed assets to Total loans and advances

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

the ratio of fixed assets to total loans and advances depicts the efficiency on utilizing fixed assets. Higher the ratio refers to the higher level of efficiency and vice-versa.

Table 4.14

Fixed Assets to Total Loans and Advances of EBL and NSBI

Year	2065/66	2066/67	2067/68	2068/69	2069/70	Average	S.D.	C.V.
EBL	1.75%	1.64%	1.45%	1.50%	1.43%	1.55%	0.16%	10.15%
NSBI	1.62%	2.33%	1.92%	2.71%	2.27%	2.17%	0.45%	20.52%

Source: Appendix 12

Figure 4.12

Fixed Assets to Total Loans and Advances of EBL and NSBI
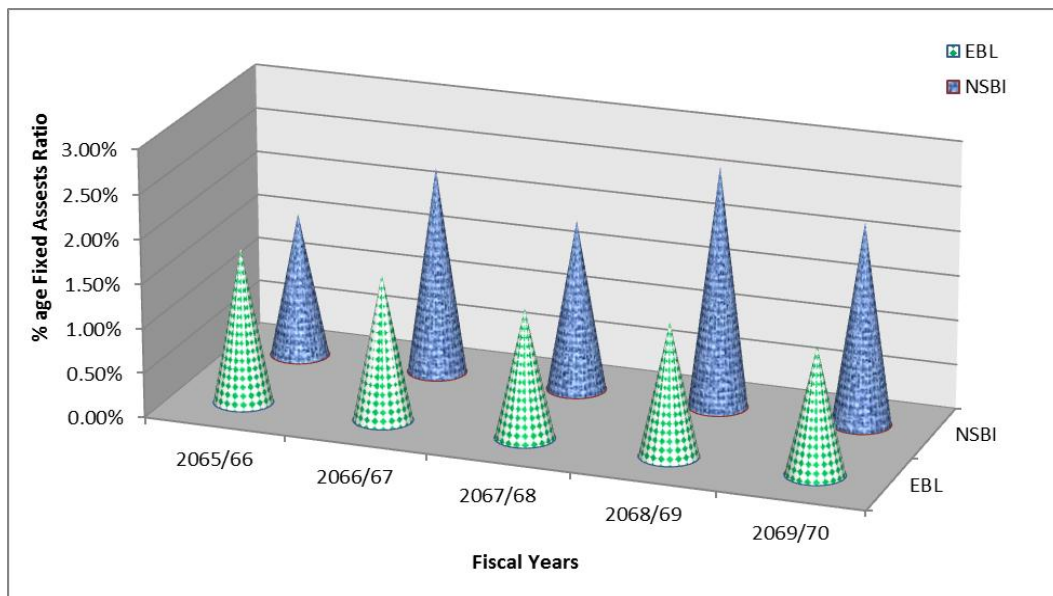
Table 4.17 shows that NSBI is more efficient on utilizing its fixed assets than EBL. The ratio of NSBI is slightly higher than that of the EBL during the periods. As the fixed assets utilization ratio of NSBI is fluctuating during the research period with maintaining average ratio of 2.17% which is greater than that of the EBL of 1.55%. The EBL has maintained the standard deviation of 0.16% which is lower than that of NSBI of 0.45%. NSBI is efficiently deploying its fixed assets. CV of EBL is 10.15% and of NSBI is 20.52% showing higher variability on NSBI part.

4.12 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, 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.

Table 4.15

Capital Adequacy of EBL and NSBI

Year	EBL			NSBI		
	Core Capital	**Supplementary Capital**	**Capital Fund**	**Core Capital**	**Supplementary Capital**	**Capital Fund**
2065/66	8.52%	2.82%	11.34%	10.03%	1.89%	11.92%
2066/67	8.39%	2.38%	10.77%	10.89%	1.36%	12.25%
2067/68	8.46%	1.96%	10.42%	10.32%	1.20%	11.52%
2068/69	9.61%	1.41%	11.02%	9.16%	2.05%	11.21%
2069/70	9.31%	2.28%	11.59%	9.59%	2.80%	12.39%

Source: Annual reports FY 2065/66 to 2069/70

Table 4.15 represents that the capital adequacy position of both banks are on fluctuating trend during the research period but they both has met the requirements as per the BASEL II Capital Adequacy Norms. As per the norms, core capital of an "A" class commercial bank should be 6% of total risk weighted assets and the total capital fund should be not less than 10% of total risk weighted assets. The above table shows that both banks meet the regulatory requirement. NSBI is more comfortable on capital adequacy on recent years.

4.12.1. Capital adequacy as per Basel II norms

Basel II capital adequacy norms were implemented in Nepal from FY 2007/08 (i.e. 2064/65 B.S.), with parallel run. It was implemented fully from FY 2008/09. The given table shows capital position of EBL and NSBI for FY 2069/70 as per Basel II norms.

Table 4.16

Capital Adequacy of EBL and NSBI as per Basel II Norms for FY 2069/70

Capital Adequacy	EBL		NSBI	
	Amount	**Percentage**	**Amount**	**Percentage**
Tier I Capital	4,639,762,000	9.31%	3,785,482,444	9.59%
Tier II Capital	1,137,920,000	2.28%	1,103,155,547	2.80%
Total Capital Fund	**5,777,682,000**	**11.59%**	**4,888,637,991**	**12.39%**
Risk Weighted Exposure	**49,834,045,000**	**-**	**39,460,549,043**	**-**

Source: Annual reports FY 2069/70

The capital required as per regulatory requirement is Tier I capital not less than 6% of total risk weighted exposure and capital fund not less than 10% of total risk weighted exposure. Both banks have fulfilled this regulatory requirement.

4.12.2. Breakdown of credit risk exposure

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 4.17

Breakdown of Credit Risk Exposure of EBL and NSBI for FY 2069/70

Risk Exposure Items	EBL	% of Total Exposure	NSBI	% of Total Exposure
A. Balance Sheet Items				
Claims on Government / Central Bank	-	-	-	-
Claims on other official Entities	-	-	147,609,425	0.41%
Claims on Banks	929,350,000	2.07%	5,003,514,392	13.78%
Claims on corporate & securities firms	19,706,445,000	43.99%	17,616,404,716	48.53%
Claims on regulatory retail portfolio	8,407,451,000	18.77%	4,554,799,467	12.55%
Claims secured by residential property	2,783,412,000	6.21%	1,178,568,684	3.25%
Claims secured by commercial real estate	3,897,511,000	8.70%	120,000,000	0.33%
Past due claims	-	-	30,755,261	0.08%
High Risk Claims	3,291,221,000	7.35%	1,725,590,843	4.75%
Investments in equity of institutions	27,476,000	0.06%	44,933,250	0.12%
Staff loan secured by residential properties	269,078,000	0.60%	83,071,955	0.23%
Other Assets	1,261,489,000	2.82%	2,105,824,079	5.80%
A. Total Balance Sheet Items	**40,573,432,000**	**90.58%**	**32,611,072,072**	**89.84%**
B. Off Balance Sheet Items	**4,219,830,000**	**9.42%**	**3,689,595,095**	**10.16%**
Total Risk Weighted Exposures (A+B)	**44,793,263,000**	**100.00%**	**36,300,667,167**	**100.00%**

Source: Annual reports FY 2011/12

Table 4.18 shows higher concentration on "Claims secured by corporate & securities firms" which seems normal for commercial banks. However, in this front EBL seems to be ahead of NSBI. Further, the risk exposure of both of the banks is covered by on-balance sheet items around 90% and rest by the off-balance sheet items which seems to be satisfactory.

4.12.3. 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 4.18

Table 4.18

Breakdown of Risk Exposure of EBL and NSBI for FY 2069/70

Risk Exposure	EBL		NSBI	
	Amount	% of Total Exposure	Amount	% of Total Exposure
Credit Risk	44,793,263,000	92.64%	36,300,667,167	93.83%
Operational Risk	3,356,986,000	6.94%	1,901,971,050	4.92%
Market Risk	199,249,000	0.41%	484,174,570	1.25%
Total Risk weighted Exposure	**48,349,497,000**	**100%**	**38,686,812,787**	**100%**

Source: Annual reports FY 2069/70

On total risk weighted exposure both banks have higher percentage of Credit Risk (above 90%) which is normal. EBL has high operation risk exposure than that of NSBI. Market risk of the EBL is lower compared to NSBI.

4.13 Diversification

Banks diversify risk in various ways. They do simple diversification by spreading risk among large number of borrowers in various sectors. There is also good geographical diversification when they lend via various branches. They lend using different types of loan facility with different type of collateral securities.

4.13.1. Sector wise lending

Banks diversify their lending investment in various sectors.

Table 4.19

Sector-wise Loan exposure of EBL and NSBI as on year end 2069/70

Sectors	EBL		NSBI	
	Amount (in Millions)	% age	Amount (in Millions)	% age
Agriculture & Mining	2,110.8	4.78%	1,129.4	3.87%
Manufacturing & Construction	14,588.50	33.01%	8,878.30	30.41%
Business	23,889.70	54.05%	12,721.90	43.58%
Other Services	1,966.70	4.45%	254.30	0.87%
Others	1,642.20	3.72%	6,210.00	21.27%
Total	**44,197.90**	**100.00%**	**29,193.90**	**100.00%**
Average	**-**	**20.00%**	**-**	**20.00%**
Standard Deviation	**-**	**39.66%**	**-**	**28.54%**
Coefficient of Variation	**-**	**198.31%**	**-**	**142.68%**

Source: Banking and Financial Statistics 2070 & Appendix 13

These lending areas of banks can be broadly categorized in five sectors which are;

- Agriculture & Mining

- Manufacturing & Construction

- Business

- Other Services

Figure 4.13

Sector-wise Loan Exposure of EBL as on year end 2069/70
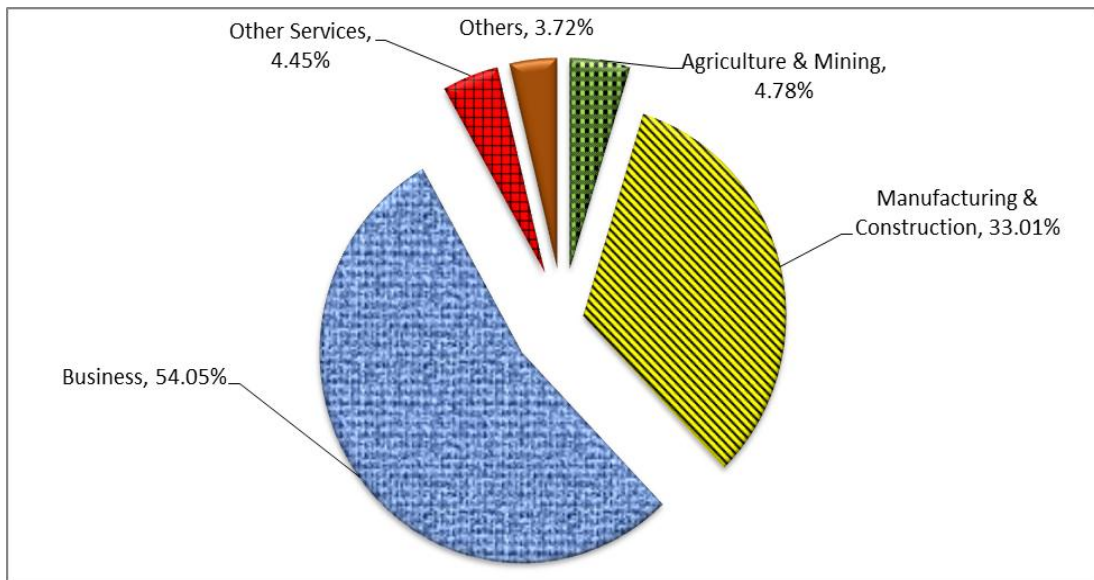
Figure 4.14

