

**EFFECTIVENESS OF LOAN MANAGEMENT OF
JOINT VENTURE BANKS OF NEPAL**

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RECOMMENDATION

This is to certify that the thesis

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I hereby proclaim that the thesis work entitled ‘Effectiveness of Loan Management of Joint Venture Banks of Nepal’ submitted to Balkumari College, faculty of Management, Tribhuvan University is my original work for the partial fulfillment of the requirement for the Master’s Degree of Business studies (M.B.S.) under the supervision of Mr. Babu Ram Panthi lecturer (Chair Person Research Committee) of Balkumari College Narayanghar Chitwan.

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Lastly, I would like to say that this research paper is my original work. I do not want to declare that this study is perfectly satisfactory and complete. There may be limitations and shortcomings because of limited time and resources. I hereby want to take the responsibility of all those.

Mr. Ramji Sapkota
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ABBREVIATIONS

%	:	Percentage
ADB	:	Agriculture Development Bank
B.S	:	Bikram Sambat
BOD	:	Board of Director
BOK	:	Bank of Katmandu
C.V	:	Co-efficient Of Variation
CAR	:	Capital Adequacy ratio
CD	:	Credit deposit
CRR	:	Cash reserve ratio
D.F	:	Degree of freedom
DBI	:	Dubai Bank Limited
EBIL	:	Emirates Bank International Limited
EBL	:	Everest Bank Limited
FDR	:	Fixed deposit receipt
FIs	:	Financial Institutions
FY	:	Fiscal Year
GDP	:	Gross Domestic Product
HBL	:	Himalayan Bank Limited
JVB	:	Joint Venture basis
KBL	:	Katmandu Bank Limited
LC	:	Letter Of Credit
Ltd	:	Limited
MAST	:	Marketability Ascertain Stability Transferability
NABIL	:	Nepal Arab Bank Limited
NBBL	:	Nepal Bangladesh Bank Limited
NBL	:	Nepal Bank Limited
NBLB	:	National Bank Limited Bangladesh
NCCB	:	Nepal Credit and Commerce Bank
NGBL	:	Nepal Grid lays Bank Limited

NIB	:	Nepal Investment Bank
NIDC	:	Nepal Industrial Development Corporation
NPA	:	Non- Performing assets
NRB	:	Nepal Rastra Bank
P.E.	:	Probable Error
PNB	:	Punjab National Bank
R	:	Correlation Co-efficient
R ²	:	Co-efficient of determination
RBB	:	Rastriya Banijya Bank
ROA	:	Return on Assets
ROE	:	Return on Equity
Rs	:	Rupees
S.D	:	Standard Derivation
SCBL	:	Standard Chartered Bank Limited

CHAPTER ONE

INTRODUCTION

1.1 General Background

There is no limitation of human needs the necessities of human are increasing for different types of goods and services. As a result, many organization and business house have opened and are competing to provide superior products and service to the customers. It is not easy to produce goods and services with out capital. Capital formation was very difficult in those days when there are no any formal instaurations established for financing money. However, in the modern age it is easy due to establishment of many financial institutions. The first money transaction in the world was commercial bank that established in Venice of Italy in 1157AD. In simply speaking, therefore commercial bank is only as a true bank to almost all people.

A commercial bank is one of our oldest industries. The first bank was organized in 1782 before the adoption of our federal Constitution and many of the banks that were organized in 1800s are still in operation.

Commercial banks are very important for the development of national economy. They accept public saving as deposits and advance them as loan to the person, parties, or business organization that required capital. “The saver is rewarded by the payment of interest on his saving which have safe and in highly liquid form. Their pooled funds are made available to business persons who may use them for the expansion of their productive capacity and to consumer for such items at housing and consumer goods.” Therefore, their primary function is accepting deposits from public and firm and to extend credits to worthy borrowers. Bank lending is very important to the economy for its makes possible the financing of agriculture, commercial and industrials of the nations. Bank loan to manufactures make possible the purchase of raw

material, machinery and employment of labor, which can be produce goods demanded by industries, government and the consumer n time. Comparative cost and national endowments have made trader imperatives with in the country and around the global.

Banks plays a vital role in developing the economy of any country. The level of overall development of a country is the level of economic growth characterized it social, cultural, political, or economical and the crux of the economic growth lies in the development of well-managed banking system. Hence, banks can be considered one extremely necessary for the health and perennial-progress of our country. By carting and mobilizing, the capital and rending various financial service banks are contributing to the establishment and development of so many small and large-scale industries and domestic as well as international trade and commerce. Through bank refers to transaction are money, modern banks are established with facilities the channeling of fund from the surplus units (savers) to the deficit spending units investor) in the economy.

Moreover, banks also encourage industrial innovation and business expansion through the funds provided by them to he entrepreneur. Beside they discourage, various function on behalf of their customer and in turn, they are paid for their services. Commercial banks undertake the payment of subscriptions, insurance premium, rent etc. in addition they purchase and discount bill of exchange promissory note and exchange foreign currency. Further more commercial bank also arrange to arrange to remit money from one place to another are very low price by means of cheques, draft, swift etc. they buy and sell share and securities on behalf of customer. Banks are very important to individually business and for country. In fact, the economic development of a country is not possible with out a sound banking system.

A joint venture on association of two or more persons or partner having exceptional advantage in specific aeration is under taken to make the operations highly remunerative with their collective efforts. The established commercial bank is not only providing pure service and facilities to heir

customer but also lack of proper investment policies in different sectors and unnecessary rules and regulation harassed the customer. As a result in financial year 2039/40 new banking policies was introduced for the establishment of new banks by the joint investment of foreign nation, which gave a new horizon to the Nepalese banking sector. Result of which, several joint venture banks evolved in the last decade. These joint venture banks were established to invite foreign investment and modern technology to provide financial service to the target market. In this short span of time these joint venture banks have merge to perform in a significant was by going their position as a leading bank. Its objectives where to caret healthy competitive banking system and to provide sound banking system and to provide sound banking facilities to the people. Among the various joint venture banks under the banking industries NABIL Bank Ltd., Himalayan Bank Ltd., Everest Bank Ltd., and SBI Bank Ltd are selected.

1.1.1 A Brief Introduction of Sample Joint Venture Bank.

A joint venture an association of two or more person or partner having exceptional advantage in specific operation is under taken to make the operations highly remunerative with their collective efforts. The established commercial banks were not only providing poor service and facilities to their customers but also lack of proper investment policies in different sector and unnecessary rules and regulation harassed the customer. As a result in fiscal year 2039/40 new banking policies was introduced for the establishment of new banks by the joint investment of foreign nation, which gave a new horizon to the Nepalese banking sectors. Result of which, several joint venture banks evolved in the last decade. These joint venture banks were established to invite foreign investment and modern technology to provide sound banking system and to provide sound banking facilities to the people. They have been able to perform satisfactory through service excellence and customer satisfaction and they can earn stable consistent return to their shareholder considering the two private banks, which had opened as joint venture banks, but converted privates, there are altogether seven joint venture banks named as:

A. NABIL Bank Ltd.

“NABIL Bank limited” the first commercial Bank was incorporated in 1984. Dubai bank ltd was the initial joint venture partner with 80% equity investment. The shares owned by Dubai Bank Ltd (DBI) were transferred to Emirates Bank International Ltd, Dubai later on EBIL sold its entire stock to National Bank Ltd Bangladesh (NBLB). National Bank Ltd. Bangladesh is managing the bank in accordance with the technical service agreement signed between it (NABIL) and the bank on June 1995.

The present configuration consists of 50% share capital of National Bank limited, Bangladesh. 10% of NIDC, 9.66% of Rastriya Bema Sansthan, .034% of Nepal stock exchange and 30% of Nepalese public. At present 17 branches of the bank are operating in different parts of the country. Authorized capital and paid up capital of NABIL bank limited are Rs 500 million and RS 491.6544 million.

The following activities and services are provided by NABIL including normal functions:

- Tele banking
- Credit card facilities
- SWIFT
- Deposit locker
- Western union money transfer
- ATM
- International trade and bank guarantee

This bank is awarded by “Bank of year 2004”

B. Himalayan Bank Ltd.

Himalayan bank limited was established as the joint venture commercial Bank with maximum share holding by the Nepal's private sector which is managed by Nepali chief executive. Himalayan Bank Ltd was registered under the

company act 1964 in 1992. This the joint venture bank of HABIB Bank Pakistan and Nepalese promoters. Authorized capital of bank has been 100 million, issued & paid up capital Rs. 77.22 million, Net profit Rs.184, 386,121, earning per share Rs.60.66 and dividend per share Rs.40.0 at the end of financial year 2006/2007. Its ownership is composed of founder shareholders 51p percent, Habib bank of Pakistan 20 percent, Karmachary Sanchaya Kosh 14 percent and general public 15 percent.

The main business activities of bank are to provide modern banking facilities like to the businessman, industries and other professionals and to provide loan on agriculture commerce and industrial sectors.

C. Everest Bank Limited.

Everest Bank Ltd was registration under the company act in 1964 in 19th November 1993 and started banking transaction in 16th October 1994. This is the joint venture bank of India and Nepalese promoters. A term of professional departed by Punjab National Bank under technical services Agreement managers and managing director is the executive director deputed by PNB under this arrangement including main branch (i.e. head office) in Nepal.

An authorized capital has been Rs.240 million, issued Rs.120million, and paid up capital Rs.117.5645 million in the beginning in 2051/2052. but at present, an authorizes capital of the bank has Rs.400 million, issued Rs.264 million and Nepal and paid up capital Rs.399.3186 million. It has the following share holding patterns.

Punjab National Bank (India)	20%
Nepalese Promoters	50%
General Public	30%

Similarly, the present composition of Board of Directors (BOD) of the comprises as given below:

Chairman	-	Promoter	-	Nominee
Executive Directors	-	Promoter	-	Nominees
Directors	-	Promoters	-	Nominees
Director	-	PNB	-	Nominees
Director	-	Elected by public shareholders.		

The objectives of Everest Bank Limited are as follows:

- To play an important role in facilitating Indo- Nepal trade is growing with the support of large network of branches (37000) of Punjab National bank in India.
- To provide a whole range of International Services to Facilitate Nepal's Trade and tourism.
- To provide the full range of quality banking service to both the business community and common man.
- To participate in the emerging industrial scenario in Nepal where Punjab's age-old experience, banking experience and expertise would come in handy. (Sources: Brochure of EBL)

The bank has not paid any dividend in 2051/52, has paid dividend of Rs.15 per share in 2055/56 and has paid Rs.20 per share with bonus share for the year 2056/57. This Bank is awarded by "Bank of year 2006".

D. Nepal SBI Bank Ltd.

Nepal SBI Bank Ltd (SBI) was incorporated in 1993 under the company act 1994 with the objective of expanding modern banking business in the various section of society in the kingdom of Nepal. SBI is the joint venture of state bank of India and Nepali promoters. Nepal SBI bank ltd. has been managed by the state bank of India under the joint venture and technical service agreement signed between it and Nepali promoters. Its share holding pattern is given as follows:

Share holding Pattern:

State bank of India	50%
Nepalese public	30%
Employee provident Fund	15%
Agricultural Development Fund	5%
Share capital & Resources	Rs. In Million
Authorized capital & Resources	1000.00
Issued capital	500.00
Paid up capital	424.89

It has been listed in stock exchange center in 1995 and number of share holders are 2058. The activities and services provided by SBI are as follows:

- Conventional Banking facilities
- Any branch banking
- International trade and bank guarantee
- Remittances

1.2 Statement of the Problem

The present situation of Nepal is economically on stable. There is no peace and security in the country so the investors are discouraged to invest. Banking industries are facing the problem from the component of external environment such as political, legal, economics and social. The unstable politics in the main cause, which is hampering for the growth of banking sectors. The corruption make by the top level management negligence, over staffing and the some reasons that one facing by the banks. The other common problem both joint venture banks and state owned commercial Banks and state owned commercial Bank is the cut through competition. Most people of Nepal are illiterate and people are unaware about the banking system. Due to the lack of effective human resources and trained manpower, growing brain is the serious problem for the existing healthy competition.

The joint venture banks are not interested in granting loan to primary and deprived sector of the economy. Banks are active only in urban sector because they see great opportunities for the minimization of profit rural areas one being neglected. There are only for rural development bank active in Nepal while Nepal is full of rural areas. The research (report) work intends to explore the following questions:-

- a. What is the relationship of loan and advance, investment to total deposit and with loan loss provision?
- b. Does commercial Banks follow NRB (Nepal Rastra Bank) directives in term of lending?
- c. Whether the lending policy adopted by the bank concede with the lending practice or not.
- d. What is the proportion of non-performing loan in total lending?

1.3 Objectives of the Study

The main objective of this study is to analyze the lending performance of joint venture banks. The specific objectives of the study are:

- a. To analyze the deposit and practices of loan and advances.
- b. To measure the bank lending strength in terms of relative and absolute.
- c. To measure the bank lending efficiency in term of quality and its turnover.
- d. To analyze the relationship of loan and advance and other variables with the profitability of different banks.
- e. To analyses the views and opinion of executive and customer to improve the loan management.

1.4 Significance of the Study.

Lending practice is important to reduce poverty and unemployment and to stimulate growth. Good and optimum lending practice of a bank depicts the sound health of the bank. This would make a good impact on economy of a country if the banking sector poses a firm and by astronaut's behaviors that is only possible when the fund lending practice of banks consider customer, national and government interest. In the view of various such problems arising from lending procedures none and delayed payments. The bank of Nepal must be abort in granting loan and should take necessary action to recap the situation. Solving these problems necessarily arise the questions. Why and how it happened? What are the causes of none and delayed repayment? After the right reorganization of the cause the bank can solve the problems in a correct way for this. The bank should determine firstly. What are the real problem and its cause analyze them and make alternative program to solve them. This study work can help to know of the bank and also its achievement and operational success. Because the success of any bank depends not only on the loan procedures but depends to a charge extent on repayment of loan also.

1.5 Limitation of the Study

Every study must have the characteristics of limitation. So this study is limited by following factors:-

- a. Due to the time and resource factor only four joint venture banks will be taken for the study one Nabil Bank Ltd and SBI Bank Ltd.
- b. secondary data will be used for result interpretations, journals, on published as well as published thesis works and other published articles and report
- c. The study will be cover only a period of five years from the fiscal year ended 2058/2059to 2062/636 and conclusion drawn confines only to the above period.
- d. This study will be done for the partial fulfillment of Master in Business studies program of Tribhuvan University.

1.6 Organization of the Study

The study has been divided into five different segments to make the study more systematic, namely in the form of Introduction, literature review, research methodology, presentation and analysis of data, conclusion and recommendations.

Chapter 1 Introduction

This chapter will be the introduction chapter, which consists of background of the study, statement of the problem, objectives of the study, significance of the study, limitation of the study and organization of the study.

Chapter 2 Review of Literature

The second chapter will deal with the review of literature with concepts of some terminologies of the lending lock management. The second part of these chapters consists of review of books, journals, previous study, research papers and review of unpublished of various research studies.

Chapter 3 Research Methodology

The third chapter will deal with the research methodology used in this study. It consists of introduction, research design, data collection procedures, population and sample and analysis of data.

Chapter 4: Presentation and Analysis of Data

The fourth chapter will be the analytical presentation of the study. This chapter consists of analysis, interpretation and major findings of the study. This is a most important part of the study.

Chapter 5: Summary, Conclusion and Recommendations

Fifth chapter will deal with the summary, conclusion and recommendations of the study.

Bibliography and other appendices used in statistical results have been attached at the end of the study.

CHAPTER TWO

REVIEW OF LITERATURE

Review of literature comprises of the study and analysis of previous research work. The previous studies are linked with present study to get some ideas, which ensures the sequential development of a research. Many researchers have conducted their research on the field of commercial bank especially on their financial performance, investment policy, resource mobilization with NRB directives etc. Besides this, there are some books, journals, articles and others relevant study concerned with the loan management. Some of the relevant studies, their objectives, findings and conclusion and other literature relating to the topic have been review books. This chapter is categorized into two different headings.

A. Conceptual Review

B. Review of Related studies.

2.1 Conceptual Review

The chapter focused to discuss briefly about the theoretical concept of the loans of the loans and advance and its relation with other subject.

2.1.1 Joint Venture Bank

Banks are an essential part of the business activity that is established to safeguard people's money and thereby using the money in making loans and investment. There are several commercial banks operating inside and outside the valley. Every bank invests lots of money in some profitable business in the long run. An investment is the commitment of money that is expected to generate additional money.

Banks is an establishment which makes to individual such as advanced of money may be required and safety made to and to which individual entrust money when and required by them for us.

The term 'bank' particularly denotes commercial bank. In short, the organization, which deals with money and credit, is known as bank. Before 1936 in Nepal, there were no banks at all. All the money transaction was carried out by a few moneylenders; truly speaking for the first time Goldsmith were doing the banking activities, which received deposited and lend money to their clients. The primitive people were anxious keeping their valuable ornaments and money in their houses. They kept those to the goldsmith because of safety motive. Thus for the time people began to keep their valuable things in the hand of goldsmiths because they had safe.

At the preliminary stage of development of banking system, there were *Tankadharies* meaning money dealers were the owner of the money transaction. Later on, during the period of Prime Minister Ranodeep established *Tejarath Adda* in Nepal for granting loan to civil servant. *Tejarath Adda* was governed financial institution. Thus, *Tejarath* was replacing by a commercial bank known as the Nepal Bank Ltd. during the period of Juddha Shumsher.

In developing country like Nepal, the needs of the masses could not be fulfilled only by such institution. In the history of Nepal, to solve this problem, for the first time in 1994 B.S. Nepal Bank Limited was established as one of the helping tools to overcome those obstacles as semi government organization it has done pioneering function in spreading the banking habit among the people. However, we were in need of a central bank which came into existence in 2013 B.S. named Nepal Rastriya Bank is another commercial bank was set up. The purpose of this bank is also providing facilities for the economic welfare of the public. The establishment of modern commercial bank (Joint venture Bank) in 2041B.S. has been passed.

A Joint Venture is the joining of forces to or more enterprises for the purpose of carrying out a specific operation (industrial or commercial) investment, production, or trade

In order to operate a business organization under joint venture basis, there should at least be two partners from two different countries. Joint venture banks are the commercial banks formed by joining (two or more enterprises for the purpose of carrying out specific operation such as investment in trade, business and industry as well as in the form of negotiation between various groups of industries or traders to achieve mutual exchange of good and services for sharing competitive advantage by performing joint investment scheme between Nepalese investors and their parent banks each supplying 50% of total investment. The parent banks, which have experience in highly merchandised and efficient modern banking services in many parts of the world, have come to Nepal with latest technology and advanced management skills. JVB's are established by joining forces and with ability to achieve a common goal with each of the partners. They are more efficient and efficient monetary institution in modern banking fields than other old type of banks in Nepalese context.

The primary objectives of these JVB's are always to earn profit by investing or granting associated with trade, business, industry etc.

2.1.2 Loan (Definition)

Webster's defines loan as "something lent esp. sum of money lent often for a specified period and repayable with interest." (Webster 2000, P.p-821)

Financial institutions lend money out of deposits they have to pay interest on deposits. It is apt to provoke 'Deposits are the children of loans and loans are the children of deposit'.

Banks do not keep cent percent reserve against deposit for meeting the demands of depositors. As not all depositors need money at the same time, banks with a small reserve satisfy their demand whenever and whenever

demonstrated and grant loan from excess reserve than depositors need to needy feasible subscriber.

Loan is financial assets resulting from the delivery of cash of other assets by a lender to a borrower in return for an obligation repay on specified date or demand. Loan usually comprises:

- i. Consumer installment, overdraft and credit card loan
- ii. Residential mortgages
- iii. Non- personal loan such as commercial loans business, financial institution, government and their agencies
- iv. Direct finance leasing
- v. Others financial arrangement that are in substance loans.

As gist it is apt to quote “performing loans have multiple benefits to the society while non performing loan erodes even exiting capital” (Bhuvan Dahal, 2002, p-114)

2.1.3 Types of loan:

Types of loan are also known as disbursement procedures and falls under lending conditions and disbursement procedures.

