# CHAPTER - ONE
# INTRODUCTION

## 1.1 Background of the study

Nepal is one of the least developed countries in the world. It is basically an agricultural, mountainous and landlocked kingdom surrounding by two large, fast developing nations, China and India. About 70% of the total population is engaged on subsistence farming. Despite its large share in labor market, it paradoxically, contributes 40% of the total GDP.As most of the labor forces are unemployed it is necessary to transform the huge labor force into industrialized sector. The economic development of Nepal is still in initial stge. For the economic growth and development, foreign investment policy privatization policy and trade transit policy.

Nepal has adopted mixed and liberal economic policy with the implicit objective to help the state and the private sector. Especially after restoration of the democracy, the concept of the liberalization polices has been incorporated as directive principal and state policies. This liberalization has helped in establishing many companies, banks finance companies and manufacturing industries. Thus these establishments help the country for its development.

The growth of banking is not so long in Nepal. In comparison with other countries, development of banking system in Nepal is far behind. Even through the specific date of the beginning of money and banking deal in Nepal is not obvious, it is speculated that during the reign of the king Mandev the coin “Mannk” and” Gunank” during the reign of the king Gunkamadev were in use. After the unification of Nepal, Prithvi Narayan Shaha, the great king had used coin ‘Mohar’ in his name. An institution called “TAKSAR” WS ESTABLISHED IN 1993(B.S.) It stated to issue the con scientifically .During the reign of Ranodip Singh an office named “Tejrat” was established in Kathmandu in 1993 (B.S.) It used to provide loans to the government officials and the people against deposit of gold and silver. It had also extended its branches outside Kathmandu valley for providing loan, But this office had no right to accept deposit of public and it had no characteristics of modern bank.(Bhandari ,2004:6)

After the establishment of Nepal Bank Limited on 30$^{th}$ kartik 1994 (B.S.).Modern banking system started in Nepal Under the Nepal Rastra Bank Act 2012, Nepal Rasta

Bank was established in 2013,Baishakh14th in Nepal. Rastria Banijya Bank was established in Government sector in 2022 and Agricultural Development Bank in 2024, 7th magh. Nepal Arab bank limited is the 1st joint venture bank established in2041 under the Commercial Bank Act 2031, and Companies ACT 2021. Now there are 29 Commercial Banks in Nepal that include. There are 78 developments Bank in Nepal .Then, in the chain, financial system covers 79 finance companies. 18 insurance companies, 51 NGOs licensed to perform limited banking functions under the supervision of NRB.

The credit policy cannot be sound unless it is based on a clear knowledge of the cost of credit. The cost is determined by the quantity of credit sales. The average collection period and the opportunity cost of capital. Whilst a marginal costing approach should be used which takes only incremental cost into account, the full opportunity cost has to be considered. The overall cost of credit will also be affected by the expected rate of inflation. Foreign accurate assessment of the cost of capital, a discounting approach should be used. A credit package can be differentiated in various ways, by duration by interest change, and by the interaction with the rest of the pricing mix.

## 1.2 Credit policy

Credit is regarded as the most income generating assets especial in commercial banks, Credit is regarded as the heart of the commercial bank in the sense that, it occupies large volume of transactions; it cover the main part of investment; the most of the investment activities based on credit; it is the main factor for crating profitability. It is the main source of creating profitability; it determines the profitability. It affects the overall economy of the country. In today’s context, it also affects on national economy to some extent. If the bank provides credit to retailer, it will make the customer status. Similarly, it provides to trade & industry, the government will get tax from them and help to increase national economy. It is the security against depositors. It is proved form very beginning that credit is the shareholder’s wealth maximization derivative. However, other factors can also affect profitability and wealth maximization but the most effective factor is regarded as credit. It is the most challenging job because it is backbone in commercial banks. Thus, effective management of credit should seriously be considered.

Policy is the system, which help to complete the every job effectively. Credit management is also system, which help to manage credit effectively. In other words, credit policy refers policy of credit exposures are the main source of investment in commercial banks and return on such investment is supposed to be main source of income.

Credit policy strongly recommends analyzing and managing the credit risks. Credit risk is defined as the possibility that a borrower will fail to meet its obligations in accordance with the agreed terms and conditions credit risk is not restricted to lending activities only but includes off balance sheet and interbank explores. The goal of the credit risk policy is to maximize a bank's risk adjusted rate of return by maintaining the credit risk exposure within acceptable parameters. For most banks, loan are the largest and most obvious sources of credit risk, however, other sources of credit risk exist throughout the activities of a bank, including in the banking book, and in the trading book, and both increasingly facing credit risk in various financial instruments other than land, including acceptances, inter bank transactions and guarantees and the settlement of transactions.

The credit policy of a firm provides the framework to determine whether or not to extend credit and how much credit to extend. The credit policy decision of a bank has two broad dimensions; credit standards and credit analysis. A firm has to establish and use standards in making credit decision, develop appropriate sources of credit information and methods of credit analysis.

### 1.3 An Introduction of Under Study Banks

Everest Bank Limited and NABIL Bank Limited are 2 venture banks out of 31 commercial banks operating within tertiary of Nepal. These banks are established in different time period. NABIL bank is first JVB in the history of Nepal where as Everest Bank is established as the joint venture of Punjab National Bank (India) .Which directly helps with those business men and individual. Whose business area lies within the territory of Nepal? So it was clear that these sample banks with difference service can cover all information for the thesis and make meaningful.

#### 1.3.1 NABIL Bank Limited

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

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

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

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

### 1.3.2 Everest Bank Limited

Everest Bank Ltd. (ELB) started its operation in 1994 with the view and objective of extending professionalized and efficient banking services to various segments of the society. EBL joined hands with Punjab National Bank (PNB) India as its joint venture partner in 1997. PNB is the largest nationalized bank having 113 years of banking history with more than 4500 offices all over the India. Of which 1400 branches are interconnected. PNB has over 1200 Automatic Teller Machines (ATM) spreads across India. As on 31st Dec. 2010 PNB had a total business of 193000 corers and posted a net profit of INR 1510 corers. Drawing its strength from its joint venture partner, EBL has been steadily growing in its size and operations, establishing itself as a lending private sector Bank EBL are ranked as No. 2 bank by NRB as per CAMELS. (EBL Annual report 2010).

Despite fragile law and order situation especially during last 3-4 years, the Bank has recorded spectacular performance. As per audited accounts of Fiscal year 2009/2010, the bank's operating profit was Rs 577.67 million registering a growth of 29.5% over the previous year. TUE bank's credit recorded a growth of nearly 39% over the last year reaching a figure of Rs 13.664.08 million. Similarly, the total deposits of the Bank posted a growth of 31.76% amounting to RS18186.25 million over the preceding year. This sustained growth of the Bank is attributable to its strong systems and procedures professional approach, quality lending and highly motivated staff members.

The bank is providing its services through a wide network of 26 branches across the nation and over 250 correspondents across the globe. All the major branches of the bank are connected through Any where Branch Banking system (ABBS). Facilities which enable a customer to do banking transaction from any of the branches irrespective of their having accounts in other branch. The Bank in association with smart Choice Technology (SCT) is providing ATM services to its customers. EBL Debit Card can be accessed at more than 110 ATMs and over 1200 points of sales across the nation. The bank is also managing the SCT ATM at Tribhuvan International Airport for the convenience of its customers and the travelers the first and the only bank in Nepal to place ATM outlet at the Airport. (EBL Monthly Bulletin march 2010 Edition).

EBL is playing a pivotal role in facilitating remittance to and from across globe. Being the first Nepalese bank to open a representative office in Delhi, India, the Nepalese in India can open account in Nepal from the designated branches of Punjab National Bank and remit their saving economically through banking channels to Nepal. The bank has channels to Nepal. The bank has Draft Drawing Arrangements with 185 branches of PNB all over India. With an aim to facilitate the remittance of Nepalese citizens working abroad. The bank has entered into arrangements with renowned banks and exchange companies across the glove. (EBL Boucher).The Bank recognized the value of offering a complete range of services EBL have pioneered in extending various customer friendly products such as Home Loan EDUCATION loan EBL flexi loan EBL property plus (Future Lease Rentals).Home EQUITY loan, Car

Loan, Against shares LOAN Shares Loan Against Life Insurance Policies and Loan for Loan Against Shares Loan A against Life Insurance for Professionals. We at EBL have always endeavored in delivering innovative produces suiting the consumer's requirements and needs thus enriching, enabling and beautifying their lives.

### 1.4 Statement of the problem

When the government introduced the liberalization policy, many banks, financial institutions and other institutions are established rapidly. These days many commercial banks, development banks and financial institution are operating their works to assist in the process of economic development in the country. Due to the high competition among these financial institutions, complications are faced in fund mobilization and investment practice. So, it raised the problems of proper fund mobilization activities, which may play the vital role in ensuring banking success and economic development of the nation.

Demand and floating of loan on the non productive sectors is leading the banking system in over liquidity. This has compelled bank to search alternative avenues to mobilize their funds and this/us emerged the new and alternative concepts in the area of lending.

Liquidity pressure in the commercial banks and lack of the best floats of loan sharply reduced the return on shareholders' fund NRB imposed many rules and regulating so that commercial bank can have sufficient liquidity and security. Though most of commercial bank has been successful to earn profit from fund mobilization none of them seem to be capable to invest their entire fund in more profitable sector.

As the major motive of the commercial banks is to earn more profit, they want to disburse the deposit on loans and advance on different sectors. These days, most of commercial banks are moving toward to the consumer lending. Banks has to take minimum risk while making consumer lending the banks has been facing various problems while providing lending service.

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

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

In summary, the major reasons of Nepalese problem of non – industrialization is the part of economic failure and misuse of resources without proper utilization. Nepal primarily being agricultural country, its vase of industrialization also lies on agriculture. The first sets of industries established are all agro industries. Therefore, it would not be out of context to mention agro industry playing a major role in this process. The policy of promoting import substitution and indigenous raw material based industries was the target and the guiding factor during 1970s. Previously the closed economic policy constrained in harnessing the natural resources Poverty, illiteracy and shy entrepreneurship were also responsible for the dismal growth of modern banking sector and industrial sector too. The present status and its factors, therefore, provide the base as well as guide to future course of industrial development in Nepal. In the context of the shy private sector role in the industrial development, public enterprises played important roles in the initial stages of development.

Agriculture is the backbone of the economy and the livelihood of more than 70 percent of total population associated with this sector. Manufacture industries and big trading business are the best choices of the joint venture banks for the investment but these sectors are small in quantity. The growth of the trading business and manufacturing industries means the economy growth and side by side it helps in reduction of under and unemployment problem. But these industries and business houses are not doing progress in their own field current situation of the economy are not in their favor as the result these big business are moving towards the liquidation. The basic objective of the joint venture is to collect small saving and make huge investment is not fulfilling as the result new concept of the nation in this type lending only the borrower is benefiting.

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

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

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

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

The present problems related to the credit policy are:

a. What is the position of lending and advancing of sample commercial bank?
b. What is the future prospect of credit transaction in Nepal?
c. What problems are faced by commercial banks in availing lending services?
d. What types of major lending products are prescribed by consumers?

## 1.5 Objective of the study

**The objectives of this study are:**

-To study the relationship between deposits and lending

-To study the classification, provision for loan and advances and its effect in profitability.

- To examine the sector wise and security wise lending.

## 1.6 Significance of the study

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

**The significance of the study can be written as the following manner:**

a. By the helps of this study, general public can know the lending activities and situation of the Nepalese commercial banks.
b. It is also beneficial for the government while formulating policy and rules regarding the credit policy.
c. The study of credit policy would provide information to the management of the concerned banks that would be helpful to take corrective actions in the banks activities.
d. This study provides valuable information that is necessary for the management of the banks shareholders general public and related parties.

## 1.7 Limitations of the study

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

a. This study is based on secondary as well as primary data. Accuracy depends upon the data collection and as provided by the banks.
b. The analysis period of research covers only five years. (FY 200/200 to FY 20010/2011.)
c. The study mainly focuses on the loan and advances and doesn't cover other banking services and facilities provided by the banks.
d. In third study only limited financial and statistical tools and techniques of credit analysis is used.
e. This study has been carried out for the partial fulfillment of master's degree faculty of management of TU. So the time and resources are major limitation of the study.
f. Only 2 commercial banks among 31 have been selected as sample for the study. Due to the small sample size, it may not fully represent complete banking credit concept as a whole.

### 1.8 Chapter Division

The study has been divided into five chapters.

**Chapter I** concentrates on the introduction of the study, a glance on NABIL and Everest statement of the problems, importance of the study, limitation of the study and scheme of the study.

**Chapter II** is known as review of literature. It con+sists of conceptual framework and a brief view of the related studies and findings are presented and various related literature are quoted, which include review of general opinions and books regarding JVBs and review of previous thesis.

**Chapter III** Research methodology is discussed in chapter three and it includes research design, and sources of data, population and sample and methods of analysis.

**Chapter IV** represents the analysis and interpretation of data through a definite course of research methodology to draw out the conclusion and findings. The main functions of this thesis are interpreted in this chapter.

**Chapter V** and the last chapter summarize the whole study. It revolves with the conclusion which includes the summary of main findings, recommendations and workable suggestions. Besides these, bibliographies and annexure are also added.

# CHAPTER - TWO

# REVIEW OF LITERATURE

## 2.1 Introduction

Review of literature includes the whole study and review of those books, articles and thesis, which are related to our research. It provides the information about the research. By the detail study of literature, we can come to know up to how the researchers have researched. And what are the things remain to be research. To make a research effective, the research must be new in the field of research. And without reviewing previous thesis, one can’t know what is new? So as to know subject researched and remains to research review of literature is so as to know subject researched and remains to research, review of literature is so important like an investigation of disease before treatment in medical science. It includes related book, articles, journals and thesis. The textual matters would help the researcher to supporting purpose. Actually, it is the best guideline for the research work.

From above it is clear that the purpose of literature review is to find out what research has been conducted is one’s chosen field of study and what remarks to be done.

Thus the chapter is broadly discussed under three sections.

a. Conceptual framework
b. Review of journals and Articles.
c. Review of previous research.

## 2.2 Conceptual Review

This section is developed to discuss briefly about the theoretical frame work, which are closely related to the research work:

### 2.2.1 Lending: A Definition

Lending is to give someone the procession or use of something on the condition that it will be returned later. For our purpose, Lending is the act of giving out money, which has to be repaid after the specified time frame, so as to earn profit from interest. The Capital Deficit Unit (CDU) with an agreement to repay/pay back the loan with specified interest in some agreed terms and conditions.

When an organization or individual makes a sum available for one to borrow, then the act of granting credit is referred to as lending. Banks and financial institution avail some funds towards of potential customers upon satisfying their terms and conditions. Talking about the term lending, three are few other implicit concepts that come together namely, the concept of repayment, and the concept of interest rate and so on.

Credit is the confidence in a borrower’s ability and intention to repay. People use the credit they have with financial institutions, businesses, and individuals to obtain loans. And they use the loans to buy goods and services. The credit a person has typically determines how much they will be permitted to borrow for what purpose, for how long, and at what interest rates. The level of confidence lenders have in potential borrowers depends on many factors. A person’s income is an indicator of a person’s ability to repay, particularly when compared to the amount of debt they already have. The amount of borrowing a person has already done and how well they handled repayment is an indicator of their intention to repay.

The reasons people borrow re varied and personal. Loans allow people to obtain goods and services today, such as homes and automobiles, and spread the cost over time. This makes these purchases more affordable than they might otherwise be. Most Americans could not afford homes or cars without the ability to borrow. Many people who have built up their savings use loan instead because they consider rebuilding their savings more difficult than repaying the loan.

Responsible use of credit revolves around one’s budget and how much she/he can afford to devote to loan payments. As a general guideline, borrowing may be justified for automobiles, homes, recreational vehicles, education, home improvements, and other purchases that have value lasting beyond the time it takes to pay them off. Responsible use of credit also refers to living within one’s means. One should limit the size of the home she/he buy or the comfortably afford.

