CHAPTER – I

INTRODUCTION

1.1 General Background of the Study

The Nepalese financial sector is composed of banking sector and non banking sector. Banking sector comprises Nepal Rastra Bank (NRB) and commercial banks. The non banking sector includes development banks finance companies, micro credit development banks, co-operative financial institutions, non government organization (NGOs) performing limited banking activities and other financial institutions such as insurance companies, employees' provident fund, Citizen Investment trust, postal saving offices and Nepal stock exchange. However, this bulletin contains information of those financial institutions only, which are licensed by NRB up to mid July -2008.

Economic development in Nepal, in real sense, started only after Rana regime. In the late period of Rana regime, some positive attempts were made. As a result, "Udygo Parshad" got its existence in 1935 A.D, Biratnagar Jute Mill in 1936 A.D, and Raghupati Jute Mill in 1946 A.D. Just before the break of Second World War, a twenty- year plan was announced and National Planning Committee was set up in 1949 A.D. But the plan never came into the notice of people and this idea disappeared with the dissolution of National Planning Committee (Singh, 2050:10).

Nepal, in early 1950s, began the process of economic and social development in spite of the lack of modern institution and infrastructure. Budgetary system was introduced in 1952 A.D. In the same year, a separate ministry for Planning and Development was established for uplifting the nation (Singh, 2050).

It is forty-four years since the first five year plan was executed. Up to now, nine successive plans has already been implemented. A cursory look at these plans shows that the major focus has lain on agro-sector, industrial sector and in the field of infrastructure development. About study of Nepalese banking histories we can generally find it is very least developed country among the number of the countries all over the world.

So Nepal is basically an agricultural, mountain and landlocked kingdom surrounding by two large fast developing nations China and India. About 80% 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 large labor force into industrialized sector. The economic development of Nepal is still in initial stage for the economic growth and development. Government has now initiated various economic policies such as industrial policy foreign investment policy, privatization policy and trade and transit policy.

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

Banks are institutions for depositing, withdrawing and borrowing money. (Oxford English Dictionary). In other words banks accept and surplus fund of fund as deposit and supply it to meet the financial needs of the people and modern business by various means. Though the history of Nepalese banks. There is no long history. Many of the commercial banks are successfully operated in Nepal.

After the establishment of the Nepal bank ltd on 30th kartik 1994 B.S. modern banking system started in Nepal under the Nepal Rastra bank Act 2012. Nepal Rastra Bank was establishment in 2013 Baishakh 14th in Nepal. Like this Nepal bank ltd was establishment in 2022. Agriculture development bank in 2024 Nepal Arab bank limited the 1st joint venture bank established in 2041. "After the established of Agricultural Development Bank in 2024 B.S. growth of banking institutions remained almost stagnant till 2040 B.S. No new banks opened in this period through some branches of previously established bank were extended. Liberalization policy of government formulated in 2038 B.S. allowed private sectors to open joint venture banks in foreign collaboration. Nepal Arab Bank Limited (now it is known as Nabil bank limited) became the first commercial bank to register under new arrangement. The bank started its operation since 2041 B.S. It is an associate of Dubai Bank Limited (now it is also known as Nepal Investment Bank) and Nepal Grindlays Bank Limited (now it is known as Standard Chartered Bank Limited) were other joint venture Banks established afterwards." Under the commercial bank Act 2031 and company Act 2021, there are 25 commercial banks are established including 6 joint venture banks are successfully operated in Nepal (Last licensed banks in NRB Report, 2008).

Then the chain financial system covers 58 development banks, 78 finance companies, 12 micro credit development banks, 16 saving & credit co-operatives limited banking activities, and 46 NGOs (financial intermediaries) are under the supervision of Nepal Rastra bank (NRB Report Mid – July 2008).

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

In this present era, Joint venture bank are going a wide popularity through their efficient management and professional service and playing an emigrant role in the economy. Considering the economic structure of the country, the bank does not have sufficient investment opportunities, rapidly increasing financial institution are creating threads to the joint venture banks. So the relation of joint venture banks has the huge deposits for contributing to the different developing sectors. For that result credit policy is necessary to make in every commercial banks.

So the credit policy cannot be sound less it is based on a clear knowledge of the cost or credit. The cost is determined by the quantity or credit sales the average collection period and the opportunity cost of capital.

Which a managerial 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 charge and by the interaction with the rest of the pricing mix.

Credit Policy

Credit is regarded as the most income generating assets especially in commercial bank. It is regarded as the heart of the commercials banks in the since that it occupies large volume of transactions. It covers the main part of investment, the most of the investment activities based on credit. It is the main factor for creating profitability. It effects the overall economy 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 and industry, the government will get tax from them and help to increase national economy. It is the security against depositors and providing from very beginning that credit is the shareholders wealth maximization derivatives, however , other factors can also affect the profitability and wealth maximization but the most effective factor is regarded as credit. It is the most challenging job because it is the backbone of the commercial banks. Thus, Effective management of credit should seriously be considered.

Management is the system, which helps to complete the every job effectively. Credit management is also the system which helps to manage the credit effectively. In other words, credit management refers management of credit exposures arising from loans corporate bonds and credit derivatives. Credit exposure is the main source of investment in commercial banks and return on such investment is supposed to be main source of income.

The credit policy of a firm provides the framework to determine whether or not to extent credit extent. The credit policy decision of a bank has two broad dimensions credit standard and credit analysis. A firm has to established and use standard in making credit decision. Develop appropriate source of credit information and method of credit analysis.

1.2 Introduction to Sample Bank Under Study

Everest bank limited, Nabil bank limited and Standard chartered bank are the three joint venture banks out of the several joint venture banks operating within tertiary of Nepal. These banks are established in different time period. Nabil bank is a first joint venture bank in the history of Nepal where as Everest bank is established as the joint venture of Panjab National Bank (India) which directly helps with those business men and individuals who have direct relation with India and standard chartered bank is another largest joint venture bank all over the world because it has a good credit facility as well as loan follow to all the people surviving in the world. It deals with Nepalese business men whose business area lies within territory of Nepal. A number of largest businesses are operated through the help of Standard chartered Bank living inside and out side of the country. So it is clear that these sample banks with difference service can cover all information for the thesis and make meaningful.

NABIL Bank Limited

"NABIL bank limited is the first joint venture bank in Nepal, established on 12^{th} July in 1984 A.D. under the company act. Dubai bank limited was the initial foreign join venture partner with 50% equity investment. The share owned by Dubai bank limited were transferred emirates bank international Ltd. (EBIN), Dubai. Later on EBIN sold its entire holding to national bank Ltd. Bangladesh. Nabil bank limited has the official name Nepal Arab bank Ltd till December 21^{st}2001. Hence 50% equity share of Nabil bank limited is held by NBLB and out of another 50% financial institutions has taken 20%. Remaining 30% were issued to general public of Nepal. At present 20 and 2 counters branches are operated in different part of the country. The bank is managed by a team of qualified and highly experienced professionals" (NABIL Bank's Annual Report, 2008).

NABIL bank has been a pioneer in introducing modern banking and numerous innovative products into Nepal. It was 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 Limited, Nepal electricity authority, Nepal oil corporation, Nepal television, water supply and the Nepal government army. By virtue of the range of services provided by the banks and its strength in the market, Nabil is also a significant player in financing entities involved in various infrastructure products (Nabil Bank Annual Report 2008).

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 tope three financial institutions in Nepal terms of market shares handling Nepal's trade.

Nabil is a sole bankers to a multitude on international Aid agencies, Non – Government Organizations, Embassies sand consulates in the kingdom. The bank has the dominant market share in these consumer segments which is the compliment to its image and servicing capabilities.

"Nabil is almost the most successful joint venture organization in Nepal registering strong growth in balance sheet footing as well as profits year after year. The initial capital of Rs. 30.00 million in mid –July 2004, during this period, the bank has paid cash dividends totaling Rs.1268.00 million" (Nabil Bank Annual Report Mid - July 2008).

Everest Bank Limited (EBL)

Everest Bank Limited (EBL) started its operation in 1994 with a view and objectives of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer friendly services through a network of 29 branches across the nation.

Punjab National Bank (PNB), our joint venture partner (holding 20% equity in the bank) is the largest nationalized bank in India having 113 years of banking history. PNB is a technology driven bank serving over 35 billion customers through a network of over 4500 branches spread all over the country with a total business of around INR 2178.74 billion.

The bank has been conferred with “Bank of the Year 2006, Nepal” by the banker, a publication of financial times, London. The bank was bestowed with the “NICCI Excellence award” by Nepal India chamber of commerce Largest Network (29 branches as on Bhadra 65) among private sector banks spread across Nepal and all connected with ABBS . Strong Joint Venture Partner providing Technical Support for its spectacular performance under finance sector. it has More than170 remittance payout location in Nepal. EBL was one of the first banks to introduce Any Branch Banking System (ABBS) in Nepal.

The local Nepalese Promoters hold 50% stake in the Banks equity, while 20% of equity is contributed by joint venture partner PNB whereas remaining 30% is held by the public in Nepal.

Everest bank limited is a joint venture bank with Punjab National Bank of India established in 1993 A.D. It started operation from 18th October 1994. Under the technical service agreement signed between two banks of Punjab. National bank has been providing tough management service and banking expertise of Everest bank limited. And thereby contributes to the economic development of the country.

Standard Chartered Bank Limited (SCBL)

Standard chartered bank is also one of the popular joint venture banks in Nepal. In the history of standard bank was formed since 1969 merger between two overseas banks. The standard bank of British South Africa and the Standard bank of India, Australia and China. Standard chartered bank Nepal limited is a subsidiary of standard chartered group. It is the largest international commercial bank of Nepal. Who has been 75% ownership in the company of standard chartered group with 25% shares owned by Nepalese public and operated since1987 with initial paid up capital 100 million. Bank has 50% promoters from itself that means standard chartered Gridley's bank Australia and 25% promoters and share holders are from standard chartered Gridley's bank USA and general public from 25% promoters and share holders. It has 100 millions authorize capital, 50 million issued capital and 374.64 million has paid up capital.

It is very success to open the a number of branches all over the country including various services to the people like credit card facility, student study loans for the foreign study, free hospital camp operated in different places, and E- Banking services. That means the Bank provide a complete range of personal, commercial and corporate banking and related financial services through its 13 branches and five main counters.

1.3 Focus of the Study

This study will focus on the credit policy and how can its implemented to the commercial banks in Nepal. Credit policy is one of the major parts especially define in different kinds of deposits of the commercial banks. So it is also called the heart of the management in the bank. Mainly risk and return of the banks are measured through credit policy of the bank. Each and every commercial bank has policy over the credit to apply in the competitive market.

1.4 Statement of the Problem

Credit is the most effective and sincere area in the commercial bank. It is regarded as the heart of every commercial bank. But the banking sector is far from this fact. Thus credit management is considered as the heart of the commercial banking sector. Credit policy of the banking sector is an important in Nepalese commercial banking sector. There is a lack of such scientific and empirical research that could identify the issue of credit policy in Nepalese commercial bank. So the specific research question regarding credit policy in Nepalese commercial banking sector.

- Is the credit practice adopted by commercial bank in good position?
- What are the credit policies effective to the Nepalese commercial bank?
- Is there any relationship between credit position and profitability situation?
- How does the commercial bank manage better credibility position?

Above these questions answer is the bank should now have a keen awareness of the need to identify measures, monitor and control credit as well as to determine that they hold adequate capital against it. So to establish credibility position is a major issue in commercial banking sector during these days.

1.4 Objectives of the Study

The main objectives of this research are to get information about the credit policy of Everest Bank, Nabil Bank and Standard chartered bank. And procedure of the lending, advancing of loan and advance and also we talk about the source of collection of fund besides these some other objectives are listed below:

- To find out the problems regarding credit lending procedure.
- To find out the share of credit in total deposits.
- To find out the ratio of credit amount investment in different sectors.
- To suggest measures for improvement.

1.5 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 emigrant role in the economy. Considering the economic structure of the country, the bank does not have sufficient investment opportunities, rapidly increasing financial institution are creating threads to the join venture banks. In this context, the study would analyze strengths, weaknesses, opportunities and threats of selected joint venture banks. The research will be helpful for joint venture banks to formulate strategies to face the increasing competitions, besides it also help to identify the importance of share holders policy and formulate outside investors.

1.6 Limitations of the Study

The limitations of the study are as follows:

- Basically secondary data is used in this study
- Due to the small sample size, it may not fully represent complete banking credit concept as a hole.
- The analysis period of research is covering only five years data.
- The studies mainly focus on credit management of the bank like loan and advances and does not cover other banking services and facilities provided by the banks.

- In this study, only limited financial and statistical tools and techniques of credits analysis is used.

1.7 Organizational of the Study

The study will be divided into five main chapters.

First chapter i.e. introduction chapter deals with general back ground of the bank and its credit department. company profile, introduction of the subject, focus of the study, statement of the problem, objective of the problem, limitation of the study scope of the study research methodology and organization of the study.

Second chapter is review of literature. It includes conceptual framework of the subjective matter. I.e. credit in different sectors, loan and advance follow in the market. It studies the role and effectiveness of the credit in the market. It will include brief review of previous research work.

Researched methodology will be discussed in chapter three and deal with research design source of data collection data analysis and data analysis method.

In fourth chapter collected data and information will be analyzed and presented in a pleasant manner and it shows the current credit policy of the management will be given on banking moves.

Fifth chapter will illustrate summary. Conclusion and recommendations made on the basis of the study.

Last but not least, last chapter present books and journals that are consulted and the appendices provide some supplementary material of this study.

CHAPTER - II

REVIEW OF LITERATURE

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

Most of the researchers have done in the lending policy of the commercial banks. However efforts have been made together information from all available areas as possible.

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

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

2.1 Theoretical Review of Credit Management

Joint venture banks now a day playing a very dominant role for the development of industrial sector, business sector and individuals live standard too. Due to open market policy and liberalization policy the establishment and growth of JVB's has boost the economy of the country. JVB's are currently viewed as catalyst and the key factor in the development of the economy by mobilization of the domestic resources. The government in turn is required to regulate their activities and policies such as leading to the private sector, leading to the unemployed people, and creation of entrepreneurship in the society.