Mr. Satish Munjal(1997, “Money and Banking”P.p76-77) has classified loan as:

- i. Overdraft
- ii. Cass credit
- iii. Bill discounting

Likewise, Johnson & Johnson (1940, “commercial Banking management”, p-158) has depicted the types of loan as:

- i. Commercial loan
- ii. Consumer loan
- iii. Mortgage loan

Whereas sample joint venture banks provide the following varieties of loan:

- i. Hire purchase loan
- ii. Term loan
- iii. Housing loan
- iv. Fixed deposit receipts loan
- v. Share loan
- vi. Miscellaneous

As there is no uniform standard among intellectuals and organization for classifying loan sincere and authentic, effort is being made for categorizing and dealing about loan.

1. Hire Purchase Loan:

Hire – purchase loans are characterized by periodic repayment of principal and interest over the maturity of the loan. Hirer agrees to take the goods on hire at a stated rental including the repayment of principal as well as interest with an option to purchase. It can be extended on secured or unsecured basis having maturities of five years or longer.

Majority of installment loans are made at a fixed rate with the interest rate remaining constant over the life of the loan. A recent survey of commercial banks indicates those banks are planning to offer installment loans on a variable rate basis. It can be secured and unsecured as well as direct and indirect installment loan.

2. Term Loan:

It refers to money lent in sum lump to the borrowers. It is principal form of medium term debt financing having maturities of 1 to 8 years. Term loans are usually repaid in level amounts over amounts over the period of the loan, either a large final 'Balloon Payment' or just a single 'Bullet Payment' at maturity. Banks can accommodate repayment patterns to the anticipated cash flows of

the borrowing firms. The rate of interest on it is sometimes fixed not only for the life of loan but also as per prime rate. The conditions of a term loan are likely those of most unsecured bonds.

Barely and Myers urge that bank loans with maturities exceeding 1 year are called term loans. The firm agrees to pay interest based on the bank's prime rate and to repay principal in the regular installments. Special patterns of principal payments over time can be negotiated to meet the firm's special needs.

It is made to support equipment purchases and more permanent fund needs. It recent term loans occupy the apex part of the banks loan portfolio but traditionally short- term loan were emphasized.

3. Housing Loan:

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

4. Fixed Deposit Receipts Loan:

The depositors keep fixed deposits for a specified period. The depositor can get against the collateral of such deposits of his needs money before the maturity date. In general, financial institutions allow up to 90% of the fixed deposits as loans.

5. Share Loan:

The approving institution cannot disburse the facility (of loan) due to incompleteness of legal and other formalities though term loan is approved to some customers and bridge loan can be asked in such situation.

6. Overdraft:

Overdraft connotes the excess amount withdrawn over their deposits. The situation of overdraft evolves when bank honors the cheques to an agreed limit. It is a kind of working capital (i.e. fulfillment of short-term needs of businesspersons) loan and allowed only in current accounts. Hence, it is an agreement by which the bank allows the customer to draw over and above the current account balance. The account balance fluctuates since withdraw and repayment of money took place. Interest on overdraft is charged on debit balance on daily basis.

7. Cash Credit:

It is the commonest form of lending done by the firm (Bank). The loan is not given directly in cash but deposit account id being opened on the name of loan taker and the amount credited to that account. In this way, every bank loan creates deposit. It may be operated within the stipulated limit and required time by the borrower. It id provided against the pledge or hypothecation of stock in trade, land building, good and machinery.

8. Working Capital Loan:

Working capital denotes the different between current assets and current liabilities. It is granted to the customers to meet their working capital gap for supporting production process. A natural process develops wherein funds moving through the cycle are generated to repay a working capital loan. Working capital can be categorized into fixed (permanent) working capital and variable (temporary) working capital. Short-term loan meets the fixed working capital needs where as overdraft fulfills the variable working capital demands.

2.1.4 Meaning of Some Banking Terminology

In this section of the study efforts have been made to clarify the meaning of some important terms frequently used in this study, they are given as:

a. Deposits:

Deposits mean the amount in a current, saving or fixed account of a bank or financial institution. For a commercial bank, deposit is the most important source of liquidity for bank's financial strength; it is treated as a barometer. In the word of Eugene, "A bank deposits are the amounts that it owes to its customers" deposits are the lifeblood of the commercial banks. Through they constitute the great bulk liabilities; the success of a bank greatly depends upon the extent to which it may attract more and more deposits. The deposit of a bank is affected by various factors like:

- Types of customers
- Physical facilities of bank
- Management and accessibility of customers
- Types and range of the services offered by the bank

In addition to the above, the prevailing economic conditions exert a decisive on the amount of deposit the bank receives.

b. Loan and Advances:

Loan advances and overdraft are the main source of income for a bank. Bank deposits can be crossed beyond a desired level but the level of loans, advances and overdrafts are the main services in which customers of the bank can enjoy. Funds borrowed from banks are much cheaper than those borrowers from unorganized moneylenders. The demand for loan has excessively increased due to cheaper interest rates; further an increase in economic and business activities always increase the demand for funds. Due to limited resources and increasing demand for loans, there is some fear those commercial banks and other financial institutions too. It may take more preferential collateral while granting loans causing unnecessary botheration to the general customers. Such loans from these institutions would be available on special request only and there is a chance of utilization of resources in economically less productive fields. These are the undesirable effects of too low interest rate.

c. Investment on Government Securities, Shares, and Debentures

Commercial banks invest on government securities, shares and debentures to earn some interest and dividend. This is the secondary sources of income to the bank. A commercial bank may extend credit by purchasing government securities, bond and shares for several reasons, some of them are:

- It may want to space its maturities so that the inflow of cash coincide with expected withdrawals by depositors of large loan demands of its customers
- It may wish to have high grade marketable securities to liquidity, if its primary source of reserves becomes inadequate
- It may also be forced to invest because the demand for loans have decreased or is not sufficient to absorb its excess reserves.

However, investment portfolio of commercial bank is established and maintained with a view to the maturity of bank's liabilities. That is because depositors may demand funds in great volume without previous notice to banks; the investment must be of that can be marketed quickly with little or no shrinkage in value.

d. Investment on Others Companies Share and Debentures

Due to excess funds but least opportunity to invest those funds in much more profitable sector and to meet the requirement of Nepal Rastra Bank directives many commercial banks have to utilize their funds to purchase shares and debentures of many other financial and non-financial companies. Nowadays, most of the commercial bank has purchased the shares of regional development bank, NIDC and other development banks.

e. Other Use of Funds

Commercial banks must maintain minimum bank balance with Nepal Rastra Bank as prescribed by the bank. Similarly, they have to maintain the cash balance in local currency in the value of the bank. Again a part of the funds should land, building, furniture, computers stationery, etc.

f. Off- balance Sheet activities

Off- balance sheet activities covers the contingent liabilities etc. Off- balance sheet activities involve contracts for future purchase or assets and all these activities are contingent obligations. These are not recognized as assets of liabilities in balance sheet. Some good examples of these items are letter of credit (LC), letter of guarantee, commission, bill for collections etc. Nowadays, such activities are stressfully highlighted by some economists and finance specialists to expand the modern transactions of a bank. These activities are very important as they are the good source of profit to the bank though they have risk.

2.1.5 Features of Sound Lending and Investment Policy

The income and profit of a financial institution depends upon to its lending procedure, lending policy and investment of its fund in different securities. A sound lending and investment policy is not only pre-requisite for bank's profitability but also of almost significance for the promotion of commercial savings of an under developed and backward country like Nepal.

The factor that banks must consider for sound and lending and investment policies are explained as under:

a) Safety and Security

The bank never invests its funds in those securities, which are too much depreciation and fluctuations because a little difference may cause a great loss. It must not invest funds into speculative to business who may be bankrupt at once and who may earn millions in a minute. The bank should accept that type of securities, marketable and high market prices. In this case, "MAST" should be applied for the investment whereas:

M= Marketability

A= Ascertain

S= Stability

T= Transferability

b) Liquidity

People deposit money at the bank in different accounts with the confidence that the bank will repay their money when they need. To maintain such confidence of the depositors, the bank must keep this point in mind while investing its excess fund in different securities or at the time of lending so that it can meet current or short- term obligations when they become due for payment.

c) Profitability

A commercial bank can maximize its volume of wealth through maximization of return on their investments and lending. So, they must invest their fund where they gain maximum profit. The profit of commercial bank depends upon the interest rate, volume of loan, period of loan and nature of investment on different securities.

d) Suitability

A banker should know that, why a customer need have loan. If a borrower misuse the loan granted by the bank, he will never be able to repay the loan and bank will possess heavy bad debts. Therefore, in order to avoid such circumstances advances should be allowed to select and suitable borrowers and it should demand all the essential detailed information about the scheme of the project. Bank must keep in mind the overall development plans of the nation and the credit policy up the central bank.

e) Diversification

Investment and credit concentrated on same geographical region, same sector of business, and few customers increase the risk. Hence, the policy should fix a cap on all these aspect. As the saying goes, “A bank should not put all its eggs in the same basket.” Therefore, in order to minimize the risk, a bank should diversify its investment in different securities. This diversification or portfolio investment helps to earn good return and at the same time minimize the risks and uncertainty.

f) Legality

A commercial bank must follow the rules and regulations and statutory directives issued by Nepal Rastra Bank, Ministry of Finance and others while issuing securities and mobilizing their funds. In Nepal, NRB restricts financial institution licensed by it to invest in securities of each other.

2.1.6 Criteria for Providing Loan:

Set-up of well-established criteria for disbursing advance and loan is the most essential to survive, thrive and enlargement of the banks. Loan should not be allowed to all demanding parties haphazardly. Action and inactions taken in haunch to flow loan and advances without systematic, scientific, and thorough study analysis may lead to ditch. Ergo, well defined and setup and setup criteria to grant loan must be visible to the personnel. These are positively demonstrated below:

i. Personal Character:

Intensive analysis of loan demander is essential to determine loan disbursement policy. Person character must be studies to know the intention to pay loan. Their practice to repay loan, creditworthiness, habit to use acquired fund, past trend regarding the receipt and payment of loan are to be reviewed. Dubious person's proposal should not be accepted.

ii. Capacity or Competency:

Whether the person capable in making contract according to 'Contract Act 2056' or not should be checked out at first. Considering the potent and expertise of persons (borrowers) in concerned field, decision about the flow of loan is to taken.

iii. Capital:

Examination of loan demander is apt to match his demand with his status and business. This ultimately helps to know the amount of money he needs as investment. Indeed his financial feasibility should be stronger than his demand to get the faith of the lenders.

iv. Security:

Priority should be readily marketable and handy collateral. Decision about the flow of loan is made considering nature of business and type of securities proposed. Accept loans having securities above, near about, and denies the loan proposal containing inferior quality security.

v. Credit Information:

It is appropriate to get the information relating with loan proponent form the person or businesspersons working together in the concerned sectors. Credit information denotes knowing whether he is, black listed or not, his capacity and his demand etc. If information obtained is satisfactory the proposal will be accepted and will be rejected in reverse plight.

vi. External Environment:

External environment of industry of business shown by loan proponent needs to be evaluated on the eve of providing loan to known the facts about use and salability of right business. It is pivotal to evaluate external environment of business where business originates, thrives and survives since modification of external environment is almost impossible in accordance with motto plight.

This aids in understanding forth-coming prospects and retrospect of business as well as gives guidance for decision-making.

2.2 Review of Books

H.D. Crosse (1963) has mentioned in his book, “Management Policies for Commercial Banks”, that lending is the essence of commercial banking, consequently the formulation and implementation of sound lending policies are among the most important responsibilities of bank directors and management. Well-conceived lending policies and careful lending practices are essential if a bank is to perform its credit creating function effectively and minimize the risk inherent in any extension of credit. Before, formulating a lending policy, many factors have to be taken into consideration because banks are not the real owners of deposits but rather the custodians of money.

Cross has further pointed out the various factors to be considered before planning for sound lending policy. The factors include community's need of money, determining the size of the loan portfolio and the character of loan payment, purpose, and protection. Other factors for consideration for sound lending policy include credit worthiness, assets pledged to secure borrowing, interest rate policy etc. Cross strictly points out that the lending policy must be well spread, it should be of short-term character, repayable on demand, profitable and it should be with adequate securities (Crosse, 1963).

According to **J.H. Clemen (1963)** in his book “Banking Lending”, commercial banks should consider the interest of the banks but they should always consider the national interest above all (Clemen, 1963).

Radhaswamy and Vasudevan (1979) hold a similar view in their book “A Text Book of Banking” and say that a bank must strike a balance between liquidity, profitability, and safety. The secret of successful banking is to distribute resources between the various forms of assets in such a way as to get a sound balance between liquidity and profitability. So that there is cash on hand which is quickly realizable to meet every claim and at the same time enough income for the bank to pay its way and earn profit for its shareholders (Radheswamy and Vasudevan, 1979).

Reed, Cottor, Gill and Smith (1980) in their book entitled ‘Commercial Banking’ focus on the importance of loan in banking sector. As per their view, loans are the most important assets held by banks and bank lending provides the bank of bank income lending is not only important to the bank only, it is equally important to the community the banks serve. This why loan policies must be worked out carefully after considering many factors (Reed,Cottor, Gill and Smith,1980).

K.C. Shekhar and Leksmy, Shakhar (1999) write about the problem of non-performing assets in banking sectors in their book entitled “Banking Theory and Practice.” They blame the deterioration in the quality of loan portfolio for the increase in non- performing assets of the banks. Therefore, immediate attention is to be given by the bank in the sector of loan portfolio. The authors point out the administrative and political interference in credit decision making as a factor contributing in the deterioration of the loan portfolio quality. The author’s even non-performing asstes are several folds in more profit attractive lending than in less profit lending. The way deal with the problem has also been suggested by the author. They opine that should be made by the banks for non-performing provision assets out of their profit (Shekhar and Shekhar, 1999 p-366-367).

2.3. Review of NRB Directives

The central bank (NRB) has established legal framework by formulating various rules and regulations (prudential norms) to mobilize the funds in terms of investment, lending etc to different parts of the nation. While making strategic plan in terms of investment and lending decisions these directives should be considered as they have direct impact with the banks. NRB has issued these directives in order to maintain healthy competition between these banks and for the development of the nation in the financial sector. NRB has formulated various rules and regulations related to the banking. Some of them are regarding investment, credit limit, priority and deprived sector loan, single

borrower limit; cash reserve ratio (CRR), loan loss provision, capital adequacy ratios, interest spread, productive sector fun, paid up capital etc. Commercial Bank Act 2031, Nepal Rastra foreign exchange regulation Act2019 along with the prevailing Nepalese law, guides the activities of these banks.

Capital Fund

For a new commercial bank, minimum paid up capital is Rs250 million to operate all over Nepal except Kathmandu Valley. The paid up capital for establishing a national level new commercial bank shall be Rs 1 billion. By mid July 2009 (Ashad 2066), existing all bank require to raise capital fund to Rs 2000 million through minimum 10% paid up capital increment each year.

Capital Adequacy Ratio (CAR)

The capital adequacy ratio is the relationship between shareholders fund (capital fund) to total risk weighted assets of the bank. Capital adequacy ratio is calculated on a quarterly basis. The shortfall should be covered within next 6 months when there is minimum core capital is not met. The higher the CAR the less levered the bank and safer from depositors point of view. Distribution of dividend, expansion of branches, distribution of loan, available of refinance from NRB etc are not allowed until the fulfillment of shortfall of CAR.

Based on the risk- weighted assets, the banks shall maintain the prescribed proportion of minimum capital fund as per the following timetable:

Core Capital:

The total capital fund is the sum of core capital and supplementary capital. The core capital comprises of paid up capital, share premium, non-redeemable shares, general reserve fund, and accumulated profit and loss account. However, the amount of goodwill should be deducted while calculating the core capital.

Supplementary capital:

Supplementary capital comprises of general loan loss provision, redeemable preference share capital, asset revaluation fund, exchange fund and any other unspecified reserves.

For the purpose of calculation of capital fund, the amount under the following heads, subject up to one hundred percent of the core capital should be included under the supplementary capital.

Cash Reserve Ratio:

Commercial banks are required to maintain minimum cash reserve as per NRB's regulation 22, July 2002. It requires maintaining the cash at till-2 percent of total deposits, balance at NRB-7 percent of current and saving deposits, and 4.5 percent of fixed deposit. Cash reserve ratio not mandatory for foreign currency deposit and for margin deposits.

General loan Provision:

Under this head, provision made against the pass loan should only be included. The amount should not exceed 1.25 percent of the total risk weighted assets. However, loan loss provisioning on sub standard and Doubtful loans be available to be included under the supplementary capital during the following time- period:

Loan classification and loan loss provisioning:

CB's are required to classify their loan based on overdue aging schedule and provide on a quarterly basis as follows:

Classification of loan	Loan loss provision
Pass	1 percent
Substandard	25 percent
Doubtful	50 percent
Loss	100 percent

Pass loans are also defined as performing loans. Loans and advances are classified in the category of sub-standard, doubtful, and loss is classified and defined as non-performing loan.

Classified loans and advances under the currently existing arrangements are required to classify as per the following timetables in four phases.

Table No. 2.1**Time table and categories to classify the loan and advances**

Classifi- cation	FY 2058/059	FY 2059/060	FY 2060/061	FY 2061/062 onwards
Pass	Loans not past due and past due up to 3 months	Loans not past due and past due up to 3 months	Loans not past due and past due up to 3 months	Loans not past due and past due up to 3 months
Substandard	Loans & advances past due for a period of over 3 months to 1 year	Loans & advances past due over 3 months to 1 year	Loans & advances past due for a period of over 3 months to 1 year	Loans & advances past due for a period of over 3 months to 6 months
Doubtful	Loan and advance past due for a period over 1 year to 3 years	Loan and advance past due for a period over 1 year to 3 years	Loan and advance past due for a period over 9 months to 2 years	Loan and advance past due for a period over 6 months to 1 year
Loss	Loans and advance past due for a period over 3 years	Loans and advance past due for a period over 3 years	Loans and advance past due for a period over 2 years	Loans and advance past due for a period over 1 year

Sources: NRB Directives 2002

The respective overdue period of pass, sub-standard and doubtful loans shall be considered from the next day of the date of expiry of the overdue period provided for each class.

Additional arrangement in respect of Pass Loan

Loans and advances fully secured by gold, silver, fixed deposits receipts, and HMG securities should be included under “pass” category. However, where collateral of fixed deposit receipt or HMG securities or NRB Bonds is placed as security against loan for other purpose, such loan has to be classified based on aging as per clause 2.

Loans against fixed deposit receipt (FDR) of other banks shall also qualify for inclusion under pass loan.

Required Lending by Commercial Banks:

40% of advances to the productive sectors including priority sector

12% of total advances to priority sectors including deprived sector

Priority sector credit program includes agriculture and agro based business, cottage and small industries, service industry and enterprises. The banks are required to extend priority sector loans as prescribed by NRB from time to time. Deprived sector includes low income and particularly socially backward women, tribes, lower cast, blind, hearing impaired, physically handicapped and squatters (Sukumbasi) family. Deprived sector credit is considered as integral part of priority sector credit and this credit comprise micro credit programs and projects also.

Minimum Percentage of Total Credit to be invested in Priority Sector

Fiscal Year	Percentage
2002/03	7
2003/04	6
2004/05	4
2005/06	2
2006/07	2

CBs must extend a certain percentage of loan and advances in the priority and deprived sector. Currently deprived sector lending should be at least 0.25

percent to 3.0 percent depending on the banks and priority sector lending at least 12 percent inclusive of deprived sector lending to their total loan and advances portfolio. The bank has to pay penalty at the maximum prevailing lending rate of the bank in case of shortfall in deprived sector.

2.4. Review of Articles

Under this lending, efforts has been made to examine and review some of the related articles publishing in different economic journals, bulletin of world bank, dissertation papers, magazines, newspapers and other related books.

Mr. Shiva Raj Shrestha has presented a short scenario of investment management from his article “Portfolio management in commercial bank theory and practice” has stressed in case of investors having lower income, portfolio management may be limited to a small saving incomes. On the other hand, portfolio management means to invest funds in various schemes of mutual funds like deposits, shares, and debentures for the investors with surplus income. Therefore, portfolio management become very important both for the individual as well as institutional investors.(Shrestha;2060)

Dr. Sunity Shrestha in her article, “Lending operation of commercial Banks of Nepal and its impact on GDP” has presented with the objectives to make an analysis of contribution of commercial banks lending to the domestic product (GDP) of Nepal. She has set hypothesis that there has been positive impact of lending of commercial banks to the GDP. In research methodology, she has considered GDP as the dependent variable and various sectors of lending viz. Agriculture, industrial, commercial service and general multiple regression technique has been applied to analyze the contribution.(Shrestha;2061)

Madhav Lal Pradhan in his article, “The importance of loan information center and its activities” published in NRB annual publication says that loan information center was established to fulfill the necessity of a company working in relation to information related to loan. He further adds that the negative, trends like delaying the payment of principal and interest, deficient

loan approval procedures, lack of constant inspection of project, lack of coordination between bank and finance companies have aided in the increase of non-performing loans. This ultimately affects the national economy negatively. The author recommends the banks and finance companies to help the loan information center by following the directive of Nepal Rastra Bank and utilizing the information obtained from the center so that positive changes can be witnessed (Pradhan,2061,p.190-194).

