CREDIT POLICY OF EVEREST BANK LIMITED

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RECOMMENDATION

This is to certify that the thesis

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CREIT POLICY OF EVEREST BANK LIMITED

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

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CHAPTER-I

INTRODUCTION

1.1 Background of the Study:

Nepal is a developing country. Developing countries have to face a lot of problems for its economic developments. Nepal has to make expansion in financial sector. Financial market is very important for the economic growth of the country. The pace of development of the country is largely depends upon the economic activities. Economic activities are guided by finance. Financial institutions provide capital to develop trade, industry and business. Bank, finance companies, cooperative societies, insurance companies, stock exchanges helps in the economic development of the country. A bank is a major player among of financial institutions. A bank involves in a process of collecting scattered money and to help its mobilization in different sectors according to need of customers. Bank helps to develop saving habit of people, which in-turns help to make other people to invest for their business. Banking loan helps to invest in industrial sector, commercial sector, production sector, trade & commerce. Bank also helps to develop international business by initiating as a mediator to exporter & importer. This way banks help to strengthen the national development. Generally bank refers to a commercial bank at present. A commercial bank refers to such a type of bank, which deals in accepting deposits, advancing loans, accelerating money exchanges facilities etc. The pace of time has changed the portfolio of banking business from its primary function to other functions such as merchant banking, credit card business, documentary credit, traveler's cheques, home banking etc. Commercial banks are organized on a joint stock company system, primarily for the purpose of earning a profit. The two essential functions of commercial banks may best be summarized as the borrowings and lending of money. They borrow money by taking all kinds of deposits. Deposits may be received on current account whereby the banker incurs the obligation of paying legal tender on demand, or on fixed deposit account whereby the banker incurs the obligation of paying legal tender after the expiry of a fixed period, or on deposit account whereby the banker undertakes to pay the customer an agreed rate of interest on it in return for the right to demand from him an agreed period of notice for withdrawals. Thus the primary function or a commercial banker is that of a broker and a leader in money. Lending is the most important functions of a commercial bank. For lending procedure, bank has to make some banking practices such as transferring property in bank's name. The transfer is temporarily made for a loan price & interest. Lending money is nowadays becoming main resources of revenue to the bank and also involves high risk too. Bank will not provide loan unless it has sufficient sources to the borrower that will be needed in case of future recovery. This way bank plays important part in the development of trade, commerce and industry. Today no banker can survive for long run without proper standing of economy and economy cannot pace ahead without proper banking system built. Generally, bank refers to a commercial bank at present. Commercial bank refers that bank, which deals with accepting deposits, advancing loans and accelerating money exchanges facilities etc. The pace of time has changed the portfolio of banking business from its primary function to other functions, such as merchant banking, credit card business, documentary credit, traveler's cheques, home banking etc. Banks are expected to make loans to all qualified customers and thereby aid the communities they serve to grow and to improve their living standards. Indeed, making loans is the principal economic function of banks. But it is also a risky function because both external factors (Principally economic conditions) and internal factors (including management errors and illegal manipulation) can result in substantial losses for the bank. In order to keep this factor under control, the bank lending function is closely regulated to ensure prudent policies and practices. Today no banker can survive for long run without proper standing of economy and no pace ahead without proper banking system. Moreover, the ability of banks to gather and analyze financial information has given rise to another view of why banks exist in modern society. Most borrowers and depositors prefer to keep their financial records confidential, shielded especially from competitors. Banks are able to fulfill this need by offering high liquidity in the deposits they sell. More people believe that banks play only narrow role in the country-taking deposits and making loans. The modern bank has to adopt new roles in order to remain competitive and responsive to public needs.

1.2 Commercial Banking in Nepal

The history of commercial banking in Nepal starts from the establishment of Nepal Bank Ltd (NBL). In 1994 BS. NBL was the first bank to be established in Nepal and prior to this, there was no such organized banking system in the country. Later on, Nepal Rastra Bank was established in 2013, which helped to make banking system more systematic and dynamic during that time. As the time passed, a need for the more commercial banks arose. At that time NBL was just doing simple banking by collecting deposits from local public. To cater to those needs, Rastriya Banijya Bank was established in 2022 BS in order to play a established under its own act, Rastriya Banijya Bank Act 2022. With the establishment of RBB, a noticeable progress could be seen in banking industry of Nepal. It brought a revolution in the banking industry. People could easily make business transactions with other countries. Both the banks have majority of shares owned by the government of Nepal. Rastriya Banijya Bank is fully owned by the government. Today Nepal can take legitimate pride in remarkable growth and progress in the banking industry. Nepal opened its door to foreign commercial banks to operate in Nepal. Consequently, Nabil Bank was established in 2041 under the commercial bank act of 2031. Slowly and slowly new banks started to open in Nepal for doing business. At present the number of commercial banks in the country has 23.

1.3 Introduction of Everest Bank limited

Everest Bank Limited (EBL) started its operation in 1994 with a view and objectives of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer friendly services through a network of 22 branches. Punjab National Bank (PNB) is the joint venture partner (holding 20% equity in the bank). The bank has been conferred with *"Bank of the Year 2006, Nepal"* by the banker, a publication of financial times, London. The bank was bestowed with the "NICCI Excellence award" by Nepal India chamber of commerce for its spectacular performance under finance sector. Recognizing the value of offerings a complete range of services, we have pioneered in extending various customer friendly products such as Home Loan, Education Loan, EBL Flexi Loan, EBL Property Plus (Future Lease Rental), Home Equity Loan, Vehicle Loan, Loan Against Share, Loan Against Life Insurance Policy and Loan for Professionals. EBL was one of the first banks to introduce Any Branch Banking System (ABBS) in Nepal EBL has introduced Mobile Vehicle Banking system to serve the segment deprived of proper banking facilities through its Birtamod Branch, which is the first of its kind. The banks performance under all parameters has been outstanding during the fiscal year 2063-64 after providing for income tax and statutory provisions there was a disposal net profit of Rs. 30.06 crore compared to Rs. 23.73 crore last year- an increase of 26.68 %. The bank was able to increase its operating profit by 31.9%, deposit by more than 38% and advances by 39% during the year compared to the corresponding period last year. During the last financial year, the Bank opened the four branches namely Balaju in Kathmandu Valley, Nepalgunj, Birtamod and Baglung. The Bank has further opened a branch at Gwarko. At Present, EBL has Twenty-Three Branches that spread out the nation. Everest Bank is first private commercial bank having largest network.Assets quality has improved by reduction of Non Performing Asset (NPA) to 0.80% from 1.27% in the previous year. This is one of the lowest NPA among the commercial bank in Nepal.Against the Paid- Up Capital by shareholders of Rs. 37.80 crore, the shareholders' funds now amount to Rs. 119.87 crore – with Core Capital base of Rs. 81.67 crore. Earnings per Share have surged to Rs 62.78 from Rs 54.22. 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.

1.4 Statement of the problem:

Commercial banks in Nepal have been facing various challenges and problems. Some of them arising due to the economic condition of the country, some of them rising due to confused policy of government and many of them arising due of default borrowers. After liberalization of economy, banking sector has various opportunities. Lending in industries and production sectors are very risky projects. Banks are investing in house loan, hire purchase loan, for safety purpose. Lack of lending opportunities, banks are facing problem of over liquidity. Nowadays banks have increasing number of deposits in fixed and saving accounts but have decreasing trend in lending behaviors. So, this has caused major problems in commercial banks. Nowadays due to competition among banks, the interest rate change for loan is in decreasing trend. Non-performing assets have become a large problem in the commercial banks. Liquidity is maximum with the financial institutions. Hence, the banks and financial institutions are competing among themselves to advance credit to limited opportunity sectors. Lack of good lending opportunities, banks is facing problems of over liquidity. Due to unhealthy competition among the banks, the recovery of the banks credit is going towards negative trends. Non-performing Credits of the banks are increasing year by year. To control such type of state, the regulatory body of the banks and financial institutions, NRB has renewed its directives of the credit loss provision.

1.5 Objectives of the Study:

It is no doubt that the role of the commercial banks is significant in the development of the country. Banks help in the development of the country by providing credit to the necessary sectors. Therefore, the main objective of the study is to find out the credit management position of the Everest Bank. The breakdowns of the objectives of the study are as follows:

a) To evaluate various financial ratios related to credit management of the Everest Bank.
b) To determine the impact of deposit in liquidity and its effect on lending practices.
c) To analyze trend of deposit utilization towards loan and advances and net profit.
d) To offer suitable suggestions based on findings of this study.

1.6 Significance of the Study:

Lending is one of the main functions of commercial bank where the whole banking business is rested upon. Study on joint venture commercial bank and especially their lending practices carry a great significance, to shareholders of the banks, to the professionals, to the students who wants to know about lending practices of commercial bank. Everest bank Ltd. play significant role in lending procedures. This study has proposed to measure the efficiency of both banks in their lending procedures. This study adds new idea and findings about the concerned joint venture banks. This study adds new idea and findings about the concerned joint venture bank. This study no doubt will have importance to various groups but in particular is directed to a certain groups of people/organizations, which are:

- Importance to shareholders.

- Importance to the management bodies of the bank for the evaluation of the performance of bank.
- Importance to "outsiders" which are mainly the customers, financing agencies, stock exchanges etc.
- Importance to the government bodies or the policy makers such as the central bank
- Interested outside parties such as- investors, customers (depositors as well as credit takers), and competitors, personnel of the banks, stockbrokers, dealers, and market makers.

So, this study helps to identify its hidden weakness regarding financial cum credit administration.

1.7 Limitation of the study:

This study is done for the partial fulfillment for MBS degree in management. So, this study has certain limitations and constraints and they are as follows.

1. The study mainly concentrates only on those factors related with credit practices.
2. This study is based on joint venture bank.
3. This study is based on primary & secondary data.
4. Study is based on data of five years period.
5. Some of the statistical as well as financial tools of comparison & analysis shall be used in the study.

1.8 Organization of the Study:

The study will divide in five chapters as following:

Chapter – I: Introduction

This chapter includes background of the study, introduction Everest Bank, statement of the problems, objectives of the study, research methodology, and importance of the study, limitations of the study and chapter plan of the study.

Chapter – II: Review of Literature

This chapter includes review of different textbooks, different thesis, and review of journals, articles and research studies published by various authors.

Chapter – III: Research Methodology

This chapter includes research design, data collection, methods and analysis and research variables.

Chapter – IV: Presentation and Analysis of Data

Data processing, data analysis and interpretation are given in this chapter.

Chapter – V: Summary, Conclusions and Recommendations

The last chapter contains the findings of whole study after which major conclusions and recommendations are provided.

CHAPTER-II

REVIEW OF LITERATURE

Review of literature is a crucial part of all studies. It helps to find out already discovered things. Past studies are also the basis for the research so it cannot be ignored because they provide the foundation to the present study. The review of literature accomplishes the following functions; It establishes a point of departure for future research. It avoids needless duplication of costly research effort. It reveals areas of needed research. The primary purpose of literature is to learn and it helps researcher to find out what research studies have been conducted in one's chosen field of study, and what remains to be done. For review study, the researcher uses different books, reports, journals and research studies published by various institutions, unpublished dissertations submitted by master level students have been reviewed. It is divided into two headings:

- Conceptual Review
- Review of related Studies

2.1 Conceptual Review

2.1.1 Concept of Bank

Bank is financial institutions that accepts deposits and invest the amount in the leading activities. It is a financial intermediary between depositors and entrepreneurs. Bank by accepting deposits, play a role of custodian. Bank plays a great role that it helps investors to invest in different sector by giving a loan. Peter S. Rose "Commercial Bank Management", International Edition. Banks are expected to support their local communities with an adequate supply of credit for all legitimate business and consumer financial needs and to price that credit reasonably in line with competitively determined interest rates. How well a bank performs its lending function has a great deal to do with the economic health of its region because bank loans support the growth of new business and jobs within the bank's trade territory and promote economic vitality. Moreover, bank loans often seem to convey positive information to the marketplace about a borrower's credit quality, enabling a borrower to obtain more and perhaps somewhat cheaper funds from other sources. Banks make a variety of loans to a wide variety of customers for many different purposes-from purchasing automobiles and buying new furniture, taking dream vacations, or pursuing college educations to constructing homes and office buildings.

2.1.2 Concept of Commercial Bank

Banks undertaking business with the objective of earning profits are commercial banks. Commercial banks pool scattered fund and channels it to productive use. Commercial banks can be various forms such as Deposit Banks, Industrial Banks, Mixed Banks, Exim Banks etc. Commercial Banks render a variety of service. In absence of commercial banks, it would have been impossible to meet the financial needs of the country. Commercial bank Act1974 defines a commercial bank: "A commercial bank means bank which deals in exchanging currency, accepting deposit, giving loans and doing commercial transaction. "The commercial bank has its own role and contribution in the economic development. It is a resource for he economic development, it maintain economic confluence of various segments and extends credit to people" *(Ronald, 1999:87)* "Principally commercial bank accepts deposits and provides loans, primarily to business firms there by facilitating the transfer of fund in economy" (*Abrd and gupta, 1987:115*) Commercial banks act as an intermediately; accepting deposits and providing credits to the needy area. The main source of the commercial bank is current deposit, so they give more importance to the liquidity of investment and as such they specialize in satisfying the short-term credit needs of business other than the long-term. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short-term needs of trade and industry such as working capital financing. They cannot finance in fixed assets. They grant credits in the form of cash credits and overdraft. Apart from financing, they also render services like collection of bills and cheques, safe keeping of valuables, financial advising, etc to their customers.

2.1.3 Meaning of Commercial Bank:

Commercial banks are primarily established to perform the functions of accepting deposits and providing loans to customers. Deposits accepted by commercial banks are in the form of saving, current and fixed deposits. Advancing credit in the form of short-term credit to long-term credit.

The commercial banks pool together the savings of the community and arrange for their productive use. They supply the financial needs of modern business. They accept deposits from the public, which are repayable on demand or on short notice. They cannot afford to invest their funds in long-term securities or loans. Their business is restricted to financing the short-term needs of trade and industry. They provide the working capital required by trade and industry in their day-to-day transactions. They grant loans in the form of cash credits and overdrafts. They also render a number of subsidiary services such as collection of bills and cheques, safe keeping of the valuables of their customers, etc.

Without the development of sound commercial banking, underdeveloped countries cannot hope to join the ranks of advanced countries. If industrial development requires the use of capital, the use of capital equipment will not be possible without the existence of banks to provide the necessary capital. Industrial development will be impossible without the existence of markets of the goods produced. On the other hand, the services of the commercial banks will help to extend the market. The commercial banks play an important role as follows:

- Help in Business Expansion
- Encouragement for the Right Type of Industries
- Necessary for Trade and Industry
- Transfer of Surplus Funds to Needy Regions
- Promotion of Capital Formation

2.1.4 Concept of joint venture Banks

When we talk about commercial bank, joint venture also comes under Commercial Banks. A joint venture is joining of forces between two or more enterprises for purpose of carrying out a specific operation, industrial or commercial investment production or trade. (*Gupta, 1984:15*) When two commercial bank from different countries join hand to form an independent enterprise it is said as joint venture commercial bank. When two or more independent firm mutually decides to participate in a business venture, contribute to the total equity or more or less capital and establish a new organization, it is known as a joint venture. Joint venture banks are the mode of trading to achieve mutual exchange of goods and services for sharing competitive advantages by performing joint investment schemes between Nepalese investors, financial and non- financial institution as well as private investors and their parents banks each supplying certain percent of investment.

2.1.5 Joint venture Bank in Nepal

The government realizes to impart a vibrant role and charge the public sector with greater responsibility in fulfilling national goal and objectives. With this realization, the government mushroomed into a number of establishments like agriculture, industry, commerce, public works, transport etc. In this context, banking was seen as a major industry to uplift the economic condition of public and country as well. There for the government was forced to adopt a liberal economic policy regarding operations of banks. About the financial liberalization process it was said that “the interest rate deregulation, curtailment or elimination of directed credits, lifting entry and exit barriers for financial intermediaries, restructuring of banking system and institution for regulatory and supervisory mechanism is some of the key components of such liberalization”*(Shrestha,2051:27)* In Nepal, Nepal Arab Bank Limited, was the first joint venture bank which was established in 2041 B.S.Its joint venture partner was Emirates Bank international Limited, Deirm Dubai. Restoration of democracy and liberal economic policy of the government led the opening of various joint ventures in Nepal. All the Nepalese joint venture banks established and operated under the rules and regulation and guidance of Nepal Rastra Bank. When government decided to establish banks with joint ventures, two benefits were expected. First that the competition would force domestic banks: NBL and RBB to improve their service and efficiency. Second, the introduction of new banking procedures, methods and technology would occur.