### 2.2.2 Bank Lending: an Outline

There are two types of credit that are available with the Nepalese commercial banks. One type of credit/loan is linked to a specific item like home loans, mortgages, personal loan, shop loans, vehicle loan, education loan, etc. The second type of loan, which is known as revolving credit, means that the client always has access to the amount of the line of credit that remains unspent. And every time she/he pay off some of the outstanding amount, that proportion of his/her credit limit becomes available for spending again.

Term and Demand Loans are normally repaid in regular installments over are agreed period of time. The amount of installments may be variable or fixed repayments of approximately equal amounts. In case of revolving credit facility, the client has an option to pay off the outstanding amount within the expiry date of that facility.

In order to cover the lending risk and to make a profit on their money, lenders generally charge interest on loans and revolving credit. With fixed repayment loans, the amount of interest is worked out in advance and added into the repayments. There is often a penalty if the customer wants to repay the outstanding amount earlier than agreed. With revolving credit, customer cans repair much or as little as s/he wanted, at any point.

### 2.2.3 Credit Policy: An Explanation

Credit policy provides a philosophical framework for day-to-day credit decisions. Policy will guide officers in balancing the bank's earnings objective Credit policy refers to the overall guidelines that spell out how to decide which customers are availed the credit, the exact repayment terms, the limits set and how to deal with delinquent accounts.

It is the borrowing capacity provided to an individual by the banking system, in the form of credit or a loan. The total bank credit the individual has is the sum of the borrowing capacity each lender bank provides to the individual.

A typical credit policy will address the following points:

- **Credit limits.** Depending upon the various factors, credit limit is set for each customer
- **Credit terms.** Decide when the repayment will start, prepayment and late payments conditions are to be set
- **Margin.** It may be required customers to pay apportion of the availed due in advance.
- **Customer information.** This section should outline what the lender wants to know about a customer before making a credit decision. Typical points include years in business, length of time at present location, financial data, credit

rating with other vendors and credit reporting agencies, information about the individual principals of the company and how much they expect to borrow from the lender, etc.

- **Documentation.** This includes credit applications, agreements, contracts, correspondence, and so on. It is also the most important part in establishing legal proof of evidences before the court, if the client is failed to fulfill the commitment made towards the lender.

### 2.2.4 Credit Culture: An Overview

Credit culture is the foundation of credit risk management in ant bank provided it is effective. Some people define credit culture as simply the way things get done around here. Scholars defined credit culture more narrowly as the sum of all the characteristics of an organization's unique behavior in its extension of credit. It not only encompasses the tangible, such as ideas, traditions, skills, attitudes, philosophies and standards. Credit culture is developed over time, and then communicated and passed on. It is the true spirit behind the rules. Credit culture is the critical micro piece of the credit risk management process, since an appropriate credit culture determines not only a bank's profitability but also its very survival.

The banking environment has changed dramatically from both an industry and regulatory perspective. Banking has evolved into a fiercely competitive business. Separate business line-specific risk management practices continue to evolve into consolidated enterprise risk management (ERM) frameworks, the purpose of which is to evaluate and manage the uncertainties the enterprise faces as it enhances value to shareholders. However, creating an ERM framework does provide even the smallest institutions with a structured and disciplined approach to aligning strategy Processes, People, Technology and Knowledge.

Banks are expected by their boards of directors to effectively manage and compete in today's changing environment. Pressure to enhance shareholder value can lead to slippages in credit practices, such as approving marginal credits, waiving personal guaranties and other standards, and irrational pricing. That is, of course, unless an organization has a carefully defined and disciplined credit culture, supported by its board, as its first line of defense against imprudent credit and pricing decisions. In fact, credit culture concepts remain as immutable and relevant today as they were over thirty years ago.

**P. Henry Mueller**, July, 1994 the former chairman of the credit policy committee and chief lending officer of Citicorp and Citibank, New York, has offered 20 self-evident essentials of good banking. These essentials apply to the credit culture of any institution, regardless of size.

- Continuing commitment to excellence.
- Logical framework for say-to-day decision making.
- Sound value systems that will not break down under change.
- Uniform and consistent approach to risk taking.
- A common credit language.
- Business cycle perspective on the bank's credit experience.
- Supremacy of the bank's objectives over individual profit center goals.
- Can did and frank communications at all levels.
- Awareness of every transaction's effect on the bank.
- A portfolio with integrity and few exceptions.
- Individual accountability for decisions and actions.
- Balance of long-term insight with short-term view.
- Respect for credit basics.
- Common-sense reality checks against market practices.
- Encouragement of independent judgment over the herd instinct.
- Constant mindfulness of the bank's risk taking parameters.
- Realistic approach to markets and budgeting.
- An understanding of what the bank expects and the reasons behind its policies.
- Credit systems with early warning capabilities.
- Expectation that problems are identified early and that no tolerance for surprises exists.

Policy, process, auditing, and behavior are the underpinnings of a strong credit culture. As the starting point, credit policy provides a philosophical framework for day-to-day credit decisions. Policy will guide officers in balancing the bank's earnings objectives. Process is the line-driven operational arm of credit extension and credit strategy. Through the delegation of authority, a strong credit process will provide a policing mechanism for the integrity of the credit apparatus. Auditing is responsible for ensuring adherence to credit policy, procedures, and business plans. Behavior is related to the values held by bank employees. Each credit officer should be expected to reflect conservative risk taking attitudes and a commitment to excellence. Exceptions to policy should be few and well documented when approved.

Each type of credit culture has its own characteristics with a diving force, which sets the priorities, stated or unstated, and produces a credit environment with different success factors. There are several determinants of a bank’s credit culture that are beyond the scope of this article. However, the most significant determinant in developing an optimal culture is top management’s unwavering commitment to credit quality. Any uncertainty or ambiguity opens the door for arguments to stretch, bend, or eliminate policies.

### 2.2.5 Bank Credit/Lending Policies

The principal reason banks are charted by state and federal authorities is to make loans to their customers. Banks are expected to support their local communities with an adequate supply of credit for all the intimate business and consumer financial needs and to price that credit reasonably in line with competitively determined interest rates. Indeed, making loans is the principal economic function of banks- to fund consumption and investment spending by business, Individuals and units of government. How well a bank performs its lending function has a great deal to do with the economic health of its region, because bank loans support the growth of new businesses and jobs within the bank’s trade territory and promote economic vitality. Moreover, bank loans often seem to convey positive information to the marketplace about a borrower’s credit quality, enabling a borrower to obtain more and perhaps somewhat cheaper funds from other sources.

### 2.2.6 Type, Nature and Feature of loans

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

### 2.2.6.1 Term Loan

Term loan is money lent to the borrowers in a lump sum. Term Loans are generally granted to finance capital expenditure, i.e. for acquisition of land, building and plant & machinery, required for setting up a new industrial undertaking or expansion/diversification of an existing one and also for acquisition of movable fixed assets Term Loan are also given for modernization, renovation etc. to improve the product quality or increase the productivity and profitability

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

Term Loans are normally granted for periods varying from 3 to 5 years and in exceptional cases beyond 5 years. The exact period for which a particular loan is sanctioned depends on the circumstances of the case.

The basic difference between short-term facilities and term loans is that short-term facilities are granted to meet the gap in the working capital and are intended to be liquidated by realization of assets, whereas term loans are given for acquisition of fixed assets and have to be liquidated from the surplus cash generated out of earnings. They are not intended to be paid out of the sale of the fixed assets given as security for the loan. This makes it necessary to adopt a different approach in examining the application of the borrowers for term credits.

### 2.2.6.2 Project loan

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

### 2.2.6.3 Working Capital Loan

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

### 2.2.6.4 Loan against Fixed Deposit Receipt

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

Before an advances is allowed against fixed deposit/recurring deposit/other deposit as security, a letter of pledge/lien signed by the depositor along with original fixed deposit receipt/recurring deposit/other deposit duly discharged is normally required by the institutions.

In case of term deposits under reinvestment plan, security for advances made there against is not merely the amount of original deposit but also the amount of interest accrued up to the last/preceding quarter. In such case the interest accrued may be determined at quarterly compounding basis till the preceding quarter on the prescribed margin and obtaining proper documents.

The prescribed margin applicable is maintained on the principal amount plus the accrued compound interest. When a credit balance in the current or savings fund account of the borrower id offered as security, advances can be permitted there against after maintaining the prescribed margin and obtaining proper documents.

In case of advance against joint Deposit Accounts, the letter of Pledge/Lien should be signed by all the depositors as per the prevailing rules. Likewise Fixed Deposit receipt/receipt of Recurring Deposit should be discharged by all the depositors. In case the number of borrowers is two or more, a letter or authority signed by all the borrowers to pay the consideration money to one of them is obtained by the bank/institution.

In case of third party advances against deposits with the Bank, the rate of interest to be charged may be different from that of advances against the borrower's own deposits. Advance to customer against deposits of other bank is also allowed but is rare in practice by the Nepalese Banks as it carries higher risk.

Advance against deposits in the name of minors are allowed to natural guardian or guardian appointed by the court, by way of demand loan and/ or overdraft by taking an undertaking from the guardian to the effect that the advance is required for the benefit of the minor and that he/she shall indemnify the bank against any claim or loss in consequence of having allowed the said advances.

**2.2.6.5 Priority/Deprived Sector Loan**

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

- Advances to the poor/weak/deprived people unto Rs 30000 for income generation or employment oriented schemes.
- Institutional credit to Rural Development Banks.
- Loans to NGOs those are permitted to carry on banking transaction for lending less than Rs 30,000,00

**2.2.6.6 Overdraft**

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

### 2.2.6.7 Cash Credit

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

### 2.2.6.8 Hire Purchase Financing

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

### 2.2.6.9 Bill Purchase and Discount

A Bill of Exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument. A cheque is also a Bill of Exchange except that it is drawn on a specific banker and not expressed to be payable otherwise than on demand. Purchasing of bill of exchange of customers in whose favor limit is sanctioned is called purchasing of bills may be either documentary bills or clean bill. If a bill is accompanied documents of title to the goods (for example, Railway Receipt, Truck Receipt, Airway Bill, Bill of Lading) it is called documentary bill. In the absence of such documents, it is called clean bill. Although the term “bill purchased” seems to imply that the bank becomes the purchaser/owner or such bills, the bank holds the bills (even if they are endorsed in its favor) only as security for the advance. In additions to any right the banker may make against the parties liable on the bills; the banks also purchase cheques of approved customers. At the time of purchase of cheque the amount is credited to the party’s account by debiting bills purchased account and on receipt of the proceeds of the cheques, after collection, the bills purchased account I liquidated.

Advances against inland Bills are sanctioned in the form of limits for purchase of bills or discount of bills or advance against bills sent for collection, to borrowers for their genuine trade transactions. Bills are payable on demand or after fixed period. Demand Bills which are payable on demand or at sight are purchased from the parties who are sanctioned BP limits and Usance Bills which are payable on maturity after a certain period of time, after date or after sight, are discounted by the bank for parties who are sanctioned Bills discounting limits.

An advance against Government Supply Bills is a clean advance and therefore proper attention has to be paid to the means of the borrower, his financial position, business integrity, his credit worthiness in the market his experience in the business. Wherever book debts finance is allowed against the Government Supply Bills/against receivables for higher amount, the position should be intimated to the respective Gove. Department/parties about financing against the said bills/receivables and to remit the proceeds directly to the Bank.

#### 2.2.6.10 Bridge-Gap Loan

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

#### 2.2.6.11 Consortium Loan

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

#### 2.2.6.12 Housing Loan

Financial institutions also extend housing loan to their customers. Housing loans may be of different nature, e.g. residential building, commercial complex, construction of warehouse etc. Housing loans are granted to the customer if they have regular source of income or if they earn revenue from the housing project itself. The purpose of housing loan is for construction of house or purchase of house/flat, for carrying out repairs/renovation/additions/alteration to the house/flat, for purchase of land.

### 2.2.6.13 Off Balance Sheet Transaction

The Bank provides the facilities to the client being the guarantor in some transaction. This facility provided to the client mainly in two ways namely, Bank Guarantee, Letter of Credit.

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

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

#### 2.2.6.13.1 Bank Guarantee

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

#### 2.2.6.13.2 Letter of Credit (L/C)

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

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

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

There are four parties involved in this operation The bank opening the L/Con behalf of his customer is called L/C issuing Bank, going to negotiate the export document is called Negotiating Bank and finally the bank makes the payment is called Reimbursement Bank.

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

#### 2.2.6.13.3 Import Financing

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

#### 2.2.6.13.3.1 Payment against Documents (PAD)

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

#### 2.2.6.13.3.2 (Calcutta Transit) Loan

This loan is also just like the PAD but this loan is not treated as force loan. In case of the raw material procurement form the foreign country, transit may be through

Calcutta, financing CT loan called Calcutta Transit Loan. The period of the loan is until the raw material arrives up to customs points.

#### 2.2.6.13.3.3 TR Loan (Trust Receipt Loan)

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

#### 2.2.6.13.3.4 Pre Export Loan

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

#### 2.2.6.13.3.5 Post export loan

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

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

### 2.2.7 Credit Principles, Policy and Practice

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

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

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

### 2.2.8 Portfolio Management

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

### 2.2.9 Risk on Lending

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

#### 2.2.9.1 Business Risk

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

#### 2.2.9.2 Financial Risk

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

This risk has been facing by business units and many production units. Hence, an investing company or bank should consider it before approaching to lending. Basically Risk can be classified in two ways;

#### 2.2.9.3 Unsystematic Risk (Diversified Risk)

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

#### 2.2.9.4 Systematic Risk (Non Diversified)

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

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

5. Single Borrower limit.

### 2.2.10 NRB Directives

#### 2.2.10.1 Directive Relating To the Single Borrower

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

#### 2.2.10.2 Limit on Credit and facilities

- Funded based credit up to 25%of core capital
- Non funded based facilities up 50%of core capital core capital shall be included the following:
- Paid up capital
- Share premium
- Non Redeemable Preference share
- General Reserve Fund

#### 2.2.10.3 Directives Relating Loan Loss Provision

A bank should identify and recognize impairment in a loan or a collective assessed group of loans when it is probable that the bank will not be able to collect, or there is no longer reasonable assurance that the bank will collect all amount due accruing to the contractual term of the loan agreement. The impairment sho7ld be recognized by reducing the carrying amount of loans through and allowance or charge off and charging the income statement on the period in which the impairment occurs. A bank should measure n impaired loan at its estimated revocable. A bank should adopt a sound system for managing credit risk. To be able to prudently value loans and to determine appropriate allowances, it is particularly important that banks have a system in place, where established by the institution itself or by the supervisor, to ratable classify all loans on the basis of risk. A credit risk classification system may include categories or designation that refers to varying the degree of credit deterioration such as substandard loans, doubtful loans and irrecoverable loans A classification system typically takes into account the borrower's current financial condition and paying capacity, the current value and reliability of collateral and other factors that affect the prospects for collection of principle and interest. Hence, Bank should maintain reserve of fund as loan loss provision against the loan disbursed. Nepal Rastra Bank has issued the directive relating the provision of loan loss. We have many examples that most of the banks are taken into liquidation due to bad debt or not repayment of the loan by the borrowers. Hence, to relief from this situation NRB has issued the directives by which commercial bank should make some provision against the loan disbursed by them. For this purpose loan categorized as follow and required the certain percentage of reserve in accordance with the classification. Now, let us discuss the classification of loan and percentage required to maintain the provision as directive issued by the NRB.

**1. Pass (Performing Loan)**

All Loans and Advanced the principal of which are not past due or past due for a period up to three months is included in this category. These are classified and defined as Performing Loans.

**2. Substandard Loan**

All loans and advances the principal of which are due for a period of more than 3 months and up to 6 months shall be included in this category.