Sector-wise Loan Exposure of NSBI as on year end 2069/70
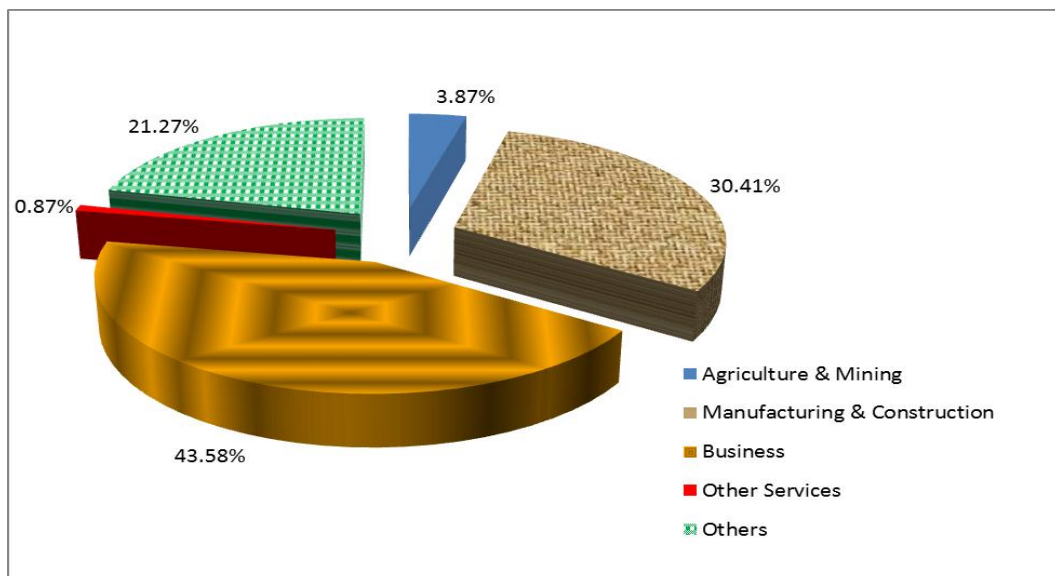
The above presented table and pie-charts shows that EBL has more concentration on Manufacturing & Construction and Business sector with 33.01% & 54.05% of total lending being done in that sector. NSBI also has higher concentration on Manufacturing &

Construction and Business Sector with 30.41% and 43.58% of total lending being in that sector. EBL's exposure in the business sector lending is slight more than that of the NSBI during this period. NSBI concentration seems to be higher in the other different loan sector exposures of 21.27% compared to that of the EBL with 3.72%. Lending of EBL is more diversified among sectors as shown by Coefficient of variation.

4.13.2. 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, against personal guarantee and other securities etc.

The table 4.20 represents that both of the sample banks have higher proportion of lending against moveable/immovable assets, which is normal. Lending by NSBI against export documents shows more amount of commercial banking practice shown by it. It is a practice of modern banking as well. Secondly, most of the exposures of banks are against the fixed deposit receipts of own or other banks. The research shows that NSBI has higher exposure against the government bonds and guarantees compared to the same of EBL during the study period. Both banks have diversified their collateral securities.

Table 4.20

Collateral wise Lending of EBL and NSBI as on year end 2069/70

Particulars	EBL		NSBI	
	Amount	% age	Amount	% age
Moveable/Immovable assets	43,119,359,856	97.56%	25,345,253,361	86.82%
Government/Institutional Guarantee	198,736,758	0.45%	786,445,042	2.69%
Internationally Rated Bank Guarantee	-	-	-	-
Export Documents	-	-	45,833,878	0.16%
Fixed Deposit Receipt	820,897,883	1.86%	1,009,416,032	3.46%
Government Bond	12,818,802	0.03%	326,531,998	1.12%
Personal Guarantee	2,496,538	0.01%	-	-
Other Securities	43,453,104	0.10%	1,680,423,111	5.76%
Total	**44,197,762,941**	**100.00%**	**29,193,903,422**	**100.00%**

Source: Annual report FY 2069/70

4.13.3. Benchmarks

Every loan proposal is a different case so it is hard to establish benchmarks. Decision is done on case to case basis using personal judgment and justification. However, for ease, some benchmarks followed are presented below for EBL & NSBI.

Table 4.21

Benchmark of various ratios of EBL and NSBI

Ratios	EBL	NSBI
Sales Turnover (For working capital facilities)	5 times	4 times
Current Ratio	min 1.33	min 1.10
Debt Equity Ratio	max 1	max 3
Borrowers Margin (for working capital facility)	25% of stocks 50% receivables	25% of stocks & receivables
For TR loans	10%	10%
Borrowers Margin (for Term Loans)	30%	30%
DSCR (for Term Loans)	min 2	min 1.33
Collateral Coverage	100%	100%
Valuation method	60% market value 40% government value	60% market value 40% government value
Income required (for retail loans)	2 times of EMI	Uncommitted monthly income 1.33 times of EMI

Sales turnover required for fixing limit is more relaxed on NSBI than on EBL. EBL grants working capital limit of 20% of sales turnover whereas NSBI grants 25%. Both the banks seek the minimum current ratio of 1.33 times, higher the better. On debt equity ratio, EBL is more conservative than NSBI. It takes max debt equity ratio of 1 times, whereas NSBI takes up to 3, lower the better.

For maintaining drawing power on working capital facilities, EBL deducts 50% margin on receivables and 25% margin on stocks, whereas NSBI deducts 25% margin flatly on both stocks and receivables. NSBI is more relaxed on margin required for working capital facilities. On term loans, both banks accept up to 30% margin however the borrower's margin may differ with respect to the credibility of clients. EBL wants to have min DSCR of 2 times whereas for NSBI having 1.33 times is okay, higher the better.

Generally both banks insist on collateral coverage which seems normal practice in case of Nepal and a ground reality. Small loans are generally not granted without collateral coverage. Both banks seek minimum 100% collateral coverage. Both the banks have similar valuation method. In case of retail loans, NSBI seems to be more realistic in terms of repayment capacity. EBL wants monthly income 2 times of EMI payable, whereas NSBI relays on uncommitted monthly income. It wants at least 1.33 times of uncommitted monthly income of EMI payable.

Though there are benchmarks, these are not applicable on all cases, relaxation is allowed on case to case basis. Again these shows the exposure banks are willing to take.

4.13.4. Post sanction monitoring

Post sanction monitoring of EBL

The business loan clients for working capital facilities and term loans are visited every month at irregular intervals to control DP, to monitor the running condition of the firm, to check the primary security. Collateral securities are visited once in a year. Quarterly review sheet of accounts are forwarded to the Corporate Office. Working capital loan is granted for one year and renewed only after satisfactory conduct. Retail loan accounts are visited once in a year. If the loan defaults in its EMI payment or interest payment it must be reported to Corporate NPA cell. The accounts are also followed up for regularization at branch level to avoid provision. However, interest suspense and overdue term loan installments are taken more seriously at EBL and vigorously followed up.

Post sanction monitoring of NSBI

NSBI also follows similar practice for post sanction monitoring. The business loan clients for working capital facilities and term loans are visited every quarter at irregular intervals to control DP, to monitor the running condition of the firm to check the primary security. Collateral securities are visited once in a year. There is no provision for quarterly review sheets for working capital loan, however, quarterly review sheet of term loan accounts are forwarded to the Corporate Office. Working capital loan is granted for one year and renewed only after satisfactory conduct. Retail loan accounts are visited once in a year. If the loan defaults in its EMI payment or interest payment it must be reported to Corporate NPA cell. The accounts are also followed up for regularization at branch level to avoid provision.

4.14 Trend analysis and projection for next five years

The objective of this analysis is to analyze the future trend of banks relying on the present data. The topic forecasts the advances, deposit, net interest income and non-performing loan for next five years. The projections are based on following assumptions;

i. The main assumption is that other things will remain unchanged.

ii. The forecast will be true only when the limitation of least square is carried out.

iii. The bank will run in present position and the economy will remain in present stage.

iv. NRB will not change its guidelines to commercial banks.

4.14.1. Trend analysis of gross loans and advances

The following table shows the trend value of loan and advances for five years from 2066 to 2070 and forecast for five years from 2071 to 2075 of NSBI and EBL.

Table 4.22

Trend Value of Gross Loan and Advances of EBL and NSBI (2066-2075)

Year	Trend value of EBL	Trend value of NSBI
2066	24,469,555,526	15,612,050,411
2067	28,156,399,843	17,963,641,179
2068	31,661,842,757	21,718,790,731
2069	36,616,831,527	26,463,671,464
2070	44,197,762,941	29,193,903,422
2071	47,395,532,473	32,889,532,334
2072	52,187,217,124	36,455,905,964
2073	56,978,901,776	40,022,279,595
2074	61,770,586,427	43,588,653,226
2075	66,562,271,079	47,155,026,856

Source: Annual Report 2069/70

Figure 4.15

Trend Line of Gross Loan and Advances of EBL and NSBI (2066-2075)
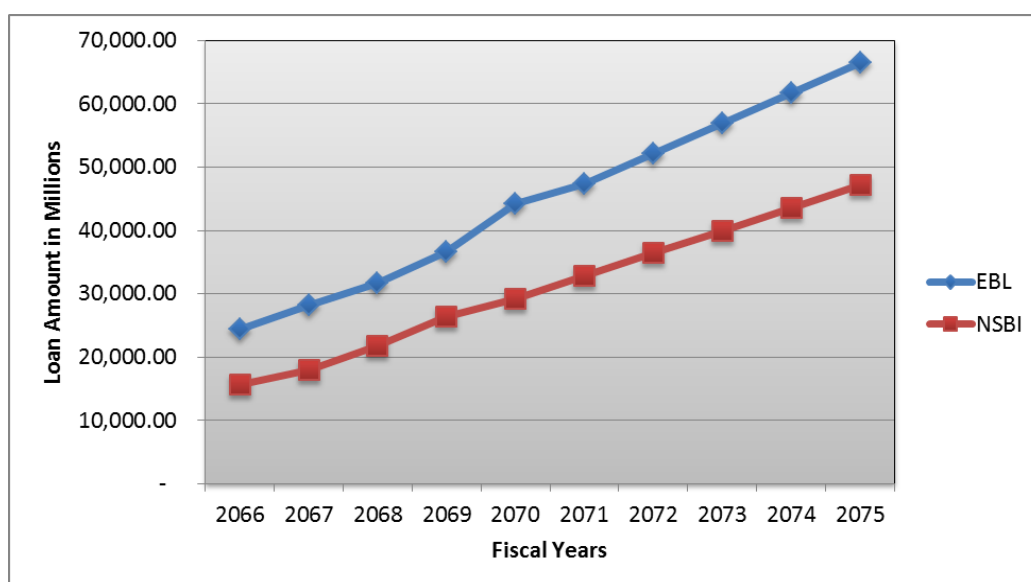
The above table and chart reveals the trend value of gross loan and advances of NSBI and EBL are in increasing trend. If other thing remains the same, loan and advances of EBL in 2075 will be Rs. 66,562,271,079. Similarly, NSBI gross loan and advances for 2075 has been forecasted as Rs. 47,155,026,856. From the above analysis, it is clear that EBL utilization of deposit in terms of gross loan and advances is comparatively higher than that of NSBI.

4.14.2. Trend analysis of total deposits

     The trend values of total deposits of EBL and NSBI for five years from 2066 to 2070 and forecast for five years from 2071 to 2075 are presented. The table shows the trend value of total deposits for 10 years.