2.1.6 Functions of Commercial Banks

The business of commercial bank is primarily to hold deposits and make credits and investments with the object of securing profits for its shareholders. Its primary motive is profit; other considerations are secondary. The major functions of commercial banks are as follows: Accepting Deposit, Advancing credits, Agency Services, Credit Creation, Financing of Foreign Trade, and Safekeeping of valuables, Making Venture Capital Credits, Financial Advising, and

Offers Security Brokerage Services. Invest in government securities, Act as a trustee when so nominated, Supply trade information and statistical data.

i) Assist in foreign Trade:

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

ii) Offers Investment Banking and Merchant Banking Services:

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

2.1.7 Concept of Credit

Credit is the amount of money lent by the creditor (bank) to the borrower (customers) either on the basis of security or without security. Sum of the money lent by a bank, is known as credit (Oxford Advanced Learners Dictionary, 1992). Credit and advances is an important item on the asset side of the balance sheet of a commercial bank. Bank earns interest on credits and advances, which is one of the major sources of income for banks. Bank prepares credit portfolio, otherwise it will not only add bad debts but also affect profitability adversely *(Varshney and Swaroop, 1994:42)* Credit is financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for an obligation of repay on specified on demand. Banks generally grants credit on four ways:

- Overdraft
- Cash Credit
- Direct Credit
- Discounting of Bills

2.1.8 Types of Credit

Overdrafts:

It denotes the excess amount withdrawn over their deposits.

Cash Credit:

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

Term Credit:

It refers to money lent in lump sum to the borrowers. It is principle form of medium term debt financing having maturities of 1 to 8 years. Barely and Myers urge that bank credits with maturities exceeding 1 years are called term credits. The firm agrees to pay interest based on the bank's prime rate and to repay principle in the regular installments. Special patterns of principle payments over time can be negotiated to meet the firm's special needs *(Richard, 1996:89)*

Working Capital Credit:

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

Priority or Deprived sector Credit:

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

- Advances to poor/downtrodden/weak/deprived people up to Rs. 30,000 for generating income or employment.
- Institutional Credit to Rural Development Bank.

- Credits to NGOs those are permitted to carryout banking transactions for lending up to Rs.30, 000.

Hire Purchase Financing (Installment Credit):

Hire-Purchase credits are characterized by periodic repayment of principle and interest over the maturity of the credit. Hirer agrees to take the goods on hire at a stated rental including their repayment of principle as well as interest with an option to purchase. A recent survey of commercial banks indicates those banks are planning to offer installment credits on a variable rate basis. It can be secured and unsecured as well as direct and indirect installment credits on a variable rate basis. It can be secured and unsecured as well as direct and indirect installment credit.

Housing Credit (Real Estate Credit):

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

Project Credit:

Project credit is granted to the customers as per project viability. The borrowers have to invest certain proportion to the project from their equity and the rest will be financed as project credit. Construction credit is short-term credits made to developers for the purpose of completing proposed projects. Maturities on developers for the purpose of completing proposed projects. Maturities on construction credits range from 12 months to as long as 4 to 5 years, depending on the construction credits range from 12 months to as long as 4 to 5 years, depending on the size of the specific project . The basic guideline principle involved in disbursement policy is to advance funds corresponding to the completion policy is to advance funds corresponding to the completion stage of the project. Term of credit needed for project fall under it.(Johnson,1940:83)

Consortium Credit:

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

Credit Cards and Revolving Lines of Credit:

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

Off-Balance Sheet Transaction:

In fact, bank guarantee and letter of credit refer to off balance sheet transactions of financial institution. It is also known as contingent liability. Contingent liability pinpoints the liability, which may or may not arise during the happening of certain event. Footnotes are kept as references to them instead of recording in the books of accounts. It is non-funded based remunerative facilities but more risky than the funded until adequate collateral are not taken. Lets its two varieties be described separately.

Bank Guarantee:

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

Letter of Credit (L/C):

It is issued on behalf of the customer (buyer/importer) in favor of the exporter (seller) for the import of goods and services stating to pay certain sum of money on the submission of certain documents complying the stipulated terms and conditions as per the agreement of L/C. It is also known as importers letter of credit since the bank of importer do not open separate L/C for the trade of same commodities.(Jhonson, 1940:85)

2.1.9 Objectives of the Sound Credit Policy

The purposes of a written credit policy are:

- To assure compliance by lending personnel with the bank's polices and objectives regarding the portfolio of credits
- To provide personnel with a framework of standards within which they can operate.

2.1.10 Lending Criteria

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

i). Character

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

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

ii). Capacity

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

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

iii). Capital

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

iv). Collateral

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

v). Conditions

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

2.1.11 Principle of Credit Policy

Good credit policy is essential to carry out the business of lending more effectively. Some policies are as follows:

i) Principle of Safety Fund

Banks should look the fact that is there any unproductive or speculative venture or dishonest behavior of the borrower.

ii) Principle of Liquidity

Liquidity refers to pay on hands on cash when it needed without having to sell long-term assets at loss in unfavorable market. A banker has to ensure that money will come in as on demand or as per agreed terms of repayment.

iii) Principle of Security

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

iv) Principle of Purpose of Credit

Generally, credit request would be accepted for productive sector only. Bank should be rejected credit request for speculation, social functions, pleasures trips, ceremonies and repayment of prior credit as they are unproductive.

v) Principle of Profitability

Profitability denotes the value created by the use of resource is more than the total of the input resources. Bank should provide to such project that can provide optimum amount of return. For such purpose, bank should take a little bit risk by providing to venturous project. vi) Principle of Spread Portfolio of credit advances is to be spread not only among many borrowers of same industry. It across the industries in order to minimize the risk of lending by keeping "Do not put your all eggs in the same basket" in mind.

vii) Principle of National Interest

In lending and granting advances, interest of nation should not be distorted (if undermined). Priority and deprived sector of economy and other alarming sector should be given proper emphasis while extending advances.

2.1.12 Project Appraisal

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

Questions:

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

Generally, the project appraisal involves the investigation from the following aspects

- Financial aspect
- Economic aspect
- Management /organizational aspect
- Legal aspect

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

i) Credit classification and provisioning

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

Those credits that have not crossed the time schedule of repayment and are within 3 months delay of maturity date fall under the classification topic ‘pass credit’. It is also known as performing credit Sub standard credit are those credit which are already crossed the repayment time schedule and are within 3-6 months delay of maturity date. Likewise, within 6-12 months from the time to be recovered are classified as doubtful credit. Those credits, which are not recovered yet after 1 year from maturity date, are known as bad credit. All the above 3 types of credits are classified as non-performing credit also. The credit loss provision for performing credit is termed as general credit loss provision whereas the credit loss provision for non-performing credit is termed as specific credit loss provision. Auditor has to correctly rate the credit and ensure that accurate credit loss provision has been made. The auditor should examine whether the bank has obtained complete documentation so that banks interest is secured. In addition audit is made to inspect compliance of terms and conditions laid down. Credit audit is required to check whether credit given is within authority, drawing power, etc. Credit audit helps the bank to know quality of its credit, its weakness and strengths. This, in turn, helps the bank to adopt corrective measures where weaknesses have been pointed out and to focus further on strengths. General guidelines whether to reject or renew the credit can be established with the help of credit audit.

ii) Limit of Credit and Advances in a Particular Sector

- Fund based credit and advances can be issued up to 25% (upper limit) of core capital to a single customer, firm, company and a group of related customer.
- Non-fund based (off-balance items) can be issued up to 50% of core capital to a single customer, firm, company and group of related customer. Note: The core capital includes {paid up capital + share premium + no redeemable preference share + general fund + accumulated profit (loss) – goodwill (if any included)}. Group of related customer:

- If a company takes 25% or more share of another company.
- Member of board of directors of company shareholders of private limited company and such members and shareholders with others in a single house, even of husband, wife, son, daughter, daughter in law, unmarried daughter, adopted son, adopted unmarried daughter, father, mother, stepmother, brothers and sisters whom be should look after. And the above members personally or combined take 25% or more share of another company.

- Firm, company and members as a related group.
- Members of board of directors, shareholders and other relatives as stated in serial number 'b' takes less than 25% of board of directors of the company solely r combined but have control on the other company by the following ways:

  - ✓ Being president of board of directors of the company.
  - ✓ Nominating more than 25% of members of board of directors of the company.

2.2 Review of related studies

In this thesis, I have attached the previous thesis review, which are mainly concerned about lending practices investment policy, credit management lending policy and loan management in the similar field of commercial bank.

Purushottam Paudel (2001) in *"A study on lending practices of joint venture commercial banks with reference to Nepal Bangladesh Bank Ltd. and Himalayan Bank Ltd."* has made comparative study of this two banks in different lending aspects. As per his findings the liquidity position of NBBL is comparatively better than HBL. The liquidity ratio of HBL is more stable and consistent than NBBL which indicates the stable policy of HBL. NBBL is found slightly better to be maintaining between assets and liabilities. NBBL has high loan and advances to total assets ratio, loan and advances to total deposit ratio, but HBL has high investment to total loans and advances and investment and total investment to total deposit ratio. He has concluded that NBBL is able to manage its assets to complete in this competitive banking business than HBL.As per his findings the liquidity position of NBBL is better and hence HBL is recommended to increase its liquidity position. He has suggested both banks to strictly follow the NRB directives which will help them to reduce credit risk arising from borrower's defaulter, lake of proper credit appraisal, defaulter by blacklisted borrowers and professional defaulter. Loan loss provision of both banks is in fluctuating trend. So both banks are suggested to adopt sound credit collection policy which wills helps to decrease loan loss provision.

Lila Prasad Ojha, (2002) conducted study in *"Lending practices; a study on Nabil Bank Ltd., Standard Chartered Bank Ltd, & Himalayan Bank Ltd."* In his research it is found that the liquidity positions of all these banks are found to be high so they are recommended to search for ppropriate areas of lending and investments. SCBNL's contribution in loans and advances is the lowest and this has low degree of variation and low growth rate as compare to Nabil and HBL.Thus SCBNL is recommended to give extra priority on Productive and priority sector loan.The increasing provision on loan loss and high volume of non-performing assets in Nabil and HBL is certainly attracts the high attention of any person interested with these banks. The high volume of non-performing assets of HBL may be failure due to industrial and agriculture 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 high efficiency of anagement. He adds that the over confidence in commercial banks regarding credit appraisal efficiency and negligence in taking information from Credit Information Bureau has caused many of the bad debts in these banks. Hence these banks are ecommended to follow NRB directives strictly and be more realistic while ranting loans and advances. The low provisioning on loan loss and low percentage of non-performing loans in SCBNL is not due to the proper lending and investment of this bank but the bank tends to have less concentration towards lending and investment.

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

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

Parajuli. S. (2003) *"Credit management of joint venture banks"* States that concept of financial reform emerged since 1980s with economic liberalization. Nepal Government and NRB published the economic and monitory policy to support such reform. As the result of these policies various jointed venture bank established in the private sector.

Under the structural adjustment program of the IME the financial sector was further liberalized in 1987. The focus of NRB was placed on indirect monitory control. The agricultural development bank of Nepal and Nepal industrial development corporation were allowed to issue debentures to increase their financial resources. NRB strengthened its regulation and supervision of banking and financial institution and the commercial banks were granted virtually freedom to fix their interest rates on deposit in July 1989 except for the priority sector credit. The credit information Bureau was established in 1989. NRB started to control the financial institutions with strengthening to supervision and monitoring system. It has also pointed out the need of having deposit taking institutions act which it’s on umbrella act of all deposit taking institution. Some of the main elements of financial sector reform strategy published by NG in December 2000 such as restructuring the government owned banks strengthening the commercial banks regulation accounting and auditing system improving the regulation and supervision on non banking deposit institutions.

The main statement of the problem of the study is government owned banks are in critical condition they are unable to recover the credit. Financial sector reform programs are not being able to achieve the expected target. Performance on the credit is poor in the government banks. Amount of non - performing assets is increasing. Generally, it is accepted If bank maintain low ratio, bank may not able to make the payment of against cheque that disadvantage sector in the economy such as the farmer and the small business have been neglected by the banking industry. In other words such sectors in the economy are not receiving the financial supports as commercial banks hesitate to be involved in these sectors where they do not see adequate profit.

Dahal I. B. (2004) *"A comparative study of financial performance of NBBL and HBL"* states that the liquidity ratio measures the ability of a firm to meet its short-term obligations and select the short term financial solvency of a firm. The liquidity position of the banks in term of current ratio shows that the ratios of NBBL are always above then normal standard (i.e.2:1) where as HBL's ratio is always below than normal standard. It shows that the liquidity position in term of current assets to current liability of NBBL is better than HBL. Therefore, it is concluded that NBBL is better short -term solvency position as compared with

HL. The liquidity position of NBBL in term of cash and bank balance to deposit ratio is higher than that of HBL (i.e.39.09 percentage>11.85% on an average). Therefore, it is concluded that NBBL has sufficient cash and bank balance to its deposit except fixed deposit then that of HBL. Likewise, the liquidity position of NBBL in term of cash and bank balance to current deposit ratio is found higher than HBL (i.e. 165.95%>63.16% in an average). Here, NBBL has so high ratio that it is bad because "ideal assets earn nothing." Therefore, NBBL should invest in productive area.

This analysis shows that NBBL has more cash ideal than HBL. The main statement of the problem of his research is the main objective of the bank to collect deposits as much as possible from the customer to be mobilized into the most profitable and preferable sector. The study basically focused on the financial performance of HBL and NBBL. In Nepal many banks and financial companies have opened up within a span of few years. Although joint venture banks have managed to perform better than other local commercial banks within the short period of time they have been facing a neck to neck competition against one another. Therefore, it is necessary to analyze the profit present study seeks to explore the efficient and comparative financial performance of HBL and NBBL. In Nepal, the profitability rate operating expenses and dividend distribution rate and the shareholders have been found different in the financial performance of the two joint venture banks in different period. The problem of the study will ultimately find out the reasons about different in financial performance.

Shrestha S. (2004) *"Credit management with special reference to Nepal SBI Bank ltd"* states that lending is one of the most important sparts of function of a commercial bank and composition of loan and advances directly affects the performance and profitability of the bank. There is intense competition in banking business with limited market and less investment opportunities available. Every bank is facing the problem of default loan and there is always possibility of a certain portion of the loan and advances, profitability deposits position of Nepal SBI Bank Limited is analyzed and its contribution in total profitability has been measured. The main statement of the problem of his study is the credit management is the essence of commercial banking. Consequently, the formulation and implementation of sound Credit policies are among the most important responsibilities of bank directors and management. Well-conceived credit policies and credit careful credit practice are essential if a bank is to perform its credit creating function effectively and minimize the risk inherent in any extension of credit-credit management effects on the company's profitability and liquidity so it is one of the crucial decisions for the commercial banks.

Paudel H. (2006) *"A Comparative study on Nepal Siddhartha bank Ltd and Himalayan Bank Ltd"* states that interest income from loan and advances are the main sources of income, which will increases profit of commercial bank. The main ratio of interest income to total income of NSBL is higher than that HBI. NRB has restricted the gap between the interest taken in loan and advances and interest offered in deposit. HBL have higher mean ratio of interest income to interest expenses and total income to expenses ratio than that of NSBL. HBL has maintained high return in every reflect than that of NSBL. Among the various measurement of profitability ratios return to equity and earning per share, reflects the relative measure of profitability. The performance of NBL is higher than that of NSBL. Coefficient of correlation between deposit and loan and advances total income and loan and advances of both bank have positive value there is significant relationship between deposit and loan and advances total income and loan and advances. Coefficient of correlation between net profit and loan and advances of both bank have positive relationship. But the number of HBI is greater than number of NSBL. There is no significant relationship between net profit and loan and advances of both banks. They are greater than number of both banks. The main statement of the problem of his research is the present banking system is the result of liberalization of economy requirement and globalization in 1990s. The development of banking in both quality and quantity was satisfactory. How ever, subsequent development of commercial banks in quality has not been satisfactory; commercial bank in Nepal has been facing several challengers.

- Joint venture banks have concerned in granting loan to the primary sector
- Joint venture banks have concerned their operation only in urban areas.
- Some of them arising from lack of smooth functioning of economy.
- Some of them arising due to confused policies and many of them due to default of the borrowers.
- Lending in industries and productive sectors is very risky project.
- Banks are investing in housing loan hire purchase loan for safety purpose.