2.5 Review of Unpublished Thesis

Past theses relating to loan of which are considered as relevant to this study is reviewed herein.

Maha Parsad Mainaly, (1999) has concluded a thesis research on “ An Evaluation of Loan Distribution and Collection of Agricultural Development Bank”

The basic objectives of this study were:

- a) To study the target of loan disbursement and collection.
- b) To examine the achievement of purpose wise, term wise, development region wise, loan disbursement outstanding, and collection.
- c) To analyses the relationship between targeted and achievement of loan recovery.
- d) To provide suggestion to ADB/N based on finding.

His major findings are:

- a) Though targeted loan disbursement and collection are increasing, targeted loan collection of the bank is increasing at decline rate.
- b) According to correlation coefficient it is loan disbursement and collection i.e. $r = .98$ (where, P.E.= .012). This explains that increase in loan disbursement increases the collection.

- c) Both actual loan outstanding and loan collection have increasing trend however collection of loan is found fluctuated over the period. This collection is significant between them i.e. $r=0.099$ (where, P.E.= 0.006).
- d) Finding from purpose wise actual loan disbursements, outstanding and collection are increasing and their correlation are significant incase of cereal and cash crop purpose, live stock purpose where as fluctuating in case of go down and cold purpose, farm machine and irrigation purpose, horticulture and agro- forestry product purpose, biogas purpose and etc.
- e) Finding of term wise actual loan disbursement, outstanding and collection revels the fact that short- term and mid-term loan flow, outstanding and collection are increasing where as long-term loan has mixed trend about that.
- f) Finding about development region wise loan disbursement, outstanding and collection says average of loan collection to outstanding is weak in eastern but stronger in western and weaker in eastern and far western.
- g) Analysis t-test says there is no significant different between the mean ratios of targeted loan disbursement between the mean ratios of targeted loan collection and actual loan collection.(Manali;199)

Upendra Tuladhar (2000) has conducted a thesis research on “ A Study of Investment Policy of Nepal, Gridnlays Bank Ltd. in Comparison to others JVB’s in Nepal”

The objectives of the study were:

- a) To study the fund mobilization and investment policy with respect to fee based off-balance sheet transaction and fund based on balance sheet activities.
- b) To evaluate the liquidity, efficiency, assets management and profitability position.
- c) To evaluate the growth ratio of loan and advances and total investment with respective growth rate of total deposit and net profit.

- d) To evaluate the trend of deposit utilization toward total investment and loan and advance and its projection for next five years.
- e) To perform an empirical study of the customer's views and ideas regarding the existing service and adopted investment policy of the joint venture banks.
- f) To provide suggestions and recommendations on the basis of the study.

His major findings were:

- a) NGBL has maintained adequate liquidity than others JVB's. It is in a better position to meet current obligation.
- b) NGB has successfully maintained and managed its assets towards different income generating activities.
- c) The profitability position of NGBL is higher than other JVB's.
- d) NGBL has invested higher portion of total working fund in government securities than other JVB's . NGBL's loans and advances to total deposit ratio is less than other JVB's.
- e) NGBL has the largest profit margin in comparison with JVB's.(Tuladhar;2000)

Tanka Kumar Rana (2003) has conducted a thesis research entitled "Investment Policy and Analysis of Commercial Bank in Nepal (A Comparative study of SCBNL with NIB&NBBL).

The following objectives were considered in the study:

- a) To discuss fund mobilization and investment policy of SCBL in respect to its fee based of balance sheet transaction with NIBL & NBBL.
- b) To evaluate the liquidity, efficiency profitability and risk position of the sample banks.
- c) To evaluate the growth ratio of loan and advances, total investment with other financial variables.

- d) To evaluate the growth ratio of loan and advances, total investment, loan, advances, and its projection for next five years.
- e) To fine out whether there is significant difference between the various important ratios of SCBNL with the ratio of NIBL and NBBL.
- f) To provide package of suggestions and possible guidelines to improve investment policy of the sample banks.

The findings of the study were:

- a) SCBNL has good deposit collection, has made enough investment in government securities, but has provided loss advances and loans to total deposit ratio.
- b) SCBNL has been successful in its on balance sheet operations but NIBL and NBBL been more successful in off balance sheet operations.
- c) The profitability position of SCBNL is higher than the other JVB's in the sample.
- d) The credit risk ratio, capital risk ratio of SCBNL is lower than NIBL and NBBL.
- e) SCBNL has maintained higher growth in investment and net profit and moderate growth in class and advances, and deposits.
- f) There is significant relationship between deposits and loans and advances between outside assets and net profit of SCBNL.(Rana;2003)

Ritcha Sharma(2005) has conducted a thesis research entitled “Loan Disbursement and Collection of Nepal Bangladesh Bank Limited”.

The following objectives were considered in the study:

- a) To analysis the trend of every year's deposit collection.
- b) To measure total amount of loan disbursed out of deposit.
- c) To analyze the different type of loan disbursed.
- d) To measure the status of loan recovery out of total loan disbursed.

The major findings of the study are:

- a) The deposit collected by the bank during six years period is in increasing trend but the percentage increase in deposit collected is fluctuating.
- b) The loan disbursed by NBBL is also affected by factors other than the amount of deposit collected like the poor economic state of the increment of loan loss provision.
- c) NBBL has followed NRB directives and lent almost 12% each year in priority and deprived sector, loan loss provision, single borrower credit limit and interest spread of the bank is as per NRB regulations. The average interest spread during the six-year period of study is 4.71%.
- d) The loans, which are easier to recover, include specific loans like hire purchase, housing, education loan etc. because of the selected group of customers.
- e) According to the credit department of NBBL, defaulters are more in case of overdraft loans as all types of people are the borrowers of this loan and personal defaults are more than the business firms in age of overdraft loan.(shrama;2005)

Parkash Chhetry (2006) has conducted a thesis research entitled “Loan Management of Finance Company”

The following objectives were considered in the study:

- a) To analyze the loan and advance provide by finance companies to different sectors.
- b) To analyze the recovery or repayment of the loan disbursement.
- c) To study the appropriateness of finance companies loan policy as per “Directives to Finance Companies issued by NRB on 2058.”

- d) To study the views and attitudes of respondents (client of finance companies) in regarding to the performance of the right institution.

Major findings of the study are:

- a) Term loan, housing loan, hire purchase and FDR loan occupy major position in due loan. Hence, term loan, housing loan, hire purchase loan and FRD loan should be given more emphasis to recover.
- b) Loan classification as per performance classification loan as performing (active) loan where as non-performing (inactive) loan. Active loan contains only good loan where as non-performing covers inferior (sub-standard) doubtful and bad loan. Majority of loan is performing in nature as these are over than 70% during the study period.
- c) Interest income from, advances, and loan and advances show change in the same direction some exceptional cases. Increase in interest income causes increase in PBT and vice versa.
- d) As per directive to finance companies, good loan should have 1% of loan loss provision. Percent above 1% deemed as provision made for matured loan and should be maintained near to 1% as for as possible. All the sample finance companies has kept there loan loss provision is more than 1%.
- e) Sample finance companies are obeyed NRB directives no.5 provision about limit of credit and facility per client no. provision about sector wise loan limit.
- f) Here, responses 45 loan paying clients out of outstanding loan paying clients about questions like appropriateness of finance companies (specially Chitwan district) lending policy, accuracy of interest rate changed on loan and advances willingness to keep on transaction with these finance companies in future and so are analyzed.(chhetry;2006)

2.6 Review of Journals and Other Publications

In an articles published in New Business Age titled 'Growth in major commercial Banks' have compared between the first six month of the fiscal year 2002-03 & 2003-04 which shows that thee has been noticeable increase in credit outflow by the commercial banks expect of Nepal Bank LTD (NBL) and Rastriya Banijya Bank (RBB). There has been increase in credit- deposit (CD) ratio of all commercial banks expect of NBL & RBB in which case it has gone down by 14.41% & 5.99% respectively. It may be because then concentration was only one recovery of the huge non-performing assts (NPA). However, he pointed out that no matter what the size of NPA is and the circumstances are, each bank has to collect the deposit in order to create a lending and to invest in the new ventures. Expect RBB all bank has increment in deposit collection. (Subedi;2004)

A decrease in CD ratio (the percentage of the deposit mobilization over the credit) identifies the presence of high liquidity and comparatively lower fund mobilization and vise versa. High liquidity and idle funds will result in lower profits. HBL has the highest growth of 18.47% in CD ratio over the last year. Similarly, NABIL, Everest bank ltd (EBL) and Nepal SBI ltd (SBI) have recorded growth rates of 6.28%, 11.83% and 7.45% respectively in their CD ratio. However, this ratio of other commercial banks has declined, largely due to factors external to the banks.

As per the NRB directives, all commercial banks have to maintain loan loss provision according to the size of overdue loans. Nepal Credit and Commerce Bank (NCCB) were able to decrease its loan loss provision by 27.63% as compared to the previous year indicating a good recovery of interest as well as principal. In case of Nepal Investment Bank (SBI), growth in loss provision (which in fact decrease by 6.73%) was much less than less than the growth of the total credit (which increase by 53%). Similarly, NBL and HBL were able to maintain a healthy composition of loan provision (decreased by 9.49% &0%) and credit (increase by 3.70% and 26.78%), again dignifying good result from their loan recovery efforts.

In case of remaining banks, the situation is not satisfactory as the growth loan-loss provision is higher than the growth of credit.

A bank's stability depends on the reserve it maintains. NABIL's reserve growth is very good i.e. 1400% on retained earning and 67.83% on other reserves. Similarly, all others banks have expect NCCB and KBL made noticeable increment in it. The major yardstick to measure the status of the bank (which is the prime concern of shareholders) is the profitability of the banks- the between what the banks has earned and expensed. In this regard, KBL has made the significant growth of 181.25% if profit as compared to the previous year. Similarly Standard Chartered Bank(SCBL), NABIL, HBL, BOK, EBL, NIB, NICB and NCCB have the growth percentage of 7.72%, 6.33%, 43.73%, 29.83%, 61.8%, 62.76%, 29.76%, 37.895% and 4.03% respectively.

Government of Nepal has promulgated Ordinance to replace several exiting laws related to the banks and financial institutions like Commercial Bank ACT 2031, Finance Act etc related to financial institutions. The major highlights of the ordinance are universal banking that makes the entire bank and financial institutions governed by a single act making the legal process much efficient and with less confusion and it have protected the rights and welfare of the depositors and investors. However, this ordinance has many unclear issues, which created confusion to the existing banks and financial institutions. The ordinance has classified the financial institutions into categories replacing the present terms as commercial, development, or finance companies.

In an article published in New Business Age written by **Sudir Khatri**, has analyzed the Ordinance Pros and Cons, in general speaking termed as Umbrella Act. He has expressed hid disagreement in the ordinance regarding the qualification of the Board of director's composition. The qualification set is out of the total number of directors; two third have to be graduates in specific disciplines- management, commerce, economic, accounting, finance, law, banking and statistics. Another requirement is five years work experience either in banking or public limited companies or in a gazette government post.

He argues why a science graduate or someone with engineering background cannot be the directors, it is not justifiable to question on the capacities of the people with these background as the in the past some successful General Manager and Directors in Nepal Industrial Development Corporation (NIDC) were engineers.(Khatri;2003)

In an article published written by **Mr. Atma Shrestha** in Business Age entitled “Entrepreneur- Friendly Credit Policy” has received the present credit policy with focus of the credit decision being based on the collateral. He argues that only collateral should not be considered as the basis of the credit decision.

In an article “Comments on Umbrella Ordinance 2004” **Mr. Tirth Upadhy**a President of ICAN has expressed clearly described the ordinance along with his views. The ordinance is comprehensive and prescribes in detail the provisions for licensing, incorporation, governance, and merge and dissolution procedures for banks and financial institutions (FIs). This is a significant improvement over the existing Acts but apprehension is expressed about the discretionary power that the ordinance has vested on Nepal Rastra Bank (NRB). The ordinance is divided into 12 chapters and contained altogether 93 sections.(Upadhy;a;2004)

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make this study meaningful and purposive. There has been lots of articles published related to investment policy, loan and advance of commercial banks, impact and implementation of NRB guidelines in commercial banks but there are a few research conducted on lending aspects of commercial banks. There was a thesis done by **Lila Prasad Ojha** on “Lending practices: A study on NABIL Bank Limited” on 2002. However, no, one has done a study on “A comparative study on Loan management of NBIL, EBL, and HBL & SBI”. Therefore, the researcher attempts to study in this area with a comparative study of lending performance of these bank will probably be the first study between the bank in the subject matter. (Ojha; 2004)

2.7 Research Gap

As we know that research means to carry out the real problem on the particular field on a particular topic.

Regarding the objectives, I had selected the title of this thesis. In reference to the other dissertations most of them were research only on the overall performance of the commercial banks, risk, and return analysis of commercial bank or finance companies. However, the key factors of joint venture bank are how to loan management and profitability of loan management in joint venture bank. Concerning this matter, to measure the lending strength and efficiency, analyze the lending contribution in total profitability, and study the loan and advances, profitability, deposits position of the joint venture banks I selected the topic “Effectiveness of Loan Management of Joint Venture Bank in Nepal.”

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology describes the methods and process applied in the entire subject of the related study. It is really a method of critical thinking by defining and redefines problems, formulating hypothesis, or suggested solutions, collecting, organizing and evaluating data, making decision and making conclusion to determine whether they fit the formulated hypothesis.

“Research is the process of a systematic and in-depth study or search of any particular topic, subject or area and investigation backed by the collection, compilation, presentation, and interpretation of relevant details or data. It is a careful search or inquires in to any subject matter, which is an endeavor to discover or find out valuable facts, which will be useful for further application or utilization.” (Joshi, Research Methodology, 2001)

Research methodology refers to the various sequential steps to be adopted by a research in studying a problem with a certain objectives in a view. It is way to systematic solving the research problem. It be understood as a science of studying how the various steps that are generally adopted by a researcher in studying his/her research problem along with logic behind them. The basic objective of this study is to examine and analyze the loan management of selected Joint Venture Bank to provide recommendation for their financial improvement. Research design, nature, and source of data, sample, and method of data analysis, financial and statistical tools used to analyze are incorporated in this chapter.

3.2 Research Design

“Research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure” (C.R. Kothari, 1990). It is a framework or plan for a study that guides the collection and analysis of the data.

“A research design is a blueprint (or detailed) plan for how a research study is to be completed operational zing variables so, they can be measured , selecting a sample of interest to study, collecting data to be used as a basis for lasting hypothesis and analyzing the result.” (Thyer, 1993, p-94)

Thus, a research design is a procedural plan that is adopted by the researcher to answer questions validity, objectively, accurately and economically.

However, research design categorized various categories. But, in this study analytical as well as descriptive research design has been used.

3.3 Data Period Covered

This study has covered the overall 5 years period from financial year 2058/2059 to 2062/2063.

3.4 Methods and Sources of Data

For the fulfillment of above-mentioned objectives, a defined series of analysis is introduced. The research is based upon the description of the primary and secondary data for the historical performance assessment and the future prediction of planning and upcoming policy and implementation among the joint venture banks. Hence, data are collected from two sources; they are primary and secondary sources. Both primary and secondary data have been collected in order to achieve the real and actual data as for as available.

3.4.1 Sources of Primary Data

For the collection of primary data, a structured interview was taken based on questionnaire with loan management personnel of the concerned joint venture banks and observation of institution itself. Number of respondents are 50 and they are client of sampled joint venture banks.

3.4.2 Sources of Secondary Data

The secondary data includes annual reports of the concerned banks, NRB reports, annual reports, quarterly bulletins, economic reports, various articles and publication dealing in the subject matter of study, website etc.

3.5 Population and Sample

The population refers to the industries of same nature, services, and product in general. So, among the various joint venture banks under the banking industry NABIL Bank Limited, Everest Bank Limited, SBI Bank Limited, and Himalayan Bank Limited are selected for the study.

3.6 Data Analytical Tools

Presentation and Analysis of the collected data is the core part of the research work. The collected raw data are first presented in systematic manner in tabular form and are then analyzed by applying different financial and statistical tools to achieve the research objectives. Besides, some graph chart and tables have been presented to analyze and interpret the finding of the study. The tools are applied are:

3.6.1 Financial Tools

Financial tools help to analyze the financial strength and weakness of a firm. Ratio analysis is a part of the whole process of analysis of financial statements

of any business or industrial concerned especially to take output and credit decision. Ratio analysis is used to compare firm's financial performance and status that of the other firms or to it overtime. Even though there are many ratios to analyze and interpret the financial statement operation of the banks are have been covered in this study. The following types of ratio have been used in this study.

3.6.1.1 Liquidity Ratios

This ratio measures the liquidity position of a firm. It measures the firm's ability to meet its short-term obligations or its current liabilities. It measures the speed with which a bank's assets can be converted into cash to meet deposit withdrawal and other current obligation. As a financial tool, following two liquidity ratios has been used to come into the acts and findings of the study.

- i.
$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$
- ii.
$$\text{Cash and Bank Balance to Total Deposit Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

3.6.1.2 Assets Management Ratio

Assets management ratio measures the proportion of various assets and liabilities in balance sheet. The proper management of assets and liabilities ensures its effective utilization. The banking business converts the liabilities into assets by way of its lending and investing functions. Assets and liability management ratio measures its efficiency by multiplying various liabilities and performing assets. The following are the various ratios relating to assets and liability management, which are used to determine the efficiency of the bank concerned in managing its assets and efficiency in portfolio management.

- i.
$$\text{Loan and Advance to Total Deposit Ratio} = \frac{\text{Loan and advances}}{\text{Total Deposits}}$$

- ii. Loan and Advance and Investment to Total Deposit Ratio

$$= \frac{\text{Total credit and investment}}{\text{Total Deposits}}$$
- iii. Loan and Advance to Shareholders Equity = $\frac{\text{Loan and Advance}}{\text{Shareholders Fund}}$
- iv. Performing Assets to Total Assets = $\frac{\text{Performing Assets}}{\text{Total Assets}}$

3.6.1.3 Activity Ratio

Activity ratio measures the performance efficiency of an organization from various analyses of its operation. These ratios indicate the efficiency of activity of an enterprise to utilize available funds, particular short-term funds. These ratios are used to determine the efficiency quality and contribution of loans and advances in the total profitability. The following activity ratios measure the performance efficiency of the bank to utilize its fund.

- i. Loan Loss Provision to Total Loan and Advance Ratio

$$= \frac{\text{Total Loan Loss Provision}}{\text{Total Loans and Advances}}$$
- ii. Interest Income to Total Income Ratio = $\frac{\text{Total Interest Income}}{\text{Total Income}}$
- iii. Interest Expenses to Total Deposit Ratio = $\frac{\text{Total Interest Expenses}}{\text{Total Deposit}}$
- iv. Interest Suspense to Total Interest from Loan and Advances Ratio

$$= \frac{\text{Interest Suspense}}{\text{Total Income from Loans and Advance}}$$
- v. Interest Income to Interest Expenses Ratio = $\frac{\text{Interest Income}}{\text{Interest Expenses}}$

3.6.1.4 Profitability Ratio

Profitability ratios are used to indicate and measure the overall efficiency of a firm in terms of profit and financial performance. For better performance, profitability ratios of firm should be higher.

- i. Return on Total Assets Ratio = $\frac{\text{Net Profit After Tax}}{\text{Total Assets}}$
- ii. Return on Equity = $\frac{\text{Net Profit After Tax}}{\text{Net Worth}}$
- iii. Return on Loan and Advance ratio = $\frac{\text{Net Profit After Tax}}{\text{Net Loan and Advance}}$

3.6.2 Statistical Tools

Some important tools are used to achieve the objective of this study statistical tools such as mean, standard deviation, correlation co-efficient analysis, co-efficient of variation, co-efficient of determination, trend analysis, regression analysis have been used.