**3. Doubtful debt**

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

**4. Loss Loan**

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

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

NRB issued Directive No. 2 dated 15$^{th}$ march 2001as revised by their circular dated 14$^{th}$ September 2001 where in fresh guidelines given for the classification of Loans & Advance including bills purchased and discounted. The required loan loss provisioning on the basis of classification of outstanding credit shall be as follows:

| Classification of Loan | Loss Provisioning |
|---|---|
| Pass | 1% |
| Rescheduled/Restructured | 12.5% |
| Substandard | 25% |
| Doubtful | 50% |
| Loss | 100% |
| Only Against personal Guarantee | Additional 20% |

#### 2.2.10.4 Directive for Sector wise Lending

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

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

### 2.2.11 Credit Policy and Flow of credit

Looking at the credit policy of the bank the bank usually flow credit in the three sectors.

- Industry Sector: This sector includes manufacturers of the industrial goods and consumers goods.
- Trading Sector: This sector deals with the purchase and sales of finished goods which can be directly consume for the final use or it may be the industrial raw material for the manufacturing industry.

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

- After Consumer Financing: This type of policy focuses the investment of the bank to the individual citizen to the different sector.

### 2.2.12 Procedure for application, sanction, Disbursement of Loan

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

#### 2.2.12.1 Business plan

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

- Technical details;
- Proposed financial structure;
- Expected raw material requirement and
- Certain legal information relevant to the proposed project.

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

#### 2.2.12.2 Processing Of Business Plan

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

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

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

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

#### 2.2.12.4 Loan Application

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

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

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

#### 2.2.12.5 Loan Sanction

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

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

The loan documentation charged charge by the banks is

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

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

#### 2.2.12.6 Execution of Legal Formalities

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

##### 2.2.12.6.1 Moveable Securities

Moveable securities include current assets, Business stock merchandise items, shares, Debentures, Government Bond, Treasury Bills, Fixed Deposits Receipts, and Vehicles under Hire purchase and Export Documents.

##### 2.2.12.6.2 Immovable Securities

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

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

#### 2.2.12.6 Mortgage

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

##### 2.2.12.6.4 Equitable Mortgage

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

#### 2.2.12.6.5 Legal Mortgage

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

#### 2.2.12.6.6 Pledge

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

#### 2.2.12.6.7 Hypothecation

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

#### 2.2.12.6.8 Lien

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

#### 2.2.12.6.9 Hire Purchase

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

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

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

#### 2.2.12.6.10 Loan Disbursement

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

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

### 2.2.13 Loan Recovery Procedure

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

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

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

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

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

## 2.3 Review of Related Plated studies

In this section, effort has been made to examine and review of some related article on different journals, magazines, newspapers and other related books.

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

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

**Dr. Mali Ram (Oct, 2009)** in the book "currency and Banking'' defines banking as "Banking means accepting deposits for the purpose of lending or investing , the deposits of money from the public, repayable by cheque, drafts, order of otherwise''

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

**Dr. sunity sharestha(1995)** in her article "lending operation of commercial bank of Nepal and its impact on GDP'' has presented with the objectives to make an analysis of contribution of commercial banks, lending to the gross domestic product (GDP) of Nepal . She has set hypothesis that there has been positive impact of lending of commercial banks to the GDP, in research methodology, she has considered GDP as the dependent variable and various sector of lending are agriculture, Industrial, commercial, service and general social sectors as independent variables. A multiple regression techniques have been applied to analyze the contribution.

The multiple analyze has shown that the in entire variable except service sector lending has positive impact on GDP. Thus, in conclusion she had accepted the hypothesis i.e. there has been positive impact on GDP and also she has accepted the hypothesis i.e. there has been positive impact by the lending of commercial banks in various investment.

**American Institute of Banking defines(1972)** commercial Banks, as “commercial Banks is a corporation which accepts demand term loans to business, enterprise regardless of the scope of its other service’’

American Institute of Banking Principal of Bank Operation, USA 1972

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

The Commercial Banks Act 2031 also pointed the function of CBs

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

“Banks and financial institutions are the vehicles through which public deposits are mobilized in various development activity i.e. agricultural, industries. Trade, commercial institution like commercial banks, development banks, financial companies and various micro-financing institution with different model.’’

This thesis mainly focuses on the lending practice and procedure of Nepalese two commercial banks (i.e. Everest and NABIL Bank) Hence it is rational to state these articles and reports those may make a clear concept to understand the said topic.

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

He added some test of tips before and after financing:

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

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

Usually Loan Comprise:

- Consumer installments, overdraft and credit card loan.
- Residential mortgages.
- Non personal loans such as commercial loans to business, financial institution, governments and their agencies.
- Direct financing lease
- Other financial arrangements that are in substance loans.

A web site report of Basel Committee:- A banking supervision committee, the group of ten countries established in 1975 AD. The Base Committee adds "when a bank becomes a party to the contractual terms comprising a loan and as consequence has legal right to receive principal and interest on the loan, it controls the economic benefits associated with loan. Normally, a bank become a party to the contractual provision that comprise a loan (i.e. acquire legal ownership of the loan or the date of the advances of funds or repayment to a third party. As a result, a commitment to lend funds neither is nor recognized as an asset on the balance sheet. In certain jurisdictions, the acquisition of legal ownership is viewed more as a process than a discrete event. However providing consideration (the advancement of funds) is typically one of the more important factors constituting ownership.''

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

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

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

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

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

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

The authors say that each of these derived equations, as well as the initial free reserve equation, has been the subject of a body of recent empirical work. The authors estimates on non-seasonally adjusted quarterly data for the 1954=mid-67 period.

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

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

### 2.4 Review of Previous Thesis

**Mr. Om Bakhati (2006)** in his thesis entitled, "A Comparative Study on Housing finance of Everest Bank, Nepal Bangladesh bank limited and Kumari Bank limited." Concludes that the proportion of horsing loan in total loan and advance for all the bank under study is in increasing trend. Among the sample banks, EBL has disbursed higher amount for horsing loan. EBL is the pioneer bank in Nepal which initiates the housing loan scheme in Nepal. He suggests that the growth of housing loan depends upon interest rate, so the sample banks are requested to lower down the invest rate and make the procedure of getting loan easy.

**Mr. N.M. Pradhan (1980)** in his thesis entitled, "A Study on Investment Policy of Nepal Bank Ltd" has emphasized that there is a greater relationship between deposits and loans and advances. He can include that though loan and advance as well as deposits is increasing trend, their increase is not in proportionate manner. Immense increase in deposit had led to little increase in loan and advances due to the increase in the interest rates. His recommendation was to great loan and advances without its lengthy process. He has suggested enhancing banking transactions up to rural sector of the kingdom.

**Ms. Ramala Bhattarai (1978)** in her thesis entitled "Lending Policy of Commercial Banks in Nepal" has made on effort to examine the lending policy of commercial banks. She has concluded that efficient utilization of resources is more important than collection of the same. Lower investment means lower capital formation that hapless economic development of the people and the country. So, she recommended that bank should give emphasis on efficient utilization of resources.

**Mr. Jit Bahadur Joshi (1982)** in his thesis entitled, "lending Policy of Commercial Banks in Nepal." Concludes that commercial banks have collected such resources from people but they are far behind in their utilization. Commercial banks in Nepal are still lazy to play an active role to utilize their resources collected from different sector in accordance with the need of the economy.

**Mr. Utam Raj Pant (2006)** in his thesis entitled, "A Study of Commercial Bank Deposit and its Utilization." He made an attempt to highlight the discrepancy between resource collection and research utilization. He concluded that commercial banks failure in resource utilization is due to their lending confined to short term only. He recommended the commercial banks to give emphasis also on long and medium term lending for better utilization of the deposit.

**Mr. Aryal (2006)** in his thesis entitled, "An Analysis of Retail Leading in Market With Special Reference to Everest Bank limited" concludes that the to get success in competitive banking environment depositors money must be utilized as loan and advance. The largest items of the banks in the assets sides in loan and advances. If it is neglected, it could be the main causes of liquidity Crisis in the bank and one of the main reasons for a bank's failure. Here commended that bank should follow liberal lending policy and invests more and more percentage of total deposit in loan and advances and similarly, maintains more stability in the investment policy.

### 2.5 Research Gap

All the aforementioned studies have mainly concerned on credit management and credit policies of NABIL Bank and Everest Bank. In this thesis, information about credit management and policies in the banks. In this thesis not only information from

NABIL Bank and Everest Bank even other source also taken for example: Nepal Rastra Bank. This thesis concerted on how NABIL Bank and Everest Bank managed their credit, credit policies and role of credit to banks operation during years 2007 to 2011 through the quarterly report, bulletin and their internal financial data.

# CHAPTER-THREE

# RESEARCH METHODOLOGY

Simply research means to search again. The first look may not always be adequate. So, we search the same problem again and again. The research defines the problem and identifies the variables causing and analyzes the existing stock of knowledge to introduce the furtherance knowledge, constructs models or formulates research questions, furtherance knowledge, constructs models or formulates research questions, educated conjecture or hypothesis her testing. It objectively collects and analyzes the facts, evidence, or information to identify new thing. After finding new thing or knowledge that should be converted into general form so as to make understandable to general public.

Research methodology is a research method used to meet specific objectives. It is a systematic way to find out the probable solutions. It includes research design, sample design, period of study, sources of data and collection procedure, data processing and terms methods, and tools techniques, theories to analyze and interpret.

## 3.1 Research Design

Research design is the plan, structure, and strategy of investigation conceived so as to obtain answers to research question and to control variance, the plan is the overall schemes or program of the research. It includes an outline of what the investigator will do from writing the hypotheses and their operational implications investigator will do from writing the hypotheses and their operational implications to the final analysis of data. The structure of the research is more specific. It is to the outline, the scheme, the variables and their relation and juxtaposition, we draw diagrams that outline the variables and their relation and juxtaposition, we build structural schemes for accomplishing operational research purpose. Strategy, as used here, is also more specific than plan. The study fallows descriptive and explanatory research design.

## 3.2 Population and Sample

The entire number of commercial banks functioning in Nepal is the population of this study. It was tried to blend sample on a hierarchy of most successful to the almost failure banks. In other words, NABIL bank was taken as one of the sample because it is a most successful and pioneer in the banking field of Nepal. Similarly Everest bank was included in the sample as they are rapidly growing and moderate ranked banks. For the analysis of credit policy and its implementation two banks are taken as the sample namely,

1. NABIL Bank Ltd.
2. Everest Bank Ltd.

### 3.3 Nature and Sources of Data

To fulfill the objectives of this study, primary ad well as secondary data had been used. To study the policy and its implementation the portfolio of investment, historical data of sampled commercial banks are used. Both primary and secondary sources are used for the required data collection. The study heavily depends upon the secondary sources, since the main objective of research is to study the policy and its implementation by banks.

#### 3.3.1 Sources of Primary Data

The primary sources of data were the opinion survey through questionnaire and information received from the concerned banks. The primary sources are

a. Discussion with Concerned officer
b. Personal approach and interview
c. Questionnaire Survey

For the survey from primary source, 50-sample size has selected from four different groups of respondents. The following table shows the group of respondents and sample size.

Table 3.1 Group of Respondents and Size

| S.N | Group of Respondents | Sample size |
|---|---|---|
| 1 | Commercial Bank Managers | 6 |
| 2 | Commercial Bank Officer | 10 |
| 3 | Academicians | 10 |
| 4 | Commercial Banks Customer | 24 |
| Total | | 50 |

### 3.3.2 Sources of Secondary Data

The secondary data for this research has been collected form the following different sources

- Publications and annual reports of Sample Banks (up to fiscal year)
- Textbooks of related subject.
- Published documents, Bulletins of Nepal Rastra Bank.
- Research and thesis reports submitted by different researchers
- Web sites, etc

### 3.4 Period of Observation

Five years data of two commercial banks was taken for the study. The amount of investments and deposits during the sample period by sampled banks from 2005 to 2010 is taken for study.

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

### 3.5.1 Statistical Tools

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

#### 3.5.1.1 Arithmetic Mean (Mean)

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

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

**Where $(\overline{X})$ = mean**

$X_1 + X_2 + X_3$ **to** $X_n$ **are given set of observations up to the period n**

N= number of items observed.

#### 3.5.1.2 Standard Deviation

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

$$\sigma = \sqrt{\sum \frac{[(X]_n - (X))}{n-1}}$$

$\overline{X}$ = The average (Mean)

**N = Total number of observation**

#### 3.5.1.3 Coefficient of Variation (CV)

Coefficient of variation (CV) is used to adjust for such difference in scale. It is a relative measure of dispersion and is defined as the ratio of the standard deviation divided by the mean. That is,

$$\textbf{CV} = \frac{\sigma}{\overline{X}}$$

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

### 3.5.2 Financial Tools

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

#### 3.5.2.1 Current Ratio

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

$$\textbf{Current ratio} = \frac{Current\ Asset}{Crrent\ Labilities}$$

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

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

**3.5.2.2 Loan and Advances to Current Assets Ratio**

Loan and Advances to Current Assets Ratio measures the relationship between loan and advances to current assets. It shows the banks liquid capacity of lending, discounting and purchasing the bills and loans, cash credit and overdrafts facilities to the customers. Loan and advances refers to local and foreign bolls discounting and purchasing and loans, cash credit and overdraft in local currency as well and inconvertible foreign currency. The ratio can be computed by dividing the total amounts of loans and advances by total deposited funds.

**Loan and Advances to Current asset** $= \dfrac{Loan\ and\ advance}{Current\ Asset}$

**3.5.2.3 Loan and Advance to Total Deposit Ratio**

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

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

**Loan and advance to total deposits ratio** $= \dfrac{Loan\ and\ Advance}{Total\ Deposit}$

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

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

This ratio represents how many times the funds are used is loans and advances against fixed deposits. Loan and advances are the main sources of earning of the bank. In other ways, this ratio of commercial banks indicates, how much of loan and advances are granted against fixed deposit. Fixed deposits long term interest bearing obligations and are the higher interest rate payable deposits. Hence, commercial bank should utilize the fixed deposits properly. This ratio can be calculated as

**Fixed Deposit to Loan and Advance ratio** = $\frac{Fixed\ Deposit}{Loan\ and\ Advance}$

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

#### 3.5.2.5 Saving Deposit (S.D) to Loan and Advances Ratio

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

**Saving deposit to Loan and Advance Ratio =** $\frac{Saving\ Deposit}{Loan\ and\ Advances}$

Stated differently, this ratio examines how many times the funds are used to loans and advance against saving deposits. Saving deposits are interest bearing short term obligation and loan and advance are the major sources of generating income.

#### 3.5.2.6 Current Deposit (C.D) to loan and advance Ratio

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

**Current Deposit to Loan and Advance Ratio** = $\frac{Current\ Deposit}{Loan\ and\ Advances}$

#### 3.5.2.7 Non Performing Loan (NPL) to total Gross Loan Ratio

This ratio indicates the quality of assets by showing the portion of non-performing loan to total gross loan and advances. It is one of the tools in CAMEL's model for exploring the assets quality of the bank. AS per the directives of NRB, non-performing loan consists of the three categories of loans, namely substandard loan, doubtful loan and loss loan .Similarly, total gross loans mean total of loan and advances with bills purchased and discounted before provisioning.

The ratio of Non-Performing loan to total loan is taken as one the important tool/indicator in identifying the institutions soundness. NRB, the governing

Organization of commercial banks also monitors this ratio closely. This ratio is calculated with the help of following formula.

**Non-performing Loan to Total Gross Loan** $= \frac{\text{Non performing Loan}}{\text{Total Gross Loan And Advance}}$

Lower the ratio means the institution is wise enough in credit administration. So as lower as possible of this ratio is desirable by all the stakeholders of the organization.

#### 3.5.2.8 Loan Loss Provision to Non Performing Loan Ratio

To evaluate the quality of assets of commercial banks, the ratio of loan loss provision to non performing loan is used. It is one of the tools in CAMEL's model for exploring the assets quality of the bank. Here, non-performing loan consists of the three categories of loans, namely, substandard loan, doubtful loan and loss loan. Similarly, loan loss provision means total of applicable provision amount in all kinds of loan and advances with bills purchased and discounted.

The ratio of loan loss Provision to Non-performing loan is taken ad one of the important tool/indicator in identifying the institutions soundness. This ratio is calculated with the help of following formula.