2.3 Research Gap

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make this study meaningful and purpose. There are various researchers conduct on lending practice, financial performance and credit management of commercial bank. Some of the researchers have compared the financial performance between two or three different commercial bank. In order to perform those analysis researchers have used ratio analysis. Thesis done by shrestha an credit management of commercial bank with special refers to Nepal SBI bank ltd on 2004 and Bista done by financial performance of NABIL bank on 2002.however no one has done study on “credit policy with special refers to Everest Bank Ltd”. There fore the researcher attempts to study in this area. Since the researcher have used data only five fiscal year. In this study researcher also used the different statistical tools like coefficient of correlation and trend analysis to analyze the data.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

Research is a systematic and organized effort to investigate a specific problem that needs a solution. This process of investigation involves a series of well thought out activities of gathering, recording, analyzing and interpreting the data with the purpose of finding answers to the problem. Thus, the entire process by which we attempt to solve problems or search the answers to questions is called research. Research Methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it, we study the various steps that are generally adopted by a researcher, studying his research problem among with the logic behind them *(Kothari, 1990:13).* The search for going the knowledge about method of goal achievement, which is desire, is known as research methodology *(Joshi, 2001:12).* A research methodology helps us to find out accuracy, validity and suitability. The justification the present study cannot be obtained without help of proper research methodology. For the purpose of achieving the objectives of study, the applied methodology will be used. The research methodology has primarily sought the evaluation of the credit practices of Everest Bank Ltd. The research methodology adopted in this chapter follows some limited but crucial steps aimed to achieve the objectives of the research.

3.2 Research Design

A research design is an overall framework or plan for the collection and analysis of data. The research design serves as a framework for the study, guiding the collection and analysis of the data. The research design then focuses on the data collection methods, the research instruments utilized, and the sampling plan to be followed. Specifically research design describes the general plan for collecting, analyzing and evaluating data after identifying,

- What the researcher wants to know and
- What has to be dealt with in order to obtain the required information? *(Wolf & Pant, 2002:50)*

Research design is the plan, structure, and strategy of investigation conceived so as to obtain answers to research questions and to control variance. The plan is the overall scheme or program of the research. It includes an outline of what the investigator will do from writing the hypotheses and their operational implications to the final analysis of data. The structure of the research is more specific. Thus, a research design is a plan for the collection and analysis of data. If presents a series of guide posts of enable the researcher to progress in the right direction in order to achieve the goal. The design may be a specific presentation of the various steps in the problems, formulation of hypothesis, conceptual clarity, methodology, survey of literature and documentation, bibliography, data collection, testing of the hypothesis, interpretation, presentation and report writing. Generally, a common research design possesses the five basic elements viz.

(i) Selection of problem

(ii) Methodology

(iii) Data gathering.

(iv) Data analysis and

(v) Report writing.

But in this thesis I am using different types of ratio analysis, statistical tools like arithmetic mean, correlation coefficient, probable error, trend analysis.

3.3 Sources of Data:

There are two sources of data collection. They are primary source and secondary source. But only secondary source of data is used in this study.

Secondary Source

This refers to data that are already used and gathered by others. Secondary data are mostly used for this research purpose. So the major sources of secondary data are as follows

- Economy survey of NG, Ministry of finance.
- Annual general report of EBL.
- National newspaper, journals and magazine and reports for Central Library of T. U., Library of Shanker Dev Campus.
- Internet.
- NRB directives.

3.4 Population and Sample

Population refers to the entire group of people, events, or things of interest that the researcher wishes to investigate. The researcher cannot normally survey everyone in the population so a small part of the total population is taken to represent the total population. Hence, a sample is a collection of items or elements from a population or universe. It comprises some observations selected from the population. Here Everest Bank Limited has been selected as sample for the present study. Similarly, financial statements of this bank for 5 years have been taken as samples for the same purpose.

3.5 Methods of Data Analysis

Mainly financial methods are applied for the purpose of this study. Appropriate statistical tools are also used. Among them correlation analysis regarded as major one is used for this research. To make the study more specific and reliable, the researcher uses two types of tool for analysis,

a) Financial Tools

b) Statistical Tools

3.5.1 Financial Tools

For the sake of analysis, various financial tools were used. The basic tools used were ratio analysis and income and expenditure analysis.

3.5.1.1 Ratio Analysis:

Ratio refers to the numerical or quantitative relationship between two items/variables. A ratio is calculated by dividing one item of relationship with the other. The technique of ratio analysis is apart of the whole process of analysis of financial statements of any business of industrial concern especially to take output and credit decisions. A ratio is a figure or a percentage representing the comparison of one-dollar amount with some other dollar amount as a base *(Roy, 1974:98).* Ratio analysis is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. In financial analysis a ratio is used as an index or yardstick for evaluating the financial position and performance of a firm. Ratio helps to summarize the large quantities of financial data and to make qualitative judgment about the firm's financial performance *(Pandey, 1979:97).* A large number of ratios can be generated from the components of profit and loss account and balance sheet. They are sound reasons for selecting different kinds of ratios for different types of situations. For this study, ratios are categorized into the following major headings:

A. Liquidity Ratio:

Liquidity refers to the ability of a firm to meet its short- term or current obligations. So liquidity ratios are used to measure the ability of a firm to meet its short-term obligations and from them the present cash solvency as well as ability to remain solvent in the event of adversities of the same can be examined (Van Horne, 1999:693). Inadequate liquidity can lead to unexpected cash short falls that must be covered at inordinate costs, thus reducing profitability. In the worst case, inadequate liquidity can lead to the liquidity insolvency of the institution. On the other hand, excessive liquidity can lead to low asset yields and contribute to poor earnings performance. *(Scott, 1992:140).* To find -out the ability of bank to meet their short-term obligations, which are likely to mature in the short period, these ratios are calculated. The following ratios are developed under the liquidity ratios to identify the liquidity position.

i) Cash and Bank Balance to Total Deposit Ratio:

This ratio shows the ability of banks immediate funds to cover their deposit. Higher the ratio shows higher liquidity position and ability to cover the deposits and vice versa. It can be calculated by dividing 'cash and bank balance' by deposits. This ratio can be calculated using the following formula.

$$\text{Cash and Bank Balance to Total Deposit Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposits}}$$

ii) Cash and Bank Balance to Current Deposits Ratio:

This ratio is computed to disclose the soundness of the company to pay total calls made of current deposits. It can be expressed as:

$$\text{Cash and Bank Balance to Current Deposit Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Current Deposit}}$$

iii) Cash and Bank Balance to Interest Sensitive Deposit Ratio.

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

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

B. Activity/Efficiency Ratio:

It is also known as turnover or efficiency ratio or assets management ratio; measures how efficiently the firm employs the assets. Turnover means; how much number of times the assets flow through a firm's operations and into sales (Kulkarni, 1994:138). Greater rate of turnover or conversion indicates more efficiency of a firm in managing and utilizing its assets, being other things equal. Various ratios are examined under this heading.

i) Credits and Advances to Total Deposits Ratio:

Commercial banks utilize the outsider's fund for profit generation purpose. Credits and advances to deposit ratio shows whether the banks are successful to utilize the outsiders funds (i.e. total deposits) for the profit generating purpose on the credit and advances or not. Generally, a high ratio reflects higher efficiency to utilize outsider's fund and vice-versa. The ratio can be calculated by using following formula.

$$\text{Credits and Advances to Total Deposits Ratio: } = \frac{\text{Credit and Advances}}{\text{Total Deposits}}$$

ii) Credits and Advances to Fixed Deposit Ratio:

Fixed deposits are the long-term interest bearing obligations and credits and advances is the major sources of investment to generate the income by the commercial banks. This ratio measures how many times the amount is used in credits and advances in comparison to fixed deposit for the income generating purpose. The ratio is slightly differ with the former one, because it only includes the fixed deposits, where as the former on includes all the deposits. The following formula is used to obtain this ratio.

$$\text{Credits and Advances to Fixed Deposit Ratio} = \frac{\text{Credits and Advances}}{\text{Fixed Deposits}}$$

iii) Credit and Advances to Total Assets Ratios:

It measures the ability in mobilizing total assets into credits and advances for profit generating income. A higher ratio is considered as an adequate symbol for effective utilization of total assets of bank into credit and advances which creates opportunity to earn more and more. It is calculated as:

$$\text{Credit and Advances to Total Assets Ratio} = \frac{\text{Credits and Advances}}{\text{Total Assets}}$$

iv) Non-Performing Assets to Total Assets Ratio:

This ratio represents the proportion between the non-performing assets and total assets of bank. It shows the how much assets is non –performing or idle in the total assets of bank. Higher NPA to total assets ratio indicates the worst performance, which reduces the profitability of bank. Lower ratio indicates the better performance and higher profitability of the bank .

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

C. Leverage Ratio:

The use of finance is refers by financial leverage. When a firm borrows money, it promises to make series of fixed payments, which create financial leverage (Brealy, & Myers 1991:677).These ratios are also called solvency ratio or capital structure ratio. These ratios indicate mix of funds provided by owners and lenders. As a general rule, there should be an appropriate mix of debt and owner's equity in financing the firm's assets. To judge the long-term financial position of the firm, leverage ratios are calculated. This ratio highlights the long-term financial health, debt servicing capacity and strength and weaknesses of the firm. Following ratios are included under leverage ratios.

i) Total Debt to Equity Ratio:

Total debt to equity ratio measures the relative proportion of outsiders and owner's funds employed in the total capitalization. Here, total debt includes total deposits, bills payable and other liabilities of the bank and equity includes paid up capital and reserves. The formula used to determine the ratio is:

$$\text{Total Debt to Equity Ratio} = \frac{\text{Total Debet}}{\text{Equity}} \times 100\%$$

ii) Total Assets to Net worth Ratio:

The ratio is calculated to find out the proportion of owner's fund to finance for the total assets. Total Assets comprises of the total value of the assets side of balance sheet where as net worth is the sum of the share capital plus reverses and retained of the bank. It is calculated to see the amount of assets financed by net worth.

$$\text{Total Assets to Net worth Ratio} = \frac{\text{Total Assets}}{\text{Networth}} \times 100\,\%$$

iii) Total Debt to Total Assets Ratio:

It examines the relationship between borrowed funds (i.e. total debt) and total assets. It shows the relative extent to which the firm is using borrowed money. A lower ratio is preferable since it reduces the distress of the creditors by using more amount of equity on total assets. Total debt includes both current liabilities and long term debt. Creditors prefer low debt ratios because the lower the ratio, the greater the cushion against creditors losses in the event of liquidation. Stockholders on the other hand may want more leverage because it magnifies expected earnings. It is computed as:

$$\text{Total Debt to Total Assets Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}} \times 100\ \%$$

D. Profitability Ratio

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

i) Net Profit to Gross Income Ratio

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

$$\text{Net Profit to Gross income ratio} = \frac{\text{Net profit}}{\text{Gross income}} \times 100\%$$

ii) Interest Income to Total Income Ratio

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

$$\text{Interest income to total income ratio} = \frac{\text{Interest income}}{\text{Total income}} \times 100\%$$

iii) Operating Profit to Loan and Advances Ratio

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

$$\text{Operating profit to loan and advances ratio} = \frac{\text{Operating profit}}{\text{Loan and advances}} \times 100\%$$

iv) Return on Loan and Advances Ratio

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

$$\text{Return on loan and advances} = \frac{\text{Net Profit}}{\text{Loan and advance}} \times 100\%$$

v) Net Profit to Total Assets

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

This ratio is computed by –Net profit to total assets ratio = $\frac{\text{Net profit}}{\text{Total assets}} \times 100\%$

vi) Earning Per Share (EPS)

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

Earning per share = $\frac{\text{Profit after tax}}{\text{Nomar. of common share}} \times 100\%$

vii) Price Earning Ratio

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

Earning per share = $\frac{\text{Earning per share}}{\text{Market value per share}} \times 100\%$

E. Lending Efficiency Ratio

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

i) Loan Loss Provision to Total Loan and Advances ratio

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

$$\text{Loan loss provision to total loan and advances} = \frac{\text{Loan loss provision}}{\text{Total loan and advances}} \times 100\%$$

ii) Non-Performing Loan to Total Loan and Advances

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

$$\text{Non-performing loan to total loan and advances} = \frac{\text{Non - Preforminf loan}}{\text{Total loan and advance}} \times 100\%$$

iii) Interest Expenses to Total Deposit Ratio

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

Interest Expenses to Total Deposit Ratio = $\frac{\text{Intrest Expenses}}{\text{Total deposit ratio}} \times 100\%$

3.5.2 Statistical Tools:

For supporting the study, statistical tool such as Mean, Standard Deviation, Coefficient of Variation, Correlation, Trend Analysis, Hypothesis and diagrammatic cum pictorial tools have been used under it.

i) Arithmetic Mean (Average):

"Arithmetic Mean is statistical constants which enables us to comprehend in a single effort of the whole." *(*Bowley, 2000:357*).* It represents the entire data by a single value. It provides the gist and gives the bird's eye view of the huge mass of unwieldy numerical data. It is calculated as:

$$\overline{X} = \frac{\sum X}{N}$$

Where,

$\overline{X}$ = Arithmetic mean

N = Number of observations

$\sum X$ = Sum of observations

ii) Correlation Coefficient (r):

Correlation may be defined as the degree of linear relationship existing between two or more variables. These variables are said to be correlated when the change in the value of one results change in another variable. Correlation is of three types. They are Simple, Partial and Multiple correlations. Correlation may be positive, negative or zero. Correlation can be classified as linear or non- linear. Here, we study simple correlation only." In simple correlation the effect of others is not included rather these are taken as constant considering them to have no serious effect on the dependent variable (Pant and Chaudhari, 2055:281-284).

It is calculated as:

$$r_{x1x2}=\frac{N\sum X_1X_2 - (\sum X_1)(\sum X_2)}{\sqrt{[N\sum X_1^2-(\sum X_1)^2]}\sqrt{[N\sum X_2^2-(\sum X_2)^2]}}$$

Whereas,

r_{x1x2} = Correlation between X_1 and X_2

$N\Sigma X_1X_2$ = No. of Product observation and Sum of product X_1 and X_2

$\Sigma X_1 \Sigma X_2$ = Sum of Product X_1 and sum of Product X_2

iii) Probable Error:

The probable error of the coefficient of correlation helps in interpreting its value. With the help of probable error, it is possible to determine the reliability of the value of the coefficient in so far as it depends on the conditions of random sampling. The probable error of the coefficient of correlation is obtained as follows:

$$P.E. = 0.6745 \frac{1-r^2}{\sqrt{N}}$$

Here, r = Correlation coefficient

N = Number of pairs of observations

If the value of 'r' is less than the probable error, there is no evidence of correlation, i.e., the value of 'r' is not at all significant. Then, if the value of 'r' is more than six times of the probable error, the coefficient of correlation is practically certain, i.e., the value of 'r' is significant.

iv. Trend Analysis

The least square method to trend analysis has been used in measuring the trend analysis. This method is widely used in practice. The straight line trend of a series of data is represented by the following formula.

$Y = a + bx$

Here,

Y is the dependent variable, A is y intercept or value of y when x=0, b is the slope of the trend line or amount of change that comes in y for a unit change in x.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter deals with the presentation, analysis and interpretation of relevant data of Everest Bank in order to fulfill the objectives of this study. To obtain best result, the data have been analyzed according to the research methodology as mentioned in third chapter. The purpose of this chapter is to introduce the mechanics of data analysis and interpretation. With the help of this analysis, efforts have been made to highlight credit management of Everest Bank as well as other cases or problems of Everest Bank can be visualized. For analysis, different types of analytical methods and tools such as financial ratio analysis as well as statistical analysis are used.

4.2 Financial Statement Analysis

Financial analysis is done by applying various financial tools in order to clear picture on the viability of the project. The financial analysis is done to ascertain the liquidity, profitability, leverage, debt servicing and interest servicing ability of the firm. The concept of financial statement analysis has been already discussed in previous chapter. Here, we study and analyze the data by using accounting tools.

4.2.1 Ratio Analysis

Ratio is the relationship between two figures. They provide two important fact about the management: the return on investment and the soundness of the company’s financial position. A single ratio will not depict a true picture of the unit. Hence a combination of ratios must be analyzed to drive a true picture. Ratio analysis has been already discussed in previous chapter. Here, different ratios of
Everest Bank will be calculated, analyzed and interpreted.

