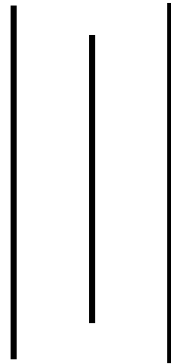


**EFFECTIVENESS OF LENDING POLICY OF JOINT
VENTURE BANKS (JVBS) IN NEPAL**

By
CHANDRA KALA SAPKOTA
Shanker Dev Campus
Campus Roll No. : 3016/063
T.U. Regd. No.: 7-1-241-549-99

A Thesis Submitted to:
Office of the Dean
Faculty of Management
Tribhuvan University



*In partial fulfillment of the requirement for the degree of
Master of Business Studies (MBS)*

Kathmandu, Nepal
October 2010

RECOMMENDATION

This is to certify that the thesis

Submitted by:

CHANDRA KALA SAPKOTA

Entitled:

EFFECTIVENESS OF LENDING POLICY OF JOINT VENTURE BANKS (JVBS) IN NEPAL

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

.....
Prof. Dr. Kamal Das Manandhar
(Thesis Supervisor)

.....
Prof. Bishweshor Man Shrestha
(Head, Research Department)

.....
Prof. Dr. Kamal Deep Dhakal
(Campus Chief)

.....
Kiran Thapa
(Thesis Supervisor)

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

By

CHANDRA KALA SAPKOTA

Entitled:

EFFECTIVENESS OF LENDING POLICY OF JOINT VENTURE BANKS (JVBS) IN NEPAL

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the degree of

Master of Business Studies (MBS)

Viva-Voce Committee

Head, Research Department

Member (Thesis Supervisor)

Member (Thesis Supervisor)

Member (External Expert)

DECLARATION

I hereby declare that the work reported in this thesis entitled “**Effectiveness of Lending Policy of Joint Venture Banks (JVBS) in Nepal**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Prof. Dr. Kamal Das Manandhar** and **Kiran Thapa** of Shanker Dev Campus, T.U.

.....
Chandra Kala Sapkota

Shanker Dev Campus

Campus Roll No. : 3016/063

T.U. Regd. No.: 7-1-241-549-99

ACKNOWLEDGEMENT

My indebtedness and gratitude goes to many individuals, who have assisted to shape this thesis in the present form. First of all, my gratitude goes to all the teachers and staffs of Shanker Dev Campus whose sound theoretical knowledge provided me the basis for the preparation of the thesis.

I would like to express my great sense of gratitude to my respected research supervisor **Prof. Dr. Kamal Das Manandhar** and **Kiran Thapa**, Lecturer of Shanker Dev Campus for their invaluable supervision, constructive comments and suggestions, which gave the final shape of this thesis.

I am indebted to all staffs of NABIL, EBL, SBI and SEBO for providing necessary data and information for preparing this thesis.

I am grateful and proud to have my family members whose inspiration and support helped me to achieve this success. At last, but not the least I would like to extend my gratitude to my parents who helped me to concentrate on my task by creating a peaceful and favorable environment throughout the study period.

At last, but not the least I would like to extend my gratitude to my friends Mrs. Shanti Sharma, Er. Lekh Nath Subedi, Mrs. Sudha Dulal, Miss Bandana Shrestha and Miss Shruti Bhattarai who helped me , typing and designing this thesis neat and clean.

Chandra Kala Sapkota

ABBREVIATIONS

ATM	:	Automatic Machine Teller
B.S.	:	Bikram Sambat
BOKL	:	Bank of Kathmandu Limited
C.V.	:	Co- Variance
CAR	:	Capital Adequacy Ratio
CD	:	Credit Deposit
CRR	:	Cash Reserve Ratio
DBL	:	Dubai Bank Limited
EBIL	:	Emirates Bank Limited
EBL	:	Everest Bank Limited
FDR	:	Fixed Deposit Receipt
GDP	:	Gross Domestic Product
HBL	:	Himalayan Bank Limited
HMG	:	His Majesty Government
JVB	:	Joint Venture Bank
KBL	:	Kumari Bank Limited
LLP	:	Loan Loss Provision
Ltd.	:	Limited
NABIL	:	NABIL Bank Limited
NBBL	:	Nepal Bangladesh Bank Limited
NBIL	:	National Bank Limited, Bangladesh
NCCB	:	Nepal Credit Commercial Bank
NGBL	:	Nepal Gridnlays Bank Limited
NIBL	:	Nepal Investment Bank Limited
NIDC	:	Nepal Industrial Development Corporation
NPA	:	Non Performing Assets
NPL	:	Non-Performing Loan
NRB	:	Nepal Rastra Bank
P.Er	:	Probable Error

PL	:	Performing Loan
PNB	:	Punjab National Bank
RBB	:	Rastriya Banijya Bank
Rs.	:	Rupees
S.D.	:	Standard Deviation
SBI	:	Nepal SBI Bank Limited
SCBNL	:	Standard Chartered Bank Nepal Limited
TL	:	Total Loan
WTO	:	World Trade Organization