Table 4.23

Trend Value of Total Deposits of EBL and NSBI (2066-2075)

Year	Trend value of EBL	Trend value of NSBI
2066	33,322,946,246	27,957,220,794
2067	36,932,310,008	34,896,424,201
2068	41,127,914,339	42,415,443,294
2069	50,006,100,272	53,337,264,193
2070	57,720,464,632	58,920,455,656
2071	62,382,595,210	67,615,554,542
2072	68,569,477,914	75,652,285,514
2073	74,756,360,617	83,689,016,486
2074	80,943,243,321	91,725,747,457
2075	87,130,126,025	99,762,478,429

Source: Annual Report 2069/70

Figure 4.16

Trend Line of Total Deposits of EBL and NSBI (2066-2075)
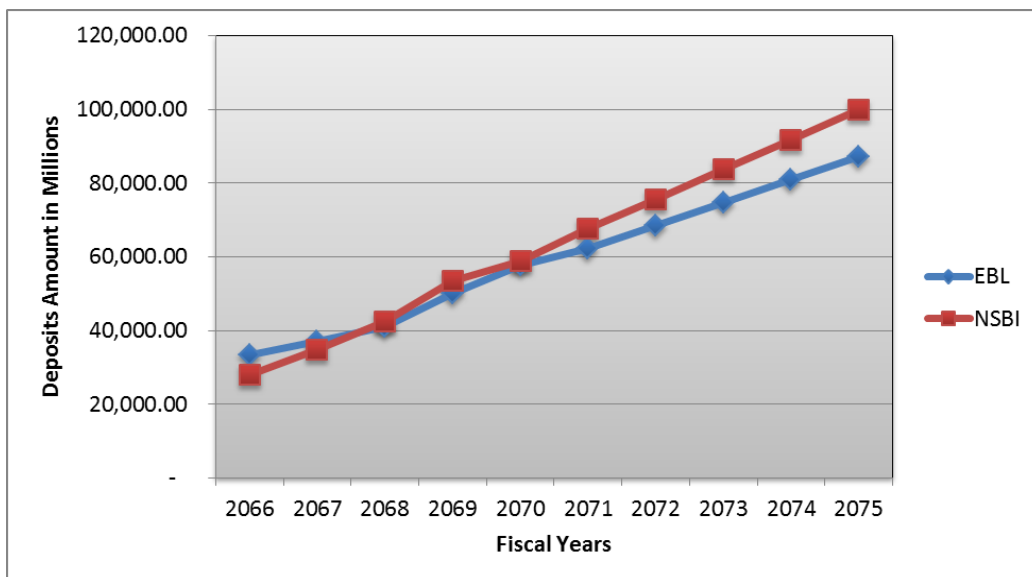
     The above table and trend line shows that total deposit of NSBI & EBL is in increasing trend during the research period. If other thing remains the same the total deposits of EBL and NSBI for 2075 has been forecasted to be Rs. 87,130,126,025 and Rs. 99,762,478,429 respectively. The above analysis reveals that the deposit position of NSBI

& EBL is increasing in same proportion. Yet EBL will be most successful then NSBI to deposit huge amount.

4.14.3. Trend analysis of net interest income

Under this topic, the net interest income of NSBI & EBL has been analyzed for five years from 2066 to 2070 and forecast for five years from 2071 to 2075. The following table shows the trend of net interest income for 10 years period of time from 2066 to 2075 of NSBI & EBL.

Table 4.24

Trend Value of Net Interest Income of EBL and NSBI (2066-2075)

Year	Trend value of EBL	Trend value of NSBI
2066	1,173,940,639	635,745,411
2067	1,529,661,178	826,010,718
2068	1,795,150,535	1,008,193,428
2069	2,086,663,733	998,684,380
2070	2,757,741,704	1,623,535,147
2071	2,986,012,963	1,662,909,757
2072	3,358,473,432	1,877,735,070
2073	3,730,933,900	2,092,560,384
2074	4,103,394,369	2,307,385,697
2075	4,475,854,837	2,522,211,011

Source: Annual Report 2069/70

Figure 4.17

Trend Line of Net Interest Income of EBL and NSBI (2066-2075)
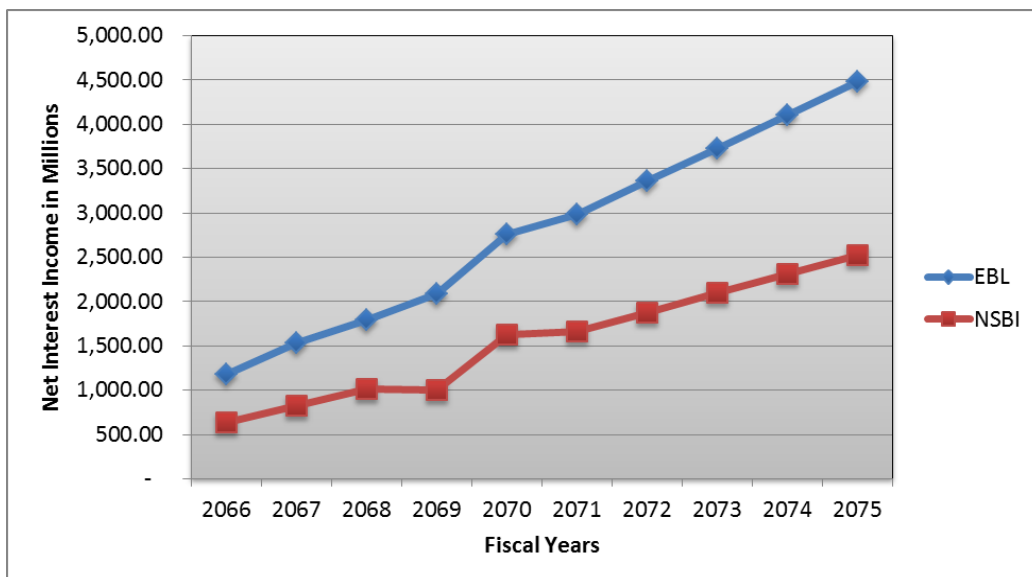
The presented table and figure shows that the net profit of EBL and NSBI are in fluctuating trend. If other thing remains the same the net profit of EBL and NSBI for 2075 has been forecasted to be Rs. 4,475,854,837 and Rs. 2,522,211,011 respectively. The above figures depicts that the rate for generating net interest income of EBL is higher than same of NSBI.

4.14.4. Trend analysis of non - performing assets (NPA)

Table   4.25

Trend Value of Non–Performing Assets (NPA) of EBL and NSBI (2066-2075)

Year	Trend value of EBL	Trend value of NSBI
2066	220,964,942	530,880,982
2067	125,560,471	492,581,990
2068	108,512,928	239,299,186
2069	307,492,696	143,848,188
2070	276,198,772	108,691,856
2071	295,465,927	-54,873,176
2072	324,705,916	-174,184,381
2073	353,945,904	-293,495,587
2074	383,185,893	-412,806,792
2075	412,425,881	-532,117,997

Source: Annual Report 2069/70

Figure   4.18

Trend Line of Non–Performing Assets of EBL and NSBI (2066-2075)
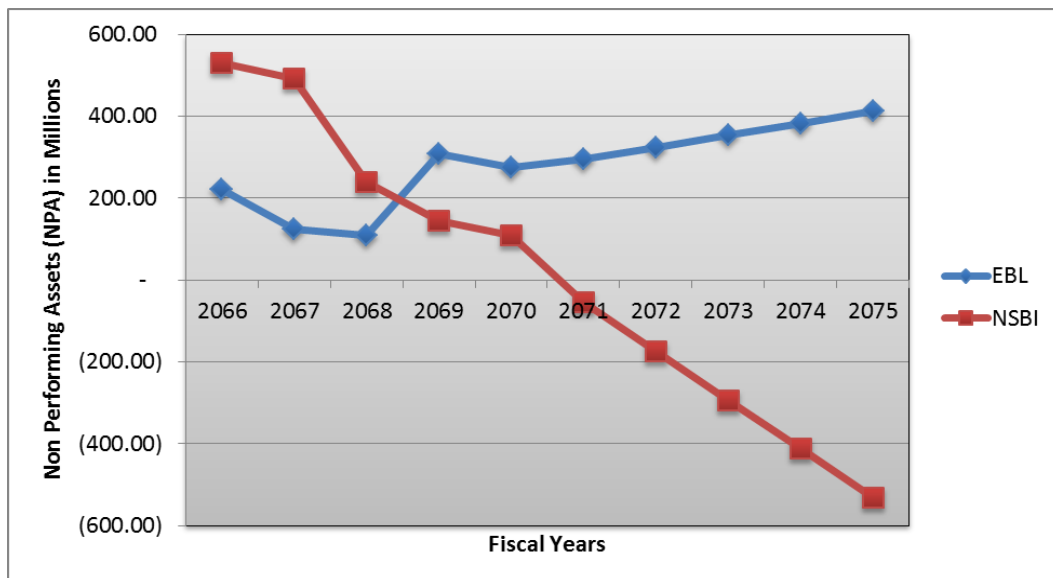
Under this topic, the non-performing loan of EBL and NSBI has been analyzed for five years from 2066 to 2070 and forecast for five years from 2071 to 2075. The following table shows the trend value of non-performing loan for 10 years period of time from 2066 to 2075 of EBL and NSBI.

The calculated trend values of non-performing assets of EBL and NSBI is fitted in the trend lines shown in the above chart. The above table and figure shows that the non-performing (NPA) assets of NSBI and EBL has fluctuating trend during the study period. From the above table it can be also reviled that NPA of the NSBI is in decreasing trend which is improving trend of NSBI whereas trend of EBL is slightly increased in two year which is impact on the earning of the bank. Hence, Bank has to initiate immediate reform plan or prepare strategic recovery plan to decrease such trend.

4.15 Major findings of the study

i.   During the study period, the gross loan and advances of EBL and NSBI has increased in volumes. But, the growth rate of loans and advances of both banks is fluctuating. Average growth rate of EBL is 18.76% which is greater than that of NSBI of 18.12%. EBL is better in terms of resource mobilization and growth.

ii. Average NPA % of EBL during the study period is 0.63% which is far lower than that of NSBI having 1.63%. The variability of NPA % of NSBI is higher than EBL shown by CV of 81.37% against 57.17% of NSBI as NSBI has made considerable recovery on year 2069/70. NPA as a percentage of total credit of both banks is in decreasing trend. NPA of EBL has increased during 2068/69 due to increase in loss asset.

iii. The NPA figures of EBL are lower than that of NSBI up to year 2067/68. This can conclude that EBL is performing well in NPA management. In the year 2069/70, NSBI has been vigorously trying to reduce the NPA management then EBL.

iv. Both banks have higher proportion of loss loans in NPA Composition. This reveals improper loan classification by banks. Loan restructure done by NSBI is higher than that of EBL and loan loss category of EBL is higher to NSBI. This shows that window-dressing may be done by the bank when they show early sign of sickness. Later when they become unmanageable they are directly shown as loss loans.

v.   Average CD ratio of EBL is 75.29% with CV of 3.11%, the same of NSBI is 51.54% and 4.49%. NSBI is far better in terms of liquidity shown by its lower C/D ratio and variability. Its deposit base is strong. EBL has crossed C/D ratio of 75% in past three years, EBL is in tough liquidity position especially during past three years.

vi. During the study period, average I/D ratio of EBL is 16.40% with standard deviation of 3.04% and coefficient of variation of 18.50%. The same of NSBI respectively being 45.73%, 1.75% and 3.82%. The average ratio of NSBI is higher during the study period. This shows that the investment of NSBI is secured then EBL.

vii. Yield on advances and investments of both banks are in increasing trend. This is in tune with the increase in interest rate over the period. But, the yield of both banks has decreased in the final year which may be due to fall in market interest rate. EBL is better in terms of yields. However, gap is narrowing. This shows that EBL is more attracted toward the small lending. Hence, operating cost of the EBL is also high.

viii. The average spread of EBL is 4.96% and that of NSBI is 2.91%. However, EBL has higher variability on average spread as shown by higher CV of 11.96% against 8.51% of NSBI. EBL is consistently better in terms of weighted average spread due to higher yields and lower cost of deposit.

ix. Average operating expenses to total asset of EBL is 1.42% and of NSBI is 1.31%, showing higher efficiency of NSBI. However, NSBI has higher variability shown by CV of 19.05% against 5.60% of EBL. Average employee expensed to total assets of EBL is 0.60% with NSBI being 0.49%. NSBI has efficiently employed its staff-members; per employee business is higher than that of EBL.