3.6.2.1 Arithmetic Mean

Arithmetic mean of a given set of observation is their sum divided by the number of observation. In general x_1, x_2, \dots, x_n are the given number of observation, their arithmetic mean can be derived in this way.

$$\bar{X} = \frac{\sum x}{N}$$

Where, x = variables

N = Number of observation

$\sum x$ = Sum of variables

The arithmetic mean is a single value of selection, which represents them in average. Out of the various central tendencies, a mean is one of the useful tools to find out the average value of the given data. Furthermore, it is very much useful with respect if financial analysis and it is also easy to calculate.

3.6.2.2 Standard Deviation

The measurement of the scattered ness of the mass of figure in a series about an average is known as dispersion. The standard deviation measures the absolute

and consistency of the specified variables. The formula to calculate the standard is given below.

$$\sigma = \sqrt{\frac{\sum (X - \bar{X})^2}{n}} = \sqrt{\frac{\sum X^2}{n} - \left(\frac{\sum X}{n}\right)^2}$$

Where, σ = Standard Deviation

X = Variable

\bar{X} = Mean of the Variable

n = No. of Observation

3.6.2.3 Coefficient of Variation (CV):

Standard deviation is an absolute measure of dispersion. The relative measure of dispersion based on standard deviation is known as co-efficient of variation. The co-efficient of variation is the relative measure of dispersion, comparable across distribution, which is defined as the ratio of the standard deviation to the means expressed in percent. The small value of CV means high degree of consistency in the observed distribution and vice versa. The coefficient of variation is given by following formula.

$$C.V. = \frac{\sigma}{\bar{X}} \times 100$$

Where, C.V. = Coefficient of Variation

σ = Standard Deviation

\bar{X} = Mean of Variables

3.6.2.4 Coefficient of Correlation

“The correlation is the statistical tool that is used to describe the degree to which one variable is linearly related to another” (Richard & David, 1991, P:505). The coefficient of correlation measures the degree of relationship between two sets of figures. Among the various methods of finding of correlation, Karl Pearson’s (Product moment) method is applied in this study.

The result of co-efficient is always between ‘-1’ to ‘+1’. For the purpose of decision making under correlation, decision is based on following interpretation.

- When $r = +1$, there is perfect positive correlation.
- When $r = -1$, there is perfect negative correlation.
- When $r = 0$, there is no correlation.
- When ‘r’ lies between 0.7 to 0.999 (or -0.7 to -0.999), there is a high degree of positive (or negative) correlation.
- When ‘r’ lies 0.5 to .669, there is a moderate degree of correlation.

The product moment formula is calculated as:

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}}$$

3.6.2.5 Probable Error (P.E.)

The Probable Error (P.E.) is used to measure the reliability and test of significance of correlation coefficient. Probable error of correlation is calculated by the following formula:

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

Where,

r = the value of correlation coefficient

N = number of pairs of observations

P.E. is used in interpretation whether the calculated value of ‘r’ is significant or not.

- If $r < \text{P.E.}$ it is insignificant, i.e. there is no evidence of correlation.
- If $r > 6\text{P.E.}$ it is significant.
- If $\text{P.E.} < r < 6\text{P.E.}$ nothing can be concluded.

3.6.2.6 The Coefficient of Determination

The coefficient of determination is a measure of the degree of linear association or correlation between two or more independent variables and a dependent variable. Generally, coefficient of determination (R) measures the percentage total variation in dependent variable explained by independent variables.

3.6.2.7 'F'-Test:

The Fisher's F-distribution is defined as a distribution of the ratio of two independent chi-square variables each divided by the corresponding degrees of freedom. However, F-test is used to examine the significance of the difference between more than two sample means at the same time. The F-test enables us to test the significance of the difference between more than two samples means. This technique can be used to conclude whether the regression equation provides significant result or not.

Test of hypothesis is a process of testing of significance regarding the parameter of the population based on sample drawn from the population. In testing hypothesis, we examine, based on statistics. Computed from the sample drawn, whether the sample drawn belongs to the parent population with certain specified characteristics or not.

In this topic, an effort has been made to test the significance regarding the parameter of the population based on sample drawn from the population. Generally, following steps are followed for the test of hypothesis. A sample of F-test calculation is presented in **Appendix**

- Formulating hypothesis
 - Null hypothesis
 - Alternative hypothesis
- Computing the test statistic
- Fixing the level of significance
- Finding critical region

- Deciding two tailed or one tailed test
- Making decision

First Hypothesis ('F' test for loan and advances)

Null Hypothesis:

$H_0: \mu_1 = \mu_2 = \mu_3 = \mu_4 = \mu_5$ there is no significant difference between loan and advances of SBI, NABIL, Himalayan and Everest bank.

Alternative Hypothesis:

$H_1: \mu_1 \neq \mu_2 \neq \mu_3 \neq \mu_4 \neq \mu_5$ there is significant difference between loan and advances of SBI, NABIL, Himalayan and Everest bank.

Second Hypothesis ('F' test deposit)

Null Hypothesis:

$H_0: \mu_1 = \mu_2 = \mu_3 = \mu_4 = \mu_5$ there is no significant difference between deposit of SBI, NABIL, Himalayan and Everest bank.

Alternative Hypothesis:

$H_1: \mu_1 \neq \mu_2 \neq \mu_3 \neq \mu_4 \neq \mu_5$ there is significant difference between deposit of SBI, NABIL Himalayan and Everest banks.

And so on.

CHAPTER FOUR

PRESENTATION AND DATA ANALYSIS

The previous chapter provides the concept, bases and methodology of this study. This is the main body part of this study because this chapter present and analyses the collected information have been collected. This chapter deals with the presentation and analysis of the data collected from various sources. The main objective of this study is to evaluate and analyze the loan management of joint venture banks.

4.1 Measuring the Lending Strength

Lending is one of the important functions of a commercial bank. Lending position of the bank should be continuously monitored to avoid any critical situation. Whether the bank is lending in accordance with the deposits collected and investments made by the shareholder should be analyzed periodically. An idle deposit is loss to the company so proper utilization of the funds in investment and lending aspects are extremely necessary for a bank to service and grow.

The banks never invest its fund in those securities, which are too much depreciation and fluctuation because a little difference may cause a great loss. It much not invest funds into speculative to businessman who may be bankrupt at once and who may earn millions in a minute also. The bank should accept that type of securities, marketable and high market prices. Under this topic an attempt has been made to analyze the lending strength of commercial bank under study in relative term as well as absolute terms.

4.1.1. Measuring the Lending Strength in Relative and Absolute Term

The lending strength of commercial banks under the study is measured and analyzed in relative term in this section. The relationship between various assets and liabilities of the balance sheet has been established to measure the strength in relative term.

4.1.1.1 Liquidity Ratio

Liquidity refers to pay one hands on cash when it is needed without having to sell long term assets at loss in unfavorable market. Inadequate liquidity will result turmoil in confidence of creditors and excess liquidity is also not sound since funds are feels idle and there is no earning. Firm's liquidity position would be deemed as good if it be able to meet its short-term obligation whenever they become due. The liquidity ratios are particularly useful in credit analysis by bank and other supplier of short-term loan. Hence, liquidity is the ability of an asset to be converted into cash without price concession. The following liquidity ratios have been calculated in order to exhibit liquidity position of the finance companies.

a. Current Ratio

It provokes about the short-term solvency of the firm. It establishes the relationship between current assets and current liabilities. For many firm of business 2:1 is considered to be an adequate ratio. A higher ratio indicates better liquidity position. However, a very high current ratio may indicate requirements and poor credit management in terms of over expanded account receivable. If the current ratio is less than 2:1 the solvency position of the firm is not good.

Table No. No. 4.1
Current Ratio (in times)

Bank	Fiscal Year					Mean	S.D	C.V
	2058/59	2059/60	2060/61	2061/62	2062/63			
SBI	1.05	1.06	1.07	1.04	1.07	1.058	0.058	5.5
NABIL	0.81	0.91	0.97	0.88	0.91	0.896	0.043	4.83
Himalayan	0.56	0.58	0.65	0.61	0.66	0.612	0.011	1.86
Everest	1.05	1.06	1.05	1.03	1.04	1.046	0.011	1.09
Combined mean						0.702		

Source: Appendix II

Table No. 4.1 shows that current ratio of selected banks in different year. From above table we know that all banks have lower current ratio. However, SBI and Everest banks has moderate ratio 1.073 and 1.041 respectively but NABIL and Himalayan bank has lower ratio 0.8843 and 0.667 respectively. The combine mean ratio is 0.9056. As we concluded that SBI and Everest bank has better liquidity position than NABIL and Himalayan. According to, CV of all banks has not more which shows there is no fluctuation on current ratio.

b. Cash and Bank Balance to Total Deposit Ratio

This ratio points the bank capacity to cover their deposit like current call, saving and their margin. A high ratio is preferred since commercial bank is able to cover deposits.

Table No. 4.2
Cash and Bank Balance to Total Deposit Ratio (in %)

Bank	Fiscal Year					Mean	S.D	C.V
	2058/59	2059/60	2060/61	2061/62	2062/63			
SBI	7.3	9.5	9.7	8.4	10.2	9.02	.01273578	14.119486
NABIL	9.7	12.7	12	12.7	12.5	11.92	.01310343	10.9928143
Himalayan	6.8	9.4	9.1	8.1	6.5	7.98	.01117139	13.9992381
Everest	12.9	11.2	10.8	10.8	13	11.74	.01117139	9.51566613
Combined mean						10.17		

Sources: Appendix II

Table No. 4.2 shows that the ratio between cash and bank balances to total deposit. According to above table NABIL and Everest bank have satisfactory position, it indicates that these bank able to cover their deposit. But SBI and Himalayan bank have lower ratio than combined mean ratio. This shows that these banks hardly cover their deposit. Among all sampled bank has as CV is lowest which indicate the fluctuating trend is least.

4.1.1.2 Assets Management Ratio

Assets management ratio measures the proportion of various assets and liabilities in balance sheet. The proper management of assets and liabilities ensures its effective utilization. The banking business converts the liabilities into assets by way of its lending and investing functions. Assets and liability management ratio measures its efficiency by multiplying various liabilities and performing assets. The following are the various ratios relating to assets and liability management, which are used to determine the efficiency of the bank concerned in managing its assets and efficiency in portfolio management.

a. Loan and Advance to Total Deposit Ratio

It measures the commercial bank's success in utilizing the outsider's fund for generating profit. It explain how quickly total collected funds are converted into loan and advance. Higher ratio is favorable since it flashes out the efficiency of the commercial bank in term if making effective loan and advance.

Table No. 4.3

Loan and Advance to total Deposit Ratio (in %)

Bank	Fiscal Year					Mean	S.D	C.V
	2058/59	2059/60	2060/61	2061/62	2062/63			
SBI	77	69	72	72	69	71.8	0.12557866	17.4900642
NABIL	48	58	58	73	79	63.2	0.04086563	6.46608125
Himalayan	51	52	59	54	6	55.2	0.01870829	3.38918242
Everest	72	73	73	76	71	73	0.01870829	2.56277903
Combined mean						65.8		

Sources: Appendix II

Table No. 4.3 shows that SBI and Everest has the higher ratio than NABIL and Himalayan bank. Himalayan bank has least ratio .05506 and NABIL has 0.6302. But Everest has highest ratio 0.735 and SBI has moderate ratio 0.7166. Combine mean has 0.6581. Now we conclude that SBI and Everest bank

successful to utilize outsider's funds for generating profit than others NABIL and Himalayan. Similarly, according to CV SBI has greater than other sampled joint venture banks it's indicate that this bank has more fluctuation trend.

b. Loan, Advance and Investment to Total Deposit Ratio

The main source of banks sending and investment is the deposits. The collected funds are mobilized in the form of loans and advances and investment. Loan and advance have more risk and higher return whereas investment has low risk as well as lower return. Loans advance and investment measure the forms gross fund mobilizing capacity. This ratio measures how well the deposits are being mobilized and banks ability to generated income from banks deposits liability. As an idle deposit mean loss to the bank the higher ratio indicated that what portion of deposit are mobilized to generated income for the band to pay interest to the deposit and also to gain profit from it.

Table No. 4.4

Loan and Advance and Investment to Total Deposit ratio (in %)

Bank	Fiscal Year					Mean	S.D	C.V
	2058/59	2059/60	2060/61	2061/62	2062/63			
SBI	86	87	98	110	98	95.8	0.103	10.72
NABIL	75	84	84	89	103	87	0.078	8.99
Himalayan	101	95	83	101	101	96.2	0.118	12.31
Everest	101	97	104	96	74	94.4	0.118	12.55
Combined mean						93.35		

Sources: Appendix II

Table No. 4.4 shows that Himalayan and Everest has the highest ratio 0.9614, NABIL and SBI least ratio 0.8698 and 0.87525. Combined mean ratio 0.9124. So it can be concluding that NABIL and SBI has lower than other and combined mean in the year of other than 2062 and 2063. So it has not been able to mobilize the deposit efficiently where as SBI performance is satisfactory. However, Himalayan and Everest has the best performance in mobilizing the funds collected income generation. According to CV all bank has not more fluctuation on loan and advances to total deposit ratio.

c. Loan and Advance to Shareholders Equity Ratio

Shareholders equity consist of share capital, share premium, reserve and retained earnings. It is investment made by shareholders in the company and loans and advances means mobilizations of investment funds in profit earning sector. This ratio shows how well the investment made by investors (shareholders) is generating assets to multiply its wealth. It also measures the success of converting liability into assets and measures size of the business

Table No. 4.5
Loan and Advances to Shareholders Equity Ratio (in %)

Bank	Fiscal Year					Mean	S.D	C.V
	2058/59	2059/60	2060/61	2061/62	2062/63			
SBI	8.99	7.94	8.29	9.02	10.74	8.996	0.40	4.48336696
NABIL	6.51	6.79	5.76	6.37	6.68	6.42	0.7	10.899475
Himalayan	6.37	5.69	5.64	5.24	4.46	5.48	2.39	43.555187
Everest	16.12	12.55	13.18	9.9	10.93	12.54	2.39	19.0397595
Combined mean						8.36		

Sources: Appendix II

Table No. 4.5 shows that the ratio of loan and advances to shareholders equity of four banks is not consistency entire period of the study. Among four Everest's bank ratio highest as compared to the rest bank. The performance of Everest bank is highest in the year 2059, which is 16.116. The mean ratio of four banks SBI, NABIL, Himalayan and Everest are 8.9934, 6.4262, 5.6782 creasing trend in NABIL and Himalayan but SBI and Everest bank have higher ratio i.e. 8.9934 and 12.5342 respectively and the combined mean of banks is 8.408. The ratio of Everest bank is more than the combined mean and has been successful in generation high volume of loan and advances than NABIL and Himalayan bank. Here, CV of Himalayan banks has higher than other sampled bank, it seems that loan and advances to shareholder equity is more fluctuation on Himalayan bank.

d. Performing Assets to Total Assets Ratio

It tells the percentage of performing assets (good loan) on total assets. It is useful to know the fact whether the good loan is increasing or not. We can generate more earning by increasing good loan reducing bad and inferior loan. It teaches us to invest sources of fund only good loan (i.e. profitable venture).

Table No. 4.6
Performing Assets to Total Assets Ratio (in %)

Bank	Fiscal Year					Mean	S.D	C.V
	2058/59	2059/60	2060/61	2061/62	2062/63			
SBI	59.33	56.77	51.76	52.05	42.79	52.54	3.28	6.24
NABIL	40.1	43.75	45.76	48.07	47.73	45.08	1.55	3.44
Himalayan	44.92	41.9	42.11	40.68	42.39	42.4	20.74	48.91
Everest	57.35	49.7	51.4	5.81	47.23	42.3	20.74	49.02
Combined mean						45.58		

Sources: Appendix II

From the above table performing assets to total ratio SIB and Everest bank has more than combined mean ratio. This ratio shows that proportion of good loan upon total assets. But NABIL and Himalayan bank has lower than combined mean ratio. This shows that the portion of performing assets in total assets is not increasing perpetually. According to CV Himalayan and Everest bank have higher CV than SBI and NABIL bank. This indicates that these banks's have more fluctuation trend in performing assets.

4.2 Measuring the Lending Strength in Absolute Term

In this section, the various variables are measured in absolute terms. Absolute term means the different variables that are measured individually which enables to show the gross contribution of the variables of the respective banks in those aspects. Some of the important variables of lending are measured in absolute term of mean, standard deviation and coefficient of variation.

4.2.1 Loan and Advances

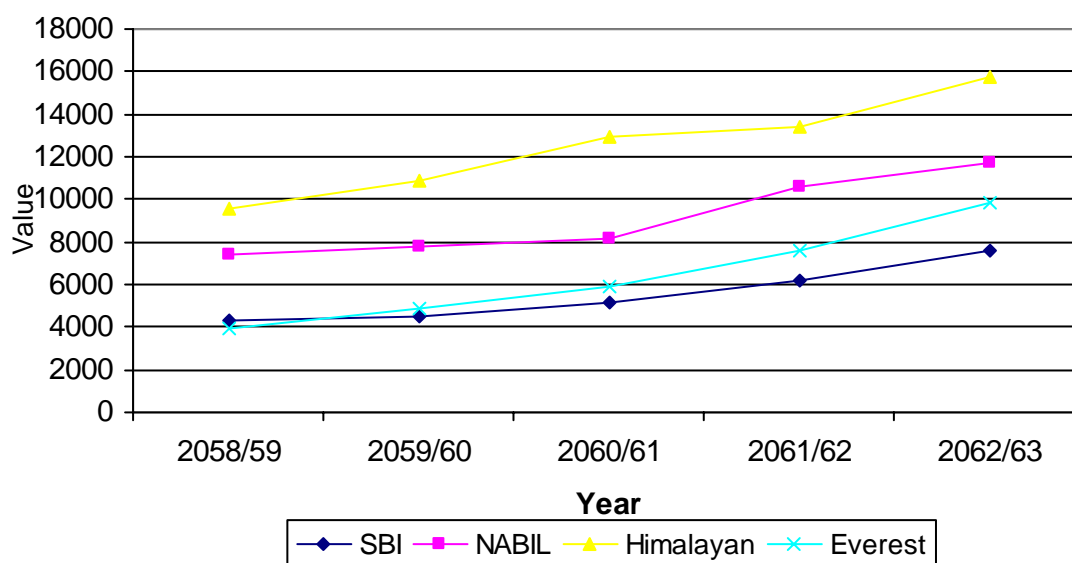
The main function of a commercial bank is to create credit from its collected funds. The high volume of loan and advance indicates good performance of lending for a bank profitability and survival.

Table No. 4.7
Loan and Advances (Rs. In million)

Bank	Fiscal Year					Mean	S.D	C.V
	2058/59	2059/60	2060/61	2061/62	2062/63			
SBI	4299.25	4468.72	5143.88	6213.88	7626.74	5550.494	1237.10	22.29
NABIL	7437.9	7755.95	8189.99	10586.2	11754.02	9144.806	1711.12	18.71
Himalayan	9557.14	10844.6	12919.6	13451.2	15761.98	12506.902	2150.44	17.19
Everest	3948.48	4908.46	5884.12	7618.67	9801.31	6432.2	2076.04	32.28

Source: Appendix II

Figure No: 4.1
Loan and Advance



Sources: Table No. 4.7

The table and shows that loan and advances of sampled banks. According to table loan and advances of Himalayan bank has highest than other sampled banks and its trend line also going upward smoothly of the study. This indicates that it has good performance of lending policy. Similarly SBI bank has least loan advances than other banks, however its trend line also increasing during

the study period. Here, CV of Himalayan bank has only 17.19 % which shows that there is not highly fluctuating on loan and advances. But Everest bank has 32.28% of CV which denotes that loan and advances trend is fluctuating than other sampled banks.