A. Liquidity Ratio:

Liquidity refers to the ability of a firm to meet its short- term or current obligations. So liquidity ratios are used to measure the ability of a firm to meet its short-term obligations. Inadequate liquidity can lead to unexpected cash short falls that must be covered at excessive costs reducing profitability. In the worst case, inadequate liquidity can lead to the liquidity insolvency of the institution. To find - out the ability of the bank to meet their short-term obligations, which are likely to mature in the short period, the following ratios are developed under the liquidity ratios to identify the liquidity position.

i) Cash and Bank Balance to Current Deposit Ratio:

This shows the ratio between cash & bank balance to current deposit. Cash and bank balance is the outcome of deposit of customers plus other income and reserves of the bank. Bank is liable to customer to pay out upon demand of customers so we are trying to find the comparative study between them.

$$\text{Cash \& bank balance to current deposit} = \frac{\text{Cash \& Bank Balance}}{\text{Current Deposit}} \times 100\%$$

Table No. 1

Cash and Bank Balance to Current Deposit Ratio of Everest bank

(Amount in Rs. Lakhs)

Year	Cash	Bank Balance	Current deposit	Ratio (Times)
2005	1366	10029	5623	2.02
2006	1287	5030	7197	0.88
2007	1925	8573	10250	1.02
2008	2593	12936	11457	1.36
2009	5349	18563	16739	1.43
Mean				1.342

Source: EBL of annual report

Table no 1 shows that the Cash and bank balance to current deposit ratio of EBL bank is 2.02, 0.88, 1.02, 1.36, and 1.43 times respectively from the first year to last year of the research period. The average is 1.342 times, which means consistency in this ratio during the research period. Cash and bank balance should be sufficient to meet the demand of current depositors otherwise the bank would lose its image from the viewpoints of customers. In the case of EBL bank, the cash and bank balance may be called as enough to meet the demand of customers because the average ratio is 1.342 times.

ii) Cash and Bank Balance to Total Deposit Ratio:

This cash & bank balance to total deposit ratio shows that percentage relation between them. It means the liquid balance available in respect to total deposit of the bank whereas the difference between the cash & bank balance to total deposit is said as the investment of the bank. The reserve requirement below 10% of deposit liabilities is noted as fully liberalized, 10%-15% as largely liberalized, 15%-25% as partially repressed and above 25% as completely expressed, it is ranked by 3, 2, 1 and 0 respectively

$$\text{Cash \& bank balance to total deposit} = \frac{\text{Cash \& Bank Balance}}{\text{Total Deposit}} \times 100\%$$

Table 2Cash and Bank Balance to Total Deposit ratio of EBL

(Amount in Rs. Lakhs)

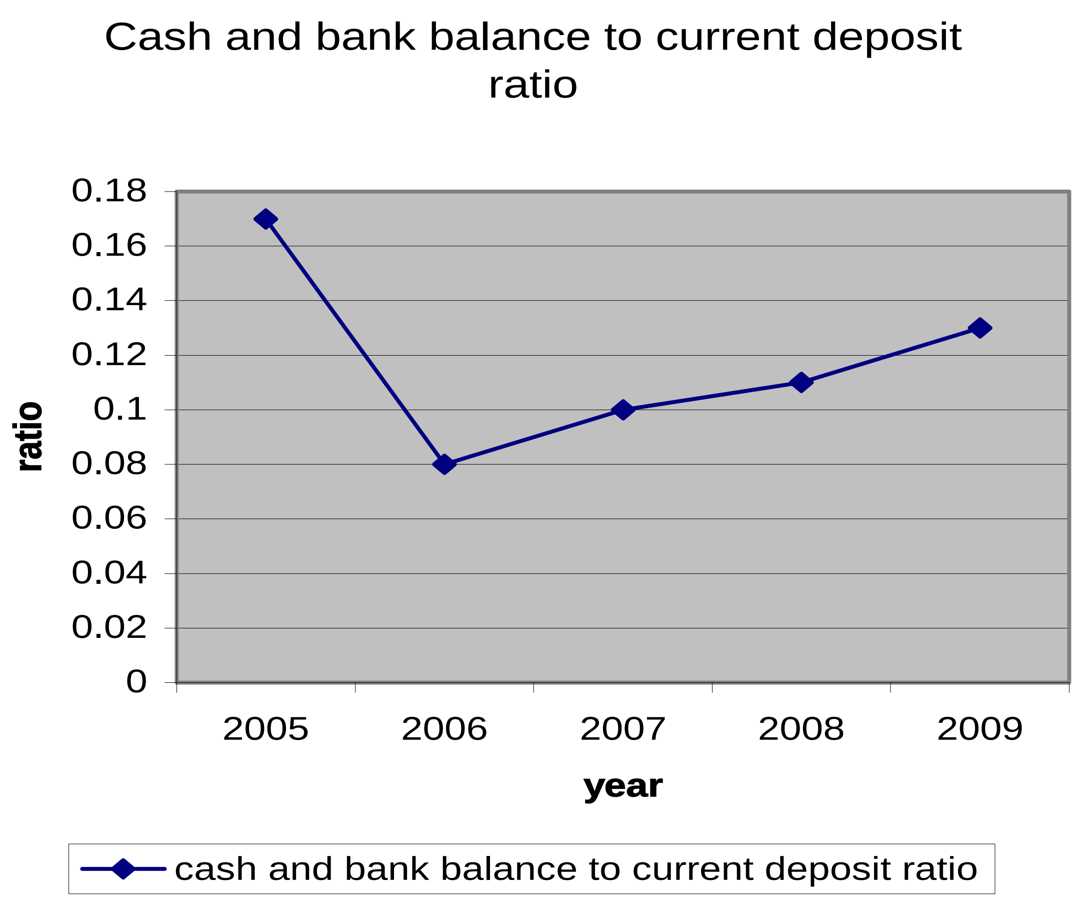
Year	Cash	bank balance	Total Deposit	Ratio(Times)
2005	1366	10029	66949	0.17
2006	1287	5030	80369	0.08
2007	1925	8573	100976	0.1
2008	2593	12936	138024	0.11
2009	5349	18563	181862	0.13
Mean				0.12

Source: EBL of annual report

Table no 2 shows that the cash and bank balance to total deposit ratio of EBL is in a fluctuating trend. The highest ratio is 0.17 times in year 2005 and the lowest ratio 0.08 times in year 2006.

The mean ratio is 0.118 times in the study period. This means that the bank is able to maintain this ratio in the good liquidity position of the bank. Ratio is 0.17 times in year 2007. This shows a high liquidity position of the bank. Ratios are 0.08, 0.10, 0.11 times in year 2006, 2007, 2008, these shows low liquidity position of the bank. Therefore, it shows good utilization of resource. Cash reserve ratio, in year, 2005 in 17%. It is partially low repressed in year 2006 is 8%, and around 10% in 2007 and 11% in 2008 and 13% in 2009. Cash & bank balance to total deposit ratio is shown in the following graph. It still shows the need for further utilization of resources.

Figure No.1



iii) Cash and Bank Balance to Interest Sensitive Deposit Ratio.

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

Table no 3

Cash and Bank balance to interest sensitive deposit Ratio

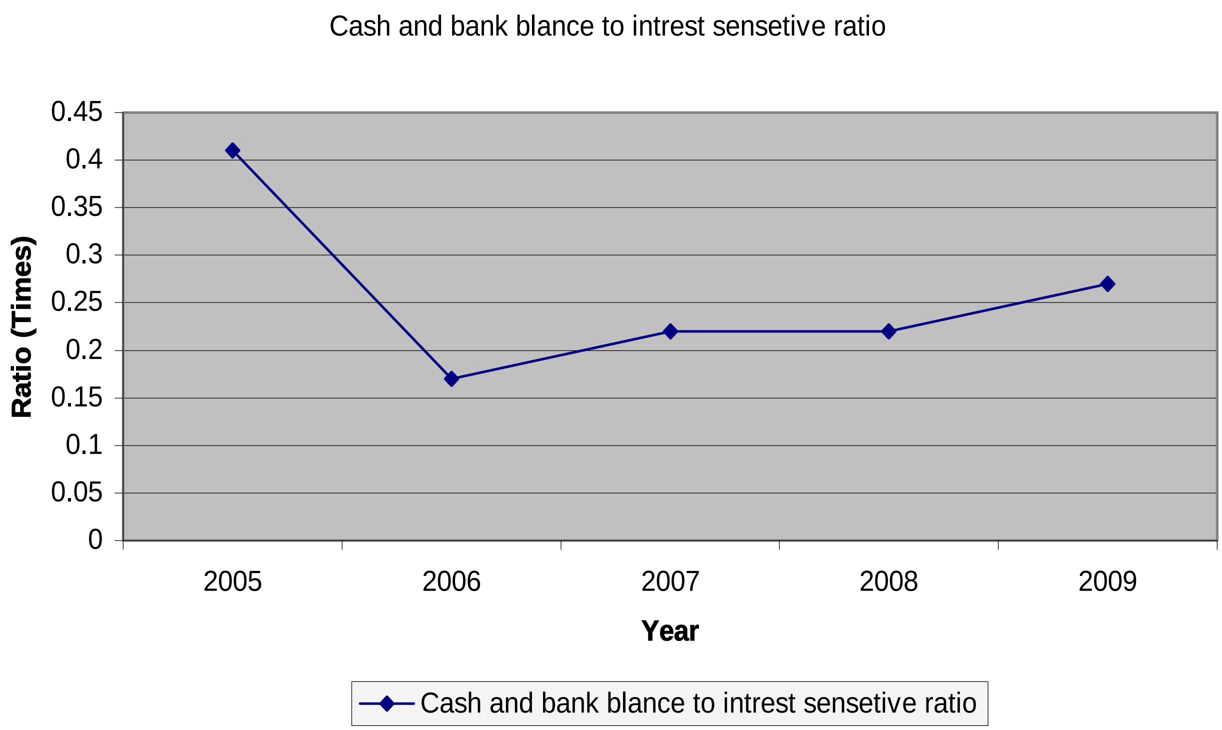
(Amount in Rs. Lakhs)

Year	Cash	Bank balance	Sensitive Deposit	Ratio (Times)
2005	1366	10029	27579	0.41
2006	1287	5030	37306	0.17
2007	1925	8573	48068	0.22
2008	2593	12936	69292	0.22
2009	5349	18563	90292	0.27
Mean				0.26

Source; Annual report of EBL

Table 3 shows that the cash and bank balance to interest sensitive ratio of EBL is in fluctuating trend. The mean ratio is 0.26 times. This means that the bank is able to maintain this ratio in the good financial condition. The highest ratio is 0.41 times in the year 2005 and lowest ratio of 0.17 times in the year 2006. In year, 2007 this bank mobilized deposits 0.41 times and it maintained good financial condition. In year, 2008 mobilized saving deposit 0.17 times and did not maintain good financial condition. In the year 2008 this bank is maintaining Cash balance 0.22 times. In the year 2009 this bank is maintaining Cash balance 0.27times which is better than 2008 year. Therefore, credit management neither good nor bad position of the EBL. Cash, bank balance and interest sensitive deposit are presented in bar diagram as follows:

Figure No 2



B. Assets Management Ratio:

It is also known as turnover or efficiency ratio or assets management ratio. It measures how efficiently the firm employs the assets. Turnover means; how much number of times the assets flow through a firm's operations and into sales (Kulkarni, 1994:138). Greater rate of turnover or conversion indicates more efficiency of a firm in managing and utilizing its assets, being other things equal. Various ratios are examined under this heading.

i) Credit and Advances to Fixed Deposit Ratio:

Credit and advances clearly state that it is the assets of the bank and fixed deposit is the liability. So, this is the ratio between assets and liability. This helps to show the ratio of Loan & advances to fixed deposit. We can also conclude that what part of the credit and advances is initiated against fixed deposit.

$$\text{Credit \& advances to fixed deposit} = \frac{\text{Credit and Advances}}{\text{Fixed Deposit}} \times 100\%$$

Table No. 4

Credit and Advances to Fixed Deposit Ratio of EBL

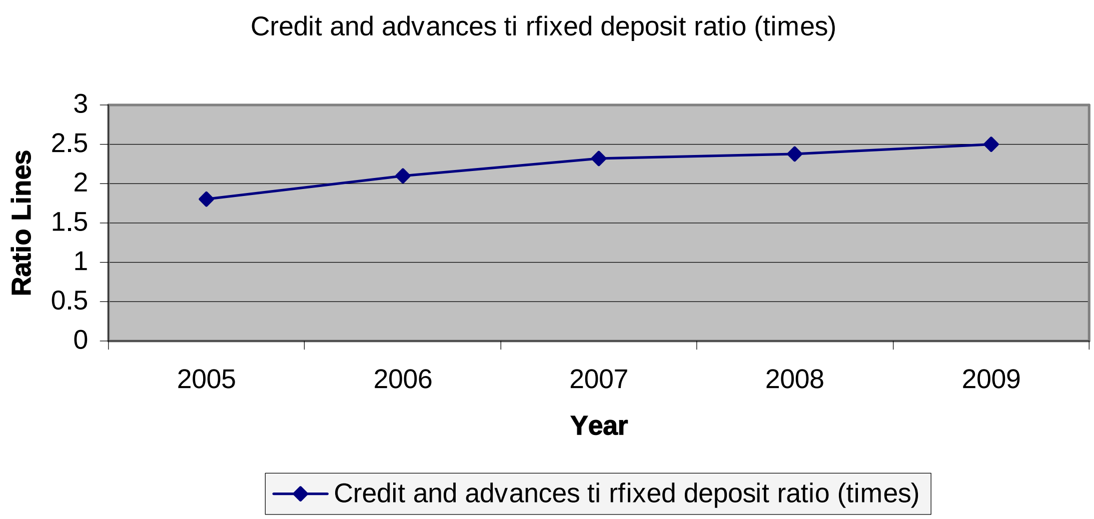
(Amount in Rs. Lakhs)

Year	Credit and advances	Fixed deposit	Ratio (Times)
2005	50495	27947	1.8
2006	60958	28979	2.1
2007	79000	34039	2.32
2008	101362	42423	2.38
2009	140826	56266	2.5
Mean			2.22

Source: Annual report of EBL

From the above table no. 4, it is visualized that Loan and advances to fixed deposits ratio are increasing in overall. The ratio of EBL bank is increasing year by year 1.80 in the first year and then 2.10, 2.32, 2.38 and 2.50 times in the following years respectively. The average is 2.22times at research period. Credit and advance to fixed deposit shown in following graph.

Figure No 3



ii) Credit and Advances to Total Deposit Ratio:

Credit and advances is the investing activities of the bank and total deposit is the deposit amount of the bank collected from its customers. So, we are trying to find out the ratio between credit & advances to total deposit. This ratio measures the extent to which the bank is successful to manage its total deposit on loan and advances for the purpose of income generation. A high ratio indicates better mobilization of collected deposit and vice-versa. However, it should be noted that too high ratio might not be better from liquidity point of view.

$$\text{Credit \& advances to total deposit ratio} = \frac{\text{Credit \& advances}}{\text{Total deposit}} * 100\%$$

Table No 5

Credit and Advances to Total Deposit Ratio

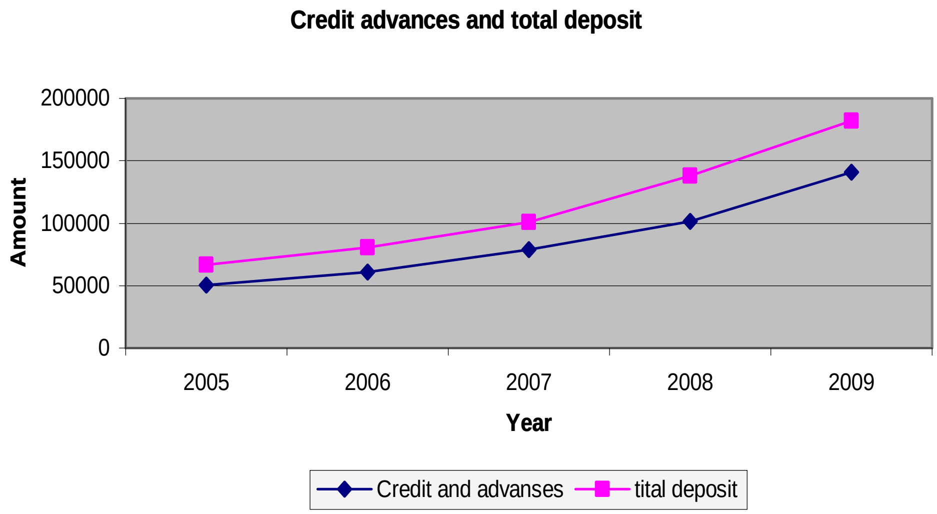
(Amount in Rs. Lakhs)

Year	credit and advances	Total deposit	Ratio (Times)
2005	50495	66949	0.75
2006	60958	80639	0.75
2007	79000	100976	0.78
2008	101362	138024	0.73
2009	140826	181862	0.77
Mean			0.756