x. Net interest income of EBL is hovering around 75% to 82% and 66% to 77% of NSBI. The average ratio of NSBI is 72.58% against 79.78% of EBL. It also has high volatility shown by CV of 5.28% against 3.74% of EBL. Both banks have higher dependence on interest income which is in increasing trend.

xi. Average fixed asset to total loans and advances ratio of EBL during the study period is 1.55% and of NSBI is 2.17%, showing that NSBI is comparatively efficiently deploying its fixed assets. However, CV of EBL is 10.15% and of NSBI is 20.52% showing higher variability on NSBI part.

xii. In terms of capital adequacy, both banks have met the minimum capital requirement. As per Basel II norms, EBL is more comfortable in terms of Tier I capital whereas NSBI is more comfortable in Capital Fund.

xiii. EBL has lower credit risk of 92.64% on total exposure compared to 93.83% of NSBI on 2069/70. However, operational risk exposure of EBL is higher than same of NSBI. Both banks have higher credit risk in proportion of total risk which is obvious.

xiv. In terms of credit risk, NSBI has more proportion of claims on corporate having 48.53% which is higher than EBL shown by 43.99%. This demonstrates that NSBI

has its strong corporate lending. EBL has higher proportion of low risk categories like claims secured by residential property and claims on regulatory retail portfolio.

xv. Both banks has higher portion of secured loans. Loans in EBL are secured by movable/immovable assets shown by 97.56% which is higher than NSBI having 86.82%. NSBI has around 3% of loans secured by guarantee and export documents which show the well managed international practice of modern banking.

xvi. EBL has better diversified its lending in various sectors. EBL has higher exposure in business sector shown as 54.05% which is followed up by manufacturing sector given as 33.01%. NSBI has higher concentration of its lending in business sector having 43.58% of total lending followed by manufacturing and construction sector of 30.41%.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The last chapter of this study is the conclusion and recommendations developed from the comparative analysis of various aspects of the credit of the commercial banks by using some important financial tools. After completing the basic analysis required for the study the final and the most important tasks of the researcher is to summarize the study and recommend for the future importance. I am hopeful that the study that I have conducted would be meaningful to the top management of the concerned banks to initiate action and to achieve the desired results.

5.1 Summary

Present study is very successful to meet the stated objectives designed for the study. The researcher highlights or introduces the meaning and importance of research paper and meets the objectives followed by various sequential steps.

The difference between lending rate and deposit rate is the spread rate which is a major source of income for the banks. Besides the spread rate income, banks have other income such as fee based income, exchange income etc. Banks act as an 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. 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.

The banks lend the money collected as deposit in which there is obligation of banks to pay the interest and principal upon the written demand of its depositors. Hence, the lending decision of banks should be effective and efficient so that in bank can manage its lending portfolio and can easily fulfill the obligations towards its depositors. In case of worst case scenario, when the bank's lending portfolio is not properly managed, that lead to the risk on its assets and hence the not only the banks have to suffer in the long run the overall industry also gets suffered.

Managing banking industry means mainly the management of its risk assets i.e. loans and advances. Profitability of a bank mainly depends on the risk management. How

the portfolio is managed and average yield on its lending portfolio becomes the major for the efficiency of bank. Banks have to manage their risky assets in various ways. The bank may take the lending decision based on the collateral coverage, credibility of party, past business history of party etc. 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.

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, (iii) to access the assets selection procedure and NPA composition, (v) to highlight the mitigation structures and initiatives taken by the banks to control NPA, (vi) to examine the capital adequacy position and (vii) to examine liquidity, earning power, efficiency, risk diversification of two banks.

In this research, the various financial tools mainly ratio analysis, statistical tools like percentage, mean, S.D. and C.V. is used for the purpose of analysis and interpretation of data. The data which are used in the study are mainly secondary in nature. These data are obtained from the annual reports of EBL and NSBI from the fiscal year 2065/66 to 2069/70. 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 technology, so internet also has been an effective means of data collection.

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

5.2 Conclusions

From the analysis made during the study period of the sample commercial banks, certain conclusion has been derived after the financial as well as statistical tools have been measured on behalf of different aspect of credit management. Both banks are growing and improving their performance in various asset management practices like, cutting 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.

i. EBL has increased its loans and advances during the study period. It has higher growth. In fact, during past 3-4 years EBL has grown rapidly and healthily. However, in the last year, the growth of NSBI is higher than that of EBL despite of lower volume based increment.

ii. EBL has lower NPA position up to the year 2067/68. The NPA volume of NSBI is around 2/3 times higher than EBL. The average NPA percentage of EBL is lower than NSBI despite of higher loans and advances which means that EBL has better NPA management. The better NPA management of EBL is mainly due to diversified risk portfolio, higher retail lending and better assets selection procedure. However, during the year 2068/69, NPA management of the NSBI has increased than that of EBL. This shows that NSBI is strongly focused on the NPA recovery than EBL.

iii. Liquidity position of NSBI is better than EBL. NSBI has lower C/D ratio during the period compared to that of EBL. NSBI should focus on lending its excess liquidity to secured and tested business entities in order to enhance profitability. However, EBL also has the comfort level of liquidity position and has better utilized its liquidity.

iv. EBL has higher yield and higher spread enhancing its profitability. The reason behind having higher yield on advances is mainly due to diversified risk portfolio and higher portion on retail lending which has higher rate of return. Further, the low cost deposit also has made effect on higher spread and yield. EBL has higher rate of yields on investments made compared to the same of NSBI.

v. Both the banks have high dependent on interest income. This is the sign of traditional banking. Both banks now should focus on other commission and fee based sources and non-fund based business. In this regards, NSBI is comparatively in better position on profitability. NSBI has lower interest income and portion of fee based income is higher. EBL should focus on fee based income so that the overall profitability will not have negative impact despite of increasing NPA.

vi. EBL has stronger customer base. It is strong in retail lending whereas NSBI is stronger in corporate lending. From the initial phase, EBL has stressed in retail front but NSBI tried to do wholesale banking only. Later, it understood the benefit of retail lending. However, NSBI also is doing slowly in this front.

vii. NSBI has more realistic credit standards than EBL. It seems that EBL soften to sets the credit norms like income requirement, current ratio requirement etc. NSBI does more study while setting credit norms.

viii. Both banks have strong capital base as per capital adequacy requirement of Basel II.

5.3 Recommendations

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

i. NSBI has more shortcoming than that of the EBL like growth, composition of lending portfolio, composition of income, etc. NSBI should focus on enhancing its comfort liquidity position to loans and advances so that the overall profitability would be higher. Further, EBL should focus on fee based income.

ii. As shown by lower C/D ratio, NSBI should utilize its comfort liquidity position to secured lending for the higher interest yield and higher profitability. It also has to increase proportion of low cost deposit like savings and current accounts.

iii. NSBI has comparatively lower customer base than that of the EBL. So, it has to diversify risk among numbers of customers by increasing its customer base. This also helps it in increasing business and profitability of the bank.

iv. Both banks have high reliance on interest income; comparatively EBL is in better position than NSBI. The interest income of both bank is hovering around 70% to 80%. Interest income being fund based has high risk. So both banks should try to increase its income from the commission or fee based service etc. This must be focused particularly by NSBI. NSBI is more attracted toward such services

v. Performance of EBL in terms of managing NPA is outstanding up to fiscal year 2067/68. EBL is strongly focused on the NPA management during the year. NSBI is gradually decreasing its NPA percentage during the period. The volume of NPA of the EBL is increased during the year 2068/69 than that of NSBI. This seems that EBL is not strongly focused on recovery during the year. NPA is the virus of the bank so, both bank has to try to curb the NPA from its early sign like high utilization of limits, interest suspense, overdue TR and overdue installments.

vi. EBL is doing traditional banking in its commercial banking segment. Its lending is more collateral based and it provides its corporate customers less modern banding facilities. EBL has to also focus on repayment based loan.

vii. Both the bank should alert on its assets selection process. As the recent banking incidents are leading some of the banks and financial institutions to liquidation. The same should be kept in mind for future.

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APPENDIXES

FIVE YEARS BALANCE SHEET OF EBL

CAPITAL & LIABILITIES	2069/70	2068/69	2067/68	2066/67	2065/66
1. Share Capital	1,921,239,051	1,761,126,410	1,391,570,439	1,279,607,490	838,821,000
2. Reserves and Surplus	2,906,605,621	2,416,176,477	1,721,975,617	1,479,530,365	1,364,804,055
3. Debentures and Bonds	468,845,000	-	300,000,000	300,000,000	300,000,000
4. Loans and Borrowings	402,360,000	-	482,000,000	404,600,000	312,000,000
5. Deposit Liabilities	57,720,464,632	50,006,100,272	41,127,914,339	36,932,310,008	33,322,946,246
6. Bills Payable	393,056,902	692,398,816	49,716,572	145,514,679	148,655,592
7. Proposed Dividend	820,190,186	30,646,879	576,897,427	276,252,832	230,524,766
8. Income Tax Liabilities	23,932,525	9,297,074	26,900,414	(1,136,458)	20,522,280
9. Other Liabilities	1,084,456,540	897,383,129	559,237,454	566,081,795	378,574,715
Total Capital and Liabilities	**65,741,150,457**	**55,813,129,057**	**46,236,212,262**	**41,382,760,711**	**36,916,848,654**

ASSETS	2069/70	2068/69	2067/68	2066/67	2065/66
1. Cash in Hand	1,723,208,985	1,700,991,770	1,048,998,721	1,091,500,407	944,695,793
2. Balance with Nepal Rastra Bank	8,205,090,428	8,159,753,523	4,706,320,590	5,625,113,849	4,787,163,541
3. Balance with Banks/Financial Institution	1,287,494,550	502,561,014	367,543,641	1,102,200,747	432,511,829
4. Money at Call and Short Notice	-	-	-	-	-
5. Investments	9,263,858,419	7,863,627,165	7,743,928,321	5,008,307,589	5,948,480,273
6. Loans, Advances and Bills Purchased	43,393,187,065	35,910,974,673	31,057,691,462	27,556,356,032	23,884,673,616
7. Fixed Assets	631,182,801	547,925,679	460,258,735	463,094,391	427,157,451
8. Non-Banking Assets	-	-	-	-	-
9. Other Assets	1,237,128,209	1,127,295,233	851,470,792	536,187,696	492,166,151
Total Assets	**65,741,150,457**	**55,813,129,057**	**46,236,212,262**	**41,382,760,711**	**36,916,848,654**

FIVE YEARS PROFIT AND LOSS STATEMENT OF EBL

Particulars	2069/70	2068/69	2067/68	2066/67	2065/66
Interest Income	4,936,924,072	4,959,998,415	4,331,026,087	3,102,451,484	2,186,814,992
Interest Expenses	2,179,182,368	2,873,334,682	2,535,875,552	1,572,790,306	1,012,874,353
Net Interest Income	**2,757,741,704**	**2,086,663,733**	**1,795,150,535**	**1,529,661,178**	**1,173,940,639**
Commission and Discount	266,820,914	233,569,801	203,468,424	208,123,481	202,094,446
Other Operating Incomes	249,385,306	179,822,385	148,061,979	142,311,427	106,403,694
Exchange Fluctuation Income	98,905,369	109,679,321	46,259,065	47,879,967	62,526,819
Total Operating Income.	**3,372,853,293**	**2,609,735,240**	**2,192,940,003**	**1,927,976,053**	**1,544,965,598**