“Banking is the business of collecting and safeguarding money as deposits and lending of same. The banker’s business is then to take the debt of other people to offer his own in exchange and thereby to create money. He may be a dealer in a debt, but in distress is only observe of wealth and it would be equally permissible to describe the banker as a liquefies of wealth” (Crowther, 1998:56-60).

“Banking means the accepting for the purpose of lending or investing, the deposits of money from the public, repayable by cheque, drafts, order of otherwise”(Mali Ram,1969).

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

American Institute of Banking defines Commercial Banks, as “commercial bank is a corporation which accepts demand term loans to business, enterprises, regardless of the scope of its other service”.

American Institute of banking principal of Bank Operation, USA 1972 Commercial bank Act 2031 was formulated to facilitate the smooth run of commercial banks. All the commercial banks are ones which exchange money, accepts deposits, grants loans and advances.”

The commercial bank Act 2031 also pointed the function of commercial banks. Commercial banks provide short term debts necessary for trade and commerce. They take deposits from the trade and commerce. They take deposits from the public and grants loans in difference forms. They purchase the discount bill of exchange, promissory notes and exchange foreign currencies. They discharge the various functions and 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. Agriculture, Industry, trade, commercial institution like commercial banks development banks, financial companies and various micro- financing institution with different model” (Timilshena, 1999).

This thesis mainly focuses on the lending practice (credit practice) and procedure of Nepal three joint venture commercials (i.e. Everest bank, Nabil bank. and standard chartered bank) Hence it is rational to state these articles and reports those may make a clear concept to understand the said topics.

A frequently neglected but increasingly of the total marketing package is the role of the provision of credit. Credit policy is sometimes omitted entirely from an analysis of marketing mix by academics. This is despite empirical findings that although the credit package is unlikely to be the primary factor in determining overall patronage success. It May serve to clinch a contract when suppliers offerings are otherwise equally attractive.

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. Which 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, discounting approach should be used. A credit package can be differentiated in various ways by duration, by interest charge, and by the interacting with the rest of the pricing mix.

A commercial bank is a business organization that receives and holds deposits of funds from others makes loans or extends credits and transfers funds by written order of deposits.

Commercial bank is a corporation, which accepts demand deposits subjects to check and makes short term loans to business enterprises, regardless of the scope of its other services.

According to the commercial bank act has laid emphasis on the functions of commercial bank while defining it. Commercial banks provide short –term debts necessary for trade and commerce. They take deposits from the public and grant loans in different forms. They purchases and discount bills for exchange, promissory notes and exchange foreign currency. They discharge various functions on the behalf of their customers provided that they are paid for their services.

Financial activities are necessary for the economic development of the country and commercial banking in this context is the heart of financial system. Optimal investment decision plays a vital role in each and every organization. But especially for the commercial banks and other financial institutions the sound knowledge of investment is the must because this subject is relevant for all surrounding that mobilize funds in different sectors in view of return.

As it is concerned to the commercial banks and other financial institution, they must mobilize (i.e. investments in different sectors) their collections (deposits) and other funds towards the profitable, secured and marketable sectors so that they will be in profit. For this propose banks and financial institutions should gather the sufficient information about the firm (clients) to which supposed to be invested, these information include as financial background, nature of business as well as its ability to pay the loan back. These all information should be gathered from the view point of security.

The income and profit of the bank depend upon the lending procedure applied by the bank. And, lending policy and investment in different securities also affect the income and profit. In the investment procedure and policies is always taken in mind that "the greater the credit created by the bank, the higher will be the profitable". A sound lending and investment policy is not only prerequisite for bank's profitability but also crucially significant for the promotion of commercial saving of a developing country like Nepal.

The sound policies help commercial banks maximize quality and quantity of investment and thereby, achieve the own objective of profit maximization and social welfare. Formulation of sound investment policies and coordinated and planned efforts pushes forward the forces of economic growth.

Commercial banks as financial institutions perform a number of internal functions. Among them, providing credit is considered as most important one. "Commercial banks bring into being the most important ingredient of the money supply, demand deposit through the creation of in the form of loan and investment."

2.1.1 Financial Analysis

Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the items of balance sheet and profit and loose account. Financial analysis can be undertaken by management of the firm or by parties outside the firm viz. owners, creditors, investors and others. Ratio analysis is a powerful tool of financial analysis. A ratio is defined as "the indicated quotient of two mathematical expressions" and "as the relationship between two things" (Adhikari, 1999: 115).

Ratio analysis is the process of determining and interpreting numerical relationships based on financial statements. A ratio is a statistical yardstick that provides a measure of the relationship between two variables or figures.

Webster's new collegiate Dictionary defines a ratio as "The indicated quotient of two mathematical expressions and as the relationship between or more things". In financial analysis a ratio is used as a benchmark for evaluating the financial position and performance of firm (Webster, 1997).

Standard of Comparison

The ratio analysis involves comparison for a useful interpreting of financial statements. A single ratio in itself doesn't indicate favorable or unfavorable condition. It should be compared with some standard. Standard of comparison may consist of:

- Past Ratio – ratio calculated from the past financial statement of the same firm.
- Projected Ratio – ratio developed using the projected or financial statement of the same firm.
- Competitor's Ratio – ratio of some selected firms, specially the most progressive and successful competitors, at the same point in time.
- Industry Ratio – ratio of the industry to which the firm belongs.

Types of Ratios

Several ratios calculated from the accounting data can be grouped into various classes according to financial activity or function to be evaluated. Long term creditors or the other are more interested in the long – term solvency and profitability and financial condition. Management is interested in evaluating every aspect of firm's performance. They have to protect the interests of all parties and see that the firms grow profitability. In view of the requirement of various ratios they may classify into following groups.

Credit Practices Ratios

- **Total Loan to Total Deposit Ratio**

The main source of bank's lending depends on its deposits. This ratio is calculated to find out how successfully the banks are utilizing their deposits on loan and advances for profit generating activities greater ratio indicates the better utilization of total deposits.

- **Loan and Advances to Total Assets Ratio**

Loan and advance is the major part of total assets for the bank. This ratio indicates the volume of loan and advance out of the total assets. A high degree of the ratio indicates that the bank has been able to mobilize its funds through lending function. However lending always carries a certain risk of default. Therefore a high ratio represents low liquidity and low ratio represents low productivity with high degree for safety in terms of liquidity.

- **Loan and Advances to Current Assets**

Loan and advances is the major component in total assets, which indicates the ability of bank to canalize its deposit in the form of loan and advances to earn high return. If sufficient loan and advances cannot be granted, it should pay interest on those utilize deposit funds and may lose earnings. So commercial banks provide loan and advances in appropriate level to find out portion of current assets, which is granted as loan and advances.

- **Interest Income into Loan and Advances**

Interest income to loan and advances is one of the major sources of income for a commercial bank. The high volume of interest income is indicator of good performance of lending activities.

- **Loan Loss Provision to Total Loan and Advances Ratio**

It describes the quality of assets that a bank is holding. NRB has directed to the commercial banks to classify its loan and advances into the category of pass, standard, doubtful and loss and to wake the provision of 1, 25, 50 and 100 percent respectively. NRB has classified the pass and sub-standard loan as performing loans and other two types of loan as non-performing loans. The provision created against the pass and sub-standard loan is called the general loan loss provision and provision created against the doubtful and loss loan is called specific loan loss provision. The amount of loan loss provision is B/S refers to general loan loss provision. The provision for loan loss reflects the increasing profitability of non-performing loan. Increase in loan loss provision decreases in profit result to decrease in dividends. But its positive impact is that strengthens the financial conditions of banks by controlling the credit risk and reduced the risk related the deposits. The low ratio indicates the good quality of assets in total volume of loan and advances. High ratio indicates more risky assets in total volume of loan and advances

- **Non-Performing Loan to Total Loan and Advances Ratio**

NRB has directed all the commercial banks create loan loss provision against the doubtful and bad debts. But our concerned banks have not provided data on non-performing loan in balance sheet and profit and loss account. To measure the volume of non-performing loan to total loan advances the main indicator of NABIL bank, EBL and Standard Chartered bank has been used. This ratio shows the percentage of non-recovery loans in total loan in advances.

Credit Efficiency Ratio

- **Interest Expenses to Total Deposit Ratio**

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

- **Total Loan to Liabilities Ratio**

Banks create credit through loans and advances and multiply their assets much more times than their liability permits. This ratio measures the ability of a bank to multiply its liability in to asset. The higher ratio of total assets to total liability ratio is favorable as its increases overall capacity of the organization. The following table shows the ratio of total assets to total liability of selected commercial banks during study period.

- **Interest Expenses to Total Expenses Ratio**

This ratio measures the percentage of interest paid against total expenses. The high ratio indicates the low operational expenses and vice versa. The ratio indicates the costly source of funds.

- **Non-interest Bearing Deposit to Total Deposit Ratio**

This ratio measures the volume of non-interest bearing deposits to total deposit. The volume of interest expenses in total expenses represents a large portion of the total expenses. How efficiently the deposits were managed effectively in the total volume of expenses. The bank need to manage the portfolio of the deposits i.e. its has to maintain certain proportion between interest bearing deposits and non interest bearing deposits by administering the interest rate structure. The higher ratio is favorable but in practices, interest bearing deposits always plays a significant role in the mix of deposit liability.

- **Interest Income to Total Income Ratio**

Income is one of the most important factors of each and every organization. Interest income occupies a greater portion of the total income in a banking business. This ration measures the volume of interest income in total income. It helps to measure the bank's performance on other fee based activities too. The high ration indicates the high contribution made by lending and investment and high contribution by other fee based activities in total income.

- **Interest from Loan, Advances and Overdraft to Total Interest Income Ratio**

This ratio measures the contribution made by interest from loan, advances and overdraft. Loan and advances generate the major portion of interest income. Hence this ratio measures how efficiently the banks have employed their fund and loan and advances and overdraft.

- **Interest Suspense to Total Interest Income from Loan and Advances Ratio**

Interest suspense means the interest due but not collected. NRB directives do not allow the commercial banks to book due but unpaid interest into income. The increase in the interest suspense decreases the profit of the company. Such interest is shown in liability side of balance sheet under the heading "other liability". This ratio, interest suspense to total interest income from loans and advances, measures the composition of due but uncollected interest in the total interest income from loan and advances. The high degree of this ratio indicates high interest turnover. This ratio helps to analyze the capacity of the bank in collecting the repayments of the loan and advances.

2.2 Factor Affecting Credit Policy

Generally, the following factors are to be considered to make effective loan management. It is also called the factors of credit policy. It helps to get effective credit worthiness.

Industry Environment

It determines the nature of the industry structure. Its attractiveness and the company's position within the industry, structural weakness of a company which is disadvantaged, theaters first way out and security value.

Financial Condition

It determines the borrower's capacity to repay through cash flow as the "first way- out". The strength of second way out i.e. through collateral liquidation is also called assessed. Further the possibility to fall back on income of sister concerns in case of financial crunch of the company condition theaters repayment capacity.

Management Quality

It determines the integrity, competence and nature of alliances of the borrower's management team. Weakness in replacements needs to be evaluated.

Technical Strength

It determines the strength and quality of the technical support required for sustainable operation of the company in terms of manpower and the technology used. Appropriate technical competence of the manpower, the viability of the technology uses, availability of after sales services, cost of maintenance and replacement need to be evaluated.

Security Realization

It determines the control over various securities obtained by bank to secure the loan provided excitability of the security documents and present value of the properties mortgaged with the bank. Weakness in security threatens the bank's second way out.

Functionally, Credit is now Segmented into Four Parts:

1. Origination and determination of the required level of customer commitment. The sales relationship function in credit portfolio management is often separate from the analysis/underwriting function. This allows for an efficient use of resources for client development as well as analytical

discipline and consistency. The relationship manager determines the commitment level that will maximize relationship income.

2. Fundamental analysis of the individual credit. The underwriting function in credit portfolio management is charged with the more traditional responsibility of individual credit analysis and monitoring. But this function is being driven more and more toward a specialization based on industry, so that the full benefits of analyzing alternative borrowers within an industry can be achieved. the more specialized structure enables CPM to provide key value- added analyses to relationship and product managers in complex customer support for example, merger and acquisition analysis, it also provides for a centralized, efficient use of analytical resources.

3. Portfolio monitoring: Many more tools and information resources exist today than were available in the past for portfolio monitoring. For example:

- Institutions now set various portfolio limits to shape the structure of the desired portfolio.
- Early - warning processes to measure portfolio deterioration have become an integral part of credit risk management.
- For large corporate portfolio, modern based models relate information inherent in the equity markets to a firms debt levels.
- Bond spreads and credit derivative premiums provide a forward- looking credit view from the market that can be compared with a bank's own credit view.

4. The role of credit approval authorities: The credit approval function determines the desired exposure level for the institution's books within the context of pre -established limits by obligor and industry. As a result, credit approval manages expected loss and allocates capital to desirable transactions. CPM, as separate from credit approval, optimizes the use of capital through alterations to the portfolio profile.

2.3 Review of Related Studies

In an article published in New Business Age, Mr. Kamal Subedi, (2007) titled "Growth in Major Commercial Banks" has compared between the first six month of the fiscal year 2003-04 and 2004-07, which shows that there has been noticeable increase in credit outflow by the commercial banks except of Nepal Bank Ltd (NBL) and Rastriya Banijiya Bank (RBB) the government owned banks). There has been increase in credit-deposit (CD) ratios of all commercial banks except of NBL and RBB in which case it has gone down by 10.41% and 5.99% respectively. It may be because their concentration was only on recovery of the huge Non Performing Assets (NPA). However, Mr. Subedi pointed out that no matter what the size of NPA is and the circumstances are each bank has to collect the deposit in order to create a lending and to invest in the new ventures. Except RBB all banks have increment in deposit collection (Subedi, "Growth in major commercial banks").