**Loan Loss Provision to Non Performing Loan Ratio** $= \frac{\text{Loan Loss Provision}}{\text{Non Performing Loan}}$

#### 3.5.2.9 Income to Total Loan and Advances Ratio

This ratio indicates the contribution of loan and advances in operating profitability. In other words, this ratio is used to find the average yield of the assets/lending. Here, interest income refers to the interest yield from performing assets. Similarly, total loan and advances means total of loan and advances with bills purchased and discounted.

The ratio of interest income to total loan and advances is taken as one of the important tool/indicator in identifying the institutions position. This ratio is calculated with the help of following formula.

$$\textbf{Interest Income to Loan and Advance Ratio} = \frac{Interest\ Income}{Total\ Loan\ and\ Advance}$$

Higher the ratio means the institution is generating higher rate of yield in its assets, which is desirable by all the stakeholders of the organization.

#### 3.5.2.10 Net Profit to Total Loan and Advances Ratio

This ratio indicates the contribution of loan and advances in profitability. In other words, this ratio is used to find the yield efficiency of the lending. Here, Net Profit refers to the profit of the year after deducting necessary provision, tax, bonus and other expenses and liabilities. Similarly, total loan and advances means total of loan and advances with bills purchased and discounted.

The ratio of net profit to total loan and advances is taken as the important tool/indicator in identifying the institutions position. This ratio is calculated with the help of following formula.

$$\textbf{Net Profit to Loan and Advance Ratio} = \frac{Net\ Profit}{Total\ Loan\ and\ Advance}$$

Higher the ratio means the institution is generating higher yield in its assets, which is desirable by all the stakeholders of the organization.

$$Mean(\overline{X}) = \left(\frac{X1 + X2 + X3 \ldots\ldots\ldots\ldots\ldots\ldots\ldots + Xn}{n}\right)$$

# CHAPTER – FOUR

# DATA PRESENTATION AND ANALYSIS

## 4.1. Presentation and Analysis of Data

Present chapter reports the financial and statistical tools, results of sample banks over the sample period through the use of secondary data. It also presents the results of primary data. This study is mostly based on the two aspects. The first part defines the credit policy (Loan Sanction Process) of the bank and the next part defines the implementation of the credit in the different sector. This chapter of thesis also presents the data, fact figures relating to different aspect of NABIL Bank and Everest Bank Ltd. These available data are tabulated analyzed and interpreted so that the credit flow of the above bank can be easily understood. Though there are many financial tools but due to some curbs and constraints, only selected tools have been taken to analyze the credit policy of the commercial banks. The types of loans offered by the banking sector have been mentioned in the second chapter defines only the credit flow procedure and the different sector of investment.

The second part of the thesis consists of the credit policy implementation. This part describes the credit flow of the bank in the chart and tabular form later on it is analyzed and interpreted using different measurement tools.

## 4.2 Analysis of Primary Data

The information that has been collected from the primary data is though the questionnaire distributed to the various staff of the banks, bank's customers, individual academicians. Additionally personal visit with the concern staff has helped to collect the information. Not only the interview is held with the bank staff but the researcher has also taken interview with the various credit client of the bank. One set of the question is been attached with this thesis in the Annex I, and the average answer is interpreted by the researcher.

While collecting data from primary sources, more than one respondent have been included from the same organization as possible. The respondent of the data cover personalities involving bank managers, officers, bank customers, academicians. This study is mainly based on questionnaire survey of the opinions of 50 respondents. Out of 50 respondents, 6 persons belong to commercial banks managers, 10 respondents belong to commercial bank officers, 10 belong to academicians and 25 respondents belong to commercial bank's customers.

The first question is asked which sector is the most secure lending, most of the banks staffs reply that the housing financing is the most secure lending. The staff of Everest Bank Limited Mr. Ujwal Kumar Pokhred told that Everest Bank is the pioneer bank to introduce the housing loan in the history of Nepal and is the successful and secure scheme so out of many consumers financing the housing financing is the secure financing. But NABIL Bank staff focus on the manufacturing industry is the pioneer bank to introduce the housing loan in the history of Nepal and is the successful and secure scheme so out of many consumer financing the manufacturing industry is the secure investment, they told investment in the industry sector helps in the growth of the nation too, they do not go with the consumer financing because it do not contribute to the nation only the individual will be benefited. And the operating cost in the consumer financing is high and amount of financing is low. The second question is asked for the common security that the bank demands at the time of granting the loan the common answer is that commercial banks usually accept the fixed assets as the security. Government bond is also highly preferred by the banks by the duration of these bond are for the short period commercial banks usually accept fixed assets as the collateral. Personal guarantee is also accepted by the bank only to the prime client. But the banks do not usually accept personal guarantee. Because bank has to provision 100% of it's lending on the personal guarantee. Bank usually takes more value of securities that the necessary. In this question one of the option was gold and silver and found that these assets as the collateral is value less or simply we can say that commercial banks has no any policy to grant loan against the gold and silver.

The third question was asked how long the commercial banks takes to disburse the loan forms the date of loan application, the answer in this question is found positive. In an average of within 30 days from the date of loan application bank sanctions loan but due to unavailable of sufficient information from the client it may take some more time. It means we can analyze that commercial banks are quick in their services.

In the fourth query, respondent were asked whether they have bought or not credit products of any banks, 31 respondent tick to yes and 19 respondent tick to No. On this note, the researcher has observed that majority of respondents have still not purchased credit products offered by bank.

The fifth query was “what factor will motivate to get loan in the market?” Six different statement were provided and requested to assign in rank as one for they strongly agree, two for agree, three for they do not know, for disagree and five for strongly agree.

Following table contains response of respondent against the different factors. Panel A contains response score and Panel B contains composite mean and ranking.

**Table 4.13**

| **Factor** | **Rank** | | | | | **Mean** | **Ranking** |
|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | | |
| loan Interest rate | 24 | 10 | 4 | 2 | 3 | 1.76 | 1 |
| Promotion &advertisement campaign | 10 | 15 | 7 | 4 | 6 | 2.38 | 2 |
| Motivation Product offered by bank | 8 | 10 | 10 | 4 | 7 | 2.42 | 3 |
| Rank maintain social status | 4 | 6 | 16 | 2 | 8 | 2.49 | 4 |
| Better life style | 4 | 5 | 17 | 2 | 9 | 2.62 | 5 |
| Make future secure | 2 | 3 | 20 | 3 | 9 | 2.79 | 6 |

Among the six factors provided, most of the respondents ranked that the customer would motivate to get the loan in the market if the loan interest rate decreases. Different promotion and advertisement campaign would tend to motivate the customers in the second position considered by respondents. They ranked that they are motivated by innovation product in the third. They also ranked maintaining social status, better life style and future security on fourth, fifth and sixth respectively.

The sixth query was about the problem or difficulties faced by commercial banks in the growth of lending and availing credit facilities. Following table is the collection of respondent’s opinion on the above question. Panel A contains response score and Panel B contains composite mean and ranks.

**Table 4.14**

| Factor | Rank | | | | | Mean | Ranking |
|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | | |
| The legal process is tedious & lengthy | 35 | 5 | 1 | 2 | 1 | 1.36 | 1 |
| Bank has not sufficient customer segment to match the requirements of customer | 8 | 12 | 8 | 7 | 5 | 2.42 | 2 |
| The staffs are not highly competent | 13 | 11 | 5 | 10 | 4 | 2.44 | 3 |
| Banking industry is very competitive | 15 | 10 | 4 | 8 | 7 | 2.53 | 4 |
| Present rules &regulations are not sufficient for the growth of credit activities | 2 | 11 | 8 | 5 | 7 | 2.69 | 5 |

Above table shows that the men score of the statements under the study was found to be 2.20, which is below the average 3.17 indicates that the Nepalese commercial bank faces many difficulties is the growth of lending. From the results, the men score of the factor “the legal process is tedious and lengthy” and tedious. To improve the situation, commercial bank, should imprudence new technology and revised its process.

Insufficient customer segment has been found to be the second relevant factor facing by commercial bank in the opinion of the respondent followed by less competent staff and increase in competitive market. They also ranked insufficient rules and regulation in the fifth.

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

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

Following table contains response of respondent against the different factors. Panel a contains response score and Panel B contains composite mean and ranking.

Above table shows that the mean score of the statements under the study was found to be 2.20 which is below the average 3.17 indicates that the Nepalese commercial bank faces many difficulties is the growth of lending. From the results the mean score of the factor the legal process is tedious and lengthy was found the coyest. It indicates that the procedure of getting loan is lengthy and tedious. To improve the situation, commercial bank, should imprudence new technology and revised its process.

Insufficient customer segment has been found to be the second relevant factor facing by commercial bank in the opinion of the respondent followed by less competent staff and increase in competitive market. They also ranked insufficient rules and regulation in the fifth.

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

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

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

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

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

Economic and industrial recession in the case of increasing NPA. (Totally Agreed)

IN consistency Government policy is of the case for NPA increment. (Agreed)

High and conservative provisioning requirement has caused for increment on NPA level. (slightly Agreed)

Lacking on monitoring and supervision from NRB has played significance role on NPA increment. (Totally Agreed)

In absence of strong legal provision for loan recovery, there is some lacking which ultimately leads to high NPA. (Agreed)

Due to political, bureaucratic and external pressure loan is being floated without choosy and this has cause for NPA increment. (Neutral)

The thirteenth and the fourteenth question was of same nature so the answer for the questions came together, in the thirteenth question it was asked that the which authority approves the credit policy and all respondent repay that the board of directors approves the credit policy it means that the decision making authority is hold by the top level and rest of the employee is exercise the policy. Although the policy making is done by the top level but communication flow is based on both top bottom approach and bottom top approach. So from this approach we can say that the banks staffs are working as the team.

In the fourteenth question it is asked that dies your bank have the hierarchy for the loan sanction and it is found that every level above the branch manager has the certain credit limit to sanction credit facility then power beyond branch manager passes to the deputy general manager and again power beyond deputy general passes to Executive director and final decision goes to board director. The hierarchy is made for the loan sanction and to provide the loan to its client as soon possible and to make fewer burdens to the higher authority.

### 4.3 Analysis of secondary data

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

#### 4.3.1 Current Ratio / Quick Ratio

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

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

Current assets of commercial banks refers to cash and near cash items like cash and bank balance, money at call and short notice, loans and advances, cash credit, bills discounted, investment, interest receivables, miscellaneous current assets. Similarly cusrrent liabilities are fixed deposit, current deposit, call deposit and other deposit of maturity less than a year, other boll's payable and miscellaneous liabilities. Following table shows the current ratio of NABIL, and EBL,

**Table 4.1**

**Current Assets to Current Liabilities**

| Year | NABIL | | | EBL | | |
|---|---|---|---|---|---|---|
| | CA | CL | Ratio | CA | CL | Ratio |
| 2007 | 10616 | 3762 | 2.82 | 6391 | 2335 | 2.74 |
| 2008 | 11329 | 5388 | 2.1 | 6750 | 2902 | 2.33 |
| 2009 | 8819 | 4147 | 2.13 | 8150 | 3302 | 2.47 |
| 2010 | 13858 | 6661 | 2.08 | 11399 | 4784 | 2.38 |
| 2011 | 16954 | 9259 | 1.83 | 14227 | 7364 | 1.93 |
| | | | | | | |
| Mean | | | 2.19 | | | 2.37 |
| S.D | | | 0.37 | | | o.29 |
| C.V | | | 0.17 | | | o.12 |

[Source: Annual Report, Appendix I, II]

From the table 4.1 it is noticed that the current ratio of NABIL bank over the study period has been ranged between 1.83 in the year 2011 and 2.82 in years 2007. From the above table, we can see that the change of ratios is in decreasing trend by the change in time. Whereas the ratio of Everest bank is in between 2.74 in year 2007 to 1.93 in year 2011.

Looking at the above ratios, it can be said that the banks are meeting the universal standard principle of current ratio i.e. 2:1, in an average. We can say that Everest Bank has good position than NABIL bank. We can say the low liquidity position means that the bank is not getting the good opportunity to invest in the profitable sector and holding the amount.

### 4.3.2 Loan and Advances to Current Assets Ratio

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

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

The following table shows the ratios between loan and advances and the current assets of the NABIL Bank and Everest Bank.

**Table 4.2**

**Loan and Advances to Current Assets Ratio**

| **Year** | **NABIL Bank** | | | **EVEREST Bank** | | |
|---|---|---|---|---|---|---|
| | L&A | CA | Ratio | L&A | CA | Ratio |
| 2007 | 8114 | 10616 | 0.76 | 5050 | 6391 | 0.79 |
| 2008 | 8549 | 11329 | 0.75 | 6096 | 6750 | 0.90 |
| 2009 | 10947 | 8819 | 1.24 | 7900 | 8150 | 0.97 |
| 2010 | 13289 | 13858 | 0.96 | 10155 | 11399 | 0.89 |
| 2011 | 15903 | 16954 | 0.94 | 14100 | 14227 | 0.99 |
| Mean | | | 0.93 | | | 0.91 |
| S.D | | | 0.20 | | | 0.08 |
| C.V | | | 0.21 | | | 0.09 |

[Sources: Annual Report, Appendix III, IV]

The above table shows that the loan and advance to current assets ratio of NABIL Bank is highest in the year 2009 i.e. 1.24and the lowest in the year 2008is 0.75 whereas EBL has the highest ratio of 0.99 in the year 2010 and lowest of 0.79 in the year 2007

The above table shows that the utilization of current assets in terms of loan and advance of Everest Bank is relatively low compared among the NABIL Bank.

### 4.3.3 Loan and Advance to Total Deposit Ratio

This ratio measures whether the banks are successfully utilizing outsider's fund in profit generating purpose by extending for credit facilities.

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

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

Here, loan and advances refers to total of loan, advance and overdraft and total deposit refers to sum of all kinds of deposit at the band. The figure of total loan and advances and total deposit is presented in the Table 4.3.

**Table 4.3**

**Loan and Advances to Total Deposit Ratio**

| Year | NABIL BANK | | | EVEREST BANK | | |
|---|---|---|---|---|---|---|
| | L&A | Dep. | Ratio | L&A | Dep. | Ratio |
| 2007 | 8114 | 13438 | 0.66 | 5050 | 6695 | 0.75 |
| 2008 | 8549 | 14098 | 0.61 | 6096 | 8064 | 0.76 |
| 2009 | 10947 | 14587 | 0.75 | 7900 | 10098 | 0.78 |
| 2010 | 13279 | 19348 | 0.69 | 10155 | 13803 | 0.74 |
| 2011 | 15903 | 23342 | 0.68 | 14100 | 19098 | 0.74 |
| Mean | | | 0.66 | | | 0.75 |
| S.D | | | 0.06 | | | 0.017 |
| C.V | | | 0.09 | | | 0.023 |

[Sources: Annual Report, Appendix V VI]

Table 4.3 depicts the fact that most of the fund received from the capital surplus unit has been floated in the form of loan and advances to the capital deficit unit. The lowest ratio of loan and advances to deposit is 0.60 of NABIL Bank in the year 2007and highest ratio is 0.78 of Everest bank in the year 2009.

The C.V of EBL bank is lowest i.e. 0.023 than NABIL Bank

The table 4.3 shows that the utilization of deposit to loan and advances of NABIL bank is lowest than EVEREST Bank. It will be better for NABIL Bank to increase the portion of loan and advances to earn more interest.

Higher ratio between loan and advances to deposit indicates that the bank is mobilizing high volume of deposit into loan and advances, which results in the positive contribution to profitability. Contradictorily, high ratio between loan and advances to deposit brings the bank in the liquidity risk. There might be the chances, surprisingly, to pay back the customer deposit before maturity. In such cases, higher ratio is less preferred as mobilizing most of the deposit in the form of lending may not meet the liquid obligations, which could occur unexpectedly.

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

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

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

The following table displays the ratio of fixed deposit to loan and advances of NABIL Bank and Everest Bank Ltd.