Source: Annual report of EBL

Table 5 shows that the total loan advances to total deposit ratio of EBL is in fluctuating trend. The highest ratio is 0.78 times in year 2007 and lowest ratio 0.73 times in year 2008. The mean ratio is 0.756 times in the study period. This means that the bank is able to mobilization of collected deposit. According to NRB directives above 70% to 90% of loan and advances to total deposit ratio is able to better mobilization of collected deposit. So all of the year the bank has met the NRB requirement or it has utilized its deposit to provide loan. This means that credit management is in good position of the bank. Loan advances and total deposit are presented in bar diagram as follows:

Figure No 4



iii. Credit and Advances to Total Assets Ratio:

This ratio is determined to find out the relationship between credit & advances to total assets. Credit and advances is the part of total assets. This ratio helps to find out that how much proportion of credit & advances to total assets.

$$\text{Credit \& advances to total assets} = \frac{\text{Credit \& advances}}{\text{Total assets}} \times 100\%$$

Table No 6

Credit and Advances to Total Assets

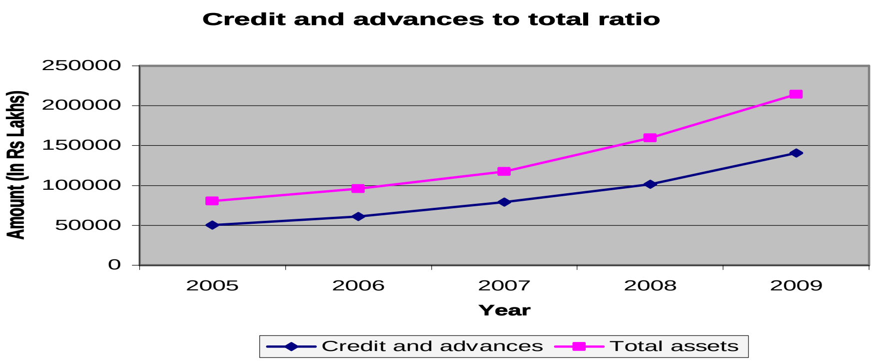
(Amount in Rs. Lakhs)

Year	credit and advances	Total assets	Ratio (Times)
2005	50495	80522	0.63
2006	60958	96085	0.63
2007	79000	117325	0.67
2008	101362	159592	0.63
2009	140826	214325	0.65
Mean			0.64

Source: Annual report of EBL

It is clear from the above table no. 6 that the EBL bank has generally mixed trends under the study period. The highest ratio is 67% in the year 2007 and the lowest ratio is 63% that is same as year 2005, 2006 and 2007. The average ratio is 64%. It shows that bank has capability in utilizing total assets in the form of credit and advances. Consistency in the utilization of assets in the form of credit and advance is satisfactory because the fluctuating in the ratio is minimum. Loan advances and total assets are presented in bar diagram as follows:

Figure No 5



iv) Non-Performing Assets to Total Assets Ratio

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

Table No 7

Non-performing assets to Total Assets ratio

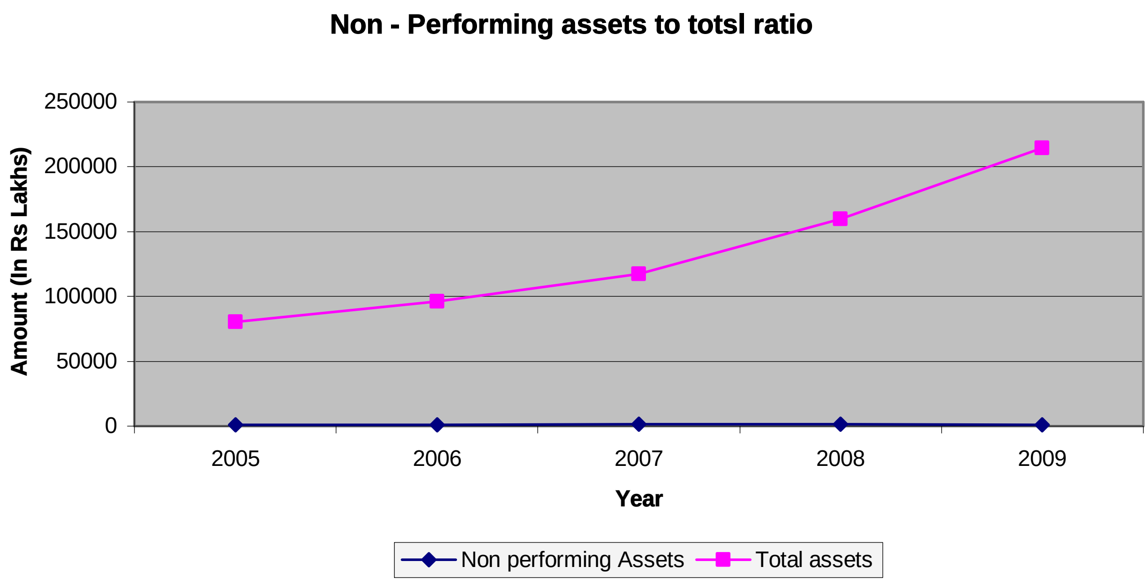
(Amount in Rs. Lakhs)

Year	Non-performing Assets	Total Assets	Ratio (%)
2005	1112	80522	1.38
2006	1047	96085	1.09
2007	1288	117325	1.09
2008	1292	159592	0.81
2009	1131	214325	0.52
Mean			0.978

Source: Annual report of EBL

Table no 7 shows that the total non-performing assets to total assets ratio of EBL is in decreasing trend. The highest ratio is 1.38 % in year 2005 and lowest ratio 0.52% in year 2009. The mean ratio is 0.978%. The bank is able to obtain higher lending opportunity. Ratios are 1.09%, 1.09% 0.81% in year 2006, 2007 and 2008 respectively. These are able to obtain higher lending opportunity. Therefore, credit management is in good position of the bank. According to the direction of NRB to the commercial banks, the ratio of non-performing assets to total assets should be about 5%. However, referring to this table, EBL is able to keep the level of nonperforming assets at a satisfactory level, which is on an average .978%. Nonperforming assets to total assets ratio is represented in the bar diagram as follows:

Figure No 6



C. Leverage Ratio:

These ratios are also called solvency ratio or capital structure ratio. These ratios indicate mix of funds provided by owners and lenders. As a general rule, there should be an appropriate mix of debt and owner's equity in financing the firm's assets. To judge the long-term financial position of the firm, leverage ratios are calculated. This ratio highlights the long-term financial health, debt servicing capacity and strength and weaknesses of the firm. Following ratios are included under these leverage ratios.

i) Total Debt to Equity Ratio:

Total debt is the liability of the firm and it is payable toward its creditors. Debt includes the value of deposits from customers, loan & advances payable, Bills payable and other liabilities. Equity is the share capital and reserves of the firm. This ratio shows the comparison in between total debt and equity.

$$\text{Total debt to equity} = \frac{\text{Total Debt}}{\text{Equity}} \times 100\%$$

Table No 8

Total Debt to Equity Ratio:

(Amount in Rs. Lakhs)

Year	Total Debt	Total Equity	Ratio (Times)
2005	74394	6128	12.14
2006	89282	6803	13.12
2007	108999	8326	13.09
2008	149964	9628	15.57
2009	202310	12015	16.83
Mean			14.15

Source: Annual report of EBL

Debt to equity ratio is fluctuation trend in research period. As we see from the table no.8, the ratio is 12.14 times in the first year, 13.12 times in the second year, 13.09 times in the third year, 15.57 times in the fourth year, 16.83 times in the fifth year of the research period. The mean ratio is 14.15 times. Excess amount of debt capital structure results heavy burden in payment of interest. Risk of liquidation increases if the debt cannot be repaid in time. High gearing ratio may provide high return to the equity shareholders if the bank makes profit.

ii) Total Debt to Total Assets:

A metric used to measure a company’s financial risk by determining how much of the company’s assets have been financed by debt. Calculated by adding short term and long term debt and then dividing by the company’s total assets. In general creditors prefer a low debt ratio & owner prefer a high debt ratio in order to magnify their earning on one hand and to maintain their concerned control over the firm on the other hand.

Table No 9

Total Debt to Total Assets

(Amount in Rs. Lakhs)

Year	Total Debt	Total Assets	Ratio (Times)
2005	74394	80522	0.92
2006	89282	96085	0.93
2007	108999	117325	0.93
2008	149964	159592	0.94
2009	202310	214325	0.94
Mean			0.93

Source: Annual report of EBL

The ratio is found as 92%, 93%, 93%, 94% and 94% from 1st to 5th year of the study period respectively. The average ratio in 5 years research period is 93%. It means almost 93% of total assets is financed by the outsider's' funds. From the table no.9, it is seen that there is no great deviation in the ratio for the five years. It means no change in the policy on this ratio for the five years.

iii. Total Assets to Net worth Ratio:

The ratio is calculated to find out the proportion of owner's fund to finance for the total assets. Total Assets comprises of the total value of the assets side of balance sheet where as net worth is the sum of the paid-up capital plus reverses and retained of the bank. It is calculated to see the amount of assets financed by net worth

Table No 10

Total Assets to Net Worth

(Amount in Rs. Lakhs)

Year	Total	Net Worth	Ratio times
2005	80522	4728	17.07
2006	96085	5403	17.78
2007	117325	9626	16.94
2008	159592	8228	19.39
2009	214325	11066	19.36
Mean			18.1

Source: Annual report of EBL

Total assets to net worth ratio of the bank are fluctuating. It is 17.07 times in the first year of study period and 19.36 times in the last year of the study period. The average ratio at that time is 18.10 times. Here above table we see that total assets and net worth are increasing year by year on the study period.

D) Profitability Ratio

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

i) Net Profit to Gross Income Ratio

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

Table No 11

Net Profit to Gross Income Ratio

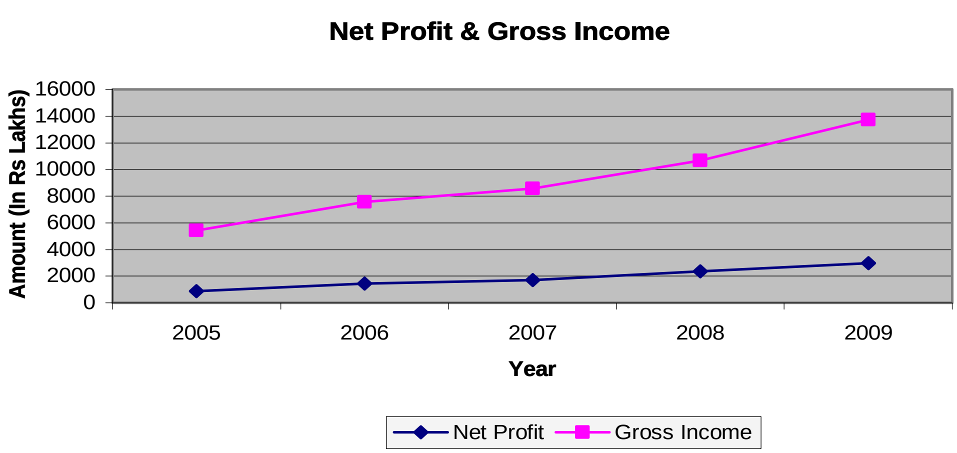
(Amount in Rs. Lakhs)

Years	Net Profit	Gross Income	Ratio (%)
2005	853	5409	14.8
2006	1436	7550	18.83
2007	1708	8589	19.9
2008	2373	10665	22.2
2009	2964	13707	21.6
Mena			17.36

Source: Annual report of EBL

Table no11 shows that the total net profit to gross income ratio of EBL is in fluctuating trend. The highest ratio is 22.2% in year 2008 and lowest ratio 14.8% in year 2005. The mean ratio is 19.36%. The bank is able to obtain higher efficiency. Ratios are 18.3%, 19.9% and 22.2% and 21.6% in year 2006, 2007, 2008 and 2009 respectively. These are able to obtain higher efficiency of the bank. Ratio14.8% in year 2005 respectively is not able to obtain higher efficiency of the bank. Therefore, credit management is in good position of the bank. Net profit to gross income ratio is represented in bar diagram as follow.

Figure No. 7



ii) Interest Income to Total Income Ratio

This ratio measures the volume of interest income to total income. The high ratio indicates the banks performance on other free base activities. The high ratio indicates the high contribution made by lending and investing activities.

Table No 12

Interest Income to Total Income Ratio

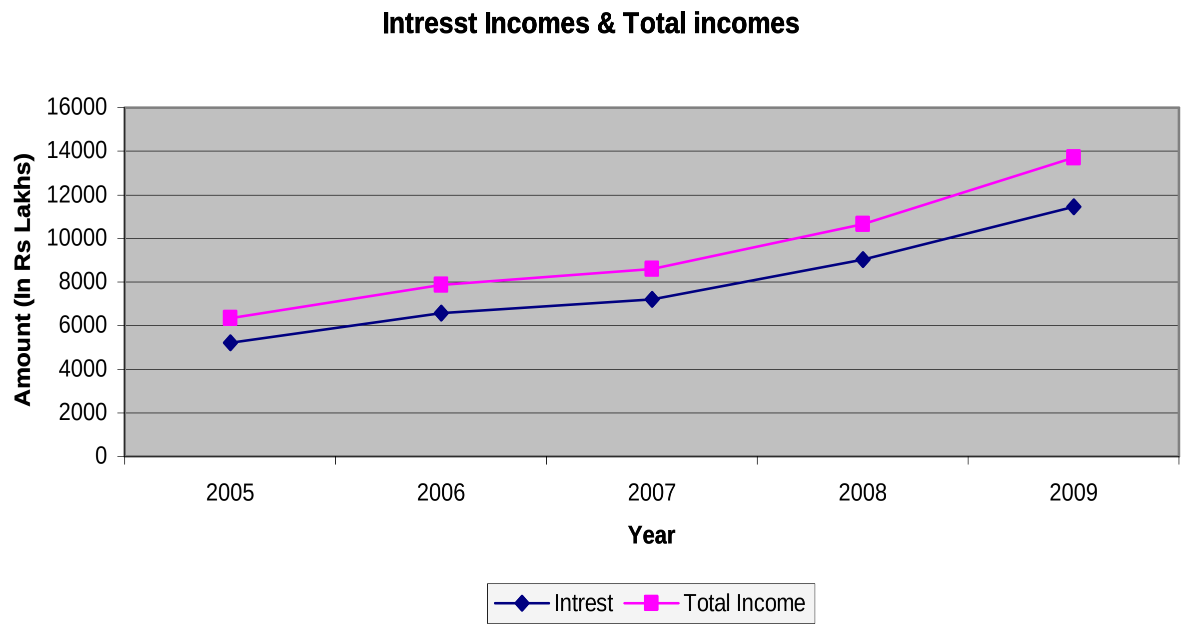
(Amount in Rs. Lakhs)

Years	Interest income	Total income	Ratio(Times)
2005	5202	6353	0.82
2006	6573	7851	0.84
2007	7193	8590	0.84
2008	9034	10665	0.85
2009	11444	13707	0.83
Mean			0.84

Source: Annual report of EBL

Table no12 shows that the total interest income to total income ratio of EBL is in fluctuating trend. The highest ratio is 0.85 times in year 2008 and lowest ratio 0.82 times in year 2005. The mean ratio is 0.84 times in the study period. The ratio indicates the high contribution made by lending and investing activities. Ratios are 0.84 times, 0.84 times and 0.85 times in year 2006, 2007 and 2008 respectively. These indicate that high contribution made by lending and investing activities. Ratio is 0.82 times and 0.83 times in the years 2005 and 2008 are respectively. This indicates that high contribution is not made by lending and investing activities. Therefore, credit management is in a good position of the bank. Interest income and total income are presented in bar diagram as follows:

Figure No. 8



iii) Operating Profit to Loan and Advances Ratio

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

$$\text{Operating profit to loan and advance ratio} = \frac{\text{Loan \& Advance}}{\text{Operating Profit}}\ 100\%$$