A decrease in CD ratio (the percentage of the deposit mobilization over the credit) signifies the presence of high liquidity and comparatively lower fund mobilization and vise versa. Standard Chartered has the highest growth of 16.80% in CD Ratio over the last year. Similarly, NABIL & Everest Bank Ltd (EBL) have recorded growth rates of 11.91% and 11.34% respectively in their CD ratio. However, this ratio of other commercial banks has declined, largely due to factors external to the banks.

As per the NRB directives, all commercial banks have to maintain Loan Loss provision according to the size of overdue loans. Nepal credit and commerce Bank NCCB were able to decrease its loan loss provision by 27.63%as compared to the able previous year indicating a good recovery of interest as well as principal .In case of Nepal Indicating Bank NIBL growth in loss provision (which in fact decreased by 6.73%) was much less than the growth of the total credit (which in fact decreased by 6.73%) was much less than the growth of the total credit (which increased by 53%). Similarly, NBL and HBL were able to maintain a healthy composition of loan provision (decreased by 9.49% & 0%) and credit (increased by 3.70% and 26.78%), again signifying good results from their loan recovery efforts. In case of remaining banks, the situation is not satisfactory as the growth of loan loss provision is higher than the growth of credit.

A bank's stability depends on the reserve it maintains. Nabil's reserve growth is very good i.e. 1400%o on retaining earning and 67.86% on other reserves. Similarly, all other banks have except NCCB and BOK made noticeable increment in it. The major yardstick to measure the status of the bank (which is the prime concern of shareholders) is the profitability of the bank-the spread between what the banks has earned and expensed. In this regard, KBL has made the significant growth of 181.25% in profit as compared to the previous year. Similarly Standard Chartered Bank (SCBL), NABIL, HBL, EBL, NIB, NSBI, NICB and NCCB have the growth percentage of 7.72%, 6.33%, 43.73%, 29.83%, 61.8%, 62.76%, 29.76%, 37.89% and 4.3% respectively.

Government of Nepal has promulgated Ordinance to replace several existing laws related to the banks and financial institution like Commercial Bank Act 2031, Finance Act etc related to financial institutions. The major highlights of the ordinance are universal banking that makes all the banks and financial institutions governed by a single act making the legal process much efficient and with less confusion and it have protected the right and welfare of the depositors and investors.

However this ordinance has lots of unclear issues, which has created confusion to the existing banks and financial institutions. The ordinance has classified the financial institution into categories replacing the replacing the present terms as commercial, developing of finance companies. The act has classified the category, as "Ka" category ca mention itself as a Bank, the rest of the category should name itself only as a financial institution. The ordinance has created confusion to the existing development banks and finance companies as what category they belong to? The positive aspect of this ordinance is that the financial institutions which fall under the "Kha" category will also be allowed to carry out several financial activities that were previously allowed to only commercial banks, such as opening current accounts, issuing drafts and traveler's cheques, dealing in foreign exchange and issuing Letter of Credits.

Even the financial institutions, which fall under the category "Ga" are permitted to handle current account, saving account and to some extent, foreign currency transactions. Due to their changes, the consumer will benefit due to the competition among these banks and financial institutions.

In an articles published in New Business Age written by Sudhir Karki (2004) has analyzed the ordinance Pros and Cons, in general speaking termed as Umbrella Act. Ha has expressed his disagreement in the ordinance regarding the qualification of the Board of Director's composition. The qualification set is out of the total number of directors, two thirds have to be graduates in specified disciplines- management, commerce, economic, accounting, finance, law, banking and statistics. Another requirement is five years work experience either in banking and or public limited companies or in a gazette level government posts. He argues why science graduate or some with engineering background can not be the director, it is not justifiable to question on the capacities of the people with these background as the in the past some successful general manager and directors in Nepal industrial development Corporation (NIDC) were engineers. He further writes that activities like project financing and assets valuation requires engineers and similarly that there can not be nay reason for the position of director in banks to be graduates in some specified fields only. CEO of the "ka" category qualification required is Master Degree in the chosen few Subject and the term would be four year. The act however does not mention the renewal of the CEOs term. The Board or AGM of the institution should be decided the CEO's tenure (Karki,"one umbrella Act's Pros and Cons").

Similarly, he points out argument in the requirement of the five years work experience. The performance of the public limited companies is so poor that the efficiency of the staff is questionable. In such situation how can one hire some one with the experience in public limited companies? As per the act, it is mandatory to appoint a professional director in the board chosen from the list of professional experts enlisted by NRB. Such director will not have voting right; it is questionable that can be contribute significantly towards the development of a bank or financial institution without the voting right?

For the existing banks and other financial institutions a two - year period has been granted to apply for the license. Entirely new Memorandum of Association and Articles of association have to be prepared and a special general meeting of shareholder has to be called. If any institution fails to obtain the license on the said period their license will be seized. However, there is no clear information on whether the institutions can prepare Memorandum of Articles in their own format or are there any prescribed format available or will be made available by the central bank Rastra Bank for this purpose.

The effort has been made in this present section to examine and review the some related articles published in different economic journals, bulletins, magazines and newspapers.

Nepal Rastra bank (NRB) has issued directives to all commercial banks and financial institution ensuring during loan disbursement. As per provision, all commercial banks as well as financial institutions are now required to disclose the name of loam defaulters in every six month. Until now there was no such legal system of disclosing the loan defaulter's name. The new directives have also barred the financial institutions from lending any amount to the blacklisted defaulter and his family members. The Credit Information Bureau (IBU) can blacklist the firm, company or clear the debit within the stipulated period. As per the set criteria for blacklisting, the CIB would monitor those individuals and companies that have principle loans of above Rs. 1 million. If the creditor fails to clear the amount within the time, or is fond mission the loans among others, the creditor can be blacklisted.

Due to slowdown in the world economy and deteriorating law and order situation of the country, many sectors of the economy are already sick. When any sectors of economy are already sick. When any sector of economy catches cold, bank start sneezing. From this perspective, the banking industry as a whole is not robust. In case of investors having lower income, portfolio management may be limited to small saving income. But on the other hand, portfolio management means to invest funds in various schemes of mutual funds like deposits, shares and debentures for the investors with surplus income. Therefore portfolio management becomes very important both for an individuals as well as institution investors. Large investors would like to select the best mix of investment assets (M.K. Shrestha's book "Portfolio management").

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

The current volume of the total banking deposits is over 1550- folds higher than what used to be some 38 years ago whereas the Gross Domestic Product (GDP) of the country during the same period price, increased just by 62- folds. Central bank static's shows that the total banking deposit in 1965 used to be just Rs. 129.8 million, but swelled to Rs.202.13 billion by mi-Jan 2003. Similarly, the total loan and advances of the entire banking system in 1960 stood at Rs. 107 million, which was over 82 percent of them total deposit. However, total loans and advances went up to 127 billion, comparing almost 63 percent of the total deposit, during the period. As a result both deposit and lending of the banking system witnessed and increase of over 6-folds and 5 folds to Rs.21 billion respectively by 1990s. As a result of economic expansion and private sector development, the nineties witnessed a quantum jump in both deposit mobilization and lending. The deposit of banking system, by the end of 2002, touched Rs.154.5 billion, which is 7-folds more than the deposit of the nineties. Loans and advances from banking system touched Rs. 118 billion by June-end 2000 and the amount was double than what it used to be in 1985 (The Kathmandu Post 2003), "Central bank tightens blanking procedures").

In the post report titled 'Loan Loss provision rises Notably' published in the Kathmandu Post, the reporter had made an endeavor to highlight some facts and figures regarding loan loss provisioning reserve lately. The increment is primarily a result of a directive issues by Nepal Rastra Bank (NRB) in 2001 that introduced stringent loan provisioning criteria for commercials banks. As per data recently released by the central bank, the total loan loss provision in the country's banking sector increased from around Rs.8.73 billion in mid-April 2001 to Rs.13.18 billion in mid-April 2003. The increment is over 51 percent. As per the latest NRB figures, a remarkable surge has been seen in loan provision of Nepal Bank Ltd (NBL). Against the provision of Rs. 1.7 million in mid-April 2002, the loan provision amount surged to whopping Rs.7.33 billion in a year"

The reporter further states that apart from the two technically insolvent government- invested banks, loan provision of other joint venture private banks has also risen significantly and the notable increments seen in the loan loss provisioning amounts is due to the eight-point prudential directives that the central bank issued in mid- to all commercial banks.

The reporters conclude, "The directives laid down stringent guidelines relating to loan loss provisioning to ensure a good health of the overall banking system. The directive requires loans to be provisioned to the extent of cent percent of payment is defaulted for one year. Likewise, the directives require loans to be provisioned to the extent of 25 per cent if payment is defaulted for over three months and 50 per cent if the period of default extends beyond six months. The earlier directive required progressive provisioning of loans, but allowed maximum of three years, unlike the present system of just year, for loans to be provisioned to the extent of cent percent'.

Mr. Binam Ghimire (2003) in his article titled "Credit sector reform and NRB" has tried to highlight the effects of change or amendment in NRB directives regarding loan classification and loan loss provisioning. "Although the circumstances leading to financial problem or crisis in many Nepal banks differ in many respects, what is common acres most of the banks is the increased size of non performing assets (NPAs), To resolve the problem of the losses or likely losses of this nature facing the industry NBR has, as the central bank amended several old directives and issued many new circulars in the recent years".

As opined by him, since majority of the loans of the commercial banks of the country at present falls under substandard, substandard, doubtful and even loss categories, loan loss provisioning now compared to pervious arrangement would be dramatically higher. The new classification and provisioning norms are very lent able as they help to strengthen banks financially. He added that we also must remember that the old system remained in force from 1991 to 2001, which was probably the mist volatile decade of the business operation of the country. He has indicated that Loan provisioning as a percentage of total credit of April 12, 001 is 5.2% but as April 13 2003, it has jumped to 18.39. If only private banks considered, it is 2.12% of April 2001 where as it is 6.30% as of April 13, 2003. The total increment in LPP is Rs 11328.11 million and the total increment in credit is only Rs 7976.70. He has also stated that tightening provisioning requirements on NPL is essential to ensure that banks remain liquid even during economic downturns.

In the conclusions he has mentioned that in the recent years NRB has worked for management and reform of the credit of the financial institution more seriously and NRB has adopted reforms aimed not just at dealing with problem banks but also at strengthening banking supervision to reduce the likelihood of future crisis,. "All prudential directives of NRB in connection of credit sector reform have been made reserved on after April 2001. To adapt to such changes there can be some difficulties and for a better & harmonized reforms NRB should continue to be supportive, proactive and also prescriptive to take opinions of bankers for a change in regulation/policy taking place in the future"

In the article by Mr. Dependra B Chhetri, (2003) titled "Non Performing Assets: A need for rationalization," the writer has attempted to provide connation of the term NPA and its potential sources, implication of NPA in financial sector in the south East Asian region. He had also given possible measures to contain NPA. Loans and advances of financial institutions are meant to be serviced either part of principal of the interest of he amount borrowed in stipulated time as agreed by the parties at the time of loan settlement. Since the date becomes non-performing assets. The book of the account with lending institution should be effectively operative by means of real transaction effected on the part of debtor in order to remain loan performing".

As stated by the writer, the definition of NPA differs from country to country. In some of the developing countries of Asia Pacific Economic Cooperation (APEC) forum, a loan is classified as non-performing only after it has been arrear for at least 6 months. Similarly, it is after three months, in India. Loans thus defaulted are classified into different categories having their differing implication on the asset management of finical institution. He also started that NPAs are classified according to international practice into 3 categories namely Substandard, Doubtful and loss depending upon the temporal position of loan default. "Thus the degree of NPA asset depends solely on the length of time the asset has been in the form of none obliged by the loaner. The more time it has elapsed the worse condition of asset is being perceived and such assets are treated accordingly. "As per Mr. Chhetri's view, failure of business for which loan was used, defective and below standard credit appraisal system credit program sponsored by Government, slowdown in economy/recession, diversion of fund is some of the factors leading to accumulation of NPAs.

He said that there is serious implication of NPAs, on financial institution. He further added that the liability of credit institution dies not limit to the amount declared as NPA but extend to extra amount that required for provisioning depends upon the level of NPAS and their quality. As per view, rising level of NPAs create a psyche of worse environment especially in the financial sector. He mentioned that by reviving the activities of the financial institution like waiving interest, rescheduling the loan, writing off loan, appointing private recovery agent, taking help of tribunals and law of land etc NPAs can be reduced.

Finally he concluded that financial institutions are beset with the burden of mounting level of NPAs in developing counties. "Such assets debar income flow of financial institution while claiming additional resources in the form of provisioning there by hindering gainful investment. Rising level of NPAs cannot be taken as stimulus but the vigilance demanded to solve the problem like this, eventually will generate vigor to gear up the banking and financial activates in more active way contributing to energizing growth."

This article of Patrick F. Reidy (2005) provides an overview of the credit portfolio management function, structural alternatives, the skills necessary for its effective implementation, and a final word on training and compensation. The focus is on corporate credit portfolio, as these often present the largest concentration challenges though they can be easily modified.

Modern portfolio management of bank assets has fundamentally changed the requirements for individuals using this technique: their backgrounds, their training, and their skills in using available resources. While traditional credit training remains necessary, today's portfolio manager augments this background with knowledge of early-warning systems, alternative structures to better set risk/return parameters, and more.

Traditional training focused on the individual loan. Traditional credit training focused on the analysis of a firm's management, operations, and financial structure as the basis for determining a borrower's creditworthiness; now training programs incorporate not only these techniques, but also that elusive element called a bank's credit culture.

In essence, a bank's credit culture was a series of written and unwritten rules about which types of customers, industries and credit profiles were acceptable. This culture ultimately dictated the structure and composition of the bank's total portfolio.