**Table 4.4**

**Fixed Deposit to Loan and Advances Ratio**

| Year | NABIL BANK | | | EVEREST BANK | | |
|---|---|---|---|---|---|---|
| | L&A | FD | Ratio | L&A | FD | Ratio |
| 2007 | 8114 | 2253 | 0.28 | 5050 | 2803 | 0.56 |
| 2008 | 8549 | 2311 | 0.27 | 6096 | 2914 | 0.48 |
| 2009 | 10947 | 2079 | 0.19 | 7900 | 3445 | 0.44 |
| 2010 | 13279 | 3450 | 0.26 | 10155 | 4298 | 0.42 |
| 2011 | 15903 | 5435 | 0.34 | 14100 | 5659 | 0.40 |
| Mean | 0.27 | | | 0.46 | | |
| S.D | 0.05 | | | 0.06 | | |
| C.V | 0.20 | | | 0.14 | | |

[Sources: Annual Report, Appendix VII, VIII]

The above table shows the total ratio of the fixed deposit to loan and advances. Looking at the average of the five year ratio of total lending from the fixed deposit the average lending of the NABIL bank is lowest than EVEREST Bank. Cost of deposit is relatively higher for the fixed deposit compared to other sources of deposit is relatively higher for the fixed deposit compared to other sources of deposit. Fixed deposit is termed as safe deposit for the banks because of the predefined maturity. Though the lending from the fixed deposit is safe, NABIL Bank is lending only the fewer portions.

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

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

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

The following table displays the ratio of saving (Plus call) deposit to loan and advances of NABIL and Everest Bank

**Table 4.5**

| Year | NABIL BANK | | | EVEREST BANK | | |
|---|---|---|---|---|---|---|
| | L&A | SD | Ratio | L&A | SD | Ratio |
| 2007 | 8114 | 7778 | 0.96 | 5050 | 3186 | 0.63 |
| 2008 | 8549 | 8796 | 1.03 | 6096 | 4296 | 0.73 |
| 2009 | 10947 | 10368 | 0.95 | 7900 | 5511 | 0.70 |
| 2010 | 13279 | 12622 | 0.95 | 10155 | 8223 | 0.81 |
| 2011 | 15903 | 14149 | 0.89 | 14100 | 10597 | 0.75 |
| Mean | | | 0.96 | | | 0.72 |
| S.D | | | 0.05 | | | 0.07 |
| C.V | | | 0.052 | | | 0.09 |

[Source: Annual Report, Appendix IX, X]

Lending from the saving deposit is also a safe lending because this type of deposit is made by the individual who have excess saving from their income. The chance of withdrawal from the saving deposits is also low.

Looking at the above table NABIL bank has invested highest ratio in the year 2008 of 1.03 and lowest of 0.89 in the year 2011. Everest bank has the highest ratio of 0.81 in year 2010 and lowest of 0.63 in 2007.

The average ratio of investments from the saving deposit of NABIL bank is 0.96, which is the highest among the average ratio of other banks. Everest bank has average ratio of 0.72.

The C.V of the NABIL Bank is lowest of 0.052 than banks, so, we can say that it has the highest consistency. The C.V of the Everest bank has 0.09.NABIL bank is utilizing its saving deposit properly than Everest Bank.

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

This ratio indicates the portion of total current deposit utilized in loan and advances. Current deposit is non interest paying deposits. So, the bank should utilize them properly at the same time bank have to aware of heavy withdrawal at any time. Here, margin deposit, credit balance in overdraft accounts and other non interest bearing deposits are considered as the total current deposit. This ratio can be calculated with the help of following formula.

**Current Deposit to Loan and Advance Ratio** $= \frac{Current\ Deposit}{Loan\ and\ Advance}$

Following table shows the ratio of current deposit to loan and advances of NABIL Bank and Everest Bank.

**Table – 4.6**

**Current Deposit to Loan and Advances Ratio**

| Year | NABIL BANK | | | EVEREST BANK | | |
|---|---|---|---|---|---|---|
| | L&A | SD | Ratio | L&A | SD | Ratio |
| 2007 | 8114 | 3407 | 0.42 | 5050 | 706 | 0.14 |
| 2008 | 8549 | 2992 | 0.35 | 6096 | 854 | 0.14 |
| 2009 | 10947 | 3141 | 0.29 | 7900 | 1142 | 0.14 |
| 2010 | 13279 | 3276 | 0.25 | 10155 | 1282 | 0.13 |
| 2011 | 15903 | 3758 | 0.24 | 14100 | 2842 | 0.20 |
| Mean | | | 0.31 | | | 0.15 |
| SD | | | 0.08 | | | 0.03 |
| CV | | | 0.24 | | | 0.19 |

[Source: Annual Report, Appendix XI, XII]

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

NABIL bank has highest ratio of investment from the current deposit. In the average of five years sample, it has invested 0.31 to the total Loan and advance. Everest has invested the lowest portion from the current deposit i.e. 0.15.

### 4.3.7 Non Performing Loan (NPL) to Total Gross Loan Ratio

This ratio indicates the quality of assets by showing the portion of non-performing loan to total gross loan and advances. It is one of the tools in CAMEL’S model for exploring the assets quality of the bank. As per the directives of NRB, non performing loan consists of the three categories of loans, namely, substandard loan, doubtful loan and loss loan. Similarly, total gross loans means total of loan and advances with bolls purchased and discounted and before provisioning.

The ratio of Non-performing loan to total loan is taken as one of the important tool/indicator in identifying the institutions soundness. NRB, the governing organization of commercial banks, also monitors this ratio closely. This ratio is calculated with the help of following formula.

**Non Performing Loan to Total Gross Loan** = $\frac{\text{Non Performing Loan}}{\text{Total Gross Loan AND Advance}}$

Lower the total means the institution is wise enough in credit administration. So as lower as possible of this ratio is desirable by all the stakeholders of the organization.

Following table shows the ratio of non-performing loan to loan and advances of NABIL Bank and Everest Bank, Industry as a whole.

**Table 4.7**

**Non Performing Loan to Total Gross Loan Ratio (in %)**

| Year | NABIL BANK | | | EVEREST BANK | | |
|---|---|---|---|---|---|---|
| | Loan | NPL | % | Loan | NPL | % |
| 2007 | 8114 | 450 | 5.54 | 5050 | 111 | 2.20 |
| 2008 | 8549 | 287 | 3.35 | 6096 | 105 | 1.72 |
| 2009 | 10947 | 145 | 1.32 | 7900 | 129 | 1.63 |
| 2010 | 13279 | 166 | 1.25 | 10155 | 122 | 1.20 |
| 2011 | 15903 | 178 | 1.12 | 14100 | 107 | 0.76 |
| Mean | 2.52 | | | 1.50 | | |
| SD | 1.93 | | | 0.55 | | |
| CV | 0.77 | | | 0.36 | | |

[Source: NRB Quarterly Bulletin 49, Appendix XIII, XIV]

From the above table, it is observed that the ratio of NPL to total loan is in decreasing trend except that of NB Bank. The ratio of NABIL Bank is 5.54% in the year 2007 and came down to 1.12% in the year 2011. Similarly, the ratio of EBL is 2.20 in the year 2007 and came significantly down to 0.76 in the year 2011.

Comparing among the sample banks, EBL has the lowest average ratio i.e. 1.50%, which reveals banks effectiveness and efficiency in the process of credit administration and recovery. Similarly NABIL has the average ratio of 2.52%. Comparing the ratio with the industry average ratio, the average ratio of all banks seems to be lower than that of the industry average.

Taking help of standard deviation to analyze the above data, EBL has maintained the smooth trend of NPL to total loan ratio i.e. 0.55, which further exhibits the less fluctuation of the ratio during the study period. Similarly NABIL standard deviation is 1.93, which shows higher fluctuation in the ratio of NPL to total gross loan.

### 4.3.8 Loan Loss Provision to Non Performing Loan Ratio

To evaluate the quality of assets of commercial banks, the ratio of loan loss provision to non performing loan is used. It is one of the tools in CAMEL's model for exploring the assets quality of the bank. Here, non performing loan consists of the three categories of loans, namely, substandard loan, doubtful loan and loss loan. Similarly, loan loss provision means total of applicable provision amount in all kinds of loan and advances with bills purchased and discounted.

The ratio of loan loss Provision to Non-performing loan is taken as one of the important tool/indicator in identifying the institutions soundness. This ratio is calculated with the help of following formula.

**Loan Loss Provision to Non-Performing Loan Ratio** = $\frac{Loan\ Loss\ Provision}{Non\ Performing\ Loan}$

Following table shows the ratio of loan loss Provision to Non Performing Loan of NABIL Bank and EVEREST Bank.

**Table 4.8**

**Loan Loss Provision (LLP) to Non Performing Loan (NPL) Ratio**

**Rs In Million (000000)**

| Year | NABIL BANK | | | EVEREST BANK | | |
|---|---|---|---|---|---|---|
| | LLP | NPL | Ratio | LLP | NPL | Ratio |
| 2007 | 358 | 449.6 | 0.80 | 141 | 111.2 | 1.27 |
| 2008 | 359 | 286.7 | 1.25 | 212 | 104.8 | 2.02 |
| 2009 | 361 | 144.5 | 2.50 | 281 | 128.8 | 2.18 |
| 2010 | 356 | 166 | 2.14 | 335 | 121.9 | 2.75 |
| 2011 | 357 | 178.3 | 2.00 | 419 | 107 | 3.92 |
| Mean | 1.74 | | | 2.43 | | |
| SD | 0.69 | | | 0.99 | | |
| CV | 0.40 | | | 0.41 | | |

[Source: NRB Bulletin 49, Annual Report, Appendix XV, XVI]

From the above table, it is observed that the ratio of Loan Loss Provision to Non Performing Loan is found in between of 3.92 of EBL being highest and 0.80 of NABIL is lowest.

The ratio of NABIL Bank is 0.80 in the year 2007 and gone up to 2.00 in the year 2011. Similarly, the ratio of EBL was 1.27 in the year 2007 and gone significantly up to 3.92 in the year 2011.

Comparing between two banks, NABIL and Everest Banks seems to be the effective and efficient in the process of credit administration and recovery.

### 4.3.9 Interest Income to Total Loan and Advances Ratio

This ratio indicates the contribution of loan and advances in operating profitability. In other words, this ratio is used to find the average yield of the assets/lending. Here, interest income refers to the interest yield from performing assets. Similarly, total loan and advances means total of loan and advances with bills purchased and discounted.

The ratio of interest income to total loan and advances is taken as one of the important tool/indicator in identifying the institutions position. This ratio is calculated with the help of following formula.

Following table shows the ratio of interest income to loan and advances of NABIL Bank and Everest Bank.

**Table 4.9**

**Interest Income to Loan & Advances Ratio**

| **Year** | **NABIL BANK** | | | **EVEREST BANK** | | |
|---|---|---|---|---|---|---|
| | L&A | INT.INC | % | L&A | INT.INC | % |
| 2007 | 8114 | 1018 | 12.55 | 5050 | 520 | 10.30 |
| 2008 | 8549 | 1002 | 11.72 | 6096 | 657 | 10.78 |
| 2009 | 10947 | 1069 | 9.77 | 7900 | 719 | 9.10 |
| 2010 | 13279 | 1310 | 9.87 | 10155 | 903 | 8.89 |
| 2011 | 15903 | 1588 | 9.99 | 14100 | 1144 | 8.11 |
| Mean | | | 10.78 | | | 9.44 |
| SD | | | 1.27 | | | 1.09 |
| CV | | | 0.12 | | | 0.12 |

[Source: Annual Reports, Appendix XVII, XVIII]

From the table 4.9, it is observed that the trend of interest income to loan and advances ratio is decreasing, which shows the rate of yield is decreasing with the time. In the year 2007, NABIL is having 12.55% of yield, which low down to 9.99 in the year 2011. Similarly, the yield of EBL was 10.30% in 2007 but decreases to 8.11 while coming to year 2011. Further, NABIL and EBL are found to be the higher profit gaining organization compared to others. The average ratio of NABIL is 10.78. Where the average ratio of EBL is 9.44.

### 4.3.10 Net Profit to Total Loan and Advances Ratio

This ratio indicates the contribution of loan and advances in profitability. In other words, this ratio is used to find the yield efficiency of the lending. Here, Net Profit refers to the profit of the year after deducting necessary provision, tax, bonus and other expenses and liabilities. Similarly, total loan and advances means total of loan and advances with bills purchased and discounted.

The ratio of net profit to total loan and advances is taken s the important tool/indicator in identifying the institution position. This ratio is calculated with the help of following formula.

**Net Profit to Loan and Advances Ratio** $= \frac{Net\ Profit}{Total\ Loan\ and\ Advances}$

Higher the ratio means the institution is generation higher yield in its assets, which is desirable by all the stakeholders of the organization.

Following table shows the ratio of net profit to loan and advances of NABIL Bank and Everest Bank.

**Table 4.10**

**Net Profit (NP) to Loan & Advances (L&A) Ratio**

| Year | NABIL BANK | | | EVEREST BANK | | |
|---|---|---|---|---|---|---|
| | L&A | NP | % | L&A | NP | % |
| 2007 | 8114 | 416 | 5.13 | 5050 | 94 | 1.86 |
| 2008 | 8549 | 455 | 5.32 | 6096 | 144 | 2.36 |
| 2009 | 10947 | 519 | 4.74 | 7900 | 168 | 2.13 |
| 2010 | 13279 | 635 | 4.78 | 10155 | 237 | 2.33 |
| 2011 | 15903 | 674 | 4.24 | 14100 | 296 | 2.10 |
| Mean | | | 4.84 | | | 2.16 |
| SD | | | 0.41 | | | 0.20 |
| CV | | | 0.09 | | | 0.09 |

[Source: Annual Report, Appendix XIX, XX]

From the table 4.10, it is observed that the NABIL band is making highest net profitability ratio as compared to other sample banks. In the year 2007, NABIL is having 5.13% of yield, which reduces down to 4.24 in the year 2011. Similarly, the yield of EBL was 1.86% in 2007 and increases to 2.10 while coming to year 2011. NABIL has found to be the higher profit gaining organization compared to EBL. The average ratio of EBL is 4.84.

#### 4.3.11 Sector wise Loan and Advances

There are various sectors in the market that the bank has an opportunity to invest in. Even NRB have issued in its directives that commercial banks have to invest certain percentage in the deprived and priority sector. So that the backward sector will also get the benefit from the financial facility.

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

**Table 4.11**

**Sector Wise Loan and Advances**

| Year | NABIL BANK | | EVEREST BANK | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| Agriculture | 54.5 | 0.34 | 55.4 | 0.39 |
| Mining | 13.9 | 0.09 | 11.8 | 0.08 |
| Production | 5701.5 | 35.85 | 3319.1 | 23.54 |
| Construction | 1923.3 | 12.09 | 2086.8 | 14.80 |
| Machinery | 163.2 | 1.03 | 58.8 | 0.42 |
| Transpiration | 1467.9 | 9.23 | 86.5 | 0.61 |
| Public service | 917.7 | 5.77 | 964.9 | 6.84 |
| Wholesalers | 2458.5 | 15.46 | 4266.2 | 30.26 |
| Finance | 821.1 | 5.16 | 466 | 3.30 |
| Service Industry | 1260.7 | 7.93 | 502.9 | 3.57 |
| Consumable | 84.6 | 0.53 | 228 | 1.62 |
| Local Govt. | 0 | 0.00 | 24.1 | 0.17 |
| Others | 1036.1 | 6.52 | 2029.7 | 14.39 |
| Total | 15903 | 100% | 14100 | 100% |

[Source: NRB Quarterly Bulletin mid-July 2011]

From the above table we can see that there are various sectors that the banks are investing. Almost all the sectors the banks are trying to invest their funds. Up to the mid July 2011 NABIL banks has invested total of 15903 million, Everest Bank has total lending of 14100 million.

All the above sampled commercial banks have invested their major portion in the production sector. NABIL bank has also investment 35.85% in the production sector. Everest bank has also invested major portion of lending in production sector of 23.54% NABIL bank is more constrained in the production sector but Everest bank has slightly diversified the investment in other sectors.