Table No 13

Operating profit to Loan and advances ratio

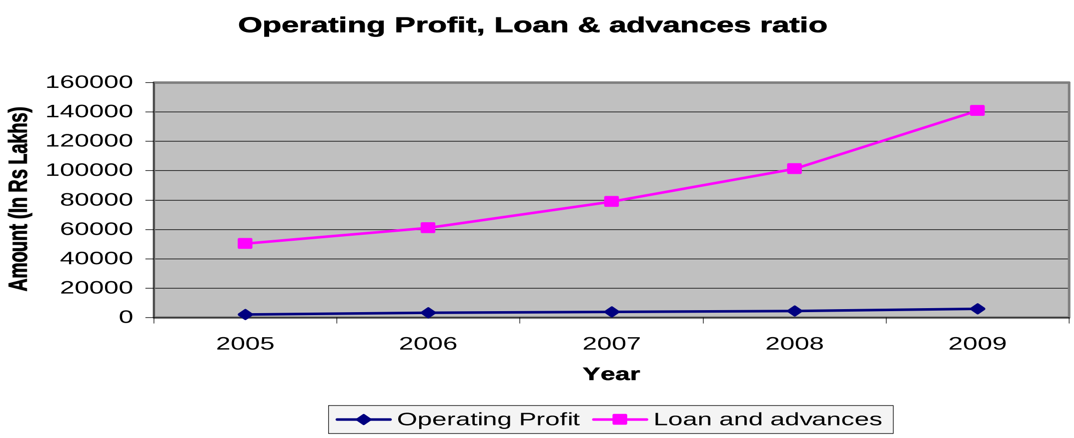
(Amount in Rs. Lakhs)

Years	Operating Profit	Loan and advances	Ratio(%)
2005	1967	50495	3.9
2006	3164	60958	5.2
2007	3752	79000	4.7
2008	4531	101362	4.5
2009	5979	40826	4.2
Mean			4.5

Source: Annual report of EBL

Table no 13 shows that the operating profit to loan and advances ratio of EBL is in fluctuating trend. The highest ratio is 5.2% in the year 2006 and lowest ratio 3.9% in the year 2005.The mean ratio over the period is 4.5%. This shows the better profitability position of the bank. Ratios are 5.25% and 4.7% in year 2006 and 2007 respectively. These show the better profitability position of commercial bank. Ratios are 3.9% and 4.2% in year 2005 and 2009 respectively. But there is a declining in operating profit to loan and advance ratio which is not good.. Thus, credit management is in good position of the bank. Operating profit and loan advances are presented in the bar diagram as follows

Figure No. 9



iv) Return on Loan and Advances Ratio

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

Table No 14

Return on Loan and Advances Ratio

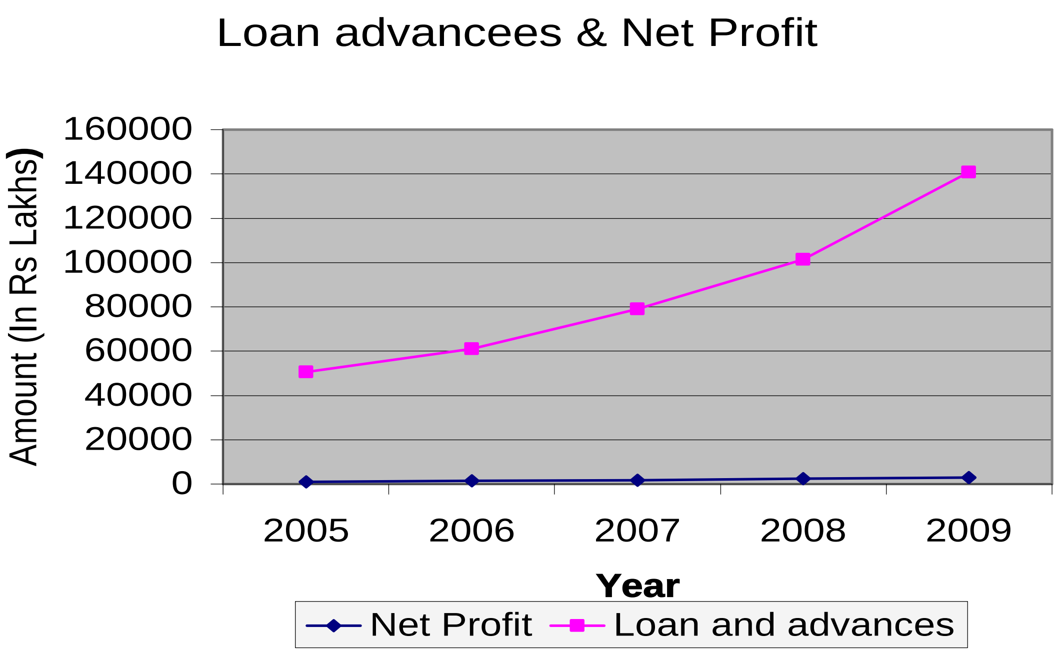
(Amount in Rs. Lakhs)

Year	Net Profit	Loan and advances	Ratio(%)
2005	942	50495	1.9
2006	1435	60958	2.4
2007	1708	7900	2.
2008	2372	101362	2.3
2009	2964	140826	2.1
Mean			2.2

Source: Annual report of EBL

Table no 14 shows that return on loan and advances ratio of EBL is in fluctuating trend. The highest ratio is 2.4% in the year 2005 and lowest ratio 1.9% in the year 2005. The mean ratio is 2.2%. This shows the normal earning capacity of EBL in loan and advances. Ratios are 2.4% and 2.3% in years 2006 and 2008 respectively. These show the normal earning capacity in loan and advances. Ratios are 2.1% and 1.9% times in year 2009 and 2005 respectively. These do not show the normal earning capacity in loan and advances. Thus, credit management is in good position. Net profit and loan advances are represented in the bar diagram as follows.

Figure No. 10



V) Net profit to Total assets

This ratio shows the relationship of Net Profit and total assets is to determine how efficiently the total assets and is to determine how efficiently the total assets have been used by the management. This ratio indicates the ability of generating profit per rupees of total assets.

Table No 15

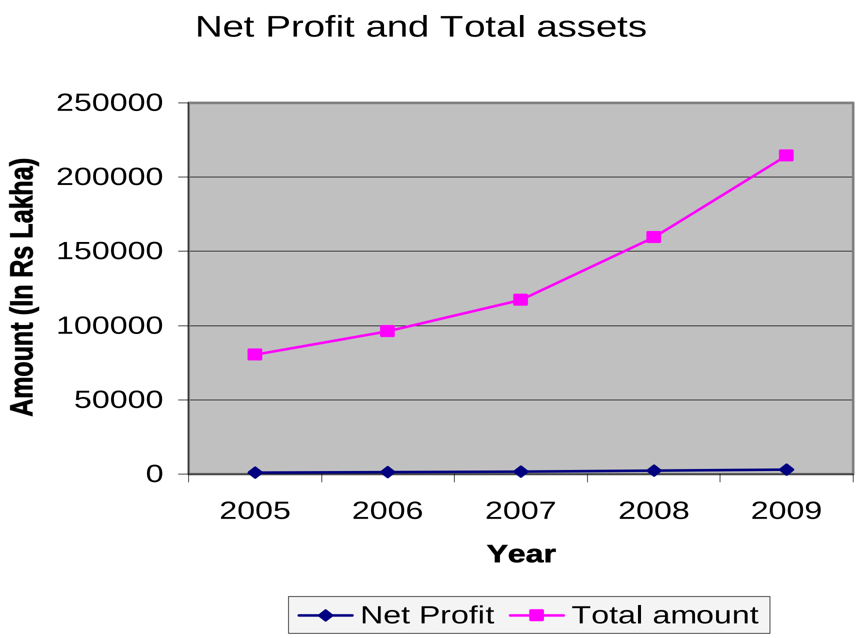
Net profit to Total Assets

(Amount in Rs. Lakhs)

Years	Net profit	Total Assets	Ratio
2005	942	80522	1.2
2006	1435	96085	1.5
2007	1708	117325	1.5
2008	2372	159592	1.5
2009	2964	214325	1.4
Mean			1.42

Table No 15 shows that the Net profit to total assets ratio of EBL is in fluctuating trend. The highest ratio is 1.5% years 2006, 2007, & 2008 are same and lowest ratio 1.2% in the year 2005. The mean ratio is 1.42%. This shows the normal earning capacity of EBL. In above the five year research period net profit and total assets both are increasing trend.

Graph No 11



vi) Earning per Share

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

Table No 16

Earning Per Share

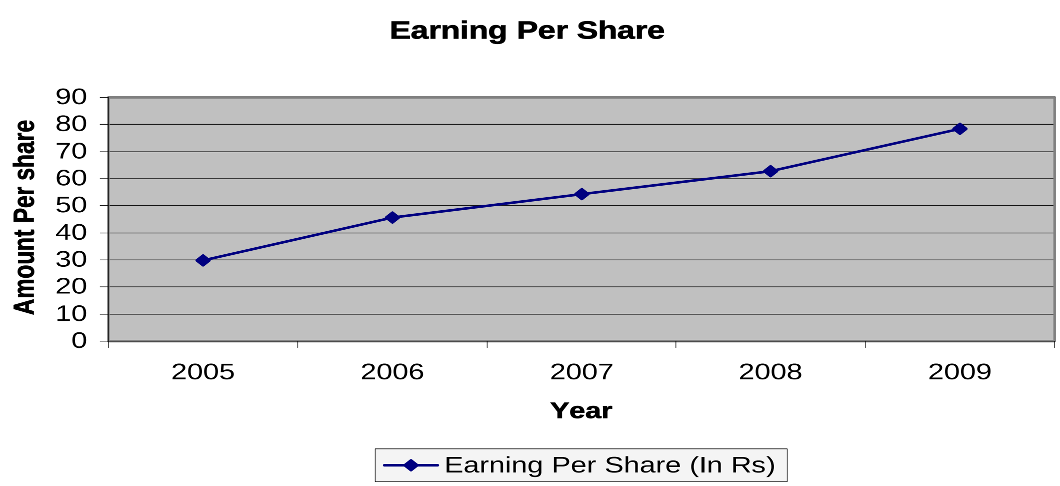
(Amount in Rs.Lakhs)

Years	Net Profit	No. of equity shares	Earning per share (In Rs.)
2005	942	31	29.9
2006	1435	31	45.58
2007	1708	31	54.22
2008	2372	38	62.78
2009	2964	38	78.4
Mean			54.17

Source: Annual report of EBL

Table no 16 shows that Earning per share of EBL is in increasing trend. The highest EPS is RS 78.4 in year 2009 and lowest EPS Rs.29.90 in year 2005. The mean EPS of the EBL is Rs.54.17 in the study period. This shows the better profitability in the coming last years. Earning per shares are Rs.45.58, Rs.54.22 and Rs.62.78 in year 2006, 2007 and 2008 respectively; these mean that the better profitability in the coming last years. In the year 2005 EPS is Rs.29.90 these mean that does not profitability position of the bank. Therefore, credit management is in good position. Earning per shares is represented in the bar diagram as follows:

Graph No 12



vii) Price Earning Ratio

Price earning ratio measures the profitability of the firm. Higher ratio measures the higher profitability of the firm lower ratio measures lower profitability of the firm. This ratio shows the relation ship between earning per share and market value per share. Price earning ratio= Market value per share/Earning per share

Table No 17

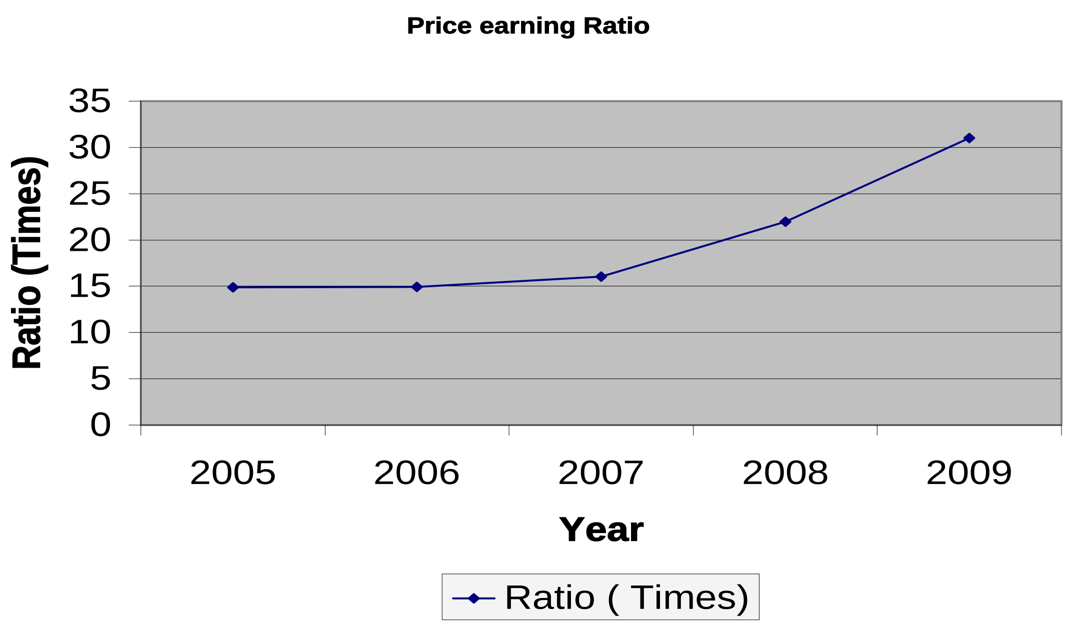
Price Earning Ratio

Years	Market price per share	Earning per share	Ratio (Times)
2005	445	29.9	14.88
2006	680	45.58	14.93
2007	870	54.22	16.04
2008	1379	62.78	21.97
2009	2430	78.4	31
Mean			19.76

Source: Annual report of EBL

Table no17 shows that price earning ratio earning of EBL is in increasing trend. The highest price earning ratio is 31 times in year 2009 and lowest ratio 14.88 times in year 2005.The mean ratio of the EBL is 19.76 times in the study period. This shows the better profitability in the last years. Ratios are 21.97 times and 31 times in year 2008 and 2009 respectively. These mean that the better profitability in the coming last years. Ratios are 14.88, 14.93 and 16.04 times in year 2005, 2006 and 2007 respectively. Thus, credit management is in good position. Price earning ratios are represented in the bar diagram as follow:

Figure No. 13



E.) Lending Efficiency Ratio

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

I) Loan Loss Provision to Total Loan and Advances Ratio

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

Table No 18

Loan Loss Provision to Total Loan and Advances Ratio

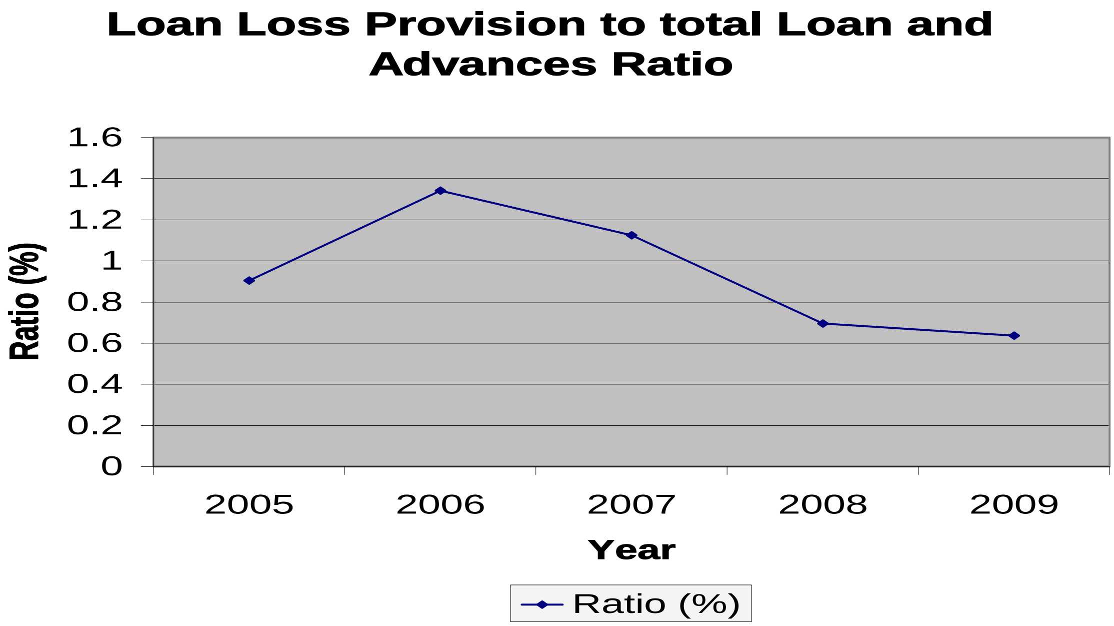
(Amount in Rs. Lakhs)

Years	Loan loss provision	Loan and advances	Ratio (%)
2005	457	50495	0.905
2006	818	60958	1.342
2007	889	79000	1.125
2008	705	101362	0.695
2009	897	140827	0.636
Mean			0.941