Protection measures against portfolio losses focused on loan loss reserves based on moving -average formulas. Concentration risk was to be avoided, but there were always those special customers for whom expectations could be made. If the formulas were correct, then overall expected loses in the portfolio would be covered by reserves. But those formulas and expectations would were not always so accommodative. As a result, certain concentrations would invariably lead to extraordinary, or unexpected, losses that were charged to income in the year of their incurrence.

Portfolio management looks at the impact of loans individually, collectively and comparatively modern portfolio management techniques have supplemented these unwritten rules with portfolio analysis and policies that establish limits on exposure by country, by obligor, by industry and so on. These limits are derived from a specific focus on the technical aspects of this asset class a segmentation of the credit product and an analysis of his effect of combining credit into portfolio. Credit portfolios can now be evaluated on the basis of fundamental as well as quantitative portfolio analysis. (This is now being further institutionalized in terms of required capital as defined in the updated base Capital Accords.)

Alternative Structures for Credit Portfolio Management (CPM)

The establishment of credit portfolio management is typically an evolutionary process for each banking institution. at start up, CPM usually takes a defensive role- eliminating concentration risk and culling underperforming relationship from the risk and return point of view. As CPM develops, optimization of the selected portfolio is added to its role, adjusting exposure to take into account the best risk and return structure. The adjustments often use the credit derivatives markets in order to disturb the primary relationship with the customer. In its advanced form, CPM adds the bank's credit view to its role, with the intention of improving the portfolio's relative value performance among different asset classes.

The state of CPM along this developmental curve often dictates whether it is located inside the wall (subject to the possibility of receiving nonpublic information) or outside the wall (not subject to nonpublic information and freer to adjust positions).

Functions of (Credit Portfolio Management) CPM

CPM Achieves two Principal Goals

1. To match required hold levels with desired hold levels.

2. To optimize the portfolio of assets ultimately held by the bank.

To do this effectively, CPM must perform all or some of the following key functions, depending on the state of the developmental curve discussed above:

- Serve as an analytical and advisory group to the line and to the approval authorities, plus serve as an integral part of critical deal teams.
- Prepare the credit approval package and advocate the transaction to the credit approval authorities.
- Closely monitor obligor risks, returns and concentrations.
- Evaluate, establish, and effectively use advanced modeling techniques to help determine the potential risk inherent in the portfolio and its asset correlations.
- Manages those same risks through the judicious use of loan sales and synthetic instruments such as credit default swaps and CDOs (Reidy RMA journal, (2005) "Corporate credit portfolio management : changing skills requirement").

2.3.1 Review of Previous Thesis

Tussing's (1996) study focused on the increasingly accepted statement that orthodox central bank policy exercises an influence over something called "the availability of credit." Author puts forward results of he study to indicate the meaning of credit availability as "One of the main variables on which monetary policy operates." Ha points out that though this objective can be called "modest," as much as it is clearly only a preliminary step in the formulation of a rigorous availability of credit theory. The study deals with the two approaches of monetary policy most commonly offered in the name of credit availability are,

- Availability Doctrine and
- Credit creation Doctrine

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

There is no doubt about the ability of the monetary authorities, using conventional techniques, to control money - creation by the commercial banks. There is considerably more doubt about their ability to control the transfer of money from money holders to deficit units(either directly or through intermediaries) in exchange for newly created non- money financial instruments.

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

The study points out the fact that monetary policy may have perverse effects on the availability of credit. For instant, it has often been noted that the same tight-money policies of the central bank which limit the ability of joint venture banks (JVBs) to "create credit" may, through the inducement of higher interest rates, bring money holders to desire to hold interest- earning assets instead of money, thereby permitting the achievement of deficits in excess of ex ante surplus.

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

Rangarajan and Severn stated in (1965) that presented the results of their examination the impact of monetary policy on commercial bank demand deposits in America. The hypothesis that is to be tested in their study is that changes in demand deposits of the banking system during any given period are the result of the change in aggregate un - borrowed reserves of that period, as well as such changes in earlier periods. Thus, their principal hypothesis is that variations in non-borrowed reserves introduce, both currently and with a lag, variations in demand deposits. The distinctive feature of their study turns on their choice of behavioral unit. The authors chose to examine separately the behavior of Central Reserve City, Reserve City, and Country Banks in America.

The authors examine

- The time lag involved between changes in un- borrowed bank reserves and subsequent changes in demand deposits, and
- The magnitude of the eventual deposit multiplier using the data for the period 1954-1963. Their evaluations are computed separately for the periods 1954-1959 and 1960-1963. their empirical work constitutes a genuine test of their model which takes the following form:

Raja Ram Khadka (1998) "conducted a study on the investment policy of Nepal Arab Bank limited. In comparison to other joint venture banks of Nepal "one has compared investment policy of NABIL with NGBL and NIBL. Mr. Khadka has found out that the liquidity position of NABIL is comparatively worse than that of Nepal Grindlays Bank Ltd. (NGBL) and Nepal Indosuze Bank Ltd (NIBL). It is also comparatively less successful in on- balance sheet utilizing as well as off- balance sheet operation than that of NGBL and NIBL. In case of profitability ratio he has concluded that the profitability position of NABIL is comparatively not better than that of other joint venture banks (JVBs).NABIL is more successful in deposit utilization but fails to maintain growth rate of profit in comparison with NGBL and NIBL.

He has recommended that Nabil bank should increase cash and bank balance to meet loan demand. Nabil's loan and advances to total deposits ratios are lower than that of other JVBs to overcome this situation. Nabil is strongly recommended to follow liberal lending policy and invest more and more percentage amount percentage amount of total deposits in loan and advances.

He has focused his study on the investment policy of Nabil bank and has taken NGBL and NIBL average ratios as banking average. Mr. Khadka has recommended to adopt liberal lending policy however has not explained regarding liberal lending and invest more and more percentage amount of total deposits in loan and advances. However while adopting liberal policy on lending he has not explained the consequences like bad debt, default loan, which may arise due to very flexible and liberal lending policy. He has also not explained the regarding what good liberal lending policy (Khadka, " A study on investment policy of Nepal Arab bank limited in comparison to other joint venture banks in Nepal).

Lila Prasad Ojha (2002) on "Lending Practices". A study on Nabil Bank limited, standard chartered bank Nepal limited and Himalayan Bank limited has found out that measurement of lending strength in relative term has revealed that the total liability to total assets of SCBNL has the highest ratio. However, the performance of other two banks has not deviated far from the main ratio of SCBNL and the combined average. SCBNL tendency to invest in government securities have resulted with the lowest ratio of loans and advances to total assets ratio. The steady and high volume of loan and advances throughout the years has resulted Nabil ratio to be the highest. The ratio of loan and advances and investment to deposits ratio has measured the portion of total deposits that is used to increase the income of the bans irrespective of the portfolios of its application. Nabil bank has deployed the highest proportion of its total deposits in earning activities and this ratio is significantly above the ratio of other two banks. The combined ratio is highly deviated from the mean ratio of Nabil and SCBNL. This is the indicative of that in fund mobilizing activities Nabil is significantly better than SCBNL.

He has further concluded that the overall liquidity strength of SCBNL can be considered the best among the banks. How ever the liquidity risk arising from interest rate in SCBNL is the most likely. Since the market is highly sensitive towards the interest rate and SCBNLhas generaly been offering low interest rate as more compare to other banks. The analysis of lending strength of HBL in loan and advances is the best. However loans and advances, investments to deposits ratio have upgraded the performance of Nabil. If HbL succeeded in collecting the less cheap source of fund in future, the lending strength of HBL would push the performance of Nabil and SCBNL far behind in the coming future. Also the contribution made by HBL in the productive sector of economy is highly appreciable and the best among these three commercial banks. The highest growth rate, proportionately high volume of loans and advances and the best contribution in agriculture and priority and the high level of deposits mobilization of HBL has put this bank in the top position in the lending function as demand by national priority, national development. However the better activity ratio of SCBNL has proved this bank the best in managing the lending portfolio according to the demand of profit- oriented business. The high volume of lending activities and high volume of productive sector loan of Nabil has put this bank in the top position is absolute term.

On basis of the findings and conclusion he has recommended for the banks as the liquidity position of all these three banks is found to be high. He has recommended the banks to look upon new area of lending and investment. The rural economy has always been realizing the credit needs and the dominance of non-organized moneylender in this area has been prevailing. To compromise between the liquidity and credit need of rural economy these banks are highly recommended to expand their credit in this area. SCBIL's contribution in loans and advances in the lowest and this has low degree of variation and low growth rate as compare to Nabil and HBL. SCBNL is recommended to give extra priority on productive and priority sector loan. The increasing provision on loan and high volume of non-performing assets in Nabil and HBL certainly attracts the high attraction of any person interested with these banks. The high volume of HBL non-performing assets may have caused due to the failure of industrial and agricultural sector. Nabil's increased non-performing, assets may have caused due to the accumulated bad debts that is kept behind the curtain to show the efficiency of management.

He has used different statistical tools like standard deviation, correlation, trend analysis and financial tools for the data analysis and presentation. In his study he has also taken sector wise loan-priority sector, productive sector etc. The different sector wise loan classification are presented and analyzed. Only secondary data has been used for the study, the overview of the theoretical aspect of lending practices of the banks has not been analyzed. He has taken five years data from 1997 to 2001 for study of lending practices of Nabil, SCBNL and HBL *(Ojha, "Lending Practices: A Study of NABIL, SCBNL and HBL").*

Subi Joshi (2003) on "*A Study on Financial Analysis of NIBL*" has found out that the analysis of the banks shows that the deposits have been increasing gradually during the study period i.e. (2053/054-2057/058). However the rate of increase was comparatively low in the year 1997/98 than in the year 2000/01. Total loans and advances have been also increasing over the years, which is mainly due to banks strategy of safe lending and also a as a result of increase in customer deposits and limited opportunities for prudent lending. As the loan and advances from the bank is increasing provision for loan loss has also been increasing. The bank has been holding adequate provision for losses over the years and the general loan loss provision was 4% in average of the total risk assets.

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

The financial analysis of NIBAL has been analyzed and interpreted in this thesis. Analysis on terms of loan and advances is simply presented with comparison with the prevision year data only. On the loans and advances part, it has only simple comparison been done. Whether the loan classifications and provisioning of loans, investment in priority and deprived sector loan investment regulation of NRB's directives has been followed or not has not been explained.

The review of above relevant literature has contributed to enhance fundamental understanding and knowledge, which is required to make this study meaningful and purposive. There has been lots of article published related to investment policy published related to investment policy, loan and advances of commercial banks. There are various researches conducted on investment analysis and policy of commercial banks, impacts and implementation of NRB guidelines in commercial banks but there are a few research conducted on lending aspects of commercial banks. There was a thesis done by Lila Prasad Ojha on " Lending Practices: A Study on Nabil Bank Limited, Standard Chartered Bank Nepal Limited and Himalayan Bank Limited" on year 2002. However, on one has done a study on "A comparative study on Lending Performance of Nabil, SCBNL and NIBL". Therefore the researcher attempts to study in this area with a Comparatitive study lending performance of these banks will probably be the first study between the banks in the subject matter (Joshi, "A study in financial Analysis of NIBL").

A study conducted by Niva Shrestha (2004) on the topic " *A Study on Non-Performing Loans and Loan Loss Provisioning of Commercial Banks*" revealed that SCBL had risk averse attitude on the management or they have policy of investing low in the risky assets i.e. loans and advances as compared to NBL and NABIL because the loans and advances to total assets ratio of NBL, NABIL & SCBNL during the study period was appeared to be 52.3%, 47.0% and 29.34% respectively. The SCBNL has higher proportion of the investment in risk free or nominally risky asset like treasury bills, National Saving bonds etc.

Similarly, the loans and advances to total deposit ratio of NBL, NABIL and SCBNL during the study period was found to be 57.63%, 56.63% and 35.94% respectively. It indicates that SCBNL has the most consistent and variability during the study period where as the NBL has the higher consistent and variability as comparison to other two banks. NABIL has the moderate level of consistent and variability.

In the same way, the proportion of non-performing loan with regard to total loans of NBL, NABIL & SCBNL was found to be 48.37%, 10.67% & 4.38% respectively. That means 51.63%, 89.33% & 95.62% of the total loan of NBL, NABIL & SCBNL was found to be performing loan. Not only the public sector bank, even private sector bank like NABIL has higher proportion of non-performing loan. However, in recent years NABIL has shown significant decrement in non-performing asset, which are the result of effective bank credit management and its efforts of recovering bad debts through the recovery of establishment of recovery cell.

In the same way, proportion loan loss provision of NBL was found to be significant higher (i.e. 40.17%) as compared to other two commercial banks. The proportion of NABIL and SCNBL was found to be 5.69% and 4.49%.

The average ratio of provision held to non-performing loan of NBL, NABIL & SCBNL was found to be 80.03%, 57.85% and 12.32% respectively shows that the

SCBNL has maintained adequate level of provision against non-performing loan where as NABIL was found to be comparatively lower. The NBL was found to be an average position. Shrestha, "*A Study on Non- Performing Loans and Loan Loss Provisioning of Commercial Banks*".

2.4 Research Gap

Previous researchers analyzed the Loan (credit) management by using secondary source of information in terms of credit practices or lending practices. But actually speaking, credit management can be determined by various factors. Among of them, banking environment and management quality in terms of credit may be the strong determinant for credit management in banks. In present context, these are the heart issue in Nepalese commercial banks. The previous scholars could not submit the present facts. Present study tries to define Loan (credit) management by applying those various facts. It can be vary useful or important in this area. Thus, present study may be valuable piece of research work.

CHAPTER -III

RESEARCH METHODOLOGY

Research means definite procedure and technique, which guide to study and propounds ways for search viability. In this research to fulfill, the objectives of this study exploratory come descriptive research design will be used, because this study will describe impact of customer loan in markets in the bank. The data, which will be used in this study, will be of both primary as well as secondary data. Secondary data will be collected from the official records. Meanwhile primary data will be collected from the employees from the credit department through questionnaire and personal interview.