4.2.2 Interest Income from Loan and Advances

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

Table No. 4.8

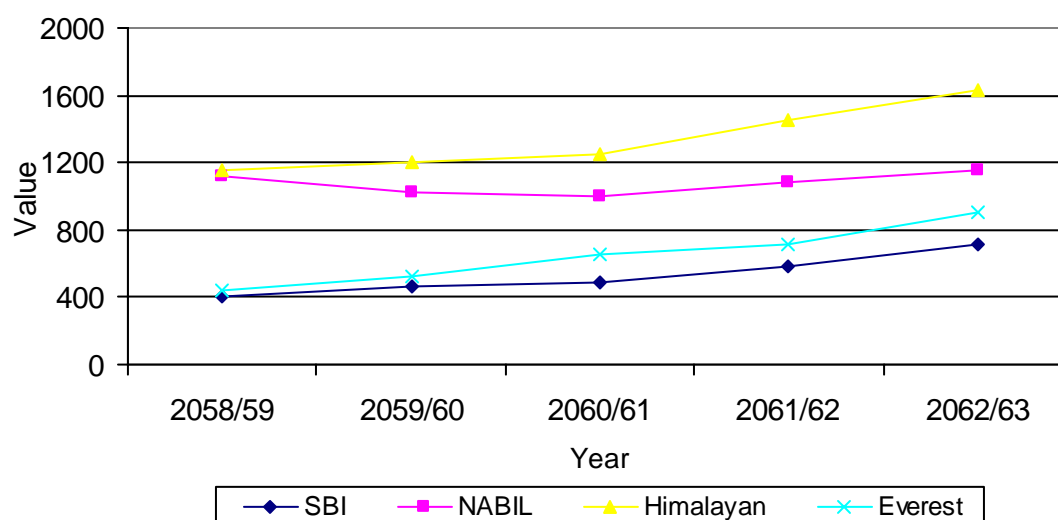
Interest Income from Loan and Advance (Rs. in million)

Bank	Fiscal Year					Mean	S.D	C.V
	2058/59	2059/60	2060/61	2061/62	2062/63			
SBI	399.63	469.63	493.6	578.37	708.72	529.99	106.06	20.01
NABIL	1120.18	1017.87	1001.62	1068.47	1157.63	1073.154	59.23	5.52
Himalayan	1148.99	1201.23	1245.9	1446.47	1626.47	1333.812	177.65	13.32
Everest	443.82	520.17	657.25	719.3	903.411	648.7902	160.27	24.70

Source: Appendix II

Figure No 4.2

Interest Income from Loan and Advance



Sources Table No. 4.8

The above table and figure shows that interest income from loan and advances of sampled banks. From above table we know that interest income from loans and advances of Himalayan bank has highest than other banks. But SBI bank has lowest interest income. CV of all banks has moderate which indicate that there is not highly variation and fluctuating. Trend line of all banks is increasing trend. This indicates that all banks have good performances of lending practices.

4.2.3 Provision for Doubtful Debts

Provision for Doubtful Debts shows that figure that is summation of provision made against pass and substandard loan in the balance sheet as per NRB directives. The NRB directives directs to make provisioning of 1%, 25%, and 100% for pass, substandard, doubtful and loss loan classification respectively. The loan loss provision occupied a larger share in total provision presented at profit and loss account. The higher the provision it indicates more the total loan and bad loans too. According to NRB, 1% provision has to be made for pass loans (loans not past due and past due up to 3 months) so it acquire a larger portion of the total loan loss provision. Therefore details of the loan loss provision should be studies to find out about the amount of performing and non- performing loans.

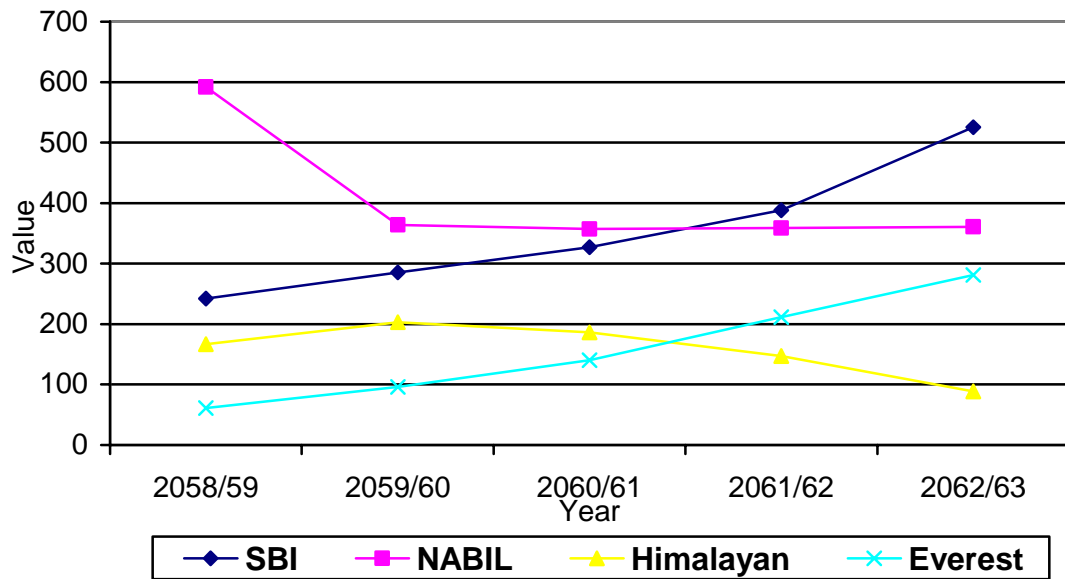
Table No. 4.9

Provision for Doubtful Debts (Rs. In million)

Bank	Fiscal Year					Mean	S.D	C.V
	2058/59	2059/60	2060/61	2061/62	2062/63			
SBI	242.15	285.15	327.12	388.17	525.47	353.612	98.53	27.86
NABIL	591.8	363.95	357.22	358.66	360.57	406.44	92.71	22.81
Himalayan	166.51	202.87	186.22	147.14	88.59	158.266	39.54	24.98
Everest	61.02	95.75	140.06	211.72	281.42	157.994	79.65	50.41

Source: Appendix II

Figure No.:4.3
Provision for Doubtful Debts



Source: Table No. 4.9

From above table and figure, it is clear that SBI bank has highest provision for doubtful debts than other sampled joint venture banks. Here, SBI and Everest bank has increasing trend line which shows that provision for doubtful debts is increasing during the study period it indicate these bank has higher bad loan among total loan and advances. Similarly Himalayan and NABIL bank has lower provision for doubtful debts than other sampled banks and trend line of these banks is decreasing it indicates those bank improving there lending performance. CV of all banks has moderated position however Everest has higher than other banks.

4.2.4 Net Profit

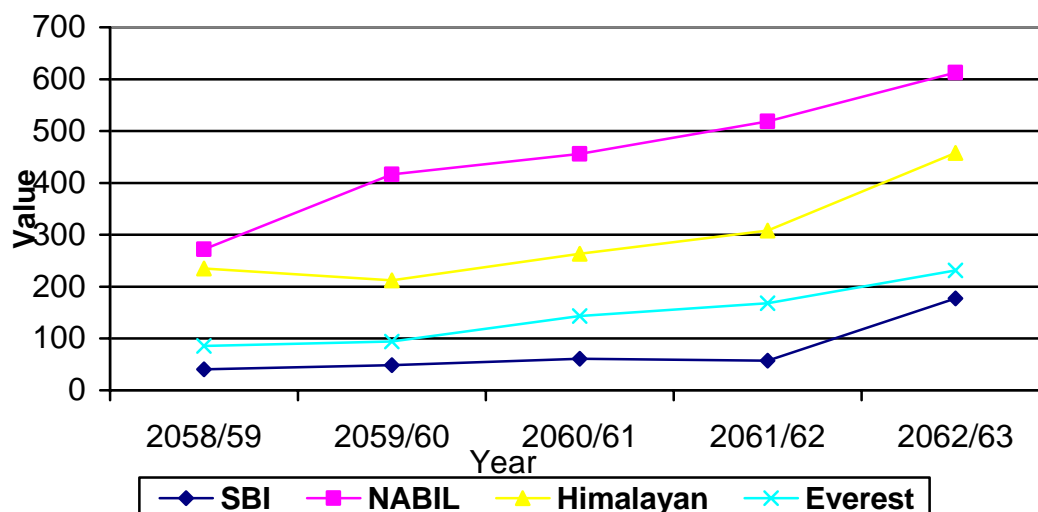
Net profit, the net earning of the firm after all deduction like taxes, bonuses and provision are used in this analysis. The volume of net profit measures the firm's success and is the most important aspect.

Table No. 4.10
Net Profit (Rs. In million)

Bank	Fiscal Year					Mean	S.D	C.V
	2058/59	2059/60	2060/61	2061/62	2062/63			
SBI	40.85	48.75	60.86	57.039	177.01	76.9018	50.53	65.71
NABIL	271.63	416.25	455.92	518.63	612.73	455.032	113.18	24.87
Himalayan	235.12	212.13	263.05	308.28	457.46	295.208	87.23	29.55
Everest	85.33	94.17	143.57	168.21	231.29	144.514	53.16	36.79

Source: Appendix II

Figure No. 4.4
Net Profit



Source: Table No. 4.10

The above comparative table and trend analysis figure shows that net profit earned by sampled joint venture banks of Nepal. Almost all sampled banks net profit is increasing trend. Although NABIL bank has highest than other banks and SBI has least than other banks. CV of SBI is 65.71% it indicates this bank's net profit is highly fluctuating than others. And others banks has moderated position of CV which is indicating there is no higher fluctuation on net profit.

4.3 Analysis the Lending Efficiency and Its Contribution in Total Profitability

In this section lending efficiency is measured in term of quality and its turnover. A relationship between different variables related to lending efficiency is taken from balance sheet and profit and loss account.

4.3.1 Activity Ratio

The ratio measured the performance efficiency of an organization from various analyses of its operation. These ratios indicate how efficiency the bank has been able to manage its resources particular of in term of short term fund. This ratio used to determine how the loan and advance contribution to total profitability.

a. Loan Loss Provision to Total Loan and Advances Ratio

The ratio of loan loss provision to total loans and advances describes the quality of asset in form of loan is bank holding. NRB has directed all the commercial banks to classify loans and advances into category and make provision according to these loans classified. The loans are classified as pass, substandard, doubtful and loss and provision are to be made on 1, 25, 50 and 100 percent respectively. NRB has classified the pass loan and substandard loan as performing loan and doubtful and loss as Non performing loan. Non performing loan is called specific loan loss provision. The amount of loan loss provision in balance sheet refers to the general loan loss provision. The provision for loan loss reflects the increasing possibility of Non-performing loans in the total volume of loans and advances. The provision also provides as a cushion against future contingency made by default of the borrowers. The low ratio indicate the good quality of assets (loan) in the total volume of loans and advances whereas high ratio indicates more risky assets (loans having chance of default) of loans and advances.

Table No. 4.11

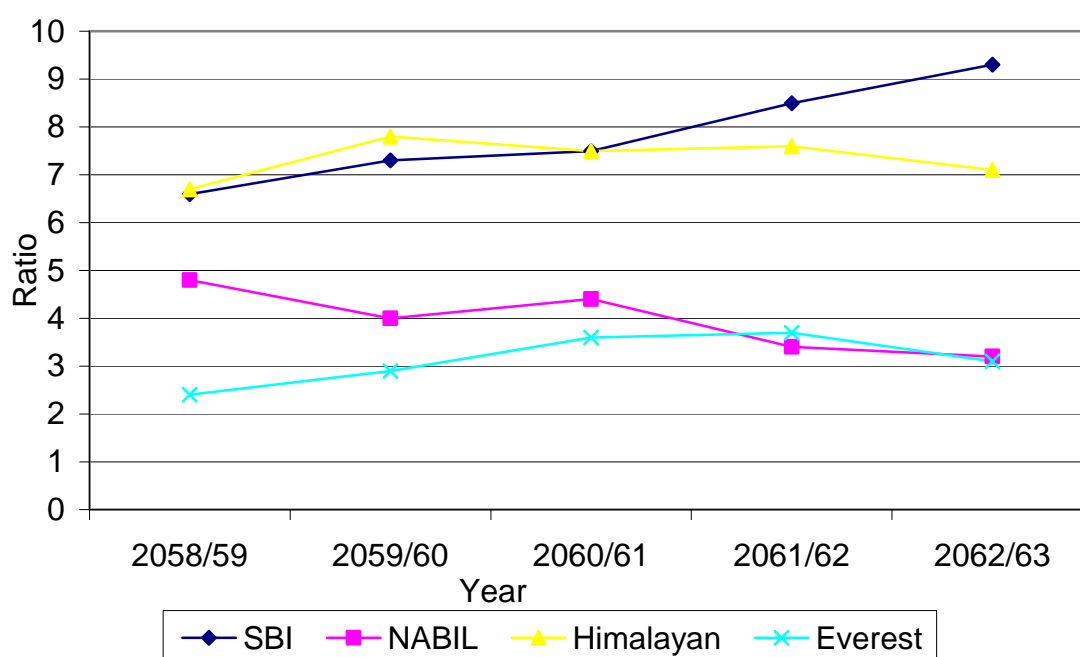
Loan loss Provision to Total Loans and Advances Ratio (in %)

Bank	Fiscal Year					Mean	S.D	C.V
	2058/59	2059/60	2060/61	2061/62	2062/63			
SBI	6.6	7.3	7.5	8.5	9.3	7.84	0.0067	8.54
NABIL	4.8	4	4.4	3.4	3.2	3.96	0.0043	11.09
Himalayan	6.7	7.8	7.5	7.6	7.1	7.34	0.0053	7.25
Everest	2.4	2.9	3.6	3.7	3.1	3.14	0.0053	16.94
Combined mean						5.57		

Sources: Appendix II

Figure No. 4.5

Loan Loss Provision to Total Loan and Advances



Source: Table No. 4.11

The table 4.11 shows that the ratio of loan loss provision to total loans and advances. From above table we know that SBI and Himalayan bank have greater ratio than other banks i.e.0.07846 and 0.07345 respectively, which means more risky of loan and advance. There non-performing loan has increased in total assets which is quite risky as it might cause a great failure in

future performance of the banks as the loans and advances. The combined ratio is 0.05566. NABIL and Everest banks have low ratio i.e.0.0396 and0.03144, which indicate good quality of loan in the total volume of loan and advance. CV of all sampled bank has not more. So, we have concluded that all banks has not more fluctuating trend on loan loss provision to loan and advances.

b. Interest Income to Total Income Ratio

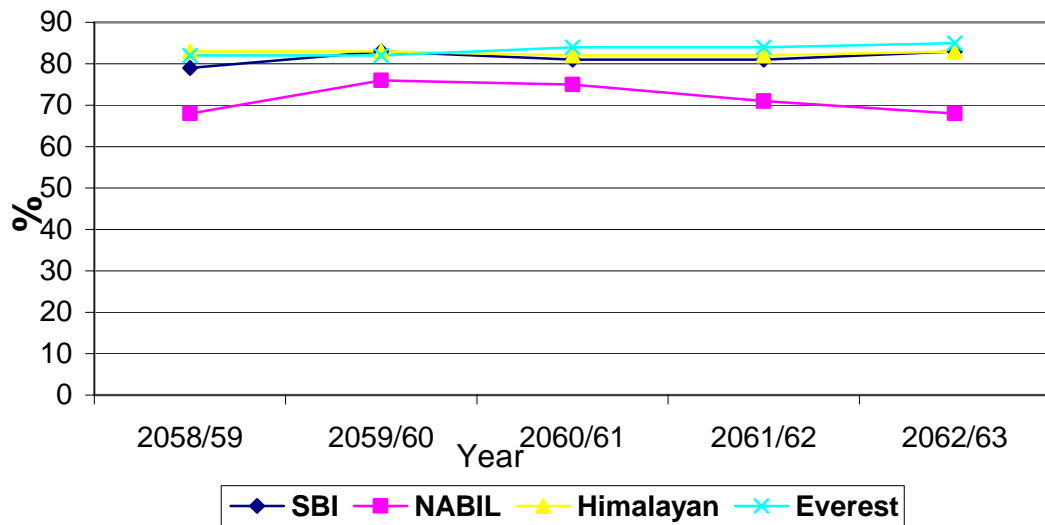
Income is one of the most important parts of any business organization. Interest income occupies a greater portion of the total income in a banking business. This ratio measures the volume of interest income in total income. It helps to measure the banks performance on the other fee-based activities also. The high ratio indicates the high contribution made by lending and investment and high contribution by other fee based activities in total income.

Table No. 4.12
Interest Income to Total Income Ratio (in %)

Bank	Fiscal Year					Mean	S.D	C.V
	2058/59	2059/60	2060/61	2061/62	2062/63			
SBI	79	83	81	81	83	81.4	0.037	4.65
NABIL	68	76	75	71	68	71.6	0.012	1.71
Himalayan	83	83	82	82	8	82	0.013	1.64
Everest	82	82	84	84	85	83.4	0.013	1.61
Combined mean						79.6		

Sources: Appendix II

Figure No 4.6
Interest Income to Total Income



Source: Table No. 4.12

The Table No. 4.12 shows that Everest has highest mean ratio in interest income to total income ratio and NABIL has the lowest mean ratio. The combined mean ratio is 0.7946 of four banks. Everest, Himalayan and SBI have slightly higher ratio than that of combined mean. The overall trend of the ratio is fluctuating. The large ratio of Everest indicate that it is largely depended on lending activities and low ratio of NABIL indicates that it has low dependency on lending activities and high dependency on other fee based activities. Here, CV of sampled banks is very low so these banks have no any fluctuating trend in interest income to interest expenses.

c. Interest Expenses to Total Deposit Ratio

This ratio measures the cost of total deposit in relative term. The joint venture banks performance depends upon it's to generate cheaper funds. Cheaper fund more will be the profitability in generating loan advance and

Vice versa. The high ratio indicates of costly fund this aversely its lending performance.

Table 4.13

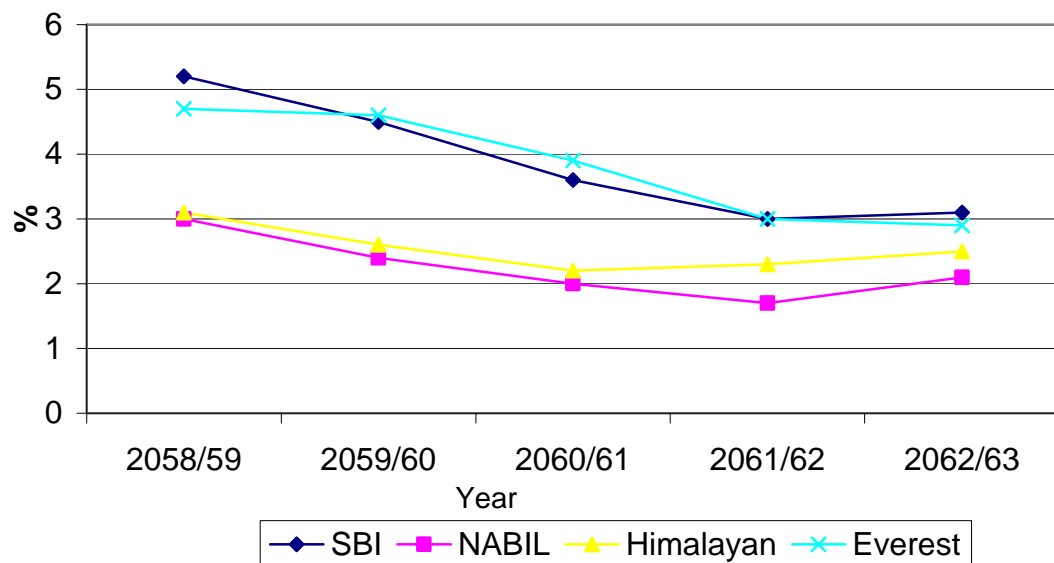
Interest Expenses to Total Deposit Ratio (in %)

Bank	Fiscal Year					Mean	S.D	C.V
	2058/59	2059/60	2060/61	2061/62	2062/63			
SBI	5.2	4.5	3.6	3	3.1	3.88	0.0085	22.119
NABIL	3	2.4	2	1.7	2.1	9.62	0.0035	3.65
Himalayan	3.1	2.6	2.2	2.3	2.5	2.54	0.0085	33.57
Everest	4.7	4.6	3.9	3	2.9	3.82	0.0085	22.33
Combined mean						4.97		

Sources: Appendix II

Figure No. 4.7

Interest Expenses to Total Deposit



Source: Table No. 4.13

Table No. 4.13 shows that the cost of deposit of NABIL bank is less than other sample bank in all five years of the study. It has also least mean ratio than others banks. NABIL is successful in collecting cheaper funds by its modern and personalized service to the customers. The mean ratio of Everest and SBI has greater than others i.e.03808 and.03844 respectively, which shows that these bank should more concern at the time of deposit. But Himalayan bank has

moderate position i.e.0.02537. The combined mean ratio of 0.031 indicates that the cost of the deposit in these banks is 3.1% grossly. Due to the lack of lending opportunities, the supply of the fund is exceeding the demand of the fund. The overall decreasing trend of this ratio measures the liquidity of the banks. CV of Himalayan bank has higher than other sampled bank. Which indicate fluctuating trend in interest expenses to deposit is high. But other banks have moderated fluctuation position.