Source: Annual report of EBL

Table no 18 shows that loan loss provision to total loan and advances ratio of EBL is in fluctuating trend. The highest ratio is 1.342% in year 2006 and lowest ratio 0.695% in year 2008.The mean ratio of the study period is 0.941%. This shows that good quality of assets in total volume of loan and advances. Ratios are 0.905%, 0.695%, 0,636 in the year 2005, 2008 and 2009 respectively. These indicate the good quality of assets in total volume of loan and advances. Ratios are 1.342% and 1.125% in year 2006 and 2007 respectively. This indicates that more risky assets in total volume of loan advances. Thus, credit management is in a good position. So all of the year, the bank has met the NRB requirement. Loan loss provision and total loan and advances are represented in the bar diagram as follows:

Figure No. 14



ii)

Non-Performing Loan to Total Loan and Advances Ratio

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

Table No 19

Non-Performing Loan to Total Loan and Advances

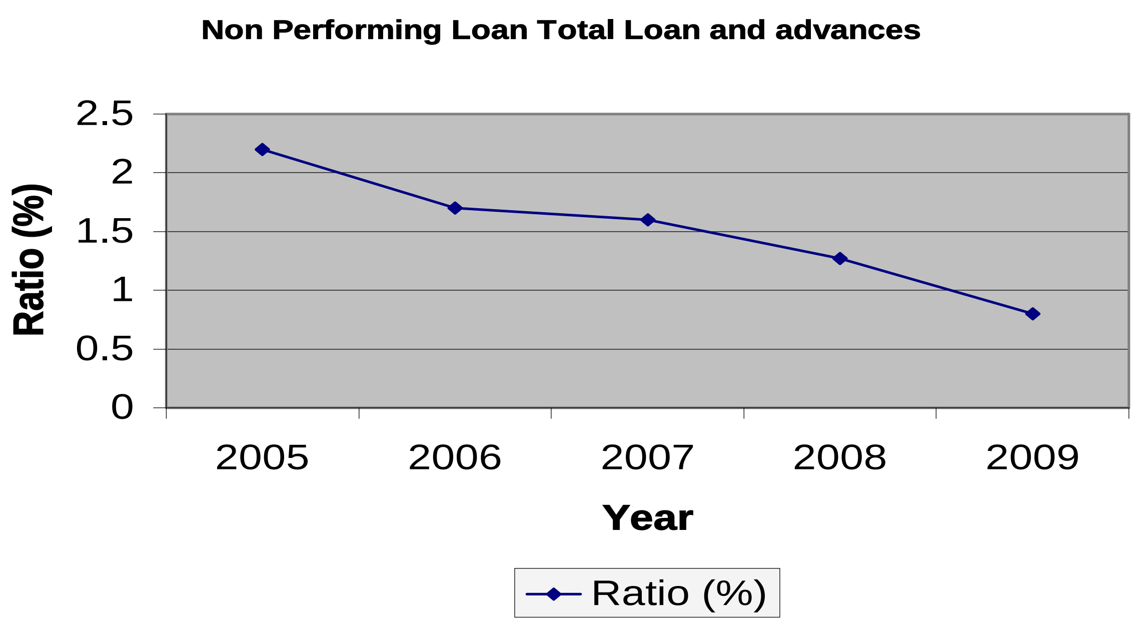
(Amounts in Rs. Lakhs)

Years	Non-performing loan	Loan and advances	Ratio (%)
2005	1112	50495	2.2
2006	1047	60958	1.7
2007	1288	79000	1.6
2008	1292	101362	1.27
2009	1126	140827	0.8
Mean			1.37

Source: Annual report of EBL

Table no 19 shows that Non performing loan to total loan and advance of EBL is in fluctuating trend. The highest ratio is 2.2 % in the year 2003 and lowest ratio 0.80% in the year 2009 from mean point of view; non-performing loan to total loan and advances ratio of EBL is 1.37% during the study period. This ratio indicates the more efficient operating of credit management. Ratios are 2.2 %, 1.7 % & 1.6 % in year 2005, 2006 and 2007 respectively. These ratios indicate the lower efficient operating of credit management. Ratios are 1.27%and 0.80% in year 2008 and 2009 respectively. These ratios indicate the higher efficiency in credit management in latter years. Therefore, credit management is in a good position recently. Non- performing loan and loan advances are represented bar diagram as follows:

Figure No. 15



iii) Interest Expenses to Total Deposit Ratio

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

Table No 20

Interest Expenses to Total Deposit Ratio

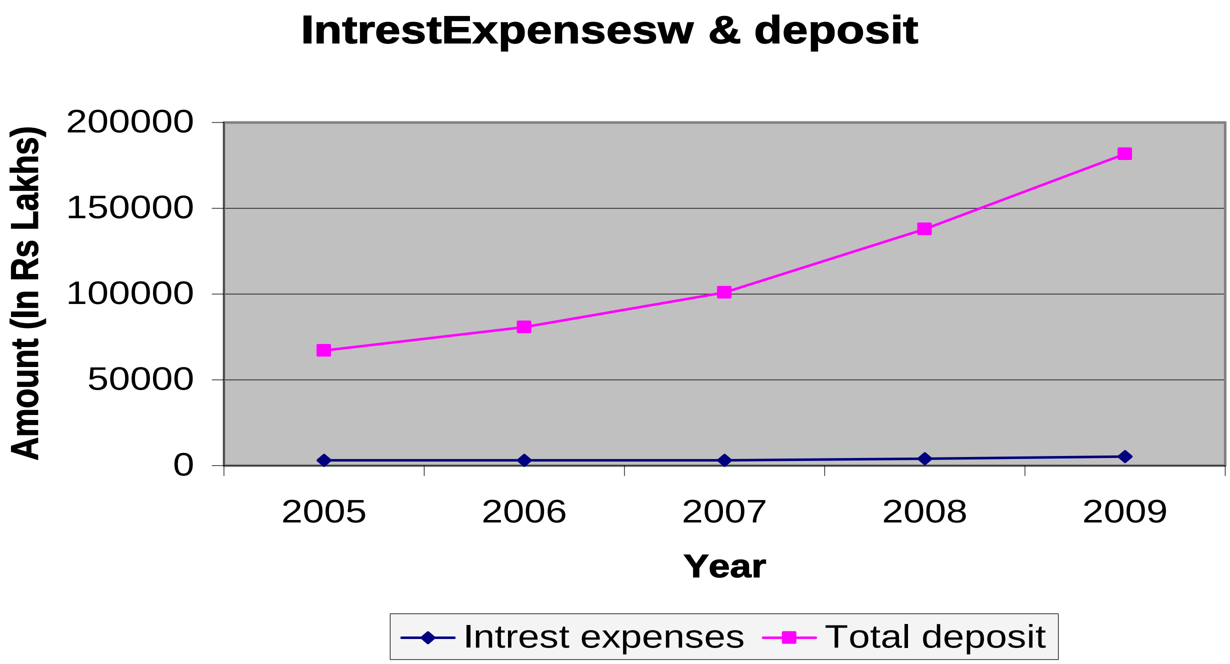
(Amounts in Rs.Lakhs)

Years	Interest expenses	Total deposit	Ratio (%)
2005	3076	66950	4.59
2006	3164	80639	3.92
2007	2996	100977	2.57
2008	4014	138024	2.91
2009	5172	181862	2.84
Mean			3.37

Source: Annual report of EBL

Table no 20 shows that interest expenses to total deposit ratio of EBL is in fluctuating trend. The highest ratio is 4.59% in the year 2005 and lowest ratio 2.57% in the year 2007. From mean point of view, interest expenses to total deposit ratio of EBL is 3.37% during the study period. That this ratio does not indicate higher interest expenses on total deposit. Commercial banks are dependent upon its ability to generate cheaper fund. Ratios are 4.59% and 3.92% in year 2005 and 2006 are respectively. These indicate that higher interest expenses on total deposit. Ratios are 2.57%, 2.91% and 2.84 in year 2007, 2008 and 2009 respectively. These do not indicate that the higher interest expenses on total deposit. Interest expenses to total deposit ratio is represented in the bar diagram as follows:

Graph No 16



4.3 Statistical Analysis:

i) Coefficient of Correlation Analysis

The statistical tool, coefficient of correlation has been studied to find out whether the two available variables are inter-correlated or not. If the result falls with in the correlated point, the two variables are inter-correlated otherwise not. Now to find out the correlation coefficient between total lending and total assets, the widely used method of Karl Pearson's Coefficient of Correlation has been adopted.

Coefficient of Correlation (r) = $\dfrac{N\sum XY-(\sum X)(\sum Y)}{\sqrt{N\sum X^2-(\sum X)^2}\sqrt{N\sum Y^2-(\sum Y)^2}}$

Here,

N = Number of pairs of x and y observed.

x = values of credit and advances.

y = values of total assets.

r = Karl Pearson's Coefficient of Correlation.

ii) Probable Error

It is an oldest method to determine the reliability of the value of Pearson's coefficient of correlation. It helps in interpreting the value of coefficient of correlation. If r is the calculated correlation coefficient in a sample of n pairs of observation, then its standard error, usually denoted by S.E. & is given by.

$$\text{S.E. (r)} = \frac{1 - r^2}{\sqrt{n}}$$

Probable error of the coefficient of correlation can also be calculated from S.E. of
the coefficient of correlation by the following formula:

$$\text{Probable Error (P.E.)} = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

Wherer = coefficient of correlation

n = no of observations

The probable error is used to test whether the calculated value of correlation significant or not.

If $r<6 \times P.E(r)$, then the value of r is not significant

If $r>6 \times P.E(r)$, then the value of r is significant

In this course of study, correlation coefficient and probable error is used to measure the relation ship between.

- Total credit and Total assets
- Loan and advance and Total deposit

A. Total Credit and total assets

Table No. 21

Correlation Coefficient between Total Credit and Total Assets of EBL

Amounts are in Rs. ‘000000000’

Year	Total Credit(x)	Total Assets(y)	X^2	Y^2	XY
2005	5	8.1	25	65.61	40.5
2006	6.1	9.1	37.21	82.81	55.59
2007	7.9	11.7	62.41	136.89	92.43
2008	10.1	15.9	102.01	252.81	160.59
2009	14	21.4	196	457.96	299.6
N=5	$\sum X = 43.1$	$\sum Y = 66.2$	$\sum X^2 = 422.63$	$\sum X^2 = 996.08$	$\sum XY = 648.63$

Here,

N = 5, Σ x = 43.1, Σ y = 66.2, Σ x2 = 422.63, Σ y2 = 996.08 and Σ xy = 648.63

Now, Coefficient of correlation (r) $= \dfrac{\mathrm{N}\sum \mathrm{XY} - (\sum X)(\sum Y)}{\sqrt{N\sum X^2 - (\sum X)^2}\sqrt{N\sum Y^2 - (\sum Y)^2}}$

= 0.998

It seems the correlation between total credit and total assets is high degree of positive correlation

Computation of Probable Error (P.E.):

Probable Error (P.E.) = $0.6745 \times \dfrac{1 - \mathrm{r}^2}{\sqrt{\mathrm{n}}}$

We have, r = 0.998 and n = 5

Then, P.E = $0.6745 \times \dfrac{1 - \mathrm{r}^2}{\sqrt{\mathrm{n}}}$

=0.0012

Now 6×P.E= 6×.0012 =.0072

Since, 'r' is more than 6× P.E. the coefficient of correlation is considered as significant. In other words, the total credit and advances are significantly correlated to the total assets of Everest Bank Ltd in the study period of 2003 to 2007.

B. Loan and advance to Total Deposit

Table No 22

Correlation Coefficient between Loan & Advances to Total Deposits

Amounts are in Rs. '000000000'

Year	Total advances(x)	Total Deposit(y)	X^2	Y^2	XY
2005	5	6.6	25	43.56	33
2006	6.1	8.1	37.21	65.61	49.41
2007	7.9	10.1	62.41	102.01	79.79
2008	10.1	13.8	102.01	190.44	139.38
2007	14	18.2	196	331.44	254.38
N=5	$\sum X = 43.1$	$\sum Y = 56.8$	$\sum X^2 = 422.63$	$\sum X^2 = 732.86$	$\sum XY = 556.38$

Here,

N = 5, Σ x = 43.1, Σ y = 56.8, Σ x2 = 422.63, Σ y2 =732.86 and Σ xy = 556.38

Now,

$$\text{Coefficient of correlation (r)} = \frac{\mathrm{N}\sum \mathrm{XY} - (\sum X)(\sum Y)}{\sqrt{N\sum X^2 - (\sum X)^2}\sqrt{N\sum Y^2} - (\sum Y)^2}$$

$$= 0.999$$

Computation of Probable Error (P.E.):

Probable Error (P.E.) = $0.6745 \times \frac{1 - r^2}{\sqrt{n}}$

We have, r = 0.999 and n = 5

Then, P.E = $0.6745 \times \frac{1 - r^2}{\sqrt{n}}$

=0.00060

Now 6×P.E

= 6×.00060

=.0036

Since, 'r' is more than 6× P.E. the coefficient of correlation is considered as significant. There is high degree of positive correlation between loan & advances to total deposits. It seems increasing amount in deposit will helps to increase loan and advances and vice-versa.

iii. Trend Analysis:

Here, trend analysis of total deposits and loan and advances is projected for the five years. The measure of trend analysis shows the behavior of given variables in series of time. This trend analysis is carried out to see average performance of the banks for next five years.

Trend analysis is based on some assumptions;

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

a) Trend Analysis of Total Deposit:

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

$Y = a + bx$

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X= deviation from some convenient time periods.

Table No 23

Trend of total Deposit

(Amount in Rs. Lakhs)

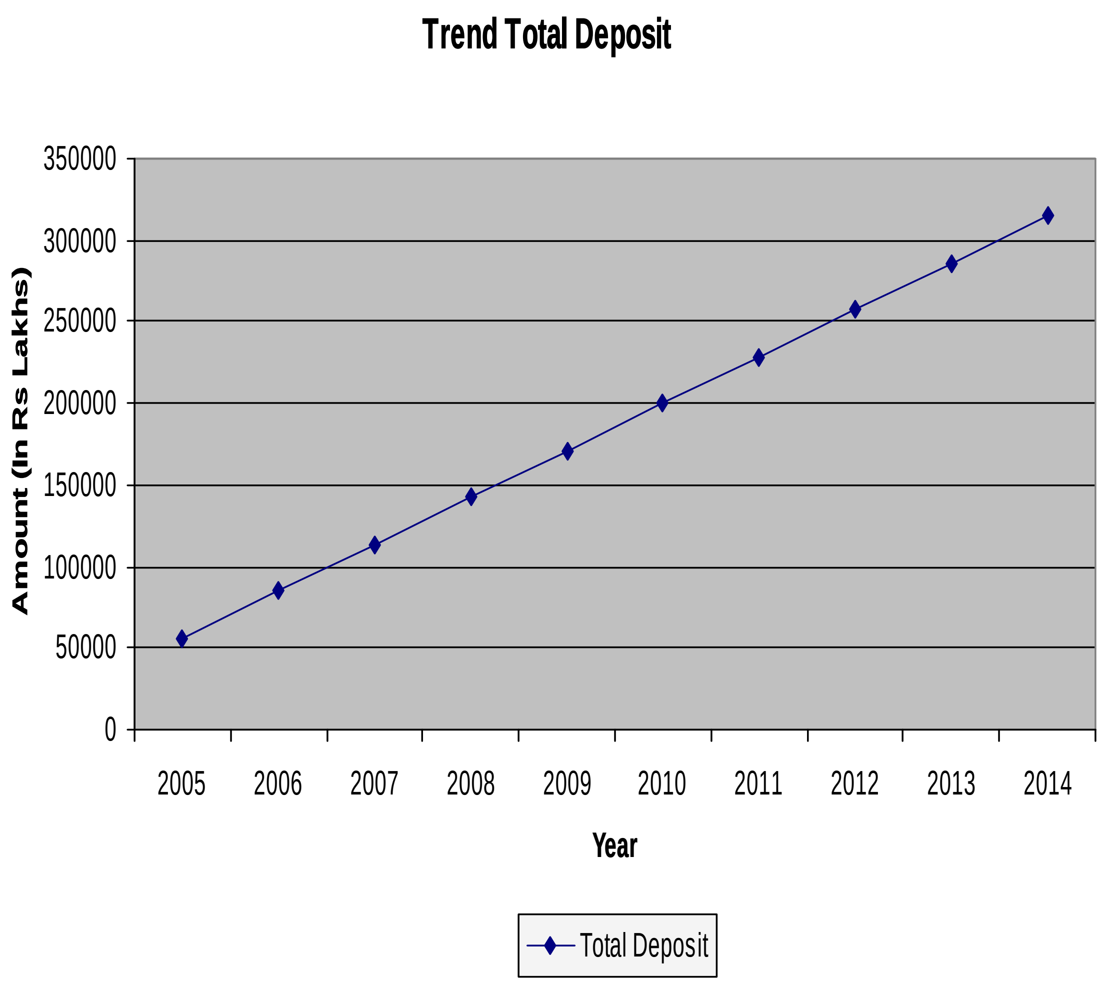
Year	Total Deposit
2005	56248
2006	84969
2007	113690
2008	142411
2009	171132
2010	199853
2011	228574
2012	257295
2013	286016
2014	314737

Source: Annual report of EBL

See Appendix 1

The following graph helps to show the trend lines of total deposit for the projected five years.