This chapter described the methodology employed in this study including primary as well as secondary data. Research methodology is a way to systematically solve the research problem. In other words research methodology describes the methods processes applied in the entire aspect of the study. This chapter describes research design, population, sampling procedure, and source of data and analysis of data.

3.1 Research Design

Present study follows the descriptive as well as analytical statistics of the analysis to meet the stated objectives of the study. This study describes and explores the credit policy and its implementation by JVBs towards diversification of investments. So descriptive, exploratory and analytical methods are combined, as the study demands, for the best result."Descriptive studies are primary concerned to find out 'what is'. The secondary data were analyzed from the data collected from the credit department of the related banks. Few financial statements of selected commercial banks were tabulated using spreadsheet.

3.2 Population and Sample Design

The entire number of joint venture banks functioning is the population of these studies. JVBs were taken as subjects on random sampling basis. For the analysis of the credit policy and its implementation of three joint venture banks are taken randomly. Here due to different constraints only three joint venture banks namely Standard chartered bank, Everest bank, and Nabil bank are taken out of 27 commercial banks. The samples are taken only from commercial banks. Organization under study is as follows, whose general introduction and major objectives are presented in chapter one.And five years financial statements are selected as for the samples and the purpose of it (Beginning from 2003/04 to 2004/08).

3.3 Rational of Sampling

The study concentrate the credit policy and practices of three joint venture banks which represents the almost all the activity of the existing joint venture banks in Nepal. Nabil bank is the oldest bank of all joint venture banks in Nepal. It is the representative for the first generation bank. It has the huge investment and large operation and number of branches. Which also may draw something – significant recommendation, the domestic commercial bank is addition joint venture bank. Everest bank limited also has the banking operation history more than one decade. It is the pioneer bank to introduce retail lending in the history of Nepalese commercial banks. It was also declared bank of the year 2006 by the Nepalese government. It has also the several branches inside as well as out side of the valley. And one of the very popular banks is standard chartered bank all over the country, because it's financial performance to much good for the public. It also the pioneer bank among the different commercial bank. It has also the more branches operated in Nepal with good E- banking. So the standard chartered bank is one of the latest introduced banks among above sample bank.

3.4 Source of Data

The research is based on primary as well as secondary source of data. For research purpose, published financial statements (i.e. annual report) of concerned banks were collected. Similarly, financial statement of selected commercial banks and various market related information were collected and tabulated in spreadsheets. Such secondary information was gathered from credit department of the concerned banks.

To study the policy and its implementation in the portfolio of investment, historical data of sample JVBs are used. The secondary source includes the publication of annual report of related banks in which balance sheet, profit and loss account, and financial statement are the main one to support this study. It also includes the related bulletin, books, and journals. Etc. in addition to the secondary data; it also uses the primary data like interview, questionnaires to concerned officials and directive to concerned bank. Thus, both primary and secondary sources 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 of by joint venture banks.

3.5 Number of Observation

Five years data of three joint venture banks were taken for the study. The amount of investment and deposits during the sample period by sampled JVBs from 2003/04 to2007/2008 is taken for the study.

3.6 Sources of Data

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

3.7 Pilot Study

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

3.8 Data Analysis Tools

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

3.8.1 Statistical Tools

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

- **Arithmetic Mean (Mean)**

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

$$\overline{X}\ \mathrm{X}\frac{x}{n}$$

Where,

X = the average mean

N = Number of items observed

∑X = Set of observation up to the period n.

- **Standard Deviation**

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

$$\pm\ \mathrm{X}\sqrt{\frac{x^2}{n}\ \mathrm{Z}\ \frac{x}{n}^{2}}$$

- **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, Where,

CV= Coefficient of Variation

$\bar{X} = Mean\ observation$

σ= Risk (standard deviation)

$$CV\ \mathrm{X} \frac{\pm}{\overline{X}}$$

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

3.8.2 Financial Tools

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

- **Current Ratio**

$$Current\ \ assets\ \ ratio\ \mathrm{X} \frac{Current\ \ assets}{Current\ \ liablities}$$

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

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

Similarity 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 for measuring this ratio, conventionally a CR ratio of 2:1 is considered satisfactory.

- **Activity Ratio**

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

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

$$Current\ \ assets\ \ ratio\ \mathrm{X}\frac{Current\ \ assets}{Current\ \ liablities}$$

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

$$\textbf{Loan and Advance to Total Deposits Ratio}\ \mathrm{X}\ \frac{\textbf{Loan and Advance}}{\textbf{Total Deposits}}$$

Most of the commercials banks earn more profit by using funds of outside deposited in terms of loans 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.

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

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

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

$$\textbf{Loan and Advances to Fixed Deposit Ratio}\ \mathrm{X}\ \frac{\textbf{Loan and Advance}}{\textbf{Total Fixed Deposits}}$$

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

- **Loan and Advance to Saving Deposit Ratio**

This ratio examine how many times the funds are used to loans and advances against saving deposits. Saving deposits are interests bearing short term obligation and loan and advance by saving deposits.

$$\textbf{Loan and Advances to Saving Deposit Ratio}\ \mathrm{X}\ \frac{\textbf{Loan and Advance}}{\textbf{Total Saving Deposits}}$$

) **Performing Assets to Total Assets Ratio**

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

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

Performing Assets to Total Assets Ratio = $\frac{Performing\ Assets}{Total\ Assets}$

3.9 Tools and Techniques Employed

To meet the objectives of the study, the sources of secondary data of commercial bank are analyzed by using financial tools such as Ratio analysis. Similarly all the scores of individual data sheet (represented by primary data) were entered into SPSS version 11.5 database for tabulation & analysis simple descriptive analysis tools such as frequency, mean, standard deviation were used. Often source inferential tools such as analysis of variance ANOVA was also used to know the difference among selected commercial banks.

The ratio analysis involves comparison for a useful interpretation of financial statements. The quantities judgment regarding Credit Management of a firm can be done with the help of ratio analysis. The following ratios are calculated for the study purpose.

3.9.1 Credit Practices Ratio

-Total Loan to total deposit ratio

Total Loan to Deposit Ratio $= \frac{Total\ Loan}{Total\ Deposit}$

-Loan and Advances to total Assets Ratio

Loan and Advances to total Assets Ratio = $\frac{Loan\ and\ Advances}{Total\ assets}$

-Loans and Advances to Current Assets

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

-Interest Income to Loan and Advances

Interest Income to Loan and Advances $= \frac{Interset\ Income}{Loan\ and\ Advnces}$

-Loan Loss Provision to Total Loan and Advances Ratio

Loan Loss Provision to Total Loan and Advances Ratio = $\frac{Loan\ Loss\ Provision}{Total\ Loanand\ Advnces}$

-Non-performing Loan to Total Loan and Advances Ratio

Non-performing Loan to Total Loan and Advances Ratio = $\frac{Non-Performing}{Total\ loan\ and\ Advances}$

These are the major formulas for the credit practices to the commercial banks. Basically a different type of ratios has been calculated for the effectiveness of their loan providing to the service taker. And the commercial banks also measure their effective ratio like liquidity positions; profit and loss and balancing position have been measured.

CHAPTER - IV

DATA PRESENTATION AND DATA ANALYSIS

4.1 Analysis and Presentation of Data

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

The second part of this thesis consists of how the credit practice is implemented in different selected joint venture banks. This part describes the credit flow of the bank in the chart, tabular form and interprets the data with the measurement of the tools.

4.2 Presentation of Data from Primary Source

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

The First Question Asked was which Sector is the most Secure Lending?

Most of the banks staffs reply the answers as that the housing financing is the most secure for the lending. The credit department's staff of the Everest bank limited told that the Everest bank is the pioneer bank to introduce the housing loan in the history of Nepal and is the successful and secure scheme so out of many "consumer financing" the housing financing is the secure financing. But Nabil bank's staff focuses on the manufacturing industry is the secure investment, they told investment in the industry sector helps in the growth of the nation too, they do not go with the consumer financing because it do not contribute to the nation only the individual will be benefited.. And the operating cost in the consumer financing is high and amount of financing is low. Staff of the Standard Chartered Bank told that government bond is the most secure sources for lending and lending in these sector has zero percentage of risk or it is the risk free investment.

The Second Question was why the Commercial Banks has not Promoted its Lending in the Priority and Deprived Sector?

The answer is about the lack of promotion activity in the investment in priority and deprived sector the commercial banks. The main reason for less amount of investment in these sectors is due to the loan recovery from these securities is low. Most of the branches of the commercial banks are located in the cities and the demand in these loan are too less in quantity and amount. Demands of the loan for these sectors are from the rural area and joint venture banks are not approaching to the rural area due to the lack of security. According to the NRB directive no commercial can take collateral as security in the investment in deprived sector. So, due to the fear of loan recovery and high operating cost the bank reject most of the loan in these sectors. But the government rule is it must be compulsory to invest 3% out of their total loan portfolio otherwise they should penalize according to the government rule. In the researchers found here the Nabil bank is only one bank to invest more in deprived sector than other two banks.

The Third Question is What are the Common Securities that Your Bank Demands from Credit Client?

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 bonds are for the short period commercial banks usually accept fixed assets as the collateral. Personal guarantee is also accepted by the bank only to the prime client. But the banks do not usually accept personal guarantee. Because bank has to provision 100% of it's lending on the personal guarantee. Bank usually takes more value of securities than the necessary. In this question one of the option was gold and 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 Fourth Question was asked How Long does the Commercial Bank takes to Disburse the Loan from the Date of Application?

The answer in this question is found positive in an average of within 30 days from the date of loan application bank sanction loan but due to unavailable of sufficient information from the client it may takes some more times. It means we can analysis that commercial banks are quick in their services.

The fifth and the Sixth Question was of Some Nature so the Answer for the Question Number Five and Six come together, in the Fifth Question it was asked that the Which Authority Approves the Credit Policy and all respondent reply that the board of directors approves the credit policy it means that the decision making authority is hold by the top level and rest of the employee is exercise the policy. Although the policy making is done by the top level but communication flow is based on both top - bottom approach and bottom - top approach. So from this approach we can say that the banks staffs are working as the team. In the sixth question it is asked that does your bank have the hierarchy for the loan sanction and it is found that every level above the branch manager has the certain credit limit to sanction credit facility then power beyond branch manager passes to Executive Director and final decision goes to board of director. The hierarchy is made for the loan sanction is to provide the loan to its client as soon as possible and to make fewer burdens to the higher authority.

The Seventh Question is Which Product of Credit Facility is most Profitable?

The answer on this question is in the mixed from everyone comes in his/her views. So we can convince that every product of the banks is the profitable scheme.

The Eighth Question is asked for the Follow up for the Over due of the Loan to the Borrower is done immediately?

Of course immediately all the commercial banks has the same answer, because due to the high technology and software they are using the bank gets information about the overdue immediately and tries to take action of recovery soon and effectively.

The ninth question is asked to that **while floating loans your banks gives some extent of priority on the following sector?** i.e. industrial, trade, services and others. And it was also mention that the priority in each sector is independent with each other in the answer of this question that they get the question is very vast. Because the question is not clear to them but also trade financing Nabil bank got the highest percentage of score but staff from Standard chartered bank and Everest bank support other sectors marking as the retail lending.

The Tenth Question is asked for the most Important Reason that Lends to the NPA (Non -Performing Assets)?

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

The Eleventh Question is asked for the Banks Procedure to Reduce NPA?

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

The Twelfth Question is asked for External Factors that may Cause for NPA Growth?

And the below the researcher has presented the result of most common answer of the respondent.

- Economic and industrial recession in the case of increasing NPA. (Totally Agreed)
- In consistency Government policy is of the case for increment. (Agreed)
- High and conservative provisioning requirement has 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. (Agrees)

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

The Thirteenth Question is Asked for Electric Credit Card Facility and the answer is that the credit cards available for those who have more than Rs. 8000 salary per month and he/she has two years experience in working ground. But the Everest bank does not have facility this kind of services at all. In this field Standard chartered bank is the pioneer among the joint venture banks.

4.3 Presentation of Data Information from Secondary Source

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

4.3.1 Current Ratio/ Quick Ratio

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

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

Current assets of joint venture bank refers to cash and near cash items (i.e. cash and bank balance, money at call short notice, loans and advances, cash credit, bills discounted, investment, interest receivable, miscellaneous current assets) and current liabilities are deposits (i.e. saving, fixed, current, call and short deposit, other bill's payable, and miscellaneous liabilities)

The following table shows the current ratio of Nabil bank, Everest bank and Standard chartered bank.

Table 4.1

Calculation of Current Ratio in Times (Amount in Million and Ratio in Times)

Year	NABIL			Everest			Standard Chartered		
	C.A.	**C.L.**	**Ratio**	**C.A.**	**C.L.**	**Ratio**	**C.A.**	**C.L.**	**Ratio**
2003	14317.2	16168	0.88	6625.0	7589.9	0.87	11899.2	21111	0.56
2004	14402.6	16200.4	0.89	7469.2	8868.1	0.84	13031.2	22852.9	0.57
2005	13618.1	16297.5	0.84	9988.5	10897.5	0.92	12338.4	20678.9	0.60
2006	17383.2	21324.6	0.81	12320.7	14990.1	0.82	13254.0	24548.8	0.54
2007	20173.2	26217.3	0.77	18139.1	20523.3	0.88	15692.5	26299.1	0.60
Mean	0.84			0.87			0.57		
S.D.	0.05			0.039			0.026		
C.V.	0.06			0.045			0.046		

(Source NRB Report mid –July 2008)

As we know that the assets of the banks or company should be the double than the liability but in case of the banks the researcher has found that is just opposite than the principle of the ratio.

The ratio of Nabil bank over the study has been ranged between 0.77 in the year 2007 and 0.88 in year 2003. In this above table we can see that as the time pass by the rate of ratios are going on decreasing. Where as the Everest bank ratio is between 0.82 in year 2006 to 0.92 in year 2005 and the lowest ratio of Standard chartered bank is 0.54 in year 2006 and the highest ratio is recorded 0.60 in year 2005 and 2007. Looking at the above ratios the banks are not meeting the standard ratio that is 2:1. As we know that the assets of the banks should be double than thee liability but in case of the banks the researcher has found that is just opposite than the principle of the ratio.