d. Interest Suspense to Interest Income from Loan and Advance Ratio

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

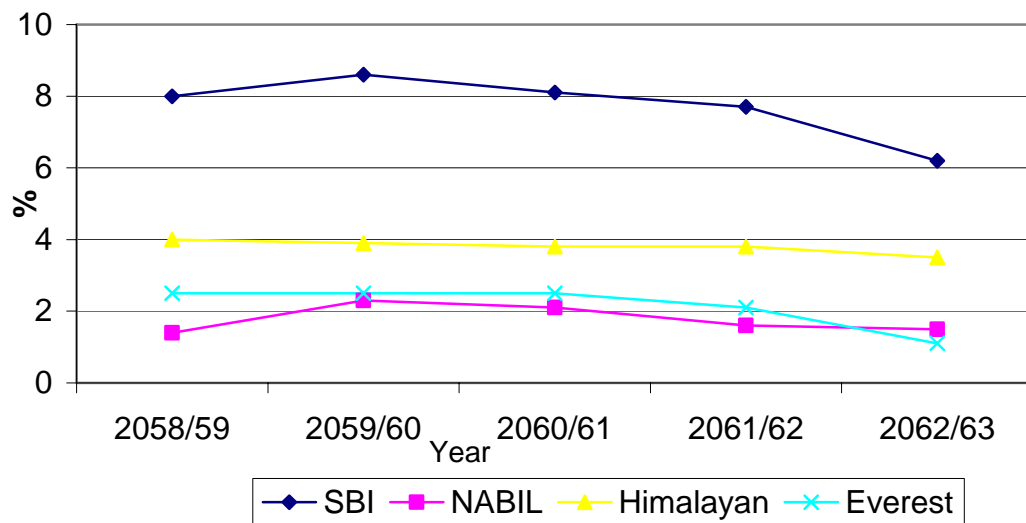
Table No. 4.14

Interest Suspense to Interest Income from Loan and Advance Ratio (in %)

Bank	Fiscal Year					Mean	S.D	C.V
	2058/59	2059/60	2060/61	2061/62	2062/63			
SBI	8	8.6	8.1	7.7	6.2	7.72	0.004	5.13
NABIL	1.4	2.3	2.1	1.6	1.5	1.78	0.0019	10.51
Himalayan	4	3.9	3.8	3.8	3.5	3.8	0.0061	15.96
Everest	2.5	2.5	2.5	2.1	1.1	2.14	0.0061	28.35
Combined mean						3.86		

Sources: Appendix II

Figure No.4.8
Interest Suspense to Interest Income



Sources: Table No. 4.14

The table no. 4.14 shows that the ratio of interest suspense to interest income from loans and advances. The SBI bank has highest mean ratio of 0.07698 whereas NABIL, Everest and have lower than combined mean which are 0.0177, 0.0213 and 0.03772. The combined mean is 0.0384. The ratio indicates that the interest turnover of NABIL is the best among sample banks. SIB and Himalayan bank have to improve there interest turnover to decrease the ratio. Suspense account of 7.69% and 3.77% of SBI and Himalayan means that interest income from loans and advance is cancelled out by interest suspense and its profit decreased. These banks have to concentrate on recovery of type loans and advance, plan and act according for the proper collection of repayment schedules. But Everest bank has quite good condition. CV on interest suspense to interest income is not high except Everest bank. This indicates there is no highly fluctuation in interest suspense to interest income.

e. Interest Income to Interest Expenses Ratio

The ratio of interest income to interest expenses ratio measures the difference between interest rates offered and interest rate charged. The spread between the interest income and interest expenses is the main foundation for the profit if the bank. NRB had restrictions on the interest rates spread of the commercial

banks. The interest offered and the interest charged should not be more than 5 percent. The commercial banks are free to fix interest rate in deposits and loans. Interest rates in all type if deposit and loans should be published in the local newspapers and communicated to NEPA Rastra Bank on quarterly basis and immediately when revised. Deviation of 0.5 percent from the published rate is allowed on all types of loans and deposit. However in rate fixation but it doesn't specify the conditions that would oblige NRB to do so.

Table No. 4.15

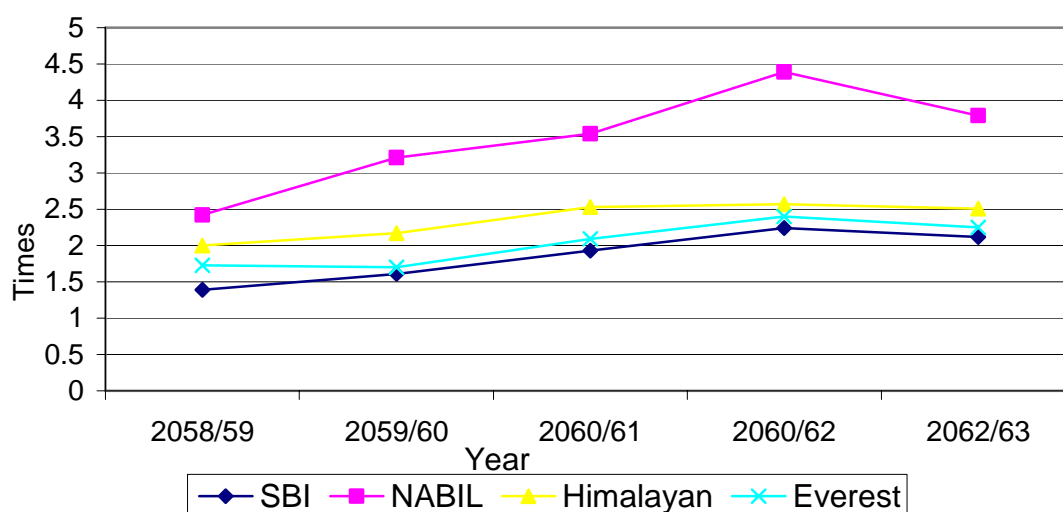
Interest Income to Interest Expenses Ratio (In times)

Bank	Fiscal Year					Mean	S.D	C.V
	2058/59	2059/60	2060/61	2061/62	2062/63			
SBI	1.39	1.61	1.93	2.24	2.12	1.858	0.73	39.22
NABIL	2.42	3.21	3.54	4.39	3.79	3.47	0.26	7.36
Himalayan	2	2.17	2.53	2.57	2.51	2.356	0.31	13.21
Everest	1.73	1.7	2.09	2.4	2.25	2.034	0.31	15.31
Combined mean						2.43		

Sources: Appendix II

Figure No. 4.9

Interest Income to Interest Expenses



Source: Table No. 4.15

Table no. 4.15 shows that the ratio of interest income to interest expense ratio. The combined mean ratio of the sample banks is 2.4281, which means that a rupee of expenses in deposit generated 2.4281 of interest income in average. NABIL bank has highest mean ratio i.e.3.4694, which means that one rupee of interest expenses has been able to earn 3.4694. SBI bank has least degree of ratio i.e. 1.85562 and Himalayan and Everest banks have moderate i.e.2.35402 and 2.0333 respectively. The highest cost of deposit and low volume of non interest bearing deposit in the deposit mix of SBI bank has result on the least ratio in interest income to interest expenses ratio. According to CV, interest income to interest expenses of SBI has more fluctuation than other banks due to higher CV. But other bank has moderated position.

4.3.2 Profitability Ratio

Profitability ratios are used to indicate and measured the overall efficiency of firm in term of profit and financial performance. For better performance, profitability ratio should be higher.

4.3.2.1 Return on Total Assets Ratio (ROA)

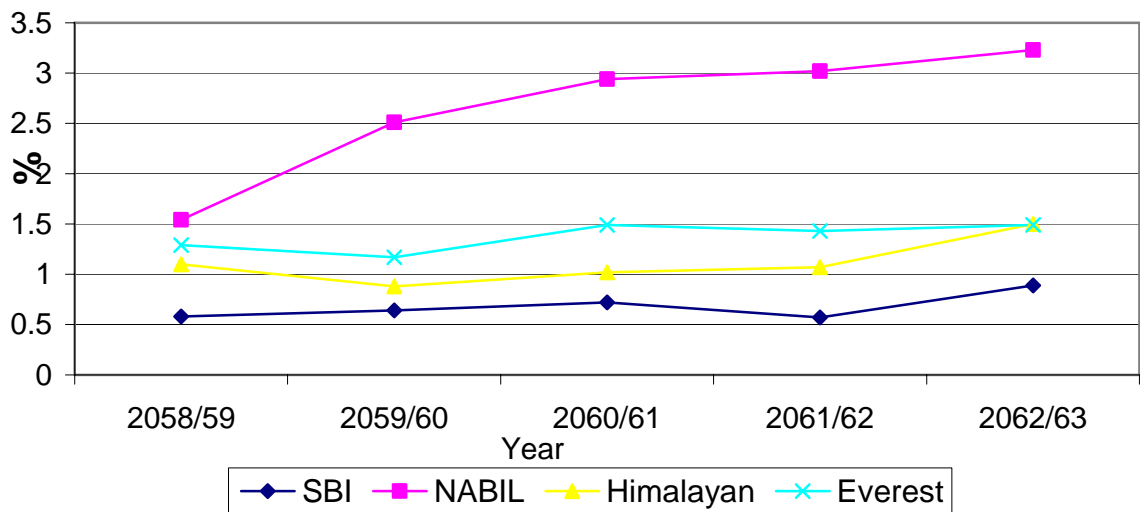
This ratio establishes the relationship between net profit and total assets. This ratio is also called ‘profit to total asset ratio’. It is shown in percentage. This ratio measures the profitability of all financial resource invested in the firm’s assets. Hence, the higher ratio implies that the available source and tools are employed efficiently.

Table No. 4.16
Return on Total Assets Ratio (in %)

Bank	Fiscal Year					Mean	S.D	C.V
	2058/59	2059/60	2060/61	2061/62	2062/63			
SBI	0.58	0.64	0.72	0.57	0.89	0.68	0.00117813	17.3255017
NABIL	1.54	2.51	2.94	3.02	3.23	2.1	0.01091139	51.6148938
Himalayan	1.1	0.88	1.02	1.07	1.5	1.11	0.00207229	18.6022748
Everest	1.29	1.17	1.49	1.43	1.49	1.37	0.00125475	9.13210314
Combined mean						1.315		

Sources: Appendix II

Figure No. 4.10
Return on Total Assets



Source: Table No. 4.16

Table no. 4.16 shows that the relationship between net profit and total assets involved in bank. Here combined mean is 0.01321 which is 1.32%. NABIL bank has highest return than combined mean ratio but SBI has lowest return on total assets. It indicates the bank available sources and tools are not employed efficiently. Now, CV of NABIL bank has greater than other sampled bank i.e. 51.62% which indicate this bank has more fluctuating than other bank but other bank has moderated fluctuating on return on total assets.

4.3.2.2 Return on Equity Ratio (ROE)

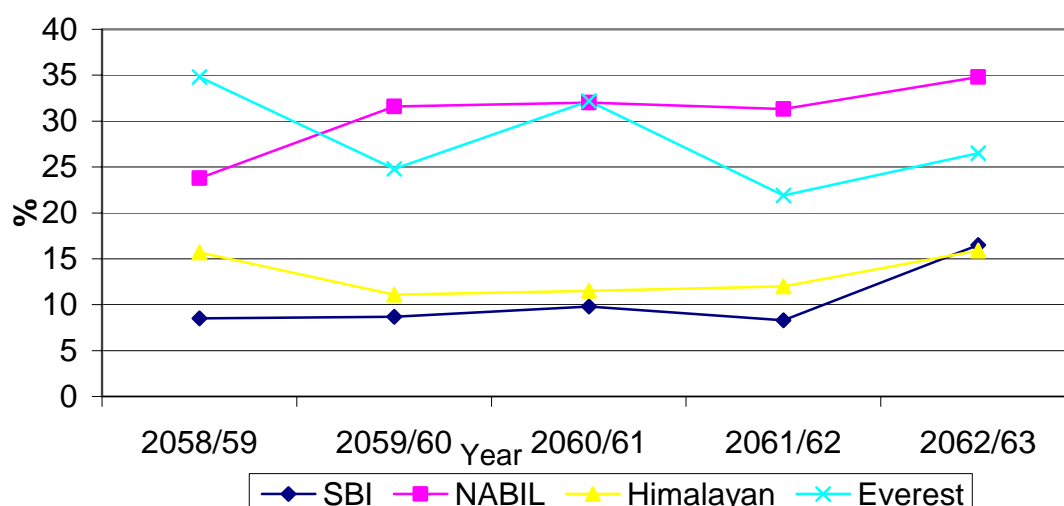
This ratio shows the relation between the net profit after tax and shareholder's funds. Shareholders funds included equity share capital, preference share capital, reserves and surplus, reserve fund, general reserve, capital reserve and share premium. The fictitious assets should be deducted from share holders fund for finding out this ratio. This ratio indicates how the firm has used the resources contributed by the owners. It is good for the bank to be return of investment high. Higher the ratio, the more efficient the management and utilization of shareholder's fund.

Table No. 4.17
Return on Equity (in %)

Bank	Fiscal Year					Mean	S.D	C.V
	2058/59	2059/60	2060/61	2061/62	2062/63			
SBI	8.5	8.7	9.8	8.3	16.5	10.36	0.041	39.59
NABIL	23.8	31.6	32	31.3	34.8	30.7	0.024	7.69
Himalayan	15.7	11.1	11.5	12	15.9	13.24	0.053	40.25
Everest	34.8	24.8	32.2	21.9	26.5	28.1	0.053	19.00
Combined mean						20.6		

Sources: Appendix II

Figure No 4.11
Return on Equity



Source: Table No. 4.17

Above table no. 4.17 shows the return on equity about sampled joint venture banks. According to the table NABIL it has highest return on equity than other sampled bank and combined mean which indicates that NABIL bank is successful to utilization of shareholder's fund. But SBI and Himalayan has lower return ratio on shareholder equity. But Everest has moderated position it has more than combined mean. Comparatively Himalayan and SBI bank have higher CV than other sampled banks i.e. 40.25% and 39.59% which indicates that return on equity ratio of these banks is more fluctuation than other bank.

4.3.2.3 Return on Loan and Advance Ratio

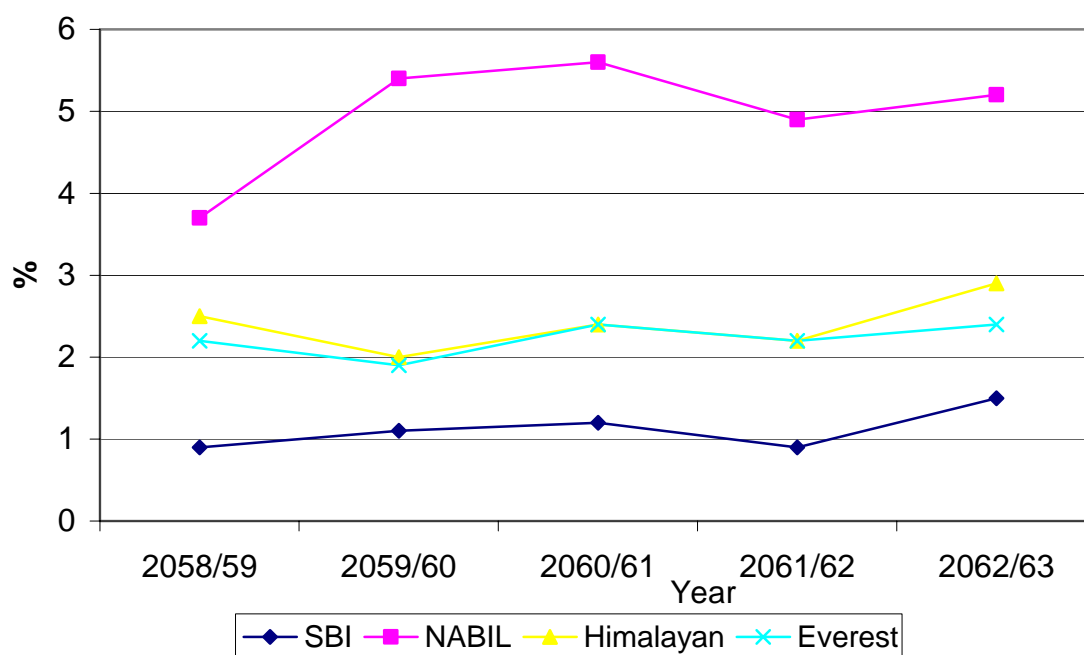
Return on loan and advances ratio shows relationship between net profit and loans and advances. This ratio indicates how the loan and advances helps to increase the net profit of bank. Higher ratio, the more efficient the management and utilization of loans and advances.

Table No. 4.18
Return on Loan and Advance (in %)

Bank	Fiscal Year					Mean	S.D	C.V
	2058/59	2059/60	2060/61	2061/62	2062/63			
SBI	0.9	1.1	1.2	0.9	1.5	1.12	0.0075	66.99
NABIL	3.7	5.4	5.6	4.9	5.2	4.96	0.0034	6.84
Himalayan	2.5	2.0	2.4	2.2	2.9	2.4	0.0021	8.54
Everest	2.2	1.9	2.4	2.2	2.4	2.22	0.0021	9.23
Combined mean						2.68		

Sources: Appendix II

Figure No 4.12
Return on Loan and Advance



Source: Table No. 4.18

From the above table it shows that the relationship between net profit and loan and advances. According to the table, NABIL bank has highest ratio than other sampled banks i.e. 4.94% but combined mean is only 2.66% and Everest and Himalayan has moderated ratio but SBI has lowest ratio. According to CV return on loan and advances of SBI bank has higher than other banks so this bank fluctuation trend on return on loan and advances is high than other banks.

4.4 Statistical Analysis

4.4.1 Correlation Coefficient Analysis

Correlation coefficient is the measure of correlation between two variables that summaries correlation in one figure. If the change in the value of one variable is accompanied by the change in the value of the other, the variables are said to be correlated. Analysis of correlation coefficient explains to what extent two variables are correlated. In this analysis Karl Pearson's coefficient of has been too used to find out the relationship between variables i.e. positive or negative. It helps to determine the following:

- A positive or negative relation exists.
- The relationship is significant or insignificant.
- Establish cause and effect relation if any

The statistical tools correlation coefficient analysis is used in study to measure the relationship between variables in determining whether the relationship is significant or not.

A) Co-efficient of correlation between Deposit and Loan and Advances

The coefficient of correlation between deposit and loan and advances is to measure the degree of relationship between two variables. Deposit is independent variable and loan and advance is depended variable. The main

objectives of computing between two variables are to find out whether deposits are significantly used as loan and advances in a proper manner or not.

Table No. 4.19
Correlation between Deposit and Loan and advance

Banks	Evaluation Criteria			
	r	R ²	P.E r	6×P.E r
SBI	0.992549	0.9852	0.00446	0.02678
NABIL	0.219898	0.0484	0.28705	1.722
Himalayan	0.246473	0.0675	0.2813	1.688
Everest	0.997281	0.9946	0.001629	0.00978

Sources: Appendix IV

The table 4.19 shows the co-efficient of correlation between deposit and loan and advance of sample joint venture bank. The table exhibits the value of 'r', 'r²', P.E r and 6*P.E r between deposit and loan and advances of SBI, NABIL, Himalayan, and Everest bank for the study period.

From the above table we know that co-efficient of correlation between deposits and loans and advance of SBI bank is positive. The value of 'r' is 0.992549 and 'r²' is 0.9852. It has P.E.r and 6p.Er is 0.00446 and 0.02678 respectively. There will be the variation of 2.68% in the total loans and advances. The value of 'r' is grater than value of 6p.Er. The relationship between the deposit and loan and advances of SBI is significant.

In case of NABIL the co-efficient of correlation between deposit and loans and advances is 0.246473. We consider the value of the co-efficient of determination (r²) is 0.0484, which mean 4.84% of the variation in the dependent variable (loans and advances) has been explained by the independent variable (deposits). Further, value of P.Er is 0.28705 and 6P.Er is 1.722. The value of co-efficient of correlation 'r' is lesser than the value of 6 P.E r, which shows that the value of 'r' is insignificant. It does not have any rigid policy to maintain these fixed consistence ratio between these assets and the volume of these assets in NABIL is highly of seasonal character.