Staff Expenses	461,809,285	352,050,004	293,130,567	226,364,009	186,919,870
Other Operating Expenses	509,487,902	467,292,948	383,112,054	352,511,231	292,010,522
Exchange Fluctuation Loss	-	-	-	-	-
Operating Profit before provision for Possible loss	**2,401,556,106**	**1,790,392,288**	**1,516,697,382**	**1,349,100,813**	**1,066,035,206**
Provision for Possible Losses	98,807,333	252,054,098	(98,299,482)	(77,010,625)	(93,084,880)
Operating Profit	**2,302,748,773**	**1,538,338,190**	**1,418,397,900**	**1,272,090,188**	**972,950,326**
Non-Operating Income /Loss	8,336,601	25,155,849	1,433,385	12,338,972	5,005,256
Provision for Possible Loss Written Back	88,312	150,348,539	56,337,478	83,553,461	8,044,170
Profit from Regular Operations	**2,311,173,686**	**1,713,842,578**	**1,476,168,763**	**1,367,982,621**	**985,999,752**
Profit/Loss from extra-ordinary Activities	(88,312)	-	(12,051,522)	(61,192,476)	(5,549,170)
Net profit after considering all activities	**2,311,085,374**	**1,713,842,578**	**1,464,117,241**	**1,306,790,145**	**980,450,582**
Provision for Staff Bonus	210,098,670	155,803,871	133,101,567	118,799,104	89,131,871
Provision for Income Tax	-	-	-	-	-
* Current Year's	655,436,284	478,355,956	427,531,909	357,020,130	276,864,301
* Previous Year's	106,774	-	560,247	-	(24,278,347)
Deferred Tax	(25,673,645)	(10,881,471)	(28,380,110)	(794,721)	-
Net Profit/Loss	**1,471,117,291**	**1,090,564,222**	**931,303,628**	**831,765,632**	**638,732,757**

CAPITAL & LIABILITIES	2069/70	2068/69	2067/68	2066/67	2065/66
1. Share Capital	2,650,205,804	2,355,738,504	2,102,970,000	1,861,324,239	1,224,338,976
2. Reserves and Funds	1,148,751,613	841,720,359	776,330,000	589,229,831	488,268,219
3. Debentures & Bonds	800,000,000	600,000,000	200,000,000	200,000,000	200,000,000
4. Borrowings	-	-	-	-	-
5. Deposits	58,920,455,656	53,337,264,193	42,415,440,000	34,896,424,201	27,957,220,794
6. Bills Payable	165,354,686	78,616,237	80,680,000	72,368,229	62,947,325
7. Proposed Dividend	176,680,388	104,699,488	93,460,000	83,080,145	18,411,112
8. Income Tax Liabilities	-	3,468,901	-	-	-
9. Other Liabilities	934,704,675	738,200,038	419,350,000	345,252,820	215,253,123
Total Capital and Liabilities	**64,796,152,822**	**58,059,707,720**	**46,088,230,000**	**38,047,679,465**	**30,166,439,549**

ASSETS	2069/70	2068/69	2067/68	2066/67	2065/66
1. Cash Balance	1,239,453,119	1,186,755,022	1,007,690,000	815,679,624	652,027,266
2. Balance with Nepal Rastra Bank	4,957,064,493	3,269,609,702	2,330,930,000	1,842,802,239	444,138,596
3. Balance with Banks/Financial Institution	1,516,885,723	1,052,017,772	1,539,210,000	782,779,614	80,273,976
4. Money at Call and Short Notice	138,925,434	178,250,000	-	-	-

Particulars					
5. Investment	25,906,119,814	24,463,451,958	18,911,020,000	16,305,632,815	13,286,181,660
6. Loans, Advances and Bills Purchase	28,788,146,625	26,142,094,172	21,365,770,000	17,480,548,194	15,131,747,944
7. Fixed Assets	661,589,203	715,920,555	417,010,000	418,244,760	253,580,695
8. Non-Banking Assets	-	-	-	-	-
9. Other Assets	1,587,968,411	1,051,608,539	516,610,000	401,992,219	318,489,412
Total Assets	**64,796,152,822**	**58,059,707,720**	**46,088,240,000**	**38,047,679,465**	**30,166,439,549**

APPENDIX B (2)

FIVE YEARS PROFIT AND LOSS STATEMENT OF NSBI

Particulars	2069/70	2068/69	2067/68	2066/67	2065/66
Interest Income	4,110,514,126	3,769,483,069	3,104,231,807	2,269,704,291	1,460,445,686
Interest Expenses	2,486,978,979	2,770,798,689	2,096,038,379	1,443,693,573	824,700,275
Net Interest Income	**1,623,535,147**	**998,684,380**	**1,008,193,428**	**826,010,718**	**635,745,411**
Commission and Discount	313,696,555	255,351,737	247,164,764	131,692,149	78,836,624
Other Operating Incomes	157,755,684	141,761,704	95,172,658	78,796,662	52,790,137
Exchange Fluctuation Income	101,915,128	101,138,325	70,532,720	70,328,247	61,294,299
Total Operating Income.	**2,196,902,514**	**1,496,936,146**	**1,421,063,570**	**1,106,827,776**	**828,666,471**
Staff Expenses	416,560,412	289,153,228	255,430,285	130,336,536	121,989,160
Other Operating Expenses	477,246,891	456,126,353	445,072,722	343,850,266	223,965,592
Exchange Fluctuation Loss	-	-	-	-	-
Operating Profit before provision for Possible loss	1,303,095,211	751,656,565	720,560,563	632,640,974	482,711,719
Provision for Possible Losses	128,040,596	78,011,798	46,308,152	62,350,544	40,345,336
Operating Profit	**1,175,054,615**	**673,644,767**	**674,252,411**	**570,290,430**	**442,366,383**
Non-Operating Income /Loss	(287,286)	2,182,640	3,113,765	2,552,892	2,516,407
Provision for Possible Loss Written Back	43,861,090	91,695,108	179,122,158	56,621,276	198,672,788
Profit from Regular Operations	**1,218,628,419**	**767,522,515**	**856,488,334**	**629,464,598**	**643,555,578**
Profit/Loss from extra-ordinary Activities	2,326,357	(12,203,577)	(137,672,628)	(37,266,000)	(156,220,828)
Net profit after considering all activities	**1,220,954,776**	**755,318,938**	**718,815,706**	**592,198,598**	**487,334,750**
Provision for Staff Bonus	110,995,889	68,665,358	65,346,882	53,836,236	44,303,159
Provision for Income Tax	338,487,758	206,548,087	188,903,825	146,620,243	126,658,096
* Current Year's	363,530,553	229,051,564	206,531,475	183,015,350	133,123,502
* Previous Year's	565,456	729,573	(4,928,484)	(28,395,565)	2,582,900
Deferred Tax	(25,608,251)	(23,233,050)	(12,699,166)	(7,999,542)	(9,048,306)
Net Profit/Loss	**771,471,129**	**480,105,493**	**464,564,999**	**391,742,119**	**316,373,495**

a) Loans and Advances of EBL and NSBI   Amount in Millions

Year	2065/66	2066/67	2067/68	2068/69	2069/70	Average	S.D.	C.V.
Loan and Advance of EBL	24,469.56	28,156.40	31,661.84	36,616.83	44,197.76	33,020.48	7,010.25	21.23%
Growth %	29.91%	15.07%	12.45%	15.65%	20.70%	18.76%	8.83%	47.08%
No of branches	32	37	43	47	50	-		
Business per branch	764.67	760.98	736.32	779.08	883.96	785.00		
Year	2065/66	2066/67	2067/68	2068/69	2069/70	Average	S.D.	C.V.
Loan and Advance of NSBI	15,612.05	17,963.64	21,718.79	26,463.67	29,193.90	22,190.41	5,094.79	22.96%
Growth %	22.48%	15.06%	20.90%	21.85%	10.32%	18.12%	5.47%	30.18%
No of branches	32	43	50	50	56	-		
Business per branch	487.88	417.76	434.38	529.27	521.32	478.12		

b) Calculation of Standard Deviation of Loans & Growth of EBL   Amount in Millions

Year	EBL - Loans & Advances			EBL - Loan Growth		
	Loans (X)	(X - 31,661.84)	$(X - 31{,}661.84)^2$	Growth (X)	(X - 12.45%)	$(X - 12.45\%)^2$
2065/66	24,469.56	-7,192	51,728,995.61	29.91%	17.46%	3.05%
2066/67	28,156.40	-3,505	12,288,130.02	15.07%	2.62%	0.07%
2067/68	31,661.84	0	0.00	12.45%	0.00%	0.00%
2068/69	36,616.83	4,955	24,551,913.71	15.65%	3.20%	0.10%
2069/70	44,197.76	12,536	157,149,294.86	20.70%	8.25%	0.68%
Total (N = 5)	165,102.39	-	245,718,334.21	93.78%	-	3.90%
Average (=Total/5)	33,020.48	-	-	18.76%	-	-
Standard Deviation	-	-	7,010.25	-	-	8.83%
C.V. (=S.D./Mean)	-	21.23%	-	-	47.08%	-

c) Calculation of Standard Deviation of Loans & Growth of NSBI   Amount in Millions

Year	NSBI - Loans & Advances			NSBI - Loan Growth		
	Loans (X)	(X - 21,718.79)	$(X - 21{,}718.79)^2$	Growth (X)	(X - 20.90%)	$(X - 20.90\%)^2$
2065/66	15,612.05	-6,107	37,292,277.34	22.48%	1.58%	0.02%
2066/67	17,963.64	-3,755	14,101,148.16	15.06%	-5.84%	0.34%
2067/68	21,718.79	0	0.00	20.90%	0.00%	0.00%
2068/69	26,463.67	4,745	22,513,893.17	21.85%	0.94%	0.01%
2069/70	29,193.90	7,475	55,877,309.74	10.32%	-10.59%	1.12%
Total (N = 5)	110,952.06	-	129,784,628.41	90.61%	-	1.50%
Average (=Total/5)	22,190.41	-	-	18.12%	-	-
Standard Deviation	-	-	5,094.79	-	-	5.47%
C.V. (=S.D./Mean)	-	22.96%	-	-	30.18%	-

Loans and Advances , No. of Branches and Business per Branch   **Amount in Millions**

Year	EBL			NSBI		
	Loan & Advance	No. of Branch	Business per Branch	Loan & Advance	No. of Branch	Business per Branch
2065/66	24,469.56	32	764.67	15,612.05	32	487.88
2066/67	28,156.40	37	760.98	17,963.64	43	417.76
2067/68	31,661.84	43	736.32	21,718.79	50	434.38
2068/69	36,616.83	47	779.08	26,463.67	50	529.27
2069/70	44,197.76	50	883.96	29,193.90	56	521.32

Appendix 3

a) NPA Percentage of EBL   **Amount in Millions**

EBL	2065/66	2066/67	2067/68	2068/69	2069/70
NPA	220.96	125.56	108.51	307.49	276.20
Loans & Advances	24,469.56	28,156.40	31,661.84	36,616.83	44,197.76
Ratio	0.90%	0.45%	0.34%	0.84%	0.62%

b) NPA Percentage of NSBI   **Amount in Millions**

NSBI	2065/66	2066/67	2067/68	2068/69	2069/70
NPA	530.88	492.58	239.30	143.85	108.69
Loans & Advances	15,612.05	17,963.64	21,718.79	26,463.67	29,193.90
Ratio	3.40%	2.74%	1.10%	0.54%	0.37%

c) NPA Percentage of EBL and NSBI

Year	2065/66	2066/67	2067/68	2068/69	2069/70	Average	S.D.	C.V.
EBL	0.90%	0.45%	0.34%	0.84%	0.62%	0.63%	0.36%	57.17%
NSBI	3.40%	2.74%	1.10%	0.54%	0.37%	1.63%	1.33%	81.37%

d) Calculation of Standard Deviation of NPA percentage of EBL and NSBI

Year	EBL - NPA percentage			NSBI - NPA percentage		
	% NPA (X)	(X - 0.34%)	(X - 0.34%)^2	% NPA (X)	(X - 1.10%)	(X - 1.10%)^2
2065/66	0.90%	0.56%	0.00%	3.40%	2.30%	0.05%
2066/67	0.45%	0.10%	0.00%	2.74%	1.64%	0.03%
2067/68	0.34%	0.00%	0.00%	1.10%	0.00%	0.00%
2068/69	0.84%	0.50%	0.00%	0.54%	-0.56%	0.00%
2069/70	0.62%	0.28%	0.00%	0.37%	-0.73%	0.01%
Total (N = 5)	**3.16%**	**-**	**0.01%**	**8.16%**	**-**	**0.09%**
Average (=Total/5)	**0.63%**	**-**	**-**	**1.63%**	**-**	**-**
Standard Deviation	**-**	**-**	**0.36%**	**-**	**-**	**1.33%**
C.V. (=S.D./Mean)	**-**	**57.17%**	**-**	**-**	**81.37%**	**-**