However the Everest bank and Standard chartered bank has less consistency in its current ratio with C.V. of 0.045 and 0.046 respectively. But Nabil bank has the highest value of C.V. of 0.06 with lower consistency but the mean of EBL has the less among the three sample banks.

The current ratio of the above bank is the lowest than the standard ratio of 2:1. We can say that the entire sampled bank has fewer chances to maintain the standard that they have too low in the standard of the ratio. So it is difficult to measure the liquidity position. We can say the too low liquidity position means that the bank is not getting the good opportunity to invest 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 bank (liquid) capacity of discounting and purchasing the bills and loans, cash credit and overdrafts facilities to the customers. In this study loan and advances refers to local and foreign bills discounted and purchased and loans, cash credit and overdraft in local currency as well and inconvertible foreign currency. This ratio calculated by dividing loans and advances by current assets.

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

The following table shows the ratios between loan and advances and the current assets of the Nabil bank, Everest bank and Standard Chartered bank.

Table 4.2

Loan and Advance and Current Assets (Amount in Million and Ratio in times)

Year	NABIL			Everest			Standard chartered		
	L& A.	C.A.	Ratio	L&A.	C.A.	Ratio	L&A.	C.A.	Ratio
2003	7996.9	14317.2	0.56	5030.9	6625.0	0.76	6028.5	11899.2	0.51
2004	8635.1	14402.6	0.60	6116.6	7469.2	0.82	6662.0	13031.2	0.51
2005	11078.0	13618.1	0.81	7914.4	9988.5	0.79	8213.5	12338.4	0.67
2006	13021.3	17383.2	0.75	10124.2	12320.7	0.82	8905.1	13254.0	0.67
2007	15657.1	20173.2	0.78	14059.2	18139.1	0.76	10538.1	15692.5	0.67
Mean	0.70			0.79			0.61		
S.D.	0.11			0.03			0.088		
C.V.	0.16			0.038			0.14		

(Source NRB Annual Report mid - July 2008)

The above table shows that the loan and advances to current assets ratio of Nabil bank is highest in the year 2005 is 0.81 and the lowest in the year 2003 is 0.56. Whereas the Everest bank limited have the highest ratio of 0.82 in the year 2004 and 2006 and the lowest of 0.76 in the year 2003 and 2007. In this way we can analysis that there is high variance in the ratio of Nabil bank because in the five year data, the ratio was 0.81 in the year 2005 and again the ratio decrease to 0.75 and the data is subsequently moved towards the yearly ratios i.e. 0.78, 0.56.Among the data 0.56 is the lowest ratio in five year's data. The data of the

Standard chartered bank has seems consistently moved that means in the year 2003 and 2004 has 0.51 times ratio and in the year 2005 to 2007 has the same ratio i.e. 0.67.

Among the above three sample bank the Everest Bank has more constituency than other.

Banks the C.V. of Everest Bank has 0.038 and Nabil Bank and Standard Chartered Bank have C.V. of 0.16 and 0.14 respectively.

The above table shows that Nabil Bank and the Standard Chartered Bank are not utilizing more funds against loan and advances then the Everest Bank. Here Nabil and Standard Chartered Bank has to increase the utilization of its currents assets should increase its loan and advances.

4.3.3 Loan and Advances to Total Deposit Ratio

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

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

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

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

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

Table 4.3

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

Year	NABIL			Everest			Standard Chartered		
	L&A	**Deposit**	**Ratio**	**L& A**	**Deposit**	**Ratio**	**L&A**	**Deposit**	**Ratio**
2003	7996.9	13437.7	0.60	5030.9	6694.9	0.75	6028.5	18755.5	0.32
2004	8635.1	14098.0	0.61	6116.6	8063.9	0.76	6662.0	21161.4	0.32
2005	11078.0	14586.8	0.76	7914.4	10097.8	0.78	8213.5	19343.8	0.43
2006	13021.3	19348.4	0.67	10124.2	13802.5	0.73	8905.1	23050.5	0.39
2007	15657.1	23342.5	0.67	14059.2	19097.6	0.74	10538.1	24640.3	0.43
Mean	0.66			0.75			0.38		
S.D.	0.064			0.02			0.055		
C.V.	0.1			0.026			0.15		

(Source NRB Annual Report mid – July 2008)

From the above results we can see that most of the funds that have been flowed from the deposit receive from the customers. The lowest ratio of loan and advances to deposit is 0.60 of Nabil Bank in the year 2003 and highest ratio is 0.76 in year 2005. Everest bank has 0.73 in year 2006 and highest ratio 0.78 in the year 2005. Finally the Standard Chartered Bank has lowest ratio in 2003 and 2004 has 0.32 and highest ratio has 0.43 in the year 2005 and 2007 respectively.

The Covariance of the Everest bank has too low that means it has very success to flow the loan and advance and utilizing their resources in profit generating sector.

Than the NABIL bank and Standard Chartered Bank. Lower ratio between loan and advances to deposit of Nabil and Standard Chartered Bank brings the bank in the risk to pay back the customer deposit and chances of recover in time may not occur. So, it will be better for Nabil Bank and Standard Chartered Bank has to increase the portion of loan and advances to earn more interest.

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

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

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

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

Table 4.4

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

Year	NABIL			Everest			Standard Chartered		
	L&A	**F.D.**	**Ratio**	**L& A**	**F.D.**	**Ratio**	**L&A**	**F.D.**	**Ratio**
2003	7996.9	2252.6	0.28	5030.9	2803.1	0.56	6028.5	1948.5	0.32
2004	8635.1	2310.6	0.27	6116.6	2914.1	0.48	6662.0	1428.5	0.21
2005	11078	2078.6	0.19	7914.4	3444.5	0.44	8213.5	1416.4	0.17
2006	13021.3	3450.2	0.26	10124.2	4298.2	0.42	8905.1	2136.3	0.24
2007	15657.1	5435.2	0.35	14059.2	5658.7	0.40	10538.1	3196.5	0.30
Mean	0.27			0.46			0.25		
S.D.	0.057			0.039			0.062		
C.V.	0.21			0.085			ss0.25		

(Source NRB report mid -July 2008)

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 and Standard Chartered Bank has to low than the Everest Bank.

The NABIL Bank has invested the ratio of 0.27 to the total loan and advances and the Standard chartered Bank has invested the ratio of 0.25 to the total loan and advances. Though the lending from the fixed deposit is the safe lending because the maturity date of the fixed deposit is known to the bank then also the Nabil bank and Standard chartered bank are lending only the fewer portions The

Everest bank has utilized the benefit of the fixed deposit. So it has utilized the high portion of the fixed deposit i.e. 0.46 to the loan and advances.

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

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

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

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

Following table shows the total loan and advances and Saving Deposit.

Table - 4.5

Saving Deposit to Loan and Advances Ratio (Amount in million and Ratio in times)

Year	NABIL			Everest			Standard Chartered		
	L&A	S.D.	Ratio	L& A	S.D.	Ratio	L&A	S.D.	Ratio
2003	7996.9	5237.4	0.65	5030.9	2758.0	0.55	6028.5	10633.1	1.76
2004	8635.1	5994.1	0.69	6116.6	3730.7	0.61	6662.0	12771.8	1.92
2005	11078	7026.4	0.63	7914.4	4806.9	0.61	8213.5	13027.7	1.59
2006	13021.3	8770.8	0.67	10124.2	6929.2	0.68	8905.1	14597.5	1.64
2007	15657.1	10187.4	0.65	14059.2	9018.0	0.64	10538.1	15244.2	1.45
Mean	0.66			0.62			1.67		
S.D.	0.023			0.05			0.18		
C.V.	0.035			0.08			0.11		

(Source NRB Report mid July- 2008)

Lending from the saving deposit is also a safe lending because this type of deposit is made by the individual who have excess saving from their income. And withdrawal chances from the saving deposit is also low. Looking at the above table Nabil bank has invested highest ratio in the year 2004 of 0.69 and 0.63 in 2005. Everest bank has the highest ratio of 0.68 in the year 2006 and lowest of 0.55 in 2003. Finally Standard Chartered Bank has recorded highest ratio of investment of 1.92 in year 2004 and lowest of 1.45 in year 2007.

When we compare the entire banks investment ratios all the banks has fluctuate the saving deposit ratio against loan and advances through year by year like some time have more ratio and some time less ratios. So we can say that the time passes by the banks has changed the trend to invest more or less ratio from the saving deposits.

The average invests in compare to the five year data Standard Chartered Bank has the highest ratio of 1.67 investments from the saving deposit. Nabil Bank has the ratio of 0.66 and Everest Bank seems the conservative bank which invests only 0.62 from the saving deposit.

The C.V. of the Nabil Bank is the lowest of 0.08 than other sample banks. So, we can say that it has the highest consistency. The C.V. of Everest Bank and Standard Chartered Bank has 0.08 and 0.11. From the above calculation we can say Standard Chartered Bank has the lowest consistency which fluctuates in the high ratio. It also means that Standard Chartered Bank is utilizing its saving deposits properly than Nabil and 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 deposits are non interest paying deposits. So, the banks should utilize them properly at the same time bank have to aware of heavy withdrawal at any time. This ratio can be calculated with the help of following formula.

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

Following table shows the total loan and advances and Current deposit.

Table 4.6

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

Year	NABIL			Everest			Standard chartered		
	L&A	**C.D.**	**Ratio**	**L.&A.**	**C.D.**	**Ratio**	**L.&A.**	**C.D.**	**Ratio**
2003	7996.9	3025.0	0.39	5030.9	562.4	0.11	6028.5	5768.6	0.96
2004	8635.1	2687.0	0.31	6116.6	719.8	0.12	6662.0	5816.9	0.87
2005	11078	2843.5	0.26	7914.4	1025.2	0.13	8213.5	4356.3	0.53
2006	13021.3	2953.3	0.23	10124.2	1155.2	0.11	8905.1	4681.8	0.53
2007	15657.1	3446.1	0.22	14059.2	2620.0	0.19	10538.1	4794.5	0.45
Mean	0.28			0.13			0.67		
S.D.	0.070			0.034			0.22		
C.V.	0.25			0.26			0.33		

(Source NRB report mid - July 2008)

By interpreting the above data we can see that Standard Chartered 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 any sum of available sum of amount. So, less amount of investment made from the current deposit more it is benefit to the bank. NRB directive has also clearly mentioned the highest ratio of liquidity should be maintained by the banks.

Standard Chartered Bank has highest ratio of investment from the current deposit. In the average of five years sample it has invest 0.96 to the total loan and advances. But other banks Nabil bank and Everest bank has invested the lowest portion from the current deposit i.e. 0.28 and 0.13 respectively.

The C.V. of the bank has the lowest 0.25 and has the highest consistency. And Nabil bank has also the lowest consistency of 0.26. So, we can say that Nabil bank and Everest bank has utilized the benefit from the current deposit than the SCBL.

4.3.7 Call Deposit to Loan and Advance Ratio

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

This ratio can be calculated with the following formula.

Call deposit to Loan and Advance Ratio = $\frac{\text{Call Deposit}}{\text{Loan and Advances}}$ Following table shows the total loan and advance and call deposit.

Table 4.7

Call Deposit to Total and Advance (Amount in Million and Ratio in Times)

Year	NABIL			Everest			Standard chartered		
	L&A	Call.D.	Ratio	L.&A.	Call.D.	Ratio	L.&A.	Call.D.	Ratio
2003	7996.9	2540.7	0.32	5030.9	428.0	0.10	6028.5	185.2	0.03
2004	8635.1	2801.6	0.32	6116.6	565.6	0.10	6662.0	941.0	0.14
2005	11078	2341.3	0.21	7914.4	704.4	0.10	8213.5	294.9	0.04

2006	13021.3	3851.2	0.30	10124.2	1293.3	0.13	8905.1	1125.5	0.13
2007	15657.1	3961.6	0.25	14059.2	1578.9	0.11	10538.1	919.0	0.10
Mean	0.28			0.11			0.09		
S.D.	0.05			0.013			0.051		
C.V.	0.17			0.12			0.56		

(Source NRB report mid - July 2008)

From the above table we can see that the ratio between call deposit to loan and advances are fluctuates with the passage of the time. That means all the ratios over the five years of Nabil bank has increase or decrease in the subsequent year. The highest ratio is 0.32 in 2003 and 2004 and the lowest ratio is 0.21 in 2005. The average ratio of the five year sample data is 0.28.

Highest ratio is 0.13. Though the withdrawal chances from call deposit is very rare chances the bank has not utilizes the benefit from the call deposit by increasing the lending from call deposit.

The fluctuation of ratio between call deposit to loan and advances of SCBL is also too low the lowest ratio is calculated 0.03 in the year 2003 where as the highest ratio is calculated 0.14 in the year 2004.And the average ratio is calculated 0.09. The fluctuation in the ratio shows that the bank policy in investment through the call deposit has changed. In the beginning the bank has invest only few ratio from the call deposit, but as the time passes by the bank has started to invest major portion from the call deposit, As a result in the year 2006 bank has invest its deposits to 0.13 (13%) from the call deposit to loan and advances.

4.3.8 Other Deposit to Loan and Advance Ratio

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

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

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

Following table shows the total loan and advances and other deposit.