Similarly, when we observe the correlation between deposits and loans and advances of Himalayan bank is low degree of correlation i.e.0.246473 and the value of 'r²' is 0.0675.it has P. E r and 6P.Er is 0.2813 and 1.688 respectively. The value of 'r' is less than 6P.Er, which shows that the value of 'r' is insignificant. There is insignificant relationship between deposits and loans and advances and the bank is not mobilizing its deposits as loan and advance successfully.

Likewise, when we observe the correlation between deposits and loans and advances of Everest bank has highly degree of positive correlation between these two variables i.e.0.997281. Similarly, the value of co-efficient of determination 'r²' is .9946, which means that 99.73% in the dependent variable (loans and advances) has been explained by the independent variable (deposit). Further, value of P.Er is 0.001629 and 6p.Er is 0.00978. It shows that the value of 'r' is significant. There is significant relationship between deposit and loan and advances and the bank is mobilizing it's as loan and advances successfully.

From the above analysis, we can be conclude that the four banks are successful in mobilizing there deposit as loan and advances value of 'r' and 'r²' of the there banks are positive and Everest and SBI greater than the value of 6 times of there probable error but NABIL and Himalayan has less than there 6 times of probable error. Everest and SBI has greater value of 'r' which indicates that these are in better position on mobilizing deposits as loan and advances in comparison to other NABIL and Himalayan. But these bank also satisfactory position.

B) Co-efficient of Correlation between Investment and Loan and Advances

This co-efficient of correlation between investment and loan and advances measures the degree of relationship between these two variables. This measure of correlation explains whether the banks have a rigid policy to maintain a consistent relationship between two assets or other factor such as seasonal opportunity, economic demand, NRB directives etc has impact on loans and

advances as every bank has first priority and loan and advances to investment. Theoretically, increase or decrease in the volume of loans and advances directly reduces or increase the level of idle fund and this idleness of fund increases the investments.

Table No. 4.20
Correlation between Investment and Loan and Advances

Banks	Evaluation Criteria			
	r	R²	P.E r	6×P.E r
SBI	0.976492	0.9535	0.01403	0.0842
NABIL	-0.55879	0.3123	0.2074	1.2447
Himalayan	0.619633	0.384	0.1858	1.1148
Everest	0.9972810	0.8027	0.0595	0.3571

Sources: Appendix IV

The Table No. 4.20 shows there is high degree of positive correlation between investment and loan and advances in SBI and Everest banks. It shows good fund mobilization. The value of 'r' is significant as value of 'r' is the more than 6PE r. Hence there is positive relationship between two variables. But NABIL has negative correlation which indicates its loan and advances do not effect its investment. Incase of Himalayan it has moderate relationship between investment and loan and advances but value of 'r' is less than 6PE r. Which indicate value of 'r' is insignificant so there is no relationship between these two variables.

There is positive relationship between investment and loan and advances, though it is relatively low, increase in loan and advances in these banks do not necessarily increase the volume of investment. The volume of increase in loan and advances in these banks is caused by the increase in volume of business activity. However, the increase in investment has caused due to unavailability of good opportunity of lending over liquidity in banking industry and increase in risk element in lending.

C) Co-efficient of Correlation between Shareholder Equity and Loan & Advance

The coefficient of correlation between shareholder equity and loan and advances is used to measure the degree of relationship between shareholder equity and loan and advances. Here loan and advances are the independent variable and shareholders equity is dependent variable.

Table No. 4.21

Correlation between Shareholder equity and Loan and advance

Banks	Evaluation Criteria			
	r	R²	P.E r	6×P.E r
SBI	0.89951	0.8091	0.0576	0.3455
NABIL	0.966305	0.9338	0.01997	0.01198
Himalayan	0.98753	0.9752	0.00748	0.0449
Everest	0.981617	0.9636	0.01098	0.0659

Sources: Appendix IV

The above Table No. 4.21 shows the relationship between shareholders equity and loan and advices of four sampled joint venture banks. From above all banks have high degree of positive correlation between shareholder equity and loan and advances, which indicate good mobilization of fund. The coefficient of determination measures the degree of liner association or correlation between shareholders equity and loan and advances. In case of this study, the coefficient of determination between shareholders equity and loan and advances of SBI, NABIL, Himalayan and Everest are 0.8091, 0.9338, 0.9752, and 0.9636 respectively. All the coefficient of determination in percentage explain the variation of independent variable (loan and advances) with respect to dependent variable i.e. shareholders equity.

In case of this study, the probable error is used to measure the significance of the relationship between shareholders equity and loan and advances. According to above table, we can see that the relationship two variables of all sampled banks are significant, which provides from the comparison of 'r' and 6 PE(r). All sampled joint venture banks have greater value of 'r' than 6PE r.

D) Coefficient of correlation between Total Income and Loan & Advances

The correlation between total income and loan and advances measures the degree of relationship between these two variables. The value of 'r' explain whether a percentage change in loan and advances contribution to increase the same percentage of income or not. Loan and advances is independent variables and total income is dependent variable.

Table No. 4.22

Correlation between Total Income and Loan and Advances

Banks	Evaluation Criteria			
	R	R²	P.E r	6×P.E r
SBI	0.994134	0.9883	0.0035	0.0212
NABIL	0.54547	0.2975	0.2119	1.2715
Himalayan	0.93823	0.8803	0.0338	0.2027
Everest	0.98821	0.9766	0.0071	0.0424

Sources: Appendix IV

The Table No. 4.22 shows that the coefficient of correlation between total income and loan and advance of SBI, NABIL, Himalayan and Everest are 0.9941, 0.5455, 0.9383 and 0.9882 respectively. It shows SBI, Himalayan and Everest has highly positive relationship between total income and loan and advances. But NABIL has moderate positive correlation coefficient. While NABIL bank's value of 'r' is lower than 6PE r which indicate the value of 'r' is insignificant. Hence there is no relationship between total income and loan and advance.

In case of SBI, Himalayan and Everest the value of 'r' is greater than 6PE r and therefore value of 'r' is significant between total income and loan and advances. The relationship justify that these income depends on loan and advances, if the loans and advances is higher than the total income also be higher and vice-versa.

E) Co-efficient of Correlation between Interest Suspense and Interest Income

This correlation measure the relationship between interest suspense and interest income. Interest suspense is earned but uncollected interest. In this analysis interest suspense is dependent and interest income is the independent variable.

Table No. 4.23
Correlation between Interest Suspense and Interest Income

Banks	Evaluation Criteria			
	R	R²	P.E r	6×P.E r
SBI	0.8818	0.7775	0.06712	0.4027
NABIL	-0.4085	0.1669	0.2513	1.508
Himalayan	0.8997	0.8094	0.05749	0.345
Everest	0.2626	0.06898	0.2808	1.685

Sources: Appendix IV

The Table No. 4.23 exhibits that SBI and Himalayan have highest degree of positive correlation between interest suspense and interest income. The value of 'r' in SBI and Himalayan is significant as the value of 'r' is greater than 6PE r. hence there is positive relationship between interest suspense and interest income. In case of NABIL and it has negative relationship between interest suspense and interest income due to the negative 'r' i.e.-0.4085. Hence value of 'r' is less than 6PE r of NABIL and Everest. Therefore value of 'r' is insignificant which indicate there is no relationship between two variables.

F) Co-efficient of Correlation between Loan Loss Provision and Loan & Advances

The correlation between loan and loss provision and loan and advances measures the degree of relationship between these two variables. Loan loss provision is dependent variable and loan and advances is independent variable. Loan loss provision is the product of loan and advances and these two variables are correlated. The main objective of computing 'r' between these two

variables is to justify whether loan loss provision increase in the same proportion of increase in loan and advances.

Table No. 4.24

Correlation between loan loss provision and loan and advances

Banks	Evaluation Criterions			
	R	R²	P.E r	6×P.E r
SBI	0.9985	0.997	0.00091	0.0054
NABIL	0.7011	0.4915	0.1534	0.9203
Himalayan	0.46623	0.2174	0.35	2.1
Everest	0.751	0.564	0.195	1.17

Sources: Appendix IV

The Table No. 4.24 explains that the value of 'r' in NABIL, Himalayan and Everest is insignificant and the relationship between these two variables is not certain as value of 'r' is less than 6P E r. The value of 'r' in SBI is significant and it is likely that the percentage change in loan and advances would turn in non performing loan in the same proportion than others sampled banks.

G) Co- efficient of correlation between Interest Income and Net Profit

The correlation between interest and net profit measures the degree of relationship between these two variables. The interest income contributes a major portion of total volume of joint venture banks income. In this analysis, interest income is independent variable and net profit is dependent variables.

Table No. 4.25

Correlation between Interest income and Net Income

Banks	Evaluation Criterions			
	R	R²	P.E r	6×P.E r
SBI	0.9246	0.8549	0.04377	0.2626
NABIL	0.1951	0.03806	0.2902	1.7412
Himalayan	0.9539	0.91	0.02715	0.1629
Everest	0.9934	0.987	0.0039	0.0235

Sources: Appendix IV

The Table No. 4.25 explains that the value of 'r' in SBI, Himalayan and Everest are significant and relationship between these two variables is positive and certain, as the value of 'r' is more than 6PE r. The percentage change in volume of interest income is more likely to generate the same percentage of net profit. But NABIL has value of 'r' is less than 6PE r so; the degree of relationship is negative due to the insignificant relation between these two variables.

4.4.2 Test of Hypothesis

Test of hypothesis is a process of testing of significance regarding the parameter of the population based on sampled drawn from the population. In testing hypothesis, we examine, based on statistics. Computed form the sample drawn, whether the sampled drawn belongs to the parent population with certain specified characteristics or not.

In this topic, an effort has been made to test the significance regarding the parameter of the population based on sampled drawn from the population. Generally following steps are followed for the test of hypothesis. A sample test calculation is presented in Appendix III.

'F' Test for Loan and Advances

Computation of Test Statistics 'F':

Correlation factor (C.F)	1414087716
Total sum of Square (TSS)	214029559
Sum of square between samples (SSC)	147066630.9
Sum of square within samples (SSW)	66962928

Table No. No.4.26

One-way ANOVA table (F-test for Loan and advances)

Sources of Variation	Sum of Squares	d.f.	Mean Sum of Square	F-ratio
Between Sampled	147066630.9	$K-1=4-1=3$	$147066630.9/3$	11.713
Within Samples	66962928.1	$N-K=20-4=16$	$66962928.1/16$	
Total	214029559			

Sources: Appendix III

Critical value:

The tabulated value of F at 5% level of significance for 3 and 16 d.f. is 3.24

Decision:

Since the calculated value of F is more than the tabulated value of F, the null hypothesis H_0 is rejected. Therefore, we conclude that there is significance difference in loan and advance. There is not equality or homogeneous in loan and advance ratio.

'F' Test for deposit

Computation of Test Statistics 'F':

Correlation factor (C.F)	3607107565
Total sum of Square (TSS)	792278032
Sum of square between samples (SSC)	690334037
Sum of square within samples (SSW)	101943995

Table No.4.27**One-way ANOVA table (F-test for Deposit)**

Sources of Variation	Sum of Squares	d.f.	Mean Sum of Square	F-ratio
Between Sampled	690334037	$K-1=4-1=3$	$690334037/3$	36.12
Within Samples	101943995	$N-K=20-4=16$	$101943995/16$	
Total	792278032			

Sources: Appendix III

Critical value:

The tabulated value of F at 5% level of significance for 3 and 16 d.f. is 3.24.

Decision:

Since the calculated value of F is more than the tabulated value of F, the null hypothesis H_0 is rejected. Therefore, we conclude that there is significance difference in deposit. There is not equality or homogeneous in deposit ratio.

'F' Test for Net Profit

Computation of Test Statistics 'F':

Correlation factor (C.F)	1153925.6
Total sum of Square (TSS)	1597721.3
Sum of square between samples (SSC)	443795.7
Sum of square within samples (SSW)	120931.6

Table No.4.28

One-way ANOVA table (F-test for Net Profit)

Sources of Variation	Sum of Squares	d.f.	Mean Sum of Square	F-ratio
Between Sampled	443795.7	$K-1=4-1=3$	$443795.7/3$	19.57
Within Samples	120931.6	$N-K=20-4=16$	$120931.6/16$	
Total	1597721.3			

Sources: Appendix III

Critical value:

The tabulated value of F at 5% level of significance for 3 and 16 d.f. is 3.24

Decision:

Since the calculated value of F is more than the tabulated value of F, the null hypothesis H_0 is rejected. Therefore, we conclude that there is significance difference in net profit. There is not equality or homogeneous in net profit ratio.

4.5 Presentations, Analysis, and Interpretation of Primary Data

This chapter concerned on using the aforementioned methodology to meet the objective of the study and set forth a logical and qualitative framework to recommended probable solution to the problem that is in hereon within deposit

and loan and advances aspects of the joint venture bank. For this purpose, some the collected questionnaire answers are analyzed and studies. The questionnaire was distributed to the management and client of banks. The respondents were regarded as the respective of the entire management for the propose of analysis and classification of the primary data. Foe classification of the views, percentage method used, considering the total number of respondent as 100% further, such classification was supported with the graphical and tabular presentation, wherever (felt appropriate) necessary.

A sample of questioners is included in the appendix . The number of respondent for the queries has differed due to the differential regarding the formation of the client. So the number of the respondent for each query is shown in sample questionnaire separately. Though the case of records kept in two joint venture bank SBI and Himalayan Narayangharh branches' clients are taken keeping 10 as class interval for randomly selecting 50 clients in order to distribute questionnaire for the present study. Answers obtained from questionnaire sent to 50 loan paying clients are depicted herein.

Table No. 4.29
Frequencies of Respondents of Client of Joint Venture Banks

Particular	Total	Yes		No		No Idea		No Responses	
	No.	No.	%	No.	%	No.	%	No.	%
Information about joint venture bank of before taking loan.	50	40	80%	10	20%	-	-	-	-
Appropriateness of lending policy and process of joint venture banks	50	30	60%	10	20%	5	10%	5	10%

Accuracy of joint venture banks interest rate charged in loan and advances	50	20	40%	15	30%	5	10%	10	20%
Use of whole loan amount for specified purpose for which loan is taken.	50	45	90%	3	6%	-	-	2	4%
Knowledge about interest rebate and other discount on loan.	50	42	84%	8	16%	-	-	-	-
Have you taken loan on paying quarterly installment?	50	45	90%	5	10%	-	-	-	-
Happiness with joint venture banks lending policy.	50	30	60%	12	24%	-	-	8	16%
Inspection and verification if collaterals and properties before loan granting loan.	50	50	100%	-	-	-	-	-	-
Relevancy of service charges charged by joint venture banks	50	28	56%	12	24%	5	10%	5	10%
Willingness to keep on transaction with joint venture banks in future	50	35	70%	8	16%	5	10%	2	4%

Sources: Loaner survey of joint venture banks 2063

- Moreover 80% respondents know about joint venture bank before loan taking but 20% respondents have on any information about joint venture bank before taking loan.

- Moreover 60% of respondents replied positively appropriateness of lending policy and process if joint venture banks where as 20% replied negatively for the same. Moreover 10% told that they have no idea about followed by no response for that by 10%.
- Moreover 40% of respondents agreed about the accuracy of interest rate charged on loan and advances where as moreover 30% did not agree about that. Proportion of no idea and no responses are 10% and 20%.
- Near about 90% respondents that whole loan amount is spent in the sector for which it is taken. Where as 6% replied no for that and yet another 4% did not respond for the same.
- About 84% of respondents knew about interest rebate and discounts side by side but 16% did not know about it.
- 90% respondents have taken loan to repay in monthly or quarterly installment basis and rest 10% has taken loan other than this basis. It denotes that most if the loan amount is known on hire purchase and leasing business.
- 60% of respondents replied that they are happy or satisfied with lending policy 24% replied their dissatisfaction about lending policy where as moreover 16% told that they did not have any idea about that issue.
- All respondents responded that joint venture used to conduct inspection can verification of collaterals and properties before and after granting loan. It is good for efficient loan management.
- About 56% of respondents provoked that service charges charged by joint venture are relevant. But 24% did not accept the services charge being relevant where as 10% and 10% of them no idea and no response respectively.
- 70% of respondents are willing to keep on transaction with joint venture bank in future. Where as 16% of them replied no for that and 10% of them told have no idea and 4% did not response over the matter.

From the respondents depicted above everyone come to conclude that loan paying client of joint venture banks are positive about lending policy and

process, interest rate charges, rebate and concession offered by the joint venture banks and finally they are willing to keep on transitions with joint venture banks. All these provoked that loan paying client's responses are positive but not almost all. Hence, their grievances are to be analyzed completely in order to achieve objective and goal of joint venture banks without any barriers in day to day practice of lending and recovery policy of loan.

4.6 Major Findings of the Study

This chapter is the consequence of the whole studies and analysis and a result and achievement of entire study too. Therefore, this chapter concentrated on drawing the conclusion of all analysis and providing suggestive package of loan management aspects of joint venture banks of a Nepal. Regarding the conclusion and finding drawn from the detailed analysis of primary and secondary data separately and at last some recommendation also arrives.

In this section, findings are presented in accordance with the analysis as different analysis tools are used in the process of analysis for the collected primary and secondary data. In accordance to the study and analysis of 'Loan management of joint venture bank', it will be clear that the Nepalese joint venture banks were not following generally accepted principles of commercial bank. Likewise, they have not similarity in interest charge and interest payment. This chapter focused on the major findings from the comparative analysis of SBI, NABIL, Himalayan and Everest banks from 2058/59 to 2062/63. The main findings, which are, conclude from this analysis as follows:

- Current ratio of all sample joint venture banks are relatively less than standard (2:1). Among this entire joint venture bank SBI bank has greater average current ratio than other three banks. Which indicate all sample bank have not better liquidity position.
- The interest rate of joint venture banks have been fluctuating trend under all respective banks policy and investment area. However, almost of the joint venture banks main sources of fund mobilized are deposits of customers.

- The liquidity position of all selected sample bank is not satisfactory due to lower liquidity ratio.
- In case of utilization of outsider fund (deposits) to generating profit is not so satisfactory. However, SBI and Everest banks have moderated position.
- To mobilizing shareholders fund for loans and advances SBI and Everest banks have greater ratio than NABIL and Himalayan banks.
- In case of loans and advances NABIL and Himalayan banks have greater position than other sample joint venture banks they are success in investment as loan and advances.
- NABIL and Himalayan bank have higher interest income from loan and advances and net income which shows that these bank is successful to utilization of funds but other two banks have also moderated position.
- In case of provision for doubt full debts all bank have increasing trend except Himalayan.
- Among the joint venture banks, the ratio of loan loss provision to total loan and advances is increasing trends expect NABIL banks. This reflects increasing possibility of non-performing loan out of total loan and advances.
- The ratio of interest income to total income shows that there is a large contribution of interest income in total income SBI and Everest mean ratio is higher than the combined mean but NABIL and Himalayan have lower ratio.
- SBI and Himalayan have the higher ratio of interest suspense to interest from loan and advances. But NABIL and Everest have lower mean ratio. Since high ratio is unfavorable, it indicates that the borrower's default in paying the interest or either it could be lack of strict measures to collect the interest in the bank.

- Interest income to interest expenses ratio of the banks are not widely deviated. The highest ratio of NABIL, with one rupee of interest it has been able to earn Rs. 3.47. Others banks also satisfactory position too.
- Ratio of return on total assets ratio of among sample joint venture bank NABIL bank has highest ratio than mean ratio but SBI has lowest mean ratio.
- Return on equity of sampled banks are satisfactory among them NABIL and Everest have greater than mean ratio but Himalayan and SBI has lower mean ratio.
- The ratio of return on loan and advances of Himalayan and Everest bank have greater than mean ratio which indicate that these bank able to get higher return than other two banks.
- Trend analysis of loans and advance, interest income and net profit is increasing but provision for doubt full debts is also increasing expect Himalayan bank.
- Correlation coefficient between total deposit and loan and advances of all banks shows positive relationship between these two variables. Everest and SBI have highly positive degree of correlation. It indicates that these bank good performing in generating loan and advances from the deposits and probable error shows significant relationship for SBI and Everest but rest, banks have insignificant relationship.
- The coefficient of correlation between investment and loan and advances is positive relationship except NABIL. And NABIL and Himalayan have insignificant relationship between two variables.
- Correlation coefficient of shareholders equity and loans and advances shows that there is high degree of relationship. Among all joint venture banks have significant relationship between two variables.
- The analysis of correlation between total income and loan and advances of sampled bank has positive relationship. Among them SBI, Himalayan and Everest bank has high degree relationship and probable

error shows that significant relationship between total income and loan and advances.