EBL is the only one bank which has invested its fund to the local government of 0.17 out of the total lending. It shows that the ratio of investment in this sector is too low comparative to other sector. But we can say that as a private bank has invested to the local government in the Nepalese banking history.

Father, we can conclude the sector wise lending of sampled commercial banks by saying that production, constructions, wholesaler & retailers, transportation, communication & public services are the few sectors which consumers higher portion of the lending of commercial banks.

None of the banks invest without the security from clients. Holding the security is to assure the bank in the creation of credit transaction. Bank will recover the fund from the security if the client will not pay back the principal and interest in the due course of time.

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

**Table 4.12**

**Security Wise Loan &Advances**

| **Particulars** | **NABIL BANK** | | **EVEREST BANK** | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| Gold | 0.0 | 0.0 | 0.0 | 0.00 |
| Govt. Securities | 41.6 | 0.26 | 53.3 | 0.38 |
| Non govt. Security | 1.7 | 0.01 | 21.3 | 0.15 |
| Fixed A/C receipt | 334.7 | 2.11 | 555.4 | 3.94 |
| Assets Guarantee | 11218.7 | 70.54 | 12750.0 | 90.43 |
| On Bills G’tee | 2626.3 | 16.51 | 56.7 | 0.40 |
| Guarantee | 589.3 | 3.71 | 543.6 | 3.86 |
| Credit Card | 62.8 | 0.40 | 0.0 | 0.00 |
| Earthquake victim | 0.0 | 0.00 | 0.0 | 0.00 |
| Other | 1028.0 | 6.46 | 119.7 | 0.85 |
| Total | 15903 | 100% | 14100 | 100% |

[Source: NRB Quarterly Bulletin mid-July 2011]

The table 4.12 shows that there are different types of securities that the bank keeps in the custody at the time grating the loan. Looking at the figure and ratios of the commercial bank in the above table we found that all the banks prefer assets guarantee as the best secured securities. The assets securities include land and buildings, machinery tools, furniture & fixture, vehicle, other fixed assets, rice, raw jute agriculture etc.

First choice and priority in taking security of NABIL assets guarantee as it contributes 70.54% out of total security. The second prior security for the NABIL bank is on bills guarantee i.e. 16.51. On bolls guarantee includes domestic bills, foreign bills, import bill, letter of credit, export bill, against export bill and other foreign bills. Banks usually reject the gold and silver as the securities because calculation of the actual market value of gold is difficult and the value of these securities keeps in fluctuating all the time.

Everest bank has accepted highest percentage of assets guarantee as the best securities i.e. 90.43%, and lowest of gold and non-government securities.

### 4.4 Major Findings of the study

From the above analysis made through information from primary source as well as secondary sources, the researcher has divided the major findings drawn from this study into two categories as,

#### 4.4.1 Major Findings from Primary data

Researcher has observed the following important findings from the analysis of primary data, which are enumerated below.

- Most respondent agree that the consumer financing and manufacturing industry are the most secure sector of lending.
- On the basis of the responses of respondents the common security that the bank demands at the time of granting the loan is fixed assets followed by government bind.
- Most respondent are positive in the time taken by commercial banks in disbursing loan .They have experienced the time taken was less than 30 day’s from the date of loan application.
- Majority of respondent have not yet purchased credit products offered by any banks, only 19 out of 50 respondents purchase the credit banking products.
- Most of the respondents agree that the low interest rate is the most motivating factor to get the loan in the market followed by promotion and advertisement campaign.

- Most of the respondents agree that the tedious and lengthy legal procedure is the main barrier in the growth of lending and availing credit facilities.
- Most of the respondents agree that irregular follow up and inspection in the site visit are most important reason that leads to the NPA.
- Most of the respondents agree that the bank's first procedure to reduce the NPA is the regular follow up to the client forcing them to pay back all the due amount the second alternative is to rebate the interest amount and forcing to the client to pay the principal amount immediately.
- Most of the respondents totally agree that economic and industrial recession is the prime external factors to increase NPA.
- From the responses of the bankers it is noticed that the decision making authority is hold by the top level top management.

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

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

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

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

Nature of loan has been designed considering the nature of the project and business activity and interest rate has been charged according to the nature of loan. As per present interest rate issued by NABIL Bank, Everest Bank, the researcher found discrimination on the interest is mainly relies on the basis of industry and trading, on the basis of prime client and ordinary client, on the basis of nature of loan.

In my study, it seems that most of the portion of loan granted by sample banks goes to industrial sector only the future of the banks depends to the prosperity of the industry. Low diversification of loan shows higher risk hence the bank lending policy can be treated poorer also the branches of the bank are situated at the highly urban area of the country. According to the verbal information provided by the officer concern bank the collateral of the land and building against the Security of the loan should be within the urban area near by the bank location. Branches of these banks are concentrated to sophisticated urban area. Also bank does not entertain collateral outside the urban area. In Nepal 85% of the total population resides in the village area which directly shows that commercial banks are providing its facilities to 20% of the population living in urban area.

### 4.4.2 Major Findings from Secondary data

Researcher has observed the following important findings from the analysis of secondary data, which are listed below.

Current ratio of the banks under study is meeting the universal standard principle of current ratio i.e. 2:1, in an average.

Mean of the current ratio of NABIL and EVEREST BANK is 2.19 and 2.37. Everest bank has less consistency in its current ratio with S.D of 0.39. Everest bank has higher position than NABIL. Looking at the above ratios we can say that NABIL bank and Everest Bank both have maintained the standard.

In utilizing current assets in terms of loan and advances, EBL has more consistency compared to NABIL banks as it has lowest CV of 0.09 and NABIL bank has C.V of 0.21

It is observed that there is high variance in ratio of the ratio swings heavily during the study period. The highest ratio of 1.24 of NABIL bank is the highest ratio than Everest banks.

The highest ratio of 1.24 of NABIL bank is the highest ratio among the above sampled banks.

Utilization of deposit to loan and advances of NABIL Bank is lowest among the sample banks. Higher ratio between loan and advances to deposit indicates that the bank is mobilizing high volume of deposit into loan and advances, which results in the positive contribution to profitability. Contradictorily high ratio between loan and advances to deposit brings the bank in the liquidity risk.

The lowest ratio of loan and advances to deposit is 0.60 of NABIL Bank in the year 2007 and highest ratio is 0.97 of NB Bank in the year 2011. The CV of EBL bank is lowest i.e. 0.023 among the sampled bank so it has high level of consistency.

It is found that the fixed deposit to loan and advances ratio are being efficiently and properly utilized by the Everest. Similarly, the trend of lending from the fixed deposit is decreasing remarkably. The five year ratio of total lending to fixed deposit shows the average lending of the NABIL bank is lowest than Everest banks.

Though the lending from the fixed deposit is safe, NABIL bank is lending only the fewer portions. Everest bank has utilized the benefit of the fixed deposit. So they have utilized high portion of the fixed deposit i.e. o.53 to the loan and advance. Additionally, NABIL has high CV's of 0.20, which reversals that the pattern of lending from the fixed deposit is fluctuating more.

From the ratio of lending to saving deposit, it is revealed that NB bank has low consistency which fluctuates in the high ratio. It also means that NABIL bank is utilizing its saving deposit properly than Everest Bank.

The average ratio of investments from the saving deposit of NABIL bank is 0.96, which is the highest than the average ratio of Everest banks. Everest bank has average ratio of 0.72. The CV's of the NABIL Bank is lowest of 0.052 than Everest banks, showing highest consistency. The CV of the Everest bank has 0.09 respectively.

From the ratio of lending to current deposit, it is found that NABIL bank has highest ratio of investment from the current deposit. In the average of five years sample, it has invested 0.31 to the total Loan and advances. EBL has Everest the lowest portion from the current deposit i.e. 0.15.

The ratio of NABIL Bank is 5.54 % in the year 2007 and came down to 1.12% in the year 2010. Similarly, the ratio of EBL is 2.20% in the year 2007 and came significantly down to 0.76 in the year 2011.

Comparing among the sample banks, EBL has the lowest average ratio i.e. 1.50%, which reveals banks effectiveness and efficiency in the process of credit administration and recovery. Similarly NABIL has the average ratio of 2.52%. This is remarkably high showing management’s inefficiency and ineffectiveness.

Comparing the ratio with the industry average ratio, the average ratio of all banks seems to be lower than that of the industry average. But when we look at the data of individual years.

EBL has maintained the smooth trend of NPL to total loan ratio i.e. 0.55, which further exhibits the less fluctuation of the ratio during the study period. Similarly, NABIL has standard deviation, showing tie moderate fluctuation in the above ratio.

From the ratio of loan Loss Provision to Non Performing Loan, it is found that EBL and NABIL seen to be the effective and efficient in the process of credit administration and recovery.

It is observed that the ratio of loan Loss Provision to Non-performing Loan is found in between of 3.92 of EBL being highest. The ratio of NABIL Bank is 0.80 in the year 2007 and gone up to 2.00 in the year 2011. Similarly, the ratio of EBL was 1.27 in the year 2007 and gone significantly up to 3.92 in the year 2011.

The trend of inertest income to loan and advances ratio is decreasing, which shows the ratio of yield is decreasing with the time. In the year 2007, NABIL is having 12.55% of yield, which lows downs to 9.99 in the year 2011. Similarly, the yield of EBL was 10.30% in 2007 but decreases to 8.11 while coming to year 2011.

From the ratio of net profit to loan and advances, it is observed that the NABIL bank is making highest net profitability ratio than Everest Banks.

In the year 2007 NABIL is having 5.13 of yield, which reduces down to 4.24in the year 2011. Similarly, the yield of EBL was 1.86 in 2007 and increases to 2.10 while coming to year 2008. The average ratio of NABIL and EBL is 4.84 and 2.16 respectively.

From the analysis of sector wise loan & advances, it is noticed that productions constructions wholesaler & retailers, transportation, communication & public services are the few sectors which consumers higher portion of the lending of commercial banks. Up to the mid July 2011 NABIL banks has invested total of 15903 million, Everest Bank has total lending of 14100.

All sampled banks have invested their major portion in the production sector. NABIL bank has also investment of 36.39, in the production sector. Everest bank has also invested major portion of lending in production sector of 23.54%. NABIL bank is more constrained in the production sector but Everest bank which has invested its fund to the local government of 0.17% out of the total lending. It shows that the ratio of investment in this sector is too low comparative to other sector.

From the analysis of security wise loan & advances, it is noticed that there are different types of securities that the bank keeps in the custody at the time granting the loan. Looking at the figure and ratios. We found that all the banks prefer assets guarantee as the best secured.

First choice and priority in taking security of NABIL is assets guarantee as it contributes 70.54% out of total security. The second prior security for the NABIL band is on bills guarantee i.e. 16.51%. On bills guarantee includes domestic bills, foreign bills, foreign bills, import bill, letter of credit, export bill, against export bill and other foreign bills. Banks usually reject the gold and silver as the securities because calculation of the actual market value of gold is difficulty and the value of these securities keeps in fluctuating all the time. Everest bank has accepted highest percentage of assets guarantee as the best securities i.e. 90.93% and lowest of gold and non-government securities.

# CHAPTER-FIVE

# SUMMARY, CONCLUSION AND RECOMMENDATIONS

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

## 5.1 Summary

In the history of Nepal, financial sector has undergone a signified evaluation in the past two decades. Commercial banking activities in Nepal started in 1973 with the establishment of Nepal Bank Ltd in the public sector. At present there are 31 commercial banks in operating is the economy to asset in the process of economic development is the country. Due to high competition between the financial institutions, the collected high amount of deposit from pubic is not properly invested. It is due to lack of demand for fund. So, it raised the problems of investment and proper mobilization of activities play a vital role in the overall development of economy of the nation.

This study “credit policy and its implementation in Nepalese Commercial Banks” is primarily prepaid for the partial fulfillment of the requirement of master of business studies (MBS). This study is mainly based on secondary and primary data provided by concerned banks and respondents. Here 2 commercial banks are selected as a sample. The main objective of the study is to draw out the existing situation of credit/lending procedure, to study the relation so between deposits and loan and advances, to study the classification of loan and advances, provision for loan and advances and its effect in profitability, to examine the utilization of resources (fund) in various sectors. Information is collected during the period FY 2006/2007 to 2010/2011. The collected information is presented, analyzed and conclusion is drawn from the study. The researcher has tried to go through the practical aspects, which has been followed by above sample bank. Normally, this study focuses on the credit policy and its implementation, which has been adopted by above two banks. In this process the researcher had consulted many books, booklets, magazine; newspaper in most case, the researcher undertook verbal interviews with officers of the concern banks and their selected client and general public too.

Chapter one is concerned with the introduction of the whole study. It explained about the selected banks, concentration of the study objectives, statement and organization of the study, which provides guideline for entire study.

Chapter two is concerned with the review of study as well as the review of related previous studies, journals and article etc.

Chapter third specifies the guidelines, tools and research design to achieve the objectives of the study.

Chapter four, for the analysis of data mean, standard deviation coefficient of variation are considered as the main statistical tools in this study. Data are collected through different sector and annual report of related banks. But the primary data are generated through personal interview of banks officers' customer and academicians.

## 5.2 Conclusion

This study "credit policy and its Implementation in Nepalese Commercial Banks" tried to analyzed and draw out the existing situation of credit/lending procedure the relationship between deposits and loan and advances, the study of classification of loan and advances, provision for loan and advances and its effective profitability, examine the utilization of resources in various sectors based on the data provided in the financial statement as well as other concerned information. Present study is successful to explore the findings of the result designed for the study various statistical tools were used as requirement of nature of data. A secondary as well as primary source of information was used for analysis of data. Based on the data analysis and finding of the result, the conclusion can be drawn as:

From this study, the researcher concludes that lending activities in Nepal is remarkably increasing. Bank lending has started playing an important role in economic development of the country. In response to this there have been active efforts within the Nepalese bands to be more focused on the financial products and services.

Again, the researcher found that the Nepalese banks need to remain in the competition in lending, bands will need to operate efficiently, package and deliver products on time, leveraging the multiple channels of delivery such s the internet, mobile banking, e-cash and the ATMS. The future of lending is dependent on technology, marketing and capital employment on the sector. Technology facilitates reduction in transaction cost and provides the ability to do business in volumes. Banks have to prepare themselves to face a soft interest regime. New kinds of management skills are required to manage the lending portfolio. Banks are completing in the lending products on the basis of product innovation, rationalization of service charges, competitive pricing and simplified procedures for documentation.

Further researcher has found that the consumer financing and manufacturing sectors are the most secure sector of landing. It is also found that the common security that the bank demands at the time of granting the loan is fixed assets followed by government bond. Low interest rate is the most motivating factor to get the loan in the market followed by promotion and advertisement campaign. Tedious and lengthy legal procedure is the main barrier in the growth of lending and availing credit facilities. Irregular follow up and inspection in the site visit are most important reason that leads to the NPA. Economic and industrial recession is the prime external factors to increase NPA. Bank's first procedure to reduce the NPA is the regular follow up to the client forcing them to pay bank all the due amount the second alternative is to rebate the interest amount and forcing to the client to pay the principal amount immediately. Finally, It is noticed that the decision making authority is hold by the top level and rest of the employee is exercise the policy decided by the top management.

## 5.3 Recommendations

The following recommendation is drawn from the finding and conclusion of the study

### 1. Lending Procedure should be short

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

### 2. Need to grab more benefit from Fixed Deposit

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

### 3. Need to invest small Entrepreneur Development Program

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

### 4. Need to Invest in Productive Are that utilized the natural Resources

Nepal is rich in natural resources but these resources are not properly utilized due to lack of financial support and technical assistant. Numerous opportunities like electricity, tourism mines etc are unused due to the lack of financial support. So banks have to divert their investment in the natural resources too.