Table 4.8

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

Year	NABIL			Everest			Standard chartered		
	L&A	Other.D.	Ratio	L.&A.	other.D.	Ratio	L.&A.	other.D.	Ratio
2003	7996.9	382.0	0.05	5030.9	143.1	0.03	6028.5	220.1	0.04
2004	8635.1	304.7	0.04	6116.6	133.8	0.022	6662.0	203.2	0.03
2005	11078	297.0	0.03	7914.4	116.8	0.014	8213.5	248.7	0.03
2006	13021.3	322.9	0.02	10124.2	126.6	0.012	8905.1	509.4	0.06
2007	15657.1	312.1	0.02	14059.2	222.1	0.02	10538.1	486.1	0.05
Mean	0.032			0.020			0.042		
S.D.	0.013			0.007			0.0133		

C.V.	0.41	0.36	0.32

(Source NRB report mid – July 2008)

Other deposit is not the bank deposit to use for the long- term investment. That is why bank has invested only the few portions from the other deposit. From the above calculation we can see that non- of the banks has invested more than the ratio of 0.06 from the other deposit. It shows that the banks are very much conscious to use the call deposit for lending. And they are highly in liquidity position so that they will immediately refund the fund on the claim on other deposit.

The average ratio of Nabil bank is 0.032 and average ratio EBL is 0.02 and an average ratio of SCBL has 0.042. The SCBL has the lowest C.V. of 0.32 and Nabil bank and Everest bank has 0.41 and 0.36 respectively. With the lowest C.V. of SCBL has the highest consistency and utilized the benefit from other deposit.

4.4 Sector Wise Loan and Advances of Nabil, Everest and Standard Chartered Bank

Sector wise lending means there are various sectors that the banks have the opportunity to invest. Even NRB have issued in its directives that commercial banks have to invest certain percentage in the deprived and priority sector. So that the background 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-4.9

Sector Wise Loan and Advance of NABIL, Everest and Standard Chartered Bank

(Amount in Million)

Sectors	NABIL Bank		Everest Bank		Standard Chartered Bank	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Agriculture	189.7	0.007	318.7	0.015	297.8	0.022
Mining	18.1	0.0007	0.5	0.00	178.9	0.013
Production	7147.0	0.28	3222.8	0.15	2932.7	0.21
Construction	3630.1	0.14	2845.7	0.14	3354.1	0.24
Machinery	227.3	0.0089	320.0	0.015	44.5	0.003
Transportation	2058.9	0.081	112.8	0.0054	2.4	0.0002
Public service	1925.6	0.076	1453.3	0.07	307.3	0.022
Wholesalers	3933.2	0.15	5823.6	0.28	1298.7	0.10
Finance	2087.3	0.082	1042.6	0.05	770.5	0.056
Services	1845.7	0.073	678.0	0.032	237.5	0.017
Consumable	108.2	0.0043	397.5	0.02	84.6	0.0061
Local govt.	000	0.00	000	0.00	000	0.00
Others	2269.1	0.089	4731.6	0.23	4242.9	0.31
TOTAL	25440.3	100	20947.2	100	13752.0	100

(Source NRB report mid – July 2008)

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 2008 Nabil bank has invest total of 25400.3 million, Everest bank has total lending of 20947.2 million and Standard Chartered Bank has the lending of 13752 million. So it is difficult to and analysis to the data amount wise, researcher has tried to interpret according to the percentage into the various sectors.

All the above sample bank has invest their major portion in the production sector. The Nabil bank has made the higher portions in production sector of 28% Standard chartered Bank has also investment of 21% in the production sector. Everest Bank has also invested major portion of lending in the production sector of 15%. We can say that the Nabil bank and Standard Chartered Bank are more constrained in the production sector but Everest bank has slightly diversified the investment in other sectors.

No one the bank among selected for the research are invested their funds to the local government out of their total lending. It shows that the ratio of investment in this sector is too low comparative to the other sector. But we can say that as a private joint venture is has invested to the local government in the Nepalese banking history.

Among the three sample banks Standard Chartered Bank is the only one bank to invest more funds in the mining industry. The total ratio to invest in this sector is 0.13% out of the total lending.

4.5 Security Wise Loan and Advances of Nabil, Everest and Standard Chartered Bank

None of the banks invest without the security. Holding the security means to be assuring that the bank will recover the lending amount if the client is not payback the principal and interesting in the due course of time.

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

Table 4.10

Security Wise Loan and Advances of NABIL, Everest and Standard Chartered Bank

Securities	Nabil Bank		Everest Bank		Standard Chartered	
	Amount	%	Amount	%	Amount	%
Gold	1.0	0.0	0.0	0.0	0.0	0.0
Govt. securities	85.5	0.0034	36.9	0.002	484.4	0.035
Non govt. securities	0.2	0.0	14.2	0.0	325.0	0.024
Fixed A/C receipt	349.2	0.014	346.4	0.017	563.6	0.041
Assets guarantee	19497.5	0.77	19465.3	0.93	9099.2	0.66
On Bills guarantee	3309.8	0.13	96.9	0.0046	2.7	0.0
Guarantee	147.9	0.01	846.4	0.04	398.3	0.03

Credit card	95.8	0.004	0.0	0.0	83.1	0.006
Earthquake victim	0.0	0.0	0.0	0.0	0.0	0.0
Others	1953.3	0.1	141.1	0.0067	2794.7	0.30
Total	25440.3	100	20947.2	100	13752.0	100

(Source NRB report mid -July 2008)

The above table shows 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 of the commercial bank in the above table we found that all the banks prefer assets guarantee as the tools, furniture and fixture, vehicle, other fixed assets, rice, raw jute agriculture etc.

Everest bank has accept highest ratio of assets guarantee as the best securities i.e. 93% and lowest of gold and non government securities and it doesn't have the facility of the credit card. And second prior security for the Everest bank is on fixed A/C receipt i.e. 1.4%. It includes on own banks and on other banks. Banks usually reject the gold and silver as the securities because calculation of the actual market value of gold is difficult and value of these securities keeps in fluctuating all the time.

Nabil bank has also invested its major funds by taking the collateral of assets guarantee I. e. 77%. Same as Standard chartered bank has also invested 66% against the security of assets guarantee.

4.6 Interest Rate of Commercial Banks in Different Types of Loan

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

4.11

Interest Rate in Different Types of Loan (in Percentage)

Type of Loan	NABIL Bank	Everest Bank	Standard Chartered Bank
Overdraft	12-15	12-15	12-15
Export credit	4-12	10-12	10-12
Import credit	8.5-11	9-12	9-12
Against FDR	7		8
Against Nepal govt, Bond	7-9	9-10	9-10
Against BG/CG	9	10-12	9-10
Against other guarantee	10		8
Industrial loan	12-15	12-15	12-15
Commercial loan	12-15	12-15	12-15
Priority loan	12-15	12-15	12-15
Poorer loan	7-9	10-11	6-8
Term loan	12-15	12-15	12-15
Working capital	10-12	9-12	9-12
Hire purchase	12-15	12-15	12-15

Others	7-12	9-12	4-10

(Source NRB report mid -July 2008)

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

Though the Everest bank is a required joint venture bank but also it doesn't have the facility of granting loan in other guarantee expect government bond. The highest rate of interest charged by the Everest bank is on overdraft hire purchased and other loan. The reason for charging high ratio on these types of loan is due to risk factor and the fund invested in these sectors generates individual benefits only. But when we over view all type of loan and interest rate maximum of the interest is charged in the range of 12% to 15%.

4.7 Interest Income Earn by Commercial Banks

Commercial banks are the services oriented banks. Most of the income that banks earns through charging interest against lending and also through direct investment in different sources. Following table shows the total interest income of Nabil bank, Everest bank and Standard Chartered bank up to the fiscal year 2007/2008.

Table 4.12

Interest Income (Amount in million).

Interest Income Head	NABIL Bank		Everest Bank		Standard Chartered Bank	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Loan & Advance	996.3	0.80	824.5	0.84	536.2	0.59
Govt. Bonds	126.4	0.10	96.6	0.099	199.4	0.22
Foreign Bonds	8.6	0.01	5.4	0.0055	0.0	0.0
NRB Bonds	0.0	0.0	42.5	0.043	0.0	0.0
Debentures & Bonds	0.0	0.0	0.0	0.0	0.3	0.00033
Agency Balance	0.8	0.0006	0.0	0.0	1.6	0.0018
Commission	116.5	0.093	8.9	0.0091	22.1	0.024
Others	1.0	0.0008	0.0	0.0	150.5	0.17
Total	1249.6	100%	977.9	100%	910.1	100%

(Source NRB Bulletin mid -July 2008)

In the above table we can say that various interest head and their amount. All the commercial bank has earned major interest income from loan and advances. Nabil bank has earned 80% of income from loan and advances out of the total interest income where as Everest bank and Standard chartered bank has earned 84% and 59% interest income from loan and advances respectively. We can clearly analysis banks are highly concentrate to generate the income from loan and advances. Among the above sample bank Standard chartered bank is only one bank that has generated interest income from government bonds and Nabil bank has also generated the interest from commission. Above the sample bank Standard chartered bank has low interest income from loan and loan advances. More or less all the sample banks have invested in the entire sector that could generate the interest income for example foreign bonds, NRB bonds, agency balance and others.

In the history of private Joint venture Banks Standard chartered bank is only one bank that has purchase the debentures and has earned interest rate.

4.8 Major Findings

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

1. Comparative Analysis of Borrowers

Comparative analysis of Borrowers before granting a loan is major positive aspect of all the sample banks. General interview to sophisticated financial observation is obtained before granting the loan. For uniformity in the procedure in appraising, particular format has been designed separately by the management and officers of joint venture banks. But the necessary information relating to the client is enough in their credit application format. Though the banks wants more information 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.

2. Focuses on Viability and Feasibility of Project

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

3. Concentration on Lending in Productive Sector

Observation on lending portfolio of the banks 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 major pillar to the economic development. Although the industries are getting the financial support from the bank they are not able to take advantage from the financial support due to strike, lockout, changes in government policy etc. banks are ready to invest in productive sector but due to lack of investment opportunity new concept has been arrived for lending in individual customers i.e. retail lending (housing loan, Vehicle loan, Educational loan, professional loan and personal loan).

4. Lending in Priority Sector

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

5. Prize for Better Performance

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

6. Different Interest Rate for Different Nature of Loan

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

- **Interest Discrimination on the Basis of Industry and Trading**

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

- **Discrimination on the Basis of Prime Client and Ordinary Client**

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

- **Discrimination on the Basis of Nature of Loan**

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

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

7. Centralization

Till my submission there are different branches opened by the joint venture banks Nabil bank has 9 branches opened in Kathmandu valley only out of 22 branches. And rests of the other branches are also constricted in the major cities of Nepal. Similarly Everest bank has 18 branches out of which 9 branches are operating within the valley. And rests of other branches are in the commercial cities of Nepal. Standard chartered bank has 10 branches out of which three branches are at Kathmandu valley and rests are outside of the valley.

8. High Interest Rate

The interest rate charged by the commercial banks is ranged from 9% to 18%. When we look at this interest rate it may not seem to be higher than the past records where commercial bank uses to charge up to 18% and private leaders charges up to 36% to 48%. But in the past interest rate on the deposit amount was also 13% to 15%. Today highest interest rate on deposit is about of 7%. The spread rate is 7% to 9% which is the standard of NRB directives. Finally we can conclude that though the interest rate on lending has been decreased but due to wide gap in the spread rate we can say that the commercial bank charge higher interest rate.

9. Low Diversification in Lending

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

10. Making Strong Root in the Field of Nepalese Economy

Looking at the financial performance of the joint venture banks they are increasing their profit and their branches every year none of the joint venture banks are operating in loss. Within the short period of joint venture banks history in Nepal there are 27 commercial banks and more than 250 branches operating within the territory of Nepal. Due to high promotion and attractive scheme of the commercial banks people are more interested to keep the relation with the joint venture banks.

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

11. Accepting as Collateral

JVB's philosophy at accepting collateral has been changed. In the past the government owned commercial banks used to accept gold and silver as the collateral against the loan but there is no JVB's to accept these securities. It is found from the analysis that bank used to accept government bond and fixed assets against the loan. Stock and debenture is also accept as the suggested to JVB's not to flow the loan against the personal guarantee but also it is found that the commercial banks has flown their fund against the personal guarantee without any provision.

12. Proper Utilization of Resources

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

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

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

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

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

5.2 Recommendations

The following recommendations are drawn from the findings and conclusions of the study.

1. **Lending Procedure Should be Short**

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

2. Need to Grab more Benefit from Fixed Deposit

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

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

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

5. Need to Diversity in Accepting Single Nature of Collateral

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

6. Need to Provide Technical Assistance

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

7. Needs to Diversify Lending

Though the banks are establishment to earn the profit but besides profit making it has to invest in those sector where the society is really in need of investment. Analyzing in the previous chapter it is found that most portions of the investment is made in the service or retail sector only. So It is recommended to the bank to invest in other sector too. Over concentration of lending reveals the excessive level of risk. Hence bank should take the steps to diversify its lending. So that risk can be minimized and small borrowers are promoted. Also banks 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.

5.3 Conclusion

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

BIBLIOGRAPHY

Books

Atreya, M. (2005). *Banking Strategy of SAARC.* New Delhi: Heman Publication.

Bonomo & Schotta. (1970). *The Banking effective of Open Market Operation.* New York: Mc Graw Hill Book Company.

Douglas, Vickers (1985) *Money Banking and the Macro Economy.* Englewood: Prentile Hall Inc.

Gupta. S.C, & Kapoor. V.K. (1999). *Fundamentals of Mathematics Statistics, A Modern Approach.* New Delhi: Sultan Chand & Sons.

Hendershott & Leeuw (2002 revised). *Central Bank Operation and Money Stock of Commercial Bank.* Massachusetts: Blank Wall of the USA.

Kothari, C.R., (1990. *Research Methodology: Methods and Techniques.* New Delhi: Wishwa Prakashan.

Mali Ram. (1969). *Currency & Banking.* Uttar Pardesh: Agra Book Store.

Sekaram. U. (1992). *Research Methods in Business: A Skill Building Approach.* Singapore: Joha Wiley and Sons

Singh, S.K. (2050). *A Brief Introduction of Nepal in Banking History.* Kathmandu: Taleju Prakashan.

Thesis

Bhattari, N. (2000). *Lending Practice and procedure of Commercial Banks.* an unpublished master degree thesis submitted to Mumbai (India).