Figure No. 17



B) Trend Analysis of total Loan and Advance:

Table No 24

Trend Analysis of total Loan and Advance

(Amount in Rs. Lakhs)

Year	Loan and advance
2005	42314
2006	64421
2007	86528
2008	108635

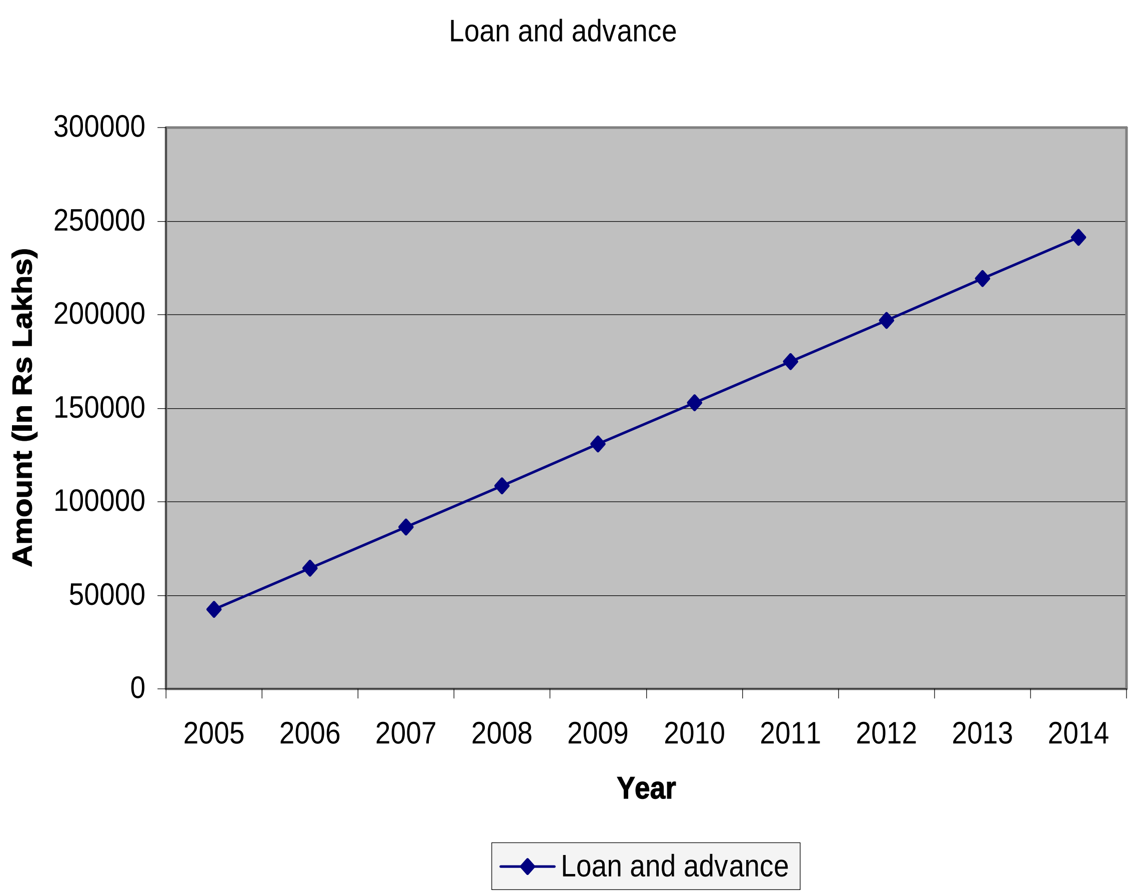
2009	130742
2010	152849
2011	174956
2012	197063
2013	219170
2014	241277

Source: Annual report of EBL

See Appendix 2

The following graph helps to show the trend lines of Loan and advance for the projected five years.

Graph No 18



c) Trend Line of Net profit

Table No 25

Trend Analysis of Net profit

(Amount in Rs. Lakhs)

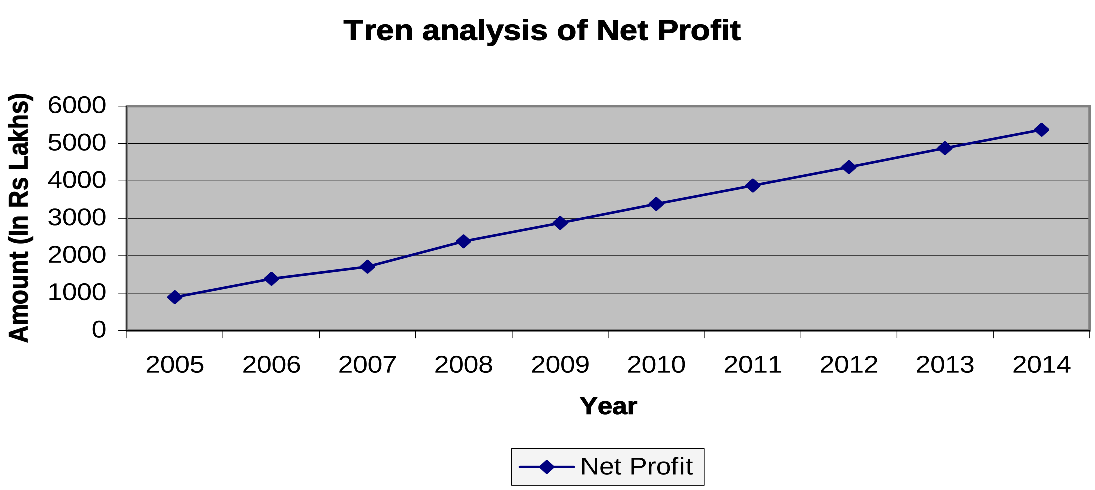
Year	Loan and advance
2005	888
2006	1386
2007	1708
2008	2382
2009	2880
2010	3378
2011	3876
2012	4374
2013	4872
2014	5370

Source: Annual report of EBL

See Appendix 3

The following graph helps to show the trend lines of Net profit for the projected five years.

Graph No 19



4.4 Major Finding of the Study

A. Liquidity Ratio

Cash and bank balance to current deposit of the bank shows the fluctuating trend during the study period. The mean ratio is 1.342 times in the study period. The cash and bank balance to total deposit of the bank shows the fluctuating trend during the study period. The mean ratio is 0.12 times in the study period. This means that the bank is able to be maintained in the good liquidity position of the bank. Therefore, that credit management is in good position of the EBL. Cash and bank balance to interest sensitive ratio of EBL is also in fluctuating trend. The mean ratio is 0.26 times. This means that the bank is able to maintain in the good financial condition.

B. Assets Management Ratio

Credit and advance to fixed deposit ratio of EBL is Fluctuating trend. The mean ratio is 2.26 times in the study period. Credit and advances to total deposit ratio of EBL is also in a fluctuating trend. The mean ratio is 0.75 times in the study period.

The ratio indicates the high contribution made by lending and investing activities. Thus, credit management is in a good position. Non-performing assets to total assets ratio of EBL is in a declining trend which is good. The mean ratio is 0.978%. The bank is able to obtain higher lending opportunity. Thus, credit management is in a good position.

C. Leverage ratio

The Debt to equity ratio of EBL is in stable position during the study period. The nalysis indicates that the bank is highly leveraged because the claim of the outsiders exceeds than those of the owners over the bank assets. The Debt to assets ratio of EBL is excessively high or in other words they have excessively geared capital structure. On an average 93% of assets is financed through debt capital that is outsiders cost bearing fund, which implies that the bank has riskier debt financing position Total assets to net worth is an average is 18.10 times at the study period.

D. Profitability Ratios

From the study is also a show that the net profit to total assets of EBL in the year 2005 and 2006 is higher that is 1.5% as compared to other fiscal year. The ratio is fluctuating over the period with an average of 1.42%. Though bank is making profit it is not sufficient. So additional efficiency is required. Profit to gross income ratio of EBL is also in fluctuating trend. The mean ratio is 17.36%. The bank is able to obtain higher efficiency. This means that credit management is in good position. Interest income to total income ratio of EBL is also in fluctuating trend. The mean ratio is 0.84 times in the study period. The ratio indicates the high contribution made by lending and investing activities. Operating profit to loan and advances ratio of EBL is also in fluctuating trend. The mean ratio over the period is 4.5%. This shows the better profitability position of the bank. Return on loan advances ratio of EBL is also in fluctuating trend. The mean ratio is 2.2%. This shows the normal earning capacity of EBL in loan and advances. Earning per share of EBL is in increasing trend. The mean EPS of the EBL is Rs.54.17 in the study period. This shows the better profitability in the coming last years. Price earning ratio earning of EBL has increasing trend. The mean EPS of the EBL is 19.76 times in the study period. This shows the better profitability in the coming last years. Thus, credit management overall is in a good position.

E. Lending Efficiency Ratio

Loan loss provision to total loan advances ratio of EBL is also in fluctuating trend. The mean ratio of the study period is .941%. This shows that good quality of assets in total volume of loan advances. Thus, credit management is in good position. So, all of the year the bank has met the NRB requirement. Interest expenses to total deposit ratio of EBL is also in fluctuating trend. From mean point of view, interest expenses to total deposit ratio of EBL is 3.37% during the study period. This ratio does not indicate higher interest expenses on total deposit. Non-performing loan to total loan advances ratio is decreasing trend about the study period. From mean point of view, Non-performing loan to total loan advances ratio of EBL is 1.37% during the study period. This means efficient operating of credit management.

F. Statistical tools

In statistical analysis, correlation analysis and trend analysis has been calculated. Correlation coefficient between total credit and total assets is 0.998, which shows high degree of positive correlation. It can be concluded that total assets and total credit are increasing and can be said that increasing assets will have positive impact towards total credit. Correlation coefficient between total deposit and loan & advances has high degree of positive correlation i.e. 0.999. It is concluded that increasing total deposit will have positive impact towards loan & advances. Trend analysis tools are done for future forecasting. Trend analysis for total deposit is calculated to see future deposit trend of the bank. Average increasing trend is 28,721 (lakh) .Trend analyses for loan & advances is done to see future loan & advances. Average increasing trend is 22,167(lakh). Average increasing trend of net profit is 498(lakh) per year.

CHAPTER - V
SUMMARY CONCLUSION AND RECOMMENDATION

5.1 Summary

In this chapter, summary conclusion and recommendation are included. Recommendation has made which would be beneficial for the management of the bank. In the aspect of liquidity position, cash reserve ratio shows the more liquidity position. Cash and bank balance to interest sensitive ratio shows the bank is able to maintain good financial condition. Cash and bank balance to total deposit has more fluctuating trend in 5 years study period. The average ratio is 0.12 times and hence the bank has enough cash & bank balance to cover its deposit demand. By analyzing the assets management ratio, credit advances to total assets ratio shows the better performance but credit and advances to total deposit position in minimum than the averages. Whereas investment in credit and advances is done safely and not taking more risk. That's why assets management position of the bank shows better performance in the recent years. Non – performing assets to total assets ratio is decreasing during the study period. Debt to equity ratio is in an increasing trend and the average ratio for total debt to equity ratio is 12.14 times.. Total debt to total assets ratio is .93 times, which means 93% of the bank's assets are financed with debt, and only the remaining 7% of the financing comes from shareholder's equity. High total debt to total assets ratio posses' higher financial risk and vice-versa. The ratio of total assets to net worth is 18.10 times. In the aspect of profitability position, interest income to interest expenses ratio shows the more profitable salivation. In addition, total income to total expenses ratio shows the overall predominance of the bank is satisfactory operating income. Return on loan and advances are showing position that is more profitable on of the EBL. After analyzing the lending efficiency of the bank, the loan loss provision to loan advances indicator shows the better performance in the latest year. The interest expenses to total deposit ratios shows the improving efficiency of the bank In statistical analysis, correlation analysis and trend analysis have been calculated. Correlation coefficient between total credit and total assets is 0.998, which shows high degree of positive correlation. It can be concluded that total assets and total credit are increasing and can be said that increasing assets will have positive impact towards total credit.

Correlation coefficient between total deposit and loan & advances has high degree of positive correlation i.e. 0.999. It is concluded that increasing total deposit will have positive impact towards loan & advances. Trend analysis tools are done for future forecasting. Trend analysis for total deposit is calculated to see future deposit trend of the bank. Average increasing trend is 28,721 (lakh) .Trend analyses for loan & advances is done to see future loan & advances. Average increasing trend is 22,167(lakh). Average increasing trend of net profit is 498(lakh) per year.

5.2 Conclusion

The study is conducted on Everest Bank, which is one of the growing banks in Nepal. EBL has been maintaining a steady growth rate over this period. EBL earned a net profit of Rs 296.4 million for the fiscal year 2006-2007 and this comes to be24.96% more as compared to the same period in the previous fiscal year. EBL earned a operating profit of Rs 597.9 million for the fiscal year 2006-2007 and this comes to be 31.96% more as compared to the same period in the previous fiscal year. EBL total deposit of Rs 1818.6 million for the fiscal year 2006-2007 and this comes to be 31.8% more as compared to the same period in the previous fiscal year and then total loan increase by 38.9% compare as previous year. EBL bank has sufficient liquidity. It shows that bank has not got investment sectors to utilize their liquid money. Now in Nepal, many banks and other financial institution are functioning to collect deposits and invest money somewhere in the investigable sectors. Therefore monetarism has been increased since liberalization policy taken by the government. Remittance has also help to increase the amount of deposit in bank. On the other hand due to political crisis economic sectors have been damaged. Most of the projects have been withdrawn due to security problem. Therefore banks have maximum liquidity due to lack of safety investment sectors. Provision for credit loss has been increasing year by year of EBL bank and decreases in the year 2006. Due to political disturbance in the country credit takers are not getting good return from their investment sectors. On that situation credit customers do not return money of the bank in the stipulated time period therefore the non-performing credit of the bank increases. Equity portion of the bank is slightly increasing in the recent years due to issue fdirectives by Nepal Rastra Bank (NRB) the entire bank to increases it’s paid up capital. NRB has issued that direction to provide more safety to the customers. Therefore bank has issued new share in the market.

5.3 Recommendation

These findings may be useful for them who are concerned directly or indirectly with the credit policy of the bank. On the basis of above analysis and findings of the study, following suggestions and recommendation can be drawn out.

- Cash and bank balance of EBL bank is high. Banks efficiency should be increased to satisfy the demand of depositor at low level of cash and bank balance does not provide return to the bank. Therefore some percentage of the cash and bank balance should be invested in profitable sectors.
- EBL should avoid extending credits merely based on oral information presented at the credit interview. Historical financial and trade records should be obtained for proper assessment of the proposal.
- Bank is suggested to make policy to ensure rapid identification of delinquent loans. Bank should make immediate follow-up of loan until it is recovered. The recovery of loan is very challenging as well as important part of the bank. Therefore bank must be careful to strengthen credit collection policy
- It is recommended to follow the NRB directives which will helps to reduce credit risk arising from defaulter, lack of proper credit appraisal, defaulter by blacklisted borrowers and professional defaulter. Government has established credit information bureau, which will provide suggestion to commercial bank. So EBL is suggested to collect as much information about borrowers and only lend to non-risky area and to non-defaulter.
- EBL bank should be fulfilling some social obligations by extending their resources to rural areas and promoting the development of poor and disadvantages group. In order do so; they should open their branches in the remote area with the objective to provide the banking services. The minimum deposit amounts should be reduced.
- The economic liberalization policy adopted by Nepal Government has created an environment of cutthroat competition in the banking sectors. In this context EBL bank is suggested to formulate and implement sound and effective financial and non-financial strategies to minimize their operational expenses to meet required level of profitability.

- International relations of the EBL bank are limited in comparison to others banks. Therefore, the bank should make negotiation with the international banks to increase its transactions in the international areas.
- According to NRB directives, all the commercial bank should increase the capital up to Rs 200 corer by 2070 B.S. HBL is also suggested to increase it's capital. The increment in capital can be made either by capitalization of profit, declaration of stock dividend or right share issue.