### 5. Needs to Diversify Lending

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

### 6. Need to reduce spread rate

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

### 7. Preference to Support short Term Lending

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

### 8. Explore the un-banked sectors

Banks should not only concentrate on the city, valley but they also have to find and serve the un-banked areas. Banks should increase effort to covers the wide areas by increasing the branch network as well as more geographical coverage. In the new area, bank should make effort to tap these areas consumer by providing the product suitable and reasonable for them rather than copied product.

### 9. Target the agricultural sector

The world is now facing problem from the scarcity for the food. As a result of which price for food is rising day by day. Fortunately, Nepal is the agricultural country, so the financial players should focus on this part as a corporate social responsibility. To tap these consumer, agriculture related financial product like Agricultural financing, micro credit should be introduced.

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http://www.ebl.com.np

http://www.NABILbank.com.np

http://www.nrb.org.np

http://www.onlinelibarary.com.np

## Annex -I

## Questionnaire

**Dear madam,**

I would be very much thankful for your few minutes time to fill up the following questionnaires that have importance in finding the situation, problems of credit products under banking industry in Nepal. Your individual responses will be kept anonymous and only the general findings will be presented in the research report.

Narayan Raj Tripathi

Name (optional):

Professional Experience (in year): Designation:

Organization: Age (in year):

Please answer the following questions as they relate to the bank lending

1. Which sector of the available market is the most secure for lending?

   ……………………………………………………………………………

2. What is the common security that the bank demands before disbursing loan?

   ……………………………………………………………………………

3. How long does the banks take to disburse the loan the date of loan application?

   ……………………………………………………………………………

4. Did you ever buy lending product offered by commercial banks?

   1). Yes 2) No 3) Don't know

5. What factor will motivate to get loan in the market?

   Please rank the following alternatives.

   1) Very relevant 2) Relevant 3) Indifference

   4) Irrelevant 5) Very Irrelevant

| Factor | Rank | | | | |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 |
| Low interest rate | | | | | |
| Promotion and advertisement campaign | | | | | |
| Innovation product offered by bank | | | | | |
| For better lifestyle | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| To make future secure | | | | | |
| To mellitus social status | | | | | |

6. Which product of credit facility is most profitable?

   ……………………………………………………………………………….

7. What is the time taken in follow-up for the overdue loan?

   …………………………………………………………………………………

8. Which of the following sector is given priority while floating loans?

   1) Industrial Sector 2) Trading Sector

   3) Service Sector 4) Other(s)

9. What is the most important reason that leads to the NPA?

   …………………………………………………………………………………

10. What is the procedure for the banks to reduce NPA?

    …………………………………………………………………………………

11. What are the external factors that may cause for NPA growth?

    …………………………………………………………………………………

12. Which authority approves the credit policy?

    ………………………………………………………………………..

13. Does your bank have the hierarchy for the loan sanction?

    …………………………………………………………………………………

14. What suggestion would you like to give to Nepalese bank

    Regarding bank lending products and credit activities?

    …………………………………………………………………………………

## APPENDIX - I

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

| YEAR | CA | CL | RATIO | $(X-\overline{X})$ | $(X-\overline{X})^2$ |
|---|---|---|---|---|---|
| 2007 | 10616 | 3762 | 2.82 | 0.63 | 0.3969 |
| 2008 | 11329 | 5388 | 2.10 | -00.9 | 0.0081 |
| 2009 | 8819 | 4147 | 2.13 | -0.06 | 0.0036 |
| 2010 | 13858 | 6661 | 2.08 | -0.11 | 0.0121 |
| 2011 | 16954 | 9229 | 1.83 | -0.36 | 0.1296 |
| TOTAL | | | $\Sigma X =$ 10.96 | | $\Sigma(X-\overline{X})^{2=}$ 0.5503 |

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

$\overline{X} = \dfrac{\Sigma X}{n} = \dfrac{10.96}{5} = 2.19$

S.D ($\sigma$) $= \sqrt{\dfrac{[\Sigma(x]_{n-\overline{x}})}{n-1}} = \sqrt{\dfrac{0.5503}{5-1}} = 0.37$

CV $= \dfrac{\sigma}{\overline{X}} = \dfrac{0.37}{2.19} = 0.17$

Where,

CA = Current Assets

CL = Current Liability

S.D = Standard Deviation

C.V = Coefficient of Variance

## APPENDIX -II

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

| YEAR | CA | CL | RATIO | $(X-\bar{X})$ | $(X-\bar{X})^2$ |
|---|---|---|---|---|---|
| 2007 | 6,391 | 2,335 | 2.74 | 0.37 | 0.1369 |
| 2008 | 6,750 | 2,902 | 2.33 | -0.04 | 0.0016 |
| 2009 | 8,150 | 3,302 | 2.47 | 0.10 | 0.0100 |
| 2010 | 11,399 | 4,784 | 2.38 | 0.01 | 0.0001 |
| 2011 | 14,227 | 7,364 | 1.93 | -044 | 0.1936 |
| TOTAL | | | $\Sigma X =$ 11.85 | | $\Sigma(X-\bar{X})^2 = 0.3422$ |

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

$\bar{X} = \dfrac{\Sigma X}{n} = \dfrac{11.85}{5} = 2.37$

S.D ($\sigma$) $= \sqrt{\dfrac{\Sigma(x\bar{x}_{n-\bar{x}})}{n-1}} = \sqrt{\dfrac{0.3422}{5-1}} = 0.29$

CV $= \dfrac{\sigma}{\bar{X}} = \dfrac{0.29}{2.37} = 0.12$

Where,

CA = Current Assets

CL = Current Liability

S.D = Standard Deviation

C.V = Coefficient of Variance

## APPENDIX -III

Work sheet for the calculation or Mean, standard deviation and coefficient of NABIL Bank considering Loan and Advance (LA) and Current Assets (CA)

| YEAR | L & A | CA | RATIO | $(X-\bar{X})$ | $(X-\bar{X})^2$ |
|---|---|---|---|---|---|
| 2007 | 8,114 | 10,616 | 0.76 | -0.17 | 0.0289 |
| 2008 | 8,549 | 11,329 | o.75 | -0.18 | 0.0324 |
| 2009 | 10,947 | 8,819 | 1.24 | 0.31 | 0.0961 |
| 2010 | 13,279 | 13,858 | 0.96 | 0.03 | 0.0009 |
| 2011 | 15,903 | 16,954 | 0.94 | 0.01 | 0.0001 |
| TOTAL | | | $\Sigma X$ = 4.65 | | $\Sigma(X-\bar{X})^2 = 0.1584$ |

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

$\bar{X} = \frac{\Sigma X}{n} = \frac{4.65}{5} = 0.93$

S.D. $(\sigma) = \sqrt{\frac{[\Sigma(x]_{n-\bar{x}})}{n-1}} = \sqrt{\frac{0.1584}{5-1}} = 0.20$

CV $= \frac{\sigma}{\bar{\bar{X}}} = \frac{0.20}{0.93} = 0.21$

Where,

CA = Current Assets

L&A = Loan and Advance

S.D = Standard Deviation

C.V = Coefficient of Variance

## APPENDIX - IV

Work sheet for the calculation or Mean, standard deviation and coefficient of Everest Bank considering Loan and Advances (LA) and current assets (CA)

| YEAR | L & A | CA | RATIO | $(X-\bar{X})$ | $(X-\bar{X})^2$ |
|---|---|---|---|---|---|
| 2007 | 5,050 | 6,391 | 0.79 | -0.12 | 0.0144 |
| 2008 | 6,096 | 6,750 | 0.90 | -0.01 | 0.0001 |
| 2009 | 7,900 | 8,150 | 0.97 | 0.06 | 0.0036 |
| 2010 | 10,155 | 11,399 | 0.89 | -0.02 | 0.0004 |
| 2011 | 14,100 | 14,227 | 0.99 | 0.08 | 0.0064 |
| TOTAL | | | $\Sigma X$ = 4.54 | | $\Sigma(X-\bar{X})^2$ = 0.0249 |

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

$\bar{X} = \frac{\Sigma X}{n} = \frac{4.54}{5} = 0.91$

S.D. ($\sigma$) = $\sqrt{\frac{[\Sigma(x]_{n-\bar{x}})}{n-1}} = \sqrt{\frac{0.249}{5-1}} = 0.08$

CV = $\frac{\sigma}{\bar{X}} = \frac{0.08}{0.91} = 0.09$

Where,

CA = Current Assets

L&A = Loan and Advance

S.D = Standard Deviation

C.V = Coefficient of Variance

## APPENDIX -V

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

| YEAR | L & A | Deposit | RATIO | $(X-\overline{X})$ | $(X-\overline{X})^2$ |
|---|---|---|---|---|---|
| 2007 | 8,114 | 13,438 | 0.60 | -o.07 | 0.0049 |
| 2008 | 8,549 | 14,098 | 0.61 | -0.06 | 0.0036 |
| 2009 | 10,947 | 14,587 | 0.75 | 0.08 | 0.0064 |
| 2010 | 13,279 | 19,348 | 0.69 | 0.02 | 0.0004 |
| 2011 | 15,903 | 23,342 | 0.68 | 0.01 | 0.0001 |
| TOTAL | | | $\Sigma X$ = 3.33 | | $\Sigma(X-\overline{X})^2$ = 0.0154 |

**Loan and Advance to Total Deposit** **=** $\frac{Loan\ and\ Advance}{Total\ Deposit}$

$\overline{X} = \frac{\Sigma X}{n} = \frac{3.33}{5} = 0.67$

S.D $(\sigma)$ $= \sqrt{\frac{[\Sigma(x]_{n-\bar{x}})}{n-1}} = \sqrt{\frac{0.0154}{5-1}} = 0.06$

CV $= \frac{\sigma}{\overline{X}} = \frac{0.06}{0.67} = 0.09$

Where,

L&A = Loan and Advance

S.D = Standard Deviation

Deposit = Total Deposit

C.V = Coefficient of Variance

## APPENDIX -VI

Work sheet for the calculation or Mean, standard deviation and coefficient of Everest Bank considering Loan and Advance (LA) and Total Deposit

| YEAR | L & A | Deposit | RATIO | $(X-\bar{X})$ | $(X-\bar{X})^2$ |
|---|---|---|---|---|---|
| 2007 | 5,050 | 6695 | 0.75 | 0.00 | 0.0000 |
| 2008 | 6096 | 8064 | 0.76 | 0.01 | 0.0001 |
| 2009 | 7900 | 10098 | 0.78 | 0.03 | 0.0009 |
| 2010 | 10155 | 13803 | 0.74 | -o.01 | 0.0001 |
| 2011 | 14100 | 19098 | 0.74 | -0.01 | 0.0001 |
| TOTAL | | | $\Sigma X$ = 3.77 | | $\Sigma(X-\bar{X})^2$ = 0.0012 |

**Loan and Advance to Total Deposit** = $\frac{Loan\ and\ Advance}{Total\ Deposit}$

$\bar{X}$ = $\frac{\Sigma X}{n}$ = $\frac{3.77}{5}$ = 0.75

S.D. ($\sigma$) = $\sqrt{\frac{[\Sigma(x]_{n-\bar{x}})}{n-1}}$ = $\sqrt{\frac{0.0012}{5-1}}$ = 0.017

CV = $\frac{\sigma}{\bar{X}}$ = $\frac{0.017}{0.75}$ = 0.023

Where,

L&A = Loan and Advance

S.D = Standard Deviation

Deposit = Total Deposit

C.V = Coefficient of Variance

## APPENDIX -VII

Work sheet for the calculation or Mean, standard deviation and coefficient of NABIL Bank considering Fixed Deposit (FD) to Loan and Advances (LA)

| YEAR | L & A | FD | RATIO | (X-$\bar{X}$) | (X-$\bar{X}$)² |
|---|---|---|---|---|---|
| 2007 | 8113.68 | 2252.60 | 0.28 | 0.01 | 0.0001 |
| 2008 | 8548.66 | 2310.60 | 0.27 | 0.00 | 0.0000 |
| 2009 | 10946.75 | 2078.60 | 0.19 | -0.08 | 0.0064 |
| 2010 | 13278.78 | 3450.20 | 0.26 | -0.01 | 0.0001 |
| 2011 | 15903.00 | 5435.20 | 0.34 | 0.07 | 0.0049 |
| TOTAL | | | $\Sigma X$ = 1.34 | | $\Sigma(X-\bar{X})^2$ = 0.0115 |

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

$\bar{X} = \frac{\Sigma X}{n} = \frac{1.34}{5} = 0.27$

S.D. ($\sigma$) = $\sqrt{\frac{[\Sigma(x]_{n-\bar{x}})}{n-1}} = \sqrt{\frac{0.0115}{5-1}} = 0.05$

CV = $\frac{\sigma}{\bar{X}} = \frac{0.05}{0.27} = 0.20$

Where,

L&A = Loan and Advance

F.D = Fix Deposit.

S.D = Standard Deviation

C.V = Coefficient of Variance

## APPENDIX -VIII

Work sheet for the calculation or Mean, standard deviation and coefficient of Everest Bank considering Fixed Deposit (FD) to Loan and Advances (LA)

| YEAR | L & A | FD | RATIO | $(X-\bar{X})$ | $(X-\bar{X})^2$ |
|---|---|---|---|---|---|
| 2007 | 5050 | 2803 | 0.56 | 0.10 | 0.0100 |
| 2008 | 6096 | 2914 | 0.48 | 0.02 | 0.0004 |
| 2009 | 7900 | 3445 | 0.44 | -0.02 | 0.0004 |
| 2010 | 10155 | 4298 | 0.42 | -0.04 | 0.0016 |
| 2011 | 14100 | 5659 | 0.40 | -0.06 | 0.0036 |
| TOTAL | | | $\Sigma X$ = 2.29 | | $\Sigma(X-\bar{X})^2$ = 0.0160 |

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

$\bar{X} = \frac{\Sigma X}{n} = \frac{2.29}{5} = 0.46$

S.D. ($\sigma$) = $\sqrt{\frac{[\Sigma(x]_{n-\bar{x}})}{n-1}} = \sqrt{\frac{0.0160}{5-1}} = 0.06$

CV = $\frac{\sigma}{\bar{X}} = \frac{0.06}{0.46} = 0.14$

Where,

L&A = Loan and Advance

F.D = Fix Deposit.