- Correlation co-efficient of interest suspense and interest income shows that there is negative correlation on NABIL. SBI and Himalayan has moderated positive correlation. However, probable error shows that there is significant relation between two variables in SBI and Himalayan but NABIL and Everest has insignificant relationship.
- The analysis of correlation between provision for loan loss and loan and advances of sampled banks has positive relationship and SBI bank has significant relationship but others banks has insignificant relationship.
- The coefficient of correlation between interest income and net profit of SBI, Himalayan and Everest has highly positive relationship between two variables. But NABIL has low degree positive relationship and the relationship between two these variable is insignificant.
- The test of hypothesis helps to conclude that loan and advances of four sampled joint venture has significant different or not. It seems that there is significant difference in loan and advances. It means there is variation in loan and advances of sampled banks.
- 'F' test for deposit of sampled joint venture bank seems that, there is significant different at 5%level of significance. It means there is variation in deposit of sampled banks.
- The test of hypothesis 'F' statistic in net profit is significant different at 5% level of significance. It means there is variation in net profit amount of sampled bank.
- I found that 70% of client of joint venture (sampled) bank willing to keep on transition by survey, which show that these banks are successful in loan management.
- However, 30% customer are not agree about interest charged they want these bank should reduce interest charge.

CHAPTER FIVE

SUMMARY, RECOMMENDATION AND CONCLUSION

5.1 Summary

Nepal a most beautiful, peace loving, tiny Himalayan kingdom us attempting to archive economic solvency, rapid development and uplift of the life standard of the country men though it is confronting several economic, socio-culture and geo-poetical barricades. Restoration of democracy has disclosed ample doors for the economic enrichment of all concerned over its economic arena. It's almost all post democratic time has been caught by misguided activities, unethical practices, defame of so called norms and values, lack of good governance, making and breaking parties as well as government. All these have resulted anarchy, corruption and finally outbreak of Maoist insurgency. As consequences, the yard if world's peace preacher has become has become land for death and restoration of peace, justice, tranquility cum equality all over the country is day dream to us but the 'Janaandolan Bhaga-2' our dream is going to change in real dream. Economic development of country can equality all over the country can happened without the systematic and preplanned development of trade and commerce. Undoubtedly, commercial banks stimulate the development of commerce and trade to its domain since commercial bank (joint venture banks) it is the part of commerce. Commercial development is the foundation of economic development. Commercial development can tremendously change the livelihood of the people by providing employment, utilizing their capacity, skill for generating income, including per capita income, mobilizing productive natural resources etc. though the economic development was in creeping speed in earlier years, it has caught its full swing with the reinstatement of democracy in the country. Remarkable achievement is being obtained in the development of financial institutions (i.e. commercial banks including joint venture banks, other banks

institutions such as development banks, rural development banks, finance companies, financial co-operatives, financial non government organization and non banking financial institutions such as (insurance companies, deposit insurance and credit guarantee corporation, employee provident fund and citizen investment trust.) in this modern society and 21st century business age the joint venture banks play vital role for providing loan and advances to investor and keep safety deposit or mobilizing fund in prospective sectors.

Among the 17 commercial banks including joint venture banks this present study has been taken to evaluate the loan management of the sampled base. The study analyzed the annual report of five years starting from 058/59 to 062/63 has been taken into consideration for the purpose of the study.

All the study is analyzed reviewing the secondary data from journal articles, annual report of the banks and other relevant sources as well as primary data too. To reveal the problems financial as well statistical tools are applied. The recommendation is provided based on findings from analysis.

In the context of Nepal, joint venture banks is one of the business, which has not any loss and it suffered at profit from establishment date to till now. However, the trend of loan and advances, deposit and profit earned is fluctuated. There is no informality. The rate of interest on loan and advances and on deposit, which regulates by government (NRB), is also unscientific. It is needed to restudy and reanalyzed as for present condition and situation.

Lending is one of the most important functions of a commercial banks and joint venture banks and the composition of loan and advances directly affects the performances and profitability of the banks. 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 turning in non performing loan. A study of the liquidity position, loan and advances, profitability, deposits position of the commercial banks are analyzed and the

banks lending strength, lending efficiency and its contribution in total profitability has been measured.

Although, joint venture banks run smoothly with profit, they faced various problems. The main problem is cut throat competition due to liberalization and privatization thus under rating and price cutting and unhealthy competition between each other (commercial banks). Terrorism, inflation, and recession are also the main problems of banking in Nepal. Likewise joint venture banks insured also has some problems in different situation. In about loan and advances, repayment of loan delayed on payment of loan, defaulted loan's problems NRB directives government's rules and regulations etc.

5.2 Recommendation

The recommendation are made as per the analysis of primary, secondary, and valid finding from study as well as relating information about Joint venture banks. On the basis of analysis and findings of the study, following recommendations have been forwarded.

a. The joint venture banks should collect more deposit

From the analysis of deposit collection of sampled bank it can be concluded that all of these banks should try to increasing the deposit collection. Higher deposit indicates that higher lending and best performance of banks. So, these banks should collect more deposit.

b. The joint venture banks should increase lending (loan and advances) activities:

Main sources of income of joint venture banks are interest charge on loan and advance. So, these banks should increase lending on performing assets.

c. The banks should give extra priority on productive and priority sector loan

Entire economy is largely dependent on the proper execution of lending function by commercial banks. The low tendency towards lending affects the

performance of all the banks in long run due to its paradox. Low level of lending constitutes the low level of investment, resulting in low level of productive and employment generation and this cause slack is economy. This slackness is economy adversely effects the funding as well as non funding activities of banking business. Thus, these banks should to give extra priority on productive and priority sector loan.

d. The joint venture banks should proper assessment and viability of collateral

Banks does not provide loan without collateral but the banks should also be considered apart from the traditional concept of collateral based lending. If there is good proposal and all other factor of credit analysis are fulfilled then collateral should not be the only deciding factor for advancing the loans besides following the proper guidelines and policy of credit appraisal.

e. The joint venture banks should reduce interest suspense ratio.

The interest in interest suspense account will increase risk and the profitability of the bank will decrease. Therefore, these banks have to improve its interest turnover rate to decrease the ratio of interest suspense to interest income from loan and advances. This bank has to concentrate on recovery of interest and loan and advances, plan and act accordingly for proper collection of interest repayment schedules.

f. The banks should increase the efficiency of employee

The banks should provide the development programs in the country for their employee. Training programs for all levels of employee should be organized with the country for enhancement of their capacity and efficiency. Obviously, it may be productive if the companies should provide such training programs.

g. The banks should shift on loan lending policy

It is truly realized that gradual shift of focus from traditional lending areas of business such as term loan, hire purchase, housing loan to the dynamic and innovative areas like merchant banking , venture capital, consortium financing ,

micro financing , rural financing ,project financing and so on. This will help in diversifying risk of loan lending.

h. The banks should to provide technical assistants:

Excess concentration of loan lending on some certain area depicts the fact that people lack in identifying new innovation. Most of the people do similar types of business thinking to have more return. This geminates excess competition for the business and risk for bankers. Hence it should provide technical support to prospects for identifying new opportunities and to capitalize those opportunities.

i. The banks should establish research and development unit:

The banks should set up a separated research and development department. This department looks the present and potential business opportunities in the market. This department calculates the risk involved in the every banking business because banking business is becoming more risky than previous. The major portion of banks goes to recovery loan and advances. This department suggests for issuing new policies. If the company followed their suggestion, it would be able to find more reliable and worthy policyholder towards the company. The banking company will be able to take the profitable opportunities.

5.3 Conclusion

From the analysis of the available data, the researcher has been able to draw certain conclusion. This study is mainly focused on the comparative study on loan management of SBI, NABIL, Himalayan and Everest joint venture bank. The overall performance of sampled joint venture banks is satisfactory. All sampled banks earn their profit increasing trend every year that shows the improvement in performance and success of the firm. The sampled banks have performed well increasing growth ratio of deposit, loan and advances, investment and profit.

All the banks have good lending procedures, preliminary screening is done of all the loan application, credit appraisal and financial position of the business and cash flow of the proposal is given high importance which is essential for loan approval. There is proper control mechanism like delegation of authority, follow up visits and books of accounts inspection of the client which result in good performance of the banks. The banks are following NRB guidelines of loan classification and provisioning which makes the banks financial position strong instead of holding high volume of non- performing assets to all the guidelines followed of NRB and the banks internal policy.

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Appendix I

Questionnaire to Loan Paying Clients of Joint venture Banks:

This questionnaire is prepared only for assist the research conducted for partial fulfillment of requirement of the Masters of Business Studies (MBS). The collected views will be used for the purpose if this study and will not misuse anywhere. Therefore, the views will be kept confidential and will not be published anywhere.

Further, researcher would liker to request you to fill up the questionnaire and conferring your view with hopping your co-operation and radiant participation. Your co-operation counts a lot for the success of the study. To attain your view, please put the tick mark at Yes/No option or otherwise requested in specific manner. Your name will not be cited in any documents based in this research study.

Please fill the following personal information clearly.

Name:-

Address:-

Occupation: -

Age: -

Sex:-

1. Do you know about joint venture banks before taking loan?
a. Yes b. No c. No idea
2. Do you think the joint venture banks follow the appropriate lending policy?
a. Yes b. No c. No idea
3. Is the present rate of interest charged on loan and advances by on loan and advances by joint venture banks are appropriate?
a. Yes b. No c. No idea
4. Have you used whole amount of loan taken on your purpose for which loan has been taken?
a. Yes b. No c. No idea

5. Do you know about the interest rate, rebate and other discount process on loan of finance company?
 - a. Yes
 - b. No
 - c. No idea
6. Have you taken loan on monthly or quarterly installment?
 - a. Yes
 - b. No
 - c. No idea
7. Are you satisfied with joint venture bank's lending policy?
 - a. Yes
 - b. No
 - c. No idea
8. Dose the joint venture banks verification of properties being kept as collaterals before and after granting loan?
 - a. Yes
 - b. No
 - c. No idea
9. Is there relevancy on service charge charged by finance company?
 - a. Yes
 - b. No
 - c. No idea
- 10 Are you willing to keep on transactions with joint venture banks on future?
 - a. Yes
 - b. No
 - c. No idea

APPENDIX II

Total Assets in '000000'

Banks	Year				
	2058/59	2059/60	2060/61	2061/62	2062/63
SBI	7021.14	7566.33	8440.40	9963.02	13035.84
NABIL	17629.25	16562.61	16745.62	17186.33	18996.45
Himalayan	21315.85	24197.97	25729.79	28871.34	30579.81
Everest	6607.18	8052.2	9608.56	11792.13	15959.28

Current Assets

Banks	Year				
	2058/59	2059/60	2060/61	2061/62	2062/63
SBI	6787.45	7404.57	8345.34	9668.42	12718.87
NABIL	13313.40	13868.3	14244.04	14971.8	15061.41
Himalayan	11174.16	12973.91	15289.72	15906.72	18484.61
Everest	6359.66	7836.89	9399.95	10873.75	11422.13

Current Liabilities

Banks	Year				
	2058/59	2059/60	2060/61	2061/62	2062/63
SBI	6459.41	6992.43	7808.29	9303.27	11853.47
NABIL	16384.73	15135.42	15153.13	15420.78	17031.51
Himalayan	19814.32	22292.1	23427.86	2602.95	27694.2
Everest	6063.87	7420.73	8928.24	10534.74	10975.61

Cash and Bank Balance

Banks	Year				
	2058/59	2059/60	2060/61	2061/62	2062/63
SBI	408.15618.67	618.67	695.87	723.75	1118.16
NABIL	1503.5	1708.47	1697.37	1852.48	1868.63
Himalayan	1264.67	1979.21	2001.18	2014.47	1717.35
Everest	705.89	749.58	870.68	1094.94	1559.97

Total Deposit

Banks	Year				
	2058/59	2059/60	2060/61	2061/62	2062/63
SBI	5572.47	6522.82	7198.32	8654.77	11002.04
NABIL	15506.44	13447.65	14119.03	14586.61	14915.12
Himalayan	18619.38	21007.38	22010.33	24814.1	26490.85
Everest	5466.61	6694.95	8063.90	10097.69	13802.45

Loan and Advances

Banks	Year				
	2058/59	2059/60	2060/61	2061/62	2062/63
SBI	4299.25	4468.72	5143.66	6213.88	7626.74
NABIL	7437.9	7755.95	8189.99	10586.17	11754.02
Himalayan	9557.14	10844.59	12919.63	13451.17	15761.98
Everest	3948.48	4908.46	5884.12	7618.67	9801.31

Total Investment

Banks	Year				
	2058/59	2059/60	2060/61	2061/62	2062/63
SBI	503.17	1189.39	1889.63	2607.68	3610.78
NABIL	4121.29	3588.77	3672.63	2413.94	3578.31
Himalayan	9157.11	10175.44	9292.11	11692.34	10889.03
Everest	1538.9	1599.35	2466.43	2100.29	4200.52

Shareholder Equity

Banks	Year				
	2058/59	2059/60	2060/61	2061/62	2062/63
SBI	478.44	563.04	620.86	689.01	710.15
NABIL	1142.2	1255.14	1422.1	1657.64	1759.57
Himalayan	1501.53	1905.88	2291.93	2568.39	2885.6
Everest	245.31	391.13	446.53	769.62	896.85

Interest Income

Banks	Year				
	2058/59	2059/60	2060/61	2061/62	2062/63
SBI	399.63	469.63	493.60	578.37	708.72
NABIL	1120.18	1017.87	1001.62	1068.75	1157.63
Himalayan	1148.99	1201.23	1245.9	1446.47	1626.47
Everest	443.82	520.17	657.25	719.30	903.41

Interest Expenses

Banks	Year				
	2058/59	2059/60	2060/61	2061/62	2062/63
SBI	288.58	291.82	255.92	258.43	334.77
NABIL	462.08	317.35	2882.94	243.54	305.67
Himalayan	578.13	554.13	491.54	561.96	648.84
Everest	257.05	306.41	314.44	299.56	401.39

Total Income

Banks	Year				
	2058/59	2059/60	2060/61	2061/62	2062/63
SBI	508.23	565.89	611.11	718.99	850.92
NABIL	1639.11	1340.51	1333.65	1510.68	1714.39
Himalayan	1389.79	1454.31	1519.62	1760.68	2044.26
Everest	539.78	634.08	783.19	858.96	1066.51

Interest Suspense

Banks	Year				
	2058/59	2059/60	2060/61	2061/62	2062/63
SBI	342.04	385.33	415.21	475.45	465.92
NABIL	100.68	177.60	174.49	168.86	175.07
Himalayan	378.59	417.38	490.64	506.78	550.37
Everest	97.16	122.74	145.26	159.78	110.01

Provision for Doubtful Debts

Banks	Year				
	2058/59	2059/60	2060/61	2061/62	2062/63
SBI	242.15	285.15	327.12	388.17	525.47
NABIL	591.8	363.95	357.73	358.66	360.57
Himalayan	447.66	643.41	842.75	967.76	1026.65
Everest	61.02	95.75	140.06	211.72	281.42

Loan Loss Provision

Banks	Year				
	2058/59	2059/60	2060/61	2061/62	2062/63
SBI	285.15	327.12	388.12	525.47	708.64
NABIL	363.95	357.73	358.66	360.57	375.07
Himalayan	643.41	842.75	967.76	1026.75	1919.42
Everest	95.75	141.12	211.72	281.42	305.79

Net Profit

Banks	Year				
	2058/59	2059/60	2060/61	2061/62	2062/63
SBI	40.85	48.75	60.86	57.39	117.01
NABIL	271.63	416.25	455.32	518.63	612.73
Himalayan	235.02	212.13	263.05	308.28	457.46
Everest	85.33	94.17	143.57	168.21	237.29

Performing Assets/Loan

Banks	Year				
	2058/59	2059/60	2060/61	2061/62	2062/63
SBI	4165.75	4294.63	4368.89	5186.01	5578.21
NABIL	7069.83	7244.97	7664.05	8261.98	9075.25
Himalayan	9575.69	10138.24	10833.67	11746.92	12963.26
Everest	3789.46	4001.84	4938.39	5991.09	7537.10

APPENDIX III

F-Test for Net Profit of Sample Banks

Calculation of the correction factor, total sum of square, sum of square between samples, and sum of square within samples:

Let, SBI be the X_1 , NABIL X_2 , Himalayan X_3 , and Everest bank is the X_4 .

Insurer Year	X_1	X_2	X_3	X_4	X_1^2	X_2^2	X_3^2	X_4^2
2058/59	40.85	271.63	235.02	85.33	1668.72	73782.86	55234.4	7281.21
2059/60	48.75	416.25	212.13	94.17	2376.56	173264.06	44999.14	8668.0
2060/61	60.86	455.32	263.13	143.57	3703.94	207316.3	69237.4	20612.35
2061/62	57.39	518.63	308.28	168.21	3293.61	268977.08	95036.56	28294.6
2062/63	117.01	612.73	457.46	237.29	13691.34	375438.05	209269.65	56306.54
Total	324.86	2274.56	1476.02	728.57	24734.17	1098778.35	473777.15	121362.7

$$\begin{aligned} \text{Grand Total (T)} &= \sum X_1 + \sum X_2 + \sum X_3 + \sum X_4 + \sum X_5 \\ &= 324.86 + 2274.56 + 1476.02 + 728.57 \\ &= 4804.01 \end{aligned}$$

$$\begin{aligned} \text{Correction Factor (C.F.)} &= \frac{T^2}{N} \\ &= (4804.01)^2 / 20 \\ &= 1153925.6 \end{aligned}$$

$$\begin{aligned} \text{Total Sum of Square (TSS)} &= \sum X_1^2 + \sum X_2^2 + \sum X_3^2 + \sum X_4^2 + \sum X_5^2 - \frac{T^2}{N} \\ &= 24734.17 + 1098778.35 + 473777.15 + 121362.7 - 1153925.6 \\ &= 564726.77 \end{aligned}$$

$$\begin{aligned} \text{Sum of Square between Samples (SSC)} &= (\sum X_1)^2 / n_1 + (\sum X_2)^2 / n_2 + (\sum X_3)^2 / n_3 + (\sum X_4)^2 / n_4 + (\sum X_5)^2 / n_5 - \text{C.F.} \\ &= 1597721.3 - 1153925.6 \\ &= 443795.7 \end{aligned}$$

$$\begin{aligned} \text{Sum of Square within Samples (SSW)} &= \text{TSS} - \text{SSC} \\ &= 564726.77 - 443797.7 \\ &= 120931.6 \end{aligned}$$

Same process is for Loans and Advances and Deposit

APPENDIX IV

Computation of the Co-efficient of Correlation between Interest Income and Net Profit of SBI Bank

Year	X	Y	x=X- \bar{X}	y=Y- \bar{Y}	x ²	y ²	x y
2058/59	399.63	40.85	-130.36	-24.12	16993.73	581.77	3144.28
2059/60	469.63	48.75	-60.36	-16.22	3643.33	263.09	35035.2
2060/61	493.6	60.86	-36.39	-4.11	1324.23	16.89	149.56
2061/62	578.37	57.39	48.38	-7.58	2340.62	57.46	-366.72
2062/63	708.72	117.01	178.73	52.04	31944.41	2708.16	9301.1
Total	2649.95	324.86	0.0	0.0	56246.32	3627.37	

Where,

X= Interest Income of SBI bank

Y= Net Profit Earned of SBI bank

Here,
$$\bar{X} = \frac{\sum X}{N} = \frac{751.19}{7} = 107.31$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{79.59}{7} = 11.37$$

Now,
$$r = \frac{\sum xy}{\sqrt{\sum x^2 \times \sum y^2}}$$

$$= \frac{13207.27}{\sqrt{56246.30 \times 3627.36}}$$

$$= 0.9246$$

Computation of Probable Error (P.E.)

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

$$= 0.6745 \times \frac{1-(0.9246)^2}{\sqrt{5}}$$

$$= 0.04377$$

So, $6 \times \text{P.E. (r)} = 6 \times 0.04377$

$$= 0.0262$$

Other process for different banks can be drawn similarly.