Appendix 4

a) Composition of NPA of EBL   **Amount in Millions**

Year	2065/66	2066/67	2067/68	2068/69	2069/70
Restructured	102.98	81.85	14.21	0.75	0.00
Substandard	1.36	5.47	72.92	77.41	6.46
Doubtful	28.51	12.63	4.41	10.45	10.41
Loss	88.11	25.60	16.97	218.88	259.33
Total	**220.96**	**125.56**	**108.51**	**307.49**	**276.20**

b) Composition of NPA of NSBI   **Amount in Millions**

Year	2065/66	2066/67	2067/68	2068/69	2069/70
Restructured	214.93	227.45	139.94	106.40	27.63
Substandard	13.24	12.98	2.40	4.58	0.00
Doubtful	11.34	1.11	1.80	2.85	0.00
Loss	291.38	251.04	95.16	30.01	81.06
Total	**530.88**	**492.58**	**239.30**	**143.85**	**108.69**

c) Total Amount of NPA, NPA Growth and L & A Growth Table   **Amount in Millions**

Year	EBL			NSBI		
	NPA in Rs.	NPA Growth	L&A Growth	NPA in Rs.	NPA Growth	L&A Growth
2065/66	220.96	-21.41%	29.91%	530.88	-30.62%	22.48%
2066/67	125.56	-43.18%	15.07%	492.58	-7.21%	15.06%
2067/68	108.51	-13.58%	12.45%	239.30	-51.42%	20.90%
2068/69	307.49	183.37%	15.65%	143.85	-39.89%	21.85%
2069/70	276.20	-10.18%	20.70%	108.69	-24.44%	10.32%

Appendix 5

Calculation of Standard Deviation of Credit Deposit (C/D) Ratio of EBL and NSBI

Year	EBL - C/D Ratio			NSBI - C/D Ratio		
	C/D Ratio (X)	(X - 76.98%)	(X - 76.98%)2	C/D Ratio (X)	(X - 51.2%)	(X - 51.2%)^2
2065/66	73.43%	-3.55%	0.13%	55.84%	4.64%	0.22%
2066/67	76.24%	-0.74%	0.01%	51.48%	0.28%	0.001%
2067/68	76.98%	0.00%	0.00%	51.20%	0.00%	0.00%
2068/69	73.22%	-3.76%	0.14%	49.62%	-1.58%	0.02%
2069/70	76.57%	-0.41%	0.00%	49.55%	-1.65%	0.03%
Total (N = 5)	**376.44%**	**-**	**0.27%**	**257.69%**	**-**	**0.27%**
Average (=Total/5)	**75.29%**	**-**	**-**	**51.54%**	**-**	**-**
Standard Deviation	**-**	**-**	**2.34%**	**-**	**-**	**2.32%**
C.V. (=S.D./Mean)	**-**	**3.11%**	**-**	**-**	**4.49%**	**-**

a) Investment Deposit (I/D) Ratio of EBL   **Amount in Millions**

EBL	2065/66	2066/67	2067/68	2068/69	2069/70
Investment	5,948.48	5,008.31	7,743.93	7,863.63	9,263.86
Deposit	33,322.95	36,932.31	41,127.91	50,006.10	57,720.46
Ratio	17.85%	13.56%	18.83%	15.73%	16.05%

b) Investment Deposit ratio of NSBI   **Amount in Millions**

NSBI	2065/66	2066/67	2067/68	2068/69	2069/70
Investment	13,286.18	16,305.63	18,911.02	24,463.45	25,906.12
Deposit	27,957.22	34,896.42	42,415.44	53,337.26	58,920.46
Ratio	47.52%	46.73%	44.59%	45.87%	43.97%

c) Investment Deposit ratio of EBL & NSBI

Year	2065/66	2066/67	2067/68	2068/69	2069/70	Average	S.D.	C.V.
EBL %	17.85%	13.56%	18.83%	15.73%	16.05%	16.40%	3.04%	18.50%
NSBI %	47.52%	46.73%	44.59%	45.87%	43.97%	45.73%	1.75%	3.82%

d) Calculation of Standard Deviation of I/D Ratio of EBL and NSBI

Year	EBL - I/D Ratio			NSBI - I/D Ratio		
	I/D Ratio (X)	(X - 18.83%)	$(X - 18.83\%)^2$	I/D Ratio (X)	(X - 44.59%)	$(X - 44.59\%)^2$
2065/66	17.85%	-0.98%	0.01%	47.52%	2.94%	0.09%
2066/67	13.56%	-5.27%	0.28%	46.73%	2.14%	0.05%
2067/68	18.83%	0.00%	0.00%	44.59%	0.00%	0.00%
2068/69	15.73%	-3.10%	0.10%	45.87%	1.28%	0.02%
2069/70	16.05%	-2.78%	0.08%	43.97%	-0.62%	0.004%
Total (N = 5)	82.02%	-	0.46%	228.67%	-	0.15%
Average (=Total/5)	16.40%	-	-	45.73%	-	-
Standard Deviation	-	-	3.04%	-	-	1.75%
C.V. (=S.D./Mean)	-	18.50%	-	-	3.82%	-

Appendix 7

a) Yield On Advances of EBL   **Amount in Millions**

EBL	2065/66	2066/67	2067/68	2068/69	2069/70
Interest on Loan & Advances	1,852	2,801	3,870	4,505	4,637
Loan & Advances	24,470	28,156	31,662	36,617	44,198
Yield on Advances	7.57%	9.95%	12.22%	12.30%	10.49%

b) Yield On Advances of NSBI   Amount in Millions

NSBI	2065/66	2066/67	2067/68	2068/69	2069/70
Interest on Loan & Advances	1,180	1,760	2,442	2,984	3,270
Loan & Advances	15,612	17,964	21,719	26,464	29,194
Yield on Advances	7.56%	9.80%	11.24%	11.27%	11.20%

c) Yield On Advances of EBL & NSBI

Year	2065/66	2066/67	2067/68	2068/69	2069/70	Average	S.D.	C.V.
EBL	7.57%	9.95%	12.22%	12.30%	10.49%	10.51%	2.44%	23.24%
NSBI	7.56%	9.80%	11.24%	11.27%	11.20%	10.21%	1.77%	17.34%

d) Calculation of Standard Deviation of YOA of EBL and NSBI

Year	EBL - Yield On Advances			NSBI - Yield On Advances		
	Yield (X)	(X - 12.22%)	(X - 12.22%)2	Yield (X)	(X - 11.24%)	$(X - 11.24\%)^2$
2065/66	7.57%	-4.65%	0.22%	7.56%	-3.69%	0.14%
2066/67	9.95%	-2.27%	0.05%	9.80%	-1.44%	0.02%
2067/68	12.22%	0.00%	0.00%	11.24%	0.00%	0.00%
2068/69	12.30%	0.08%	0.0001%	11.27%	0.03%	0.00%
2069/70	10.49%	-1.73%	0.03%	11.20%	-0.04%	0.00002%
Total (N = 5)	52.53%	-	0.30%	51.07%	-	0.16%
Average (=Total/5)	10.51%	-	-	10.21%	-	-
Standard Deviation	-	-	2.44%	-	-	1.77%
C.V. (=S.D./Mean)	-	23.24%	-	-	17.34%	-

Appendix 8

a) Yield On Investments of EBL   Amount in Millions

EBL	2065/66	2066/67	2067/68	2068/69	2069/70
Interest on Investment	317.86	278.80	445.26	428.29	274.95
Investment	5,948.48	5,008.31	7,743.93	7,863.63	9,263.86
Yield on Investment	5.34%	5.57%	5.75%	5.45%	2.97%

b) Yield On Investments of NSBI   Amount in Millions

NSBI	2065/66	2066/67	2067/68	2068/69	2069/70
Interest on Investment	129.53	209.92	397.30	342.40	150.21
Investment	13,286.18	16,305.63	18,911.02	24,463.45	25,906.12
Yield on Investment	0.97%	1.29%	2.10%	1.40%	0.58%

c) Yield On Investments of EBL & NSBI

Year	2065/66	2066/67	2067/68	2068/69	2069/70	Average	S.D.	C.V.
EBL	5.34%	5.57%	5.75%	5.45%	2.97%	5.01%	1.27%	25.27%
NSBI	0.97%	1.29%	2.10%	1.40%	0.58%	1.27%	0.97%	76.71%

d) Calculation of Standard Deviation of YOI of EBL and NSBI

Year	EBL - Yield On Investment			NSBI - Yield On Investment		
	Yield (X)	(X - 5.75%)	(X - 5.75%)2	Yield (X)	(X - 2.10%)	(X - 2.10%)^2
2065/66	5.34%	-0.41%	0.002%	0.97%	-1.13%	0.01%
2066/67	5.57%	-0.18%	0.0003%	1.29%	-0.81%	0.01%
2067/68	5.75%	0.00%	0.00%	2.10%	0.00%	0.00%
2068/69	5.45%	-0.30%	0.001%	1.40%	-0.70%	0.005%
2069/70	2.97%	-2.78%	0.08%	0.58%	-1.52%	0.02%
Total (N = 5)	25.07%	-	0.08%	6.34%	-	0.05%
Average (=Total/5)	5.01%	-	-	1.27%	-	-
Standard Deviation	-	-	1.27%	-	-	0.97%
C.V. (=S.D./Mean)	-	25.27%	-	-	76.71%	-

Calculation of Standard Deviation of Average Spread of EBL & NSBI

Year	EBL - Average Spread			NSBI - Average Spread		
	Spread (X)	(X - 4.60%)	(X - 4.60%)2	Spread (X)	(X - 2.86%)	(X - 2.86%)^2
2065/66	4.40%	-0.20%	0.00%	2.84%	-0.02%	0.000004%
2066/67	4.78%	0.18%	0.00%	2.76%	-0.10%	0.0001%
2067/68	4.60%	0.00%	0.00%	2.86%	0.00%	0.00%
2068/69	5.32%	0.72%	0.01%	2.70%	-0.16%	0.0003%
2069/70	5.68%	1.08%	0.01%	3.38%	0.52%	0.003%
Total (N = 5)	24.78%	-	0.02%	14.54%	-	0.00%
Average (=Total/5)	4.96%	-	-	2.91%	-	-
Standard Deviation	-	-	0.59%	-	-	0.25%
C.V. (=S.D./Mean)	-	11.96%	-	-	8.51%	-

a) Total Operating Expenses to Total Assets of EBL   **Amount in Millions**

EBL	2065/66	2066/67	2067/68	2068/69	2069/70
Staff Expenses	186.92	226.36	293.13	352.05	461.81
Other Operative Expenses	292.01	352.51	383.11	467.29	509.49
Exchange Fluctuation	0.00	0.00	0.00	0.00	0.00
Total Operative Expenses	**478.93**	**578.88**	**676.24**	**819.34**	**971.30**
Total Assets	36,916.85	41,382.76	46,236.21	55,813.13	65,741.15
Total Operative Expenses/Total Assets	**1.30%**	**1.40%**	**1.46%**	**1.47%**	**1.48%**
Staff Expenses/Total Assets	**0.51%**	**0.55%**	**0.63%**	**0.63%**	**0.70%**
Other Operative Expenses/Total Assets	**0.79%**	**0.85%**	**0.83%**	**0.84%**	**0.77%**