Bista Nabaraj. (2003). *Comparative Financial analysis of Joint venture Banks.* an unpublished master degree thesis submitted to Tribhuvan University, Shanker Dev Campus Kathmandu Nepal.

Kapadi Raghu Bir. (2002). *A Comparative study on financial Performance of Nabil Bank Limited and Standard Chartered Bank Limited.* an unpublished master degree thesis submitted to Shanker Dev Campus (Tribhuvan University), Kathmandu Nepal.

Lila Prasad Ojha. (2002). on *Lending practice.* an unpublished Master Degree Thesis. Submitted to Tribhuvan university Shanker dev campus Kathmandu Nepal.

Niva shrestha. (2004). *A study on non – performing loans and loan loss provisioning of commercial banks.* an unpublished Master Degree thesis. Submitted to Tribhuvan university Shanker dev campus Kathmandu Nepal.

Rangarajan, S. (1965). *Impact of Monetary Policy on Commercial Bank Demand Deposit in America.* an unpublished master degree thesis. Submitted to Texas University (USA),

Tusssing K. (1966). *Availability Doctrine and Credit Creation Doctrine.* an unpublished master degree thesis submitted to Pune University (India).

Reports

Everest Bank Limited Annual Report 2003/ 2004 to 2007/ 2008

Nabil Bank Annual Report 2003/2004 to 2007/2008

Nepal Government Law under Commercial Bank Act-2031

NRB Anniversary Publication (45th to 52nd)

Standard Chartered bank annual report 2003/ 2004 to 2007/2008

Web – Site

www.everestbankltd.com.np

www.nabilbankltd.com.np

www.nrb.org.np

www.onlinelibrary.com.np

www.scbnl.com.np

PRIMARY QUESTIONS

APPENDIX-1

1. Which sector of lending does you find most secure sector of lending.

- [ ] Manufacturing Industry
- [ ] Housing Loan
- [ ] Personal Loan
- [ ] Trading business
- [ ] Flexi Loan
- [ ] Educational loan
- [ ] Loan to government
- [ ] Professional loan

2. Commercial Banks has not promoted its lending in the priority and deprived sector. What is the reason behind neglecting these sectors? Although there is clearly mention in the NRB directives to encourage for the investment in priority and deprived sector. (Please give your own reason)

3. What are the common securities that your bank demands from credit client? Please ranking these following factors according to your bank's perspective giving 1 to most preferred, 2 to the next and so on.

- [ ] Fixed Assets
- [ ] Gold and silver
- [ ] Personal guarantee
- [ ] FD receipt
- [ ] Stock and debtors
- [ ] Foreign bills
- [ ] Government bond
- [ ] Life insurance policy

4. How long does your bank take to disburse the loan from the date of loan application?

- [ ] Within 7 days
- [ ] Within 15 days
- [ ] Within 30 days
- [ ] Within 60 days
- [ ] 60 days and above

5. Which of the following authority approves credit policy?

- [ ] Board of director
- [ ] ranch Manager
- [ ] Executive director
- [ ] Others

6. Does it define hierarchy and authority of credit sanction?

- [ ] Yes
- [ ] No

7. There are different types of credit facility the bank are providing to its client; out of them which product is profitable? Please rank from 1-8 the following factors according to your bank's perspective giving 1 to most preferred, 2 to the next and so on.

- [ ] Working Capital loan
- [ ] Educational loan
- [ ] Housing Financing
- [ ] Vehicle/ hire purchase loan
- [ ] Trust receipt loan
- [ ] Personal loan
- [ ] Demand loan
- [ ] Mortgage loan

8. If the borrower is having with overdue outstanding your bank starts follow up please tick mark.

☐ Immediately

☐ Within 1 month of overdue

☐ Within 7 days of overdue

☐ One month or onward

☐ Within 15 days overdue

9. While floating loans your banks gives some extent of priority on the following sector? Please circle one of the alternatives on each case given below. Please note that each sector is independent with each other.

Sector	Weight				
Industry	0%	25%	50%	75%	100%
Trade	0%	25%	50%	75%	100%
Service	0%	25%	50%	75%	100%
Others	0%	25%	50%	75%	100%

10. What is the most important reason that leads to NPA? Please tick the marks on appropriate reason.

- Investment in wrong sector.
- Excess credit flow than the necessary to the client.
- Lack of documentation process at the time of loan disbursement.
- Investment to the client on Ad- hoc basis.
- High interest rate charge to the client.
- Irregular inspection and follow – up of the field.

11. What is the bank's procedure to reduce NPA? (You can tick for more than one reason).

- Take up legal action.
- Forcing the client to pay back soon.
- Reschedule the loan.
- Reduce the interest rate and force them to pay back.
- Rebate interest rate and forcing them to pay back.

12. What are the procedures to cover up the credit card's amount when the client didn't pay in time? And what kinds of client do you have for the affordable credit card? Please give the short reason.

APPENDIX – 2

Work sheet for the calculation of Mean, Standard deviation and coefficient of Nabil Bank considering Current Assets (CA) and Current Liabilities (CL).

Year	CA	CL	Ratio (X)	$X - \overline{X}$	$(X - \overline{X})^2$
2003/04	14317.2	16168.0	0.88	0.04	0.0016
2004/05	14402.6	16200.4	0.89	0.05	0.0025
2005/06	13618.1	16297.5	0.84	0	0
2006/07	17383.2	21324.6	0.81	-0.03	0.0009
2007/08	20173.2	26217.3	0.77	-0.07	0.0049
Total			4.19		0.0091

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

$$\bar{x} = \frac{\sum x}{n} = \frac{4.19}{5} = 0.84$$

$$\sigma = \sqrt{\frac{\sum (xn-\bar{x})^2}{n-1}} = \sqrt{\frac{0.0091}{5-1}} = 0.048$$

$$C.V. = \frac{\sigma}{\bar{x}} = \frac{0.048}{0.84} = 0.057$$

Where,

$\bar{x} = Mean\ observation$

$\sigma = Standard\ Deviation$

$C.V. = Coeffecient\ of\ Veriation$

APPENDIX- 3

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

Year	L&A	C.A.	Ratio(X)	$X-\bar{X}$	$(X-\bar{X})^2$
2003/04	7996.9	14317.2	0.56	-0.14	0.0196
2004/05	8635.1	14402.6	0.60	-0.10	0.01
2005/06	11078	13618.1	0.81	0.11	0.0121
2006/07	13021.3	17383.2	0.75	0.05	0.0025
2007/08	15657.1	20173.2	0.78	0.08	0.0064
Total			3.5		0.0506

$$\text{Loan and advance to current assets} = \frac{\text{Loan and Advance}}{\text{Current Assets}}$$

$$\bar{x} = \frac{\sum x}{n} = \frac{3.5}{5} = 0.7$$

$$\sigma = \sqrt{\frac{\sum(xn-\bar{x})^2}{n-1}} = \sqrt{\frac{0.0506}{5-1}} = 0.1125$$

$$c.v. = \frac{\sigma}{\bar{x}} = \frac{0.1125}{0.7} = 0.16$$

Where,

$\bar{x} = Mean\ observation$

$\sigma = Standard\ Deviation$

$C.V. = Coeffecient\ of\ Veriation$

APPENDIX - 4

Work sheet for the calculation of mean, standard deviation and coefficient of variation of Everest Bank considering Loan and advances and total deposits.

Year	L&A	T.D.	Ratio	$X-\bar{X}$	$(X-\bar{X})^2$
2003/04	5030.9	6694.9	0.75	0	0
2004/05	6116.6	8063.9	0.76	0.01	0.0001
2005/06	7914.4	10097.8	0.78	0.03	0.0009
2006/07	10124.2	13802.5	0.73	-0.02	0.0004
2007/08	14059.2	19097.6	0.74	-0.01	0.0001
Total			3.76		0.0015

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

$$\bar{x} = \frac{\sum x}{n} = \frac{3.76}{5} = 0.75$$

$$\sigma = \sqrt{\frac{\sum(xn-\bar{x})^2}{n-1}} = \sqrt{\frac{0.0015}{5-1}} = 0.019$$

$$c.v. = \frac{\sigma}{\bar{x}} = \frac{0.019}{0.75} = 0.026$$

Where,

$\bar{x} = Mean\ observation$

$\sigma = Standard\ Deviation$

$C.V. = Coeffecient\ of\ Veriation$

APPENDIX- 5

Work sheet for the calculation of mean, standard deviation and coefficient of variation of Nabil bank considering fixed deposit to loan and advances.

Year	L.&A.	F.D.	Ratio	$X-\bar{X}$	$(X-\bar{X})^2$
2003/04	7996.9	2252.6	0.28	0.01	0.0001
2004/05	8635.1	2310.6	0.27	0	0
2005/06	11078	2078.6	0.19	-0.08	0.0064
2006/07	13021.3	3450.2	0.26	-0.01	0.0001
2007/08	15657.1	4535.1	0.35	0.08	0.0064
Total			1.35		0.013

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

$$\bar{x} = \frac{\sum x}{n} = \frac{1.35}{5} = 0.27$$

$$\sigma = \sqrt{\frac{\sum(xn-\bar{x})^2}{n-1}} = \sqrt{\frac{0.013}{5-1}} = 0.057$$

$$c.v. = \frac{\sigma}{\bar{x}} = \frac{0.057}{0.27} = 0.21$$

Where,

$\bar{x} = Mean\ observation$

$\sigma = Standard\ Deviation$

$C.V. = Coeffecient\ of\ Veriation$

APPENDIX-6

Work sheet for the calculation of mean, standard deviation and coefficient of variation of Standard chartered bank considering Saving Deposit to Loan and Advances.

Year	S.D.	L&A	Ratio	$X-\bar{X}$	$(X-\bar{X})^2$
2003/04	10633.1	6028.5	1.76	0.09	0.0081
2004/05	12771.8	6662.0	1.92	0.25	0.0625
2005/06	13027.7	8213.5	1.59	-0.08	0.0064
2006/07	14597.5	8905.1	1.64	-0.03	0.0009
2007/08	15244.2	10538.1	1.45	-0.22	0.048
Total			8.36		0.13

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

$$\bar{x} = \frac{\sum x}{n} = \frac{8.36}{5} = 1.67$$

$$\sigma = \sqrt{\frac{\sum (xn-\bar{x})^2}{n-1}} = \sqrt{\frac{0.13}{5-1}} = 0.18$$

$$c.v. = \frac{\sigma}{\bar{x}} = \frac{0.18}{1.67} = 0.11$$

Where,

$\bar{x} = Mean\ observation$

$\sigma = Standard\ Deviation$

$C.V. = Coeffecient\ of\ Veriation$

APPENDIX- 7

Work sheet for the calculation of mean, standard deviation and coefficient of variation of Nabil bank for considering Current Deposit and Loan and Advances.

Year	C.D.	L&A	Ratio	$X-\bar{X}$	$(X-\bar{X})^2$
2003/04	3025	7996.9	0.39	0.11	0.0121
2004/05	2687	8635.1	0.31	0.03	0.0009
2005/06	2843.5	11078	0.26	-0.02	0.0004
2006/07	2953.3	13021.3	0.23	-0.05	0.0025
2007/08	3446.1	15657.1	0.22	-0.06	0.0036
Total			1.41		0.0195

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

$$\bar{x} = \frac{\sum x}{n} = \frac{1.41}{5} = 0.28$$

$$\sigma = \sqrt{\frac{\sum (xn-\bar{x})^2}{n-1}} = \sqrt{\frac{0.0195}{5-1}} = 0.07$$

$$C.V. = \frac{\sigma}{\bar{x}} = \frac{0.07}{0.28} = 0.23$$

Where,

$\bar{x} = Mean\ observation$

$\sigma = Standard\ Deviation$

$C.V. = Coeffecient\ of\ Veriation$

APPENDIX-8

Work sheet for the calculation of mean, standard deviation and coefficient of Everest bank considering Call Deposit to Loan and Advances.

Year	L&A	Call D.	Ratio	$X-\bar{X}$	$(X-\bar{X})^2$
2003/04	5030.9	428	0.10	-0.01	0.0001
2004/05	6116.6	565.6	0.10	-0.01	0.0001
2005/06	7914.4	704.4	0.10	-0.01	0.0001
2006/07	10124.3	1293.3	0.13	0.02	0.0004
2007/08	14059.2	1578.9	0.11	0.0	0.0000
Total			0.54		0.0007

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

$$\bar{x} = \frac{\sum x}{n} = \frac{0.54}{5} = 0.108$$

$$\sigma = \sqrt{\frac{\sum(xn-\bar{x})^2}{n-1}} = \sqrt{\frac{0.0007}{5-1}} = 0.0137$$

$$c.v. = \frac{\sigma}{\bar{x}} = \frac{0.013}{0.108} = 0.12$$

Where,

$\bar{x} = Mean\ observation$

$\sigma = Standard\ Deviation$

$C.V. = Coeffecient\ of\ Veriation$

APPENDIX-9

Work sheet for the calculation of mean, standard deviation and coefficient of variation of Nabil bank considering other deposit to loan and advances.

Year	L&A	Other D.	Ratio	$X-\bar{X}$	$(X-\bar{X})^2$
2003/04	7996.9	282.0	0.05	0.018	0.000324
2004/05	8635.1	304.7	0.04	0.008	0.000064
2005/06	11078	297.0	0.03	-0.002	0.000004
2006/07	13021.3	322.9	0.02	-0.012	0.000144
2007/08	15657.1	312.1	0.02	-0.012	0.000144
Total			0.16		0.00068

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

$$\bar{x} = \frac{\sum x}{n} = \frac{0.16}{5} = 0.032$$

$$\sigma = \sqrt{\frac{\sum(xn-\bar{x})^2}{n-1}} = \sqrt{\frac{0.00068}{5-1}} = 0.013$$

$$c.v. = \frac{\sigma}{\bar{x}} = \frac{0.013}{0.032} = 0.41$$

Where,

$\bar{x} = Mean\ observation$

$\sigma = Standard\ Deviation$

$C.V. = Coeffecient\ of\ Veriation$