S.D = Standard Deviation

C.V = Coefficient of Variance

## APPENDIX -IX

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

| YEAR | L & A | SD | RATIO | $(X-\overline{X})$ | $(X-\overline{X})^2$ |
|---|---|---|---|---|---|
| 2007 | 8114 | 7778 | 0.96 | 0.00 | 0.0000 |
| 2008 | 8549 | 8796 | 1.03 | 0.07 | 0.0049 |
| 2009 | 10947 | 10368 | 0.95 | -0.01 | 0.0001 |
| 2010 | 13279 | 12622 | 0.95 | -0.01 | 0.0001 |
| 2011 | 15903 | 14149 | 0.89 | -0.07 | 0.0049 |
| TOTAL | | | $\Sigma X$ = 4.78 | | $\Sigma(X-\overline{X})^2$ = 0.01 |

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

$\overline{X} = \frac{\Sigma X}{n} = \frac{4.78}{5} = 0.96$

S.D. ($\sigma$) $= \sqrt{\frac{[\Sigma(x]_{n-\overline{x}})}{n-1}} = \sqrt{\frac{0.01}{5-1}} = 0.05$

CV $= \frac{\sigma}{\overline{X}} = \frac{0.05}{0.96} = 0.052$

Where,

L&A = Loan and Advance

S.D = Saving Deposit

S.D = Standard Deviation

C.V = Coefficient of Variance

# APPENDIX -X

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

| YEAR | L & A | SD | RATIO | $(X-\bar{X})$ | $(X-\bar{X})^2$ |
|---|---|---|---|---|---|
| 2007 | 5050 | 3186 | 0.63 | -0.09 | 0.0081 |
| 2008 | 6096 | 4296 | 0.70 | -0.02 | 0.0004 |
| 2009 | 7900 | 5511 | 0.70 | -0.02 | 0.0004 |
| 2010 | 10155 | 8223 | 0.81 | 0.09 | 0.0081 |
| 2011 | 14100 | 10597 | 0.75 | 0.03 | 0.0009 |
| TOTAL | | | $\Sigma X$ = 3.59 | | $\Sigma(X-\bar{X})^2$ = 0.0179 |

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

$\bar{X} = \frac{\Sigma X}{n} = \frac{3.59}{5} = 0.72$

S.D. $(\sigma) = \sqrt{\frac{[\Sigma(x]_{n-\bar{x}})}{n-1}} = \sqrt{\frac{0.0179}{5-1}} = 0.07$

CV $= \frac{\sigma}{\bar{X}} = \frac{0.07}{0.72} = 0.09$

Where,

L&A = Loan and Advance

S.D = Saving Deposit

S.D = Standard Deviation

C.V = Coefficient of Variance

## APPENDIX -XI

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

| YEAR | L & A | CD | RATIO | $(X-\bar{X})$ | $(X-\bar{X})^2$ |
|---|---|---|---|---|---|
| 2007 | 8114 | 3407 | 0.42 | 0.11 | 0.0121 |
| 2008 | 8549 | 2992 | 0.35 | 0.04 | 0.0016 |
| 2009 | 10947 | 3141 | 0.29 | -0.02 | 0.0004 |
| 2010 | 13279 | 3276 | 0.25 | -0.06 | 0.0036 |
| 2011 | 15903 | 3758 | 0.24 | -0.07 | 0.0049 |
| TOTAL | | | $\Sigma X$ = 1.55 | | $\Sigma(X-\bar{X})^2$ = 0.0226 |

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

$\bar{X} = \frac{\Sigma X}{n} = \frac{1.55}{5} = 0.31$

S.D. ($\sigma$) = $\sqrt{\frac{[\Sigma(x]_{n-\bar{x}})}{n-1}} = \sqrt{\frac{0.0226}{5-1}} = 0.08$

CV = $\frac{\sigma}{\bar{X}} = \frac{0.08}{0.31} = 0.24$

Where,

L&A = Loan and Advance

CD = Current Deposits

S.D = Standard Deviation

C.V = Coefficient of Variance

## APPENDIX -XII

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

| YEAR | L & A | CD | RATIO | $(X-\bar{X})$ | $(X-\bar{X})^2$ |
|---|---|---|---|---|---|
| 2007 | 5050 | 706 | 0.14 | -0.01 | 0.0001 |
| 2008 | 6096 | 854 | 0.14 | -0.01 | 0.0001 |
| 2009 | 7900 | 1142 | 0.14 | -0.01 | 0.0001 |
| 2010 | 10155 | 1282 | 0.13 | -0.02 | 0.0004 |
| 2011 | 14100 | 2842 | 0.20 | 0.05 | 0.0025 |
| TOTAL | | | $\Sigma X$ = 0.75 | | $\Sigma(X-\bar{X})^2$ = 0.0032 |

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

$\bar{X} = \frac{\Sigma X}{n} = \frac{0.75}{5} = 0.15$

S.D ($\sigma$) = $\sqrt{\frac{[\Sigma(x]_{n-\bar{x}})}{n-1}}$ = $\sqrt{\frac{0.0032}{5-1}}$ = 0.03

CV = $\frac{\sigma}{\bar{X}}$ = $\frac{0.03}{0.15}$ = 0.19

Where,

L&A = Loan and Advance

CD = Current Deposits

S.D = Standard Deviation

C.V = Coefficient of Variance

## APPENDIX - XIII

Work sheet for the calculation or Mean, standard deviation and coefficient of NABIL Bank considering Nonperforming Loan (NPL) to Total Gross Loan (TGL) Ratio

| YEAR | L & A | NPL | RATIO | $(X-\bar{X})$ | $(X-\bar{X})^2$ |
|---|---|---|---|---|---|
| 2007 | 8114 | 450 | 5.55 | 3.03 | 9.1809 |
| 2008 | 8549 | 287 | 3.36 | 0.84 | 0.7056 |
| 2009 | 10947 | 145 | 1.32 | -1.20 | 1.4400 |
| 2010 | 13279 | 166 | 1.25 | -1.27 | 1.6129 |
| 2011 | 15903 | 178 | 1.12 | -1.40 | 1.9600 |
| TOTAL | | | $\Sigma X$ = 12.60 | | $\Sigma(X-\bar{X})^2$ = 14.8994 |

**Non Performing Loan to Total Gross Loan** = $\frac{Non\ Performing\ Loan}{Total\ Gross\ Loan\ and\ Advances}$

$\bar{X}$ = $\frac{\Sigma X}{n}$ = $\frac{12.60}{5}$ = 2.52

S.D ($\sigma$) = $\sqrt{\frac{[\Sigma(x]_{n-\bar{x}})}{n-1}}$ = $\sqrt{\frac{14.8994}{5-1}}$ = 1.93

CV = $\frac{\sigma}{\bar{X}}$ = $\frac{1.93}{2.52}$ = 0.77

Where,

L&A = Loan and Advance

NPL = Non Performing Loan

S.D = Standard Deviation

C.V = Coefficient of Variance

## APPENDIX - XIV

Work sheet for the calculation or Mean, standard deviation and coefficient of Everest Bank considering Non-performing Loan (NPL) to Total Gross Loan (TGL) Ratio

| YEAR | L & A | NPL | RATIO | $(X-\bar{X})$ | $(X-\bar{X})^2$ |
|---|---|---|---|---|---|
| 2007 | 5050 | 111 | 2.20 | 0.70 | 0.4900 |
| 2008 | 6096 | 105 | 1.72 | 0.22 | 0.0484 |
| 2009 | 7900 | 129 | 1.63 | 0.13 | 0.0169 |
| 2010 | 10155 | 122 | 1.20 | -0.30 | 0.0900 |
| 2011 | 14100 | 107 | 0.76 | -0.74 | 0.5476 |
| TOTAL | | | $\Sigma X = 7.51$ | | $\Sigma(X-\bar{X})^2 = 1.1929$ |

**Non Performing Loan to Total Gross Loan** = $\frac{Non\ Performing\ Loan}{Total\ Gross\ Loan\ and\ Advances}$

$\bar{X} = \frac{\Sigma X}{n} = \frac{7.51}{5} = 1.50$

S.D. ($\sigma$) $= \sqrt{\frac{[\Sigma(x]_{n-\bar{x}})}{n-1}} = \sqrt{\frac{1.1929}{5-1}} = 0.55$

CV $= \frac{\sigma}{\bar{\bar{X}}} = \frac{0.55}{150} = 0.36$

Where,

L&A = Loan and Advance

NPL = Non Performing Loan

S.D = Standard Deviation

C.V = Coefficient of Variance

## APPENDIX - XV

Work sheet for the calculation or Mean, standard deviation and coefficient of NABIL Bank considering Interest Income (Int. Inc.) to Total Loan and Advances (L&A) Ratio

| YEAR | L & A | Int. Inc. | RATIO | $(X-\bar{X})$ | $(X-\bar{X})^2$ |
|---|---|---|---|---|---|
| 2007 | 8114 | 1018 | 12.55 | 1.77 | 3.1329 |
| 2008 | 8549 | 1002 | 11.72 | 0.94 | 0.8836 |
| 2009 | 10947 | 1069 | 9.77 | -0.01 | 1.0201 |
| 2010 | 13279 | 1310 | 9.87 | -0.91 | 0.8281 |
| 2011 | 15903 | 1588 | 9.99 | -0.79 | 0.6241 |
| TOTAL | | | $\Sigma X$ = 53.90 | | $\Sigma(X-\bar{X})^2$ = 6.4888 |

**Interest Income to Loan and Advances** = $\frac{Interest\ Income}{Total\ Loan\ and\ Advances}$

$\bar{X} = \frac{\Sigma X}{n} = \frac{53.90}{5} = 10.78$

S.D. ($\sigma$) = $\sqrt{\frac{[\Sigma(x]_{n-\bar{x}})}{n-1}} = \sqrt{\frac{6.4888}{5-1}} = 1.27$

CV = $\frac{\sigma}{\bar{\bar{X}}} = \frac{1.27}{10.78} = 0.12$

Where,

L&A = Loan and Advance

Int. Inc = Interest Income

S.D = Standard Deviation

C.V = Coefficient of Variance

# APPENDIX -XVI

Work sheet for the calculation or Mean, standard deviation and coefficient of Everest Bank considering Interest Income (Int. Inc.) to Total Loan and Advances (L&A) Ratio

| YEAR | L & A | Int. Inc. | RATIO | $(X-\bar{X})$ | $(X-\bar{X})^2$ |
|---|---|---|---|---|---|
| 2007 | 5050 | 520 | 10.30 | 0.86 | 0.7396 |
| 2008 | 6096 | 657 | 10.78 | 1.34 | 1.7956 |
| 2009 | 7900 | 719 | 9.10 | -0.34 | 0.1156 |
| 2010 | 10155 | 903 | 8.89 | -0.55 | 0.3025 |
| 2011 | 14100 | 1144 | 8.11 | -1.33 | 1.7689 |
| TOTAL | | | $\Sigma X$ = 47.18 | | $\Sigma(X-\bar{X})^2$ = 4.7222 |

**Interest Income to Loan and Advances** = $\frac{Interest\ Income}{Total\ Loan\ and\ Advances}$

$\bar{X} = \frac{\Sigma X}{n} = \frac{47.18}{5} = 9.44$

S.D. $(\sigma)$ = $\sqrt{\frac{[\Sigma(x]_{n-\bar{x}})}{n-1}} = \sqrt{\frac{4.7222}{5-1}} = 1.09$

CV = $\frac{\sigma}{\bar{X}} = \frac{1.09}{9.44} = 0.12$

Where,

L&A = Loan and Advance

Int. Inc = Interest Income

S.D = Standard Deviation

C.V = Coefficient of Variance

## APPENDIX -XVII

Work sheet for the calculation or Mean, standard deviation and coefficient of NABIL Bank considering Net Profit (NP) to Total Loan and Advances (L&A) Ratio

| YEAR | L & A | N.P. | RATIO | $(X-\bar{X})$ | $(X-\bar{X})^2$ |
|---|---|---|---|---|---|
| 2007 | 8114 | 416 | 5.13 | 0.29 | 0.0841 |
| 2008 | 8549 | 455 | 5.32 | 0.48 | 0.2304 |
| 2009 | 10947 | 519 | 4.74 | -0.10 | 0.0100 |
| 2010 | 13279 | 635 | 4.78 | -0.06 | 0.0036 |
| 2011 | 15903 | 674 | 4.24 | -0.60 | 0.3600 |
| TOTAL | | | $\Sigma X = 24.21$ | | $\Sigma(X-\bar{X})^2 = 0.6881$ |

**Net Profit to Loan and Advances Ratio** = $\frac{Net\ Profit}{Total\ Loan\ and\ Advances}$

$\bar{X} = \frac{\Sigma X}{n} = \frac{24.21}{5} = 4.84$

S.D. $(\sigma) = \sqrt{\frac{[\Sigma(x]_{n-\bar{x}})}{n-1}} = \sqrt{\frac{0.6881}{5-1}} = 0.41$

CV $= \frac{\sigma}{\bar{X}} = \frac{0.41}{4.84} = 0.09$

Where,

L&A = Loan and Advance

N.P = Net Profit

S.D = Standard Deviation

C.V = Coefficient of Variance

## APPENDIX - XVIII

Work sheet for the calculation or Mean, standard deviation and coefficient of Everest Bank considering Net Profit (NP) to Total Loan and Advances (L&A) Ratio

| YEAR | L & A | N.P. | RATIO | $(X-\bar{X})$ | $(X-\bar{X})^2$ |
|---|---|---|---|---|---|
| 2007 | 5050 | 94 | 1.86 | -0.30 | 0.0900 |
| 2008 | 6096 | 144 | 2.36 | 0.20 | 0.0400 |
| 2009 | 7900 | 168 | 2.13 | -0.03 | 0.00090 |
| 2010 | 10155 | 237 | 2.33 | 0.17 | 0.0289 |
| 2011 | 14100 | 296 | 2.10 | -0.06 | 0.0036 |
| TOTAL | | | $\Sigma X$ = 10.78 | | $\Sigma(X-\bar{X})^2$ = 0.1634 |

**Net Profit to Loan and Advances Ratio** = $\frac{Net\ Profit}{Total\ Loan\ and\ Advances}$

$\bar{X} = \frac{\sum X}{n} = \frac{10.78}{5} = 2.16$

S.D. $(\sigma) = \sqrt{\frac{[\sum(x]_{n-\bar{x}})}{n-1}} = \sqrt{\frac{0.1634}{5-1}} = 0.20$

CV $= \frac{\sigma}{\bar{X}} = \frac{0.20}{2.16} = 0.09$

Where,

L&A = Loan and Advance

N.P = Net Profit

S.D = Standard Deviation

C.V = Coefficient of Variance

## APPENDIX - XIX

Work sheet for the calculation or Mean, standard deviation and coefficient of NABIL Bank considering Loan Loss Provision (LLP) to Non Performing loan (NPL) Ratio

| YEAR | L & A | NPL | RATIO | $(X-\bar{X})$ | $(X-\bar{X})^2$ |
|---|---|---|---|---|---|
| 2007 | 358 | 449.63 | 0.80 | -0.94 | 0.8826 |
| 2008 | 359 | 286.68 | 1.25 | -0.49 | 0.2374 |
| 2009 | 361 | 144.51 | 2.50 | 0.76 | 0.5755 |
| 2010 | 356 | 165.98 | 2.14 | 0.41 | 0.1643 |
| 2011 | 357 | 178.30 | 2.00 | 0.26 | 0.0690 |
| TOTAL | | | $\Sigma X$ = 8.70 | | $\Sigma(X-\bar{X})^2$ =1.9283 |

**Loan Loss Provision to Non Performing Loan Ratio** = $\frac{Loan\ Loss\ Provision}{Non\ Performing\ Loan}$

$\bar{X} = \frac{\Sigma X}{n} = \frac{8.70}{5} = 1.74$

S.D. ($\sigma$) $= \sqrt{\frac{[\Sigma(x]_{n-\bar{x}})}{n-1}} = \sqrt{\frac{1.9288}{5-1}} = 0.69$

CV $= \frac{\sigma}{\bar{X}} = \frac{0.69}{1.74} = 0.40$

Where,

LLP = Loan Loss Provision

NPL = Non Performing Loan

S.D = Standard Deviation

C.V = Coefficient of Variance

## APPENDIX - XX

Work sheet for the calculation or Mean, standard deviation and coefficient of Everest Bank considering Loan Loss Provision (LLP) to Non Performing Loan (NPL) Ratio

| YEAR | L & A | NPL | RATIO | $(X-\bar{X})$ | $(X-\bar{X})^2$ |
|---|---|---|---|---|---|
| 2007 | 141 | 111.19 | 1.27 | -1.16 | 1.3411 |
| 2008 | 212 | 104.76 | 2.02 | -0.40 | 0.1635 |
| 2009 | 281 | 128.81 | 2.18 | 0.25 | 0.0608 |
| 2010 | 335 | 121.85 | 2.75 | 0.32 | 0.1032 |
| 2011 | 419 | 107.00 | 3.92 | 1.49 | 2.2136 |
| TOTAL | | | $\Sigma X$ = 12.14 | | $\Sigma(X-\bar{X})^2$ = 3.8822 |

**Loan Loss Provision to Non Performing Loan Ratio =** $\frac{Loan\ Loss\ Provision}{Non\ Performing\ Loan}$

$\bar{X} = \frac{\sum X}{n} = \frac{12.14}{5} = 2.43$

S.D. ($\sigma$) $= \sqrt{\frac{[\Sigma(x]_{n-\bar{x}})}{n-1}} = \sqrt{\frac{3.8822}{5-1}} = 0.99$

CV $= \frac{\sigma}{\bar{X}} = \frac{0.99}{2.43} = 0.41$

Where,

LLP = Loan Loss Provision

NPL = Non Performing Loan

S.D = Standard Deviation

C.V = Coefficient of Variance