x

b) Total Operating Expenses to Total Assets of NSBI   **Amount in Millions**

NSBI	2065/66	2066/67	2067/68	2068/69	2069/70
Staff Expenses	121.99	130.34	255.43	289.15	416.56
Other Operative Expenses	223.97	343.85	445.07	456.13	477.25
Exchange Fluctuation	0.00	0.00	0.00	0.00	0.00
Total Operative Expenses	**345.95**	**474.19**	**700.50**	**745.28**	**893.81**
Total Assets	30,916.68	38,047.68	46,088.23	58,059.71	64,796.15
Total Operative Expenses/Total Assets	1.12%	1.25%	1.52%	1.28%	1.38%
Staff Expenses/Total Assets	0.39%	0.34%	0.55%	0.50%	0.64%
Other Operative Expenses/Total Assets	0.72%	0.90%	0.97%	0.79%	0.74%

c) Total Operating Expenses to Total Assets of EBL & NSBI

Year	2065/66	2066/67	2067/68	2068/69	2069/70	Average	S.D.	C.V.
EBL	1.30%	1.40%	1.46%	1.47%	1.48%	1.42%	0.08%	5.60%
NSBI	1.12%	1.25%	1.52%	1.28%	1.38%	1.31%	0.25%	19.05%

d) Calculation of Standard Deviation of Operating Expenses Ratio of EBL & NSBI

Year	EBL - Operating Expenses Ratio			NSBI - Operating Expenses Ratio		
	Ratio (X)	(X - 1.46%)	$(X - 1.46\%)^2$	Ratio (X)	(X - 1.52%)	$(X - 1.52\%)^2$
2065/66	1.30%	-0.17%	0.0003%	1.12%	-0.40%	0.002%
2066/67	1.40%	-0.06%	0.00004%	1.25%	-0.27%	0.001%
2067/68	1.46%	0.00%	0.00%	1.52%	0.00%	0.00%
2068/69	1.47%	0.01%	0.0000003%	1.28%	-0.24%	0.001%
2069/70	1.48%	0.01%	0.000002%	1.38%	-0.14%	0.0002%
Total (N = 5)	**7.10%**	**-**	**0.0003%**	**6.55%**	**-**	**0.003%**
Average (=Total/5)	**1.42%**	**-**	**-**	**1.31%**	**-**	**-**
Standard Deviation	**-**	**-**	**0.08%**	**-**	**-**	**0.25%**
C.V. (=S.D./Mean)	**-**	**5.60%**	**-**	**-**	**19.05%**	**-**

Appendix 11

a) Net Interest Income to Total Operating Income of EBL   **Amount in Millions**

EBL	2065/66	2066/67	2067/68	2068/69	2069/70
Net Interest Income	1,173.94	1,529.66	1,795.15	2,086.66	2,757.74
Commission & Discount	202.09	208.12	203.47	233.57	266.82
Other Operating Income	106.40	142.31	148.06	179.82	249.39
Exchange Fluctuation Income	62.53	47.88	46.26	109.68	98.91
Total Operating Income	**1,544.97**	**1,927.98**	**2,192.94**	**2,609.74**	**3,372.85**
Net Interest Income to Total Operating Income	**75.98%**	**79.34%**	**81.86%**	**79.96%**	**81.76%**

b) Net Interest Income to Total Operating Income of NSBI   Amount in Millions

NSBI	2065/66	2066/67	2067/68	2068/69	2069/70
Net Interest Income	635.75	826.01	1,008.19	998.68	1,623.54
Commission & Discount	78.84	131.69	247.16	255.35	313.70
Other Operating Income	52.79	78.80	95.17	141.76	157.76
Exchange Fluctuation Income	61.29	70.33	70.53	101.14	101.92
Total Operating Income	**828.67**	**1,106.83**	**1,421.06**	**1,496.94**	**2,196.90**
Net Interest Income to Total Operating Income	**76.72%**	**74.63%**	**70.95%**	**66.72%**	**73.90%**

c) Net Interest Income to Total Operating Income of EBL & NSBI

Year	2065/66	2066/67	2067/68	2068/69	2069/70	Average	S.D.	C.V.
EBL	75.98%	79.34%	81.86%	79.96%	81.76%	79.78%	2.98%	3.74%
NSBI	76.72%	74.63%	70.95%	66.72%	73.90%	72.58%	3.83%	5.28%

d) Calculation of Standard Deviation of Net Interest Ratio of EBL & NSBI

Year	EBL - Net Interest Income Ratio			NSBI - Net Interest Income Ratio		
	Ratio (X)	(X - 81.86%)	(X - 81.86%)^2	Ratio (X)	(X - 70.95%)	(X - 70.95%)^2
2065/66	75.98%	-5.88%	0.35%	76.72%	5.77%	0.33%
2066/67	79.34%	-2.52%	0.06%	74.63%	3.68%	0.14%
2067/68	81.86%	0.00%	0.00%	70.95%	0.00%	0.00%
2068/69	79.96%	-1.90%	0.04%	66.72%	-4.23%	0.18%
2069/70	81.76%	-0.10%	0.0001%	73.90%	2.95%	0.09%
Total (N = 5)	**398.91%**	-	**0.45%**	**362.91%**	-	**0.74%**
Average (=Total/5)	**79.78%**	-	-	**72.58%**	-	-
Standard Deviation	-	-	**2.98%**	-	-	**3.83%**
C.V. (=S.D./Mean)	-	**3.74%**	-	-	**5.28%**	-

Appendix 12

a) Fixed Assets to Total Loans & Advances of EBL   Amount in Millions

EBL	2065/66	2066/67	2067/68	2068/69	2069/70
Fixed Assets	427.16	463.09	460.26	547.93	631.18
Loans & Advances	24,469.56	28,156.40	31,661.84	36,616.83	44,197.76
Fixed Assets/L&A	1.75%	1.64%	1.45%	1.50%	1.43%

b) Fixed Assets to Total Loans & Advances of NSBI   Amount in Millions

NSBI	2065/66	2066/67	2067/68	2068/69	2069/70
Fixed Assets	253.58	418.24	417.00	715.92	661.59
Loans & Advances	15,612.05	17,963.64	21,718.79	26,463.67	29,193.90
Fixed Assets/L&A	1.62%	2.33%	1.92%	2.71%	2.27%

Year	2065/66	2066/67	2067/68	2068/69	2069/70	Average	S.D.	C.V.
EBL	1.75%	1.64%	1.45%	1.50%	1.43%	1.55%	0.16%	10.15%
NSBI	1.62%	2.33%	1.92%	2.71%	2.27%	2.17%	0.45%	20.52%

d) Calculation of Standard Deviation of Fixed Assets Ratio of EBL & NSBI

Year	EBL - Fixed Assets Ratio			NSBI - Fixed Assets Ratio		
	Ratio (X)	(X - 1.45%)	(X - 1.45%)2	Ratio (X)	(X - 1.92%)	$(X - 1.92\%)^2$
2065/66	1.75%	0.29%	0.001%	1.62%	-0.30%	0.001%
2066/67	1.64%	0.19%	0.0004%	2.33%	0.41%	0.002%
2067/68	1.45%	0.00%	0.00%	1.92%	0.00%	0.00%
2068/69	1.50%	0.04%	0.00002%	2.71%	0.79%	0.01%
2069/70	1.43%	-0.03%	0.00001%	2.27%	0.35%	0.001%
Total (N = 5)	7.77%	-	0.001%	10.84%	-	0.01%
Average (=Total/5)	1.55%	-	-	2.17%	-	-
Standard Deviation	-	-	0.16%	-	-	0.45%
C.V. (=S.D./Mean)	-	10.15%	-	-	20.52%	-

Appendix 13

a) Sector-wise Loan Exposure of EBL & NSBI as on year end 2069/70   **Amount in Millions**

Credit Sectors	EBL		NSBI	
	Amount	Percentage	Amount	Percentage
Agriculture & Mining	2,110.8	4.78%	1,129.4	3.87%
Manufacturing & Construction	14,588.50	33.01%	8,878.30	30.41%
Business	23,889.70	54.05%	12,721.90	43.58%
Other Services	1,966.70	4.45%	254.30	0.87%
Others	1,642.20	3.72%	6,210.00	21.27%
Total	44,197.90	100.00%	29,193.90	100.00%

b) Calculation of Standard Deviation of Loan Exposure of EBL & NSBI as on year end 2069/70

Year	EBL -Sector-wise Exposure			NSBI -Sector-wise Exposure		
	Proportion (X)	(X - 54.05%)	(X - 54.05%)2	Proportion (X)	(X - 43.58%)	$(X - 43.58\%)^2$
Agriculture & Mining	4.78%	-49.28%	24.28%	3.87%	-39.71%	15.77%
Manufacturing & Construction	33.01%	-21.04%	4.43%	30.41%	-13.17%	1.73%
Business	54.05%	0.00%	0.00%	43.58%	0.00%	0.00%
Other Services	4.45%	-49.60%	24.60%	0.87%	-42.71%	18.24%
Others	3.72%	-50.34%	25.34%	21.27%	-22.31%	4.98%
Total (N = 5)	100.00%	-	78.65%	100.00%	-	40.71%
Average (=Total/5)	20.00%	-	-	20.00%	-	-
Standard Deviation	-	-	39.66%	-	-	28.54%
C.V. (=S.D./Mean)	-	198.31%	-	-	142.68%	-

APPENDIX C (1)

Calculation of Trend Value of Gross Loan and Advances of EBL

Let the straight line trend be represented by the equation ; $Y = a + bX$

Fitting of Trend Line Using Least Square Method

Year (x)	Loan & Advances (Y)	X = x - 2068	X^2	XY
2066	24,469,555,526	-2	4	-48,939,111,052
2067	28,156,399,843	-1	1	-28,156,399,843
2068	31,661,842,757	0	0	0
2069	36,616,831,527	1	1	36,616,831,527
2070	44,197,762,941	2	4	88,395,525,882
N = 5	165,102,392,594	0	10	47,916,846,514

Now,

$$a = \frac{\Sigma Y}{N}$$

$$= 33,020,478,518.80$$

$$b = \frac{\Sigma XY}{\Sigma X^2}$$

$$= 4,791,684,651.40$$

Trend value of Loan and Advances of EBL (2071 - 2075)		
Year (x)	X = x - 2068	Trend Value (Y = a + bX)
2071	3	47,395,532,473
2072	4	52,187,217,124
2073	5	56,978,901,776
2074	6	61,770,586,427
2075	7	66,562,271,079

APPENDIX C (2)

Calculation of Trend Value of Gross Loan and Advances of NSBI

Let the straight line trend be represented by the equation ; $Y = a + bX$

Fitting of Trend Line Using Least Square Method

Year (x)	Loan & Advances (Y)	X = x - 2068	X^2	XY
2066	15,612,050,411	-2	4	-31,224,100,822
2067	17,963,641,179	-1	1	-17,963,641,179
2068	21,718,790,731	0	0	0
2069	26,463,671,464	1	1	26,463,671,464
2070	29,193,903,422	2	4	58,387,806,844
N = 5	110,952,057,207	0	10	35,663,736,307

Now,

$$a = \frac{\Sigma Y}{N}$$

$$b = \frac{\Sigma XY}{\Sigma X^2}$$

$$= \quad 22,190,411,441.40$$

$$= \quad 3,566,373,630.70$$

Trend value of Loan and Advances of NSBI (2071 - 2075)		
Year (x)	X = x - 2068	Trend Value (Y = a + bX)
2071	3	32,889,532,334
2072	4	36,455,905,964
2073	5	40,022,279,595
2074	6	43,588,653,226
2075	7	47,155,026,856

APPENDIX D (1)

Calculation of Trend Value of Total Deposits of EBL

Let the straight line trend be represented by the equation ; Y = a + bX

Fitting of Trend Line Using Least Square Method

Year (x)	Total Deposits (Y)	X = x - 2068	X²	XY
2066	33,322,946,246	-2	4	-66,645,892,492
2067	36,932,310,008	-1	1	-36,932,310,008
2068	41,127,914,339	0	0	0
2069	50,006,100,272	1	1	50,006,100,272
2070	57,720,464,632	2	4	115,440,929,264
N = 5	219,109,735,497	0	10	61,868,827,036

Now,

$$a = \frac{\Sigma Y}{N}$$

$$b = \frac{\Sigma XY}{\Sigma X^2}$$

$$= \quad 43,821,947,099.40$$

$$= \quad 6,186,882,703.60$$

Trend value of Total Deposits of EBL (2071 - 2075)		
Year (x)	X = x - 2068	Trend Value (Y = a + bX)
2071	3	62,382,595,210
2072	4	68,569,477,914
2073	5	74,756,360,617
2074	6	80,943,243,321
2075	7	87,130,126,025

Calculation of Trend Value of Total Deposits of NSBI

Let the straight line trend be represented by the equation ; Y = a + bX

Fitting of Trend Line Using Least Square Method

Year (x)	Total Deposits (Y)	X = x - 2068	X^2	XY
2066	27,957,220,794	-2	4	-55,914,441,588
2067	34,896,424,201	-1	1	-34,896,424,201
2068	42,415,443,294	0	0	0
2069	53,337,264,193	1	1	53,337,264,193
2070	58,920,455,656	2	4	117,840,911,312
N = 5	217,526,808,138	0	10	80,367,309,716

Now,

$$a = \frac{\Sigma Y}{N}$$

$$b = \frac{\Sigma XY}{\Sigma X^2}$$

=   43,505,361,627.60

=   8,036,730,971.60

Trend value of Total Deposits of NSBI (2071 - 2075)		
Year (x)	X = x - 2068	Trend Value (Y = a + bX)
2071	3	67,615,554,542
2072	4	75,652,285,514
2073	5	83,689,016,486
2074	6	91,725,747,457
2075	7	99,762,478,429

APPENDIX E (1)

Calculation of Trend Value of Net Interest Income of EBL

Let the straight line trend be represented by the equation ; Y = a + bX

Fitting of Trend Line Using Least Square Method

Year (x)	Net Interest Income (Y)	X = x - 2068	X^2	XY
2066	1,173,940,639	-2	4	-2,347,881,278
2067	1,529,661,178	-1	1	-1,529,661,178
2068	1,795,150,535	0	0	0
2069	2,086,663,733	1	1	2,086,663,733
2070	2,757,741,704	2	4	5,515,483,408
N = 5	9,343,157,789	0	10	3,724,604,685

Now,

$$a = \frac{\Sigma Y}{N}$$

$$b = \frac{\Sigma XY}{\Sigma X^2}$$

=   1,868,631,557.80

=   372,460,468.50

<table>
<tr><th colspan="3">Trend value of Net Interest Income of EBL (2071 - 2075)</th></tr>
<tr><th>Year (x)</th><th>X = x - 2068</th><th>Trend Value (Y = a + bX)</th></tr>
<tr><td>2071</td><td>3</td><td>2,986,012,963</td></tr>
<tr><td>2072</td><td>4</td><td>3,358,473,432</td></tr>
<tr><td>2073</td><td>5</td><td>3,730,933,900</td></tr>
<tr><td>2074</td><td>6</td><td>4,103,394,369</td></tr>
<tr><td>2075</td><td>7</td><td>4,475,854,837</td></tr>
</table>

APPENDIX E (2)

Calculation of Trend Value of Net Interest Income of NSBI

Let the straight line trend be represented by the equation ; Y = a + bX

Fitting of Trend Line Using Least Square Method

Year (x)	Net Interest Income (Y)	X = x - 2068	X^2	XY
2066	635,745,411	-2	4	-1,271,490,822
2067	826,010,718	-1	1	-826,010,718
2068	1,008,193,428	0	0	0
2069	998,684,380	1	1	998,684,380
2070	1,623,535,147	2	4	3,247,070,294
N = 5	**5,092,169,084**	**0**	**10**	**2,148,253,134**

Now,

$$a = \frac{\Sigma Y}{N}$$

$$b = \frac{\Sigma XY}{\Sigma X^2}$$

=   1,018,433,816.80

=   214,825,313.40

<table>
<tr><th colspan="3">Trend value of Net Interest Income of NSBI (2071 - 2075)</th></tr>
<tr><th>Year (x)</th><th>X = x - 2068</th><th>Trend Value (Y = a + bX)</th></tr>
<tr><td>2071</td><td>3</td><td>1,662,909,757</td></tr>
<tr><td>2072</td><td>4</td><td>1,877,735,070</td></tr>
<tr><td>2073</td><td>5</td><td>2,092,560,384</td></tr>
<tr><td>2074</td><td>6</td><td>2,307,385,697</td></tr>
<tr><td>2075</td><td>7</td><td>2,522,211,011</td></tr>
</table>

APPENDIX F (1)
Calculation of Trend Value of Non-Performing Assets of EBL

Let the straight line trend be represented by the equation ; $Y = a + bX$

Fitting of Trend Line Using Least Square Method

Year (x)	Non-Performing Assets (Y)	X = x - 2068	X²	XY
2066	220,964,942	-2	4	-441,929,884
2067	125,560,471	-1	1	-125,560,471
2068	108,512,928	0	0	0
2069	307,492,696	1	1	307,492,696
2070	276,198,772	2	4	552,397,544
N = 5	1,038,729,809	0	10	292,399,885

Now,

$$a = \frac{\Sigma Y}{N} \qquad\qquad b = \frac{\Sigma XY}{\Sigma X^2}$$

$$= \quad 207,745,961.80 \qquad\qquad = \quad 29,239,988.50$$

Trend value of Non-Performing Assets of EBL (2071 - 2075)		
Year (x)	X = x - 2068	Trend Value (Y = a + bX)
2071	3	295,465,927
2072	4	324,705,916
2073	5	353,945,904
2074	6	383,185,893
2075	7	412,425,881

APPENDIX F (2)
Calculation of Trend Value of Non-Performing Assets of NSBI

Let the straight line trend be represented by the equation ; $Y = a + bX$

Fitting of Trend Line Using Least Square Method

Year (x)	Non-Performing Assets (Y)	X = x - 2068	X²	XY
2066	530,880,982	-2	4	-1,061,761,964
2067	492,581,990	-1	1	-492,581,990
2068	239,299,186	0	0	0
2069	143,848,188	1	1	143,848,188
2070	108,691,856	2	4	217,383,712
N = 5	1,515,302,202	0	10	-1,193,112,054

Now,

$$a = \frac{\Sigma Y}{N}$$

$$b = \frac{\Sigma XY}{\Sigma X^2}$$

= 303,060,440.40

= (119,311,205.40)

Trend value of Non-Performing Assets of NSBI (2071 - 2075)		
Year (x)	X = x - 2068	Trend Value (Y = a + bX)
2071	3	-54,873,176
2072	4	-174,184,381
2073	5	-293,495,587
2074	6	-412,806,792
2075	7	-532,117,997

FIVE YEARS' FINANCIAL HIGHLIGHTS

NPRs. in Lacs

Ashadh End	F/Y -08/09 2065/66	F/Y -09/10 2066/67	F/Y -10/11 2067/68	FY 11/12 2068/69	FY 12/13 2069/70
Profitability (Key Indicators)					
Interest Income	14,604.46	22,697.04	30,999.08	37,694.83	41,105.14
Interest Expenditure	8,247.00	14,436.94	20,960.38	27,707.99	24,869.79
Fee, Commission and Exchange income	1,401.31	2,020.20	3,066.92	3564.90	4,156.12
Other Operating Income	527.90	787.97	951.73	1,417.62	1,577.56
Other Operating Expenses	2,239.66	3,438.50	4,297.43	4,561.26	4,772.47
Operating Profit	4,423.66	5,702.90	6,742.52	6,736.45	11,750.55
Profit Before Tax	4,430.32	5,383.62	6,534.69	6,866.54	11,099.59
Profit After Tax	3,163.73	3,917.42	4,645.65	4,801.05	77,14.71
Total Capital and Liabilitiies	**301,664.40**	**380,476.79**	**460,882.33**	**580,597.07**	**647,961.52**
Share Capital	12,243.39	18,613.24	21,029.66	23,557.39	26502.06
Reserves	4,882.68	5,892.30	7,763.27	8,417.20	11487.51
Liabilities	-	-	-	-	-
Deposit Accounts	279,572.21	348,964.24	424,154.43	533,372.64	589,204.56
Debenture	2,000.00	2,000.00	2,000.00	6,000.00	8,000.00
Bills Payable	629.47	723.68	806.85	786.16	1,653.54
Other Liabilities	2,336.65	4,283.33	5,128.12	8,463.68	11,113.85
Total Assets	**301,664.40**	**380,476.79**	**460,882.33**	**580,597.07**	**647,961.52**
Advances (Net)	151,317.48	174,805.45	213,657.71	261,420.94	287,881.47
Investments	132,861.82	163,056.33	189,110.22	244,634.52	259,061.20
Liquid Assets	11,764.40	34,412.61	48,778.26	56,866.32	78,523.28
Net Fixed Assets	2,535.81	4,182.45	4,170.03	7,159.21	6,615.89
Other Assets	3,184.89	4,019.95	5,166.11	10,516.08	15,879.68

PRINCIPAL INDICATORS
(FOR 5 YEARS)

Particulars	Indicators	F. Y. 2065/2066	F. Y. 2066/2067	F. Y. 2067/2068	F. Y. 2068/2069	F. Y. 2069/2070
1. Percent of Net Profit/Gross Income	%	19.14	15.36	13.21	11.25	16.47
2. Earnings Per Share	Rs.	36.18	23.69	24.85	22.93	32.75
3. Market Value per Share	Rs.	1,900.00	741.00	565.00	635.00	850.00
4. Price Earning Ratio	Times	52.52	31.28	22.73	27.69	25.95
5. Dividend (including bonus) on share capital	%	42.11	17.50	17.50	17.50	20.00
6. Cash Dividend on Share Capital	%	2.11	5.00	5.00	5.00	7.50
7. Interest Income/Loans & Advances	%	7.56	9.80	11.24	11.27	11.20
8. Staff Expenses/Total Operating Expenses	%	10.42	6.80	9.13	8.22	12.32
9. Interest Expenses /Total Deposit and Borrowings	%	2.93	4.11	4.92	5.14	4.16
10. Exchange Gain/Total Income	%	3.71	2.76	2.01	2.37	2.18
11. Staff (Statutory) Bonus/ Total Staff Expenses	%	26.64	29.23	20.37	19.19	21.04
12. Net Profit/Loans & Advances	%	2.03	2.18	2.14	1.81	2.64
13. Net Profit/ Total Assets	%	1.05	1.03	1.01	0.83	1.19
14. Total Credit/Deposit	%	55.84	51.48	51.20	49.62	49.55
15. Total Operating Expenses/Total Assets	%	3.88	5.04	6.07	6.06	5.22
16. Adequacy of Capital Fund on Risk Weightage Assets						
a. Core Capital	%	10.03	10.89	10.32	9.16	9.59%
b. Supplementary Capital	%	1.89	1.36	1.20	2.05	2.80%
c. Total Capital Fund	%	11.92	12.25	11.52	11.21	12.39%
17. Liquidity (CRR)	%	6.67	9.03	7.00	8.33	9.58
18. Non Performing Credit/Total Credit	%	2.02	1.48	1.10	0.54	0.37
19. Weighted Average Interest Rate Spread	%	2.84	2.76	2.86	2.70	3.38
20. Book Net worth	Rs.	1,702,571,354	2,440,863,070	2,869,602,150	3,196,710,863	3,798,957,417
21. Total Shares	No.	8,745,278	16,536,239	18,693,033	20,939,898	23,557,385
22. Total Staff	No.	323	465	505	538	538
23. Return on Shareholder's Equity	%	18.58	16.05	16.19	15.02	20.31
24. Book Value Per Share	Rs.	194.68	147.61	153.51	152.66	161.26
25. Return on Net Fixed Assets	%	124.76	93.66	111.41	67.06	116.61
26. Total Interest Earning to External Assets	%	5.14	6.72	7.71	7.45	7.52