TABLE OF CONTENTS

Recommendation	
Viva Voce Sheet	
Declaration	
Acknowledgement	
Table of Contents	
List of Tables	
List of Figures	
Abbreviations	
	Page No.
CHAPTER – I INTRODUCTION	1-10
1.1 Background of the Study	1
1.2 Profile of the Concerned Banks	4
1.3 Statement of the Problem	6
1.4 Objectives of the Study	7
1.5 Scope of the Study	8
1.6 Limitation of the Study	8
1.7 Organization of the Study	9
CHAPTER – II REVIEW OF LITERATURE	11-43
2.1 Theoretical Framework	11
2.1.1. Joint Venture Bank	11
2.1.2 Meaning of Some Banking Terminology	13
2.1.3 Features of a Sound Lending and Investment Policy	15
2.2 Review of Related Studies	17
2.2.1 NRB Directives Review	17
2.2.2 Review of Thesis	21
2.2.3 Review of Articles	29
2.2.4 Review of Research Papers	31
2.2.5 Review of Journals	32
2.3 Research Gap	43
CHAPTER – III RESEARCH METHODOLOGY	44-51
3.1 Research Design	44

3.2 Sources Of Data	45
3.2.1 Sources of secondary data	45
3.2.2 Population and Sample	45
3.3 Analytical Tools	46
3.3.1 Financial Tools	46
3.3.2 Analysis of Growth Ratio	47
3.3.3 Statistical Tools	48

CHAPTER – IV PRESENTATION AND ANALYSIS OF DATA 52-95

4.1 Measuring the Lending Strength	52
4.1.1 Measuring the Lending Strength in Relative Term	52
4.1.1.1 Total Assets to Total Liabilities Ratio	53
4.1.1.2 Non Interest Bearing Deposits to Total Deposits Ratio	53
4.1.1.3 Loans and Advances to Total Assets Ratio	55
4.1.1.4 Loans & Advances and Investment to Total Deposits Ratio	55
4.1.1.5 Loans and Advances to Shareholders Equity Ratio	56
4.1.2 Measuring the Lending Strength in Absolute Term	57
4.1.2.1 Loans and Advances	57
4.1.2.2 Interest Income from Loan and Advances	58
4.1.2.3 Provision for Debts Doubtful	59
4.1.2.4 Net Profit	60
4.2 Analyzing the Lending Efficiency and Its Contribution in Total Profitability	61
4.2.1 Loan Loss Provision to Total Loans and Advances Ratio	61
4.2.2 Interest Income to Total Income Ratio	77
4.2.3 Interest Expenses to Total Deposit Ratio	77
4.2.4 Interest Suspense to Interest Income from Loans and Advances Ratio	78
4.2.5 Interest Income to Interest Expenses Ratio	79
4.3 Analysis of Growth Rate	80
4.3.1 Growth Ratio of Total Deposit	80
4.3.2 Growth Ratio of Loan and Advances	81
4.3.3 Growth Ratio of Total Investment	82
4.3.4 Growth Ratio of Net Profit	82
4.4 Correlation Coefficient Analysis	83

4.4.1 Co-efficient of Correlation between Deposits and Loan and Advances	84
4.4.2 Co-efficient of Correlation between Investment and Loan and Advances	86
4.4.3 Co-efficient of Correlation between Shareholders Equity and Loans and Advances	87
4.4.4 Co-efficient of Correlation between Total Income and Loan and Advances	88
4.4.5 Co-efficient of Correlation between Interest suspense and Interest Income	89
4.4.6 Co-efficient of Correlation between Provision for Loan Loss and Advances	90
4.4.7 Co-efficient of Correlation between Interest Income and Net Profit	90
4.5 Major Finding of the Study	91

CHAPTER-V SUMMARY CONCLUSIONS AND RECOMMENDATIONS	96-101
5.1 Summary	96
5.2 Conclusions	98
5.3 Recommendations	99

Bibliography

Appendix

LIST OF TABLES

Table No.	Title	Page No.
4.1	Total Assets to Total Liabilities Ratio	53
4.2	Non Interest Bearing Deposit to Total Deposit Ratio	54
4.3	Loans and Advances to Total Assets Ratio	55
4.4	Loans and Advances and Investment to Total Deposit Ratio	56
4.5	Loan and Advances to Shareholders Equity Ratio	57
4.6	Loans and Advances	58
4.7	Interest Income from Loan and Advances	58
4.8	Provision for Doubtful Debts	59
4.9	Net Profit	60
4.10	Loan Loss Provision to Total Loans and Advances Ratio	61
4.11	Loan Classification and Provisioning in NABIL	64
4.12	Loan Classification and Provisioning in Everest	68
4.13	Loan Classification and Provisioning in SBI Bank	72
4.14	Non-Performing loans to Total Loans and Advances Ratio (%)	76
4.15	Interest Income to Total Income Ratio	77
4.16	Interest Expenses to Total Deposit Ratio	78
4.17	Interest Suspense to Income from Loans and Advances Ratio	79
4.18	Interest Income to Interest Expenses Ratio	80
4.19	Growth Ratio of Deposit	81
4.20	Growth Ratio of Loan and Advances	81
4.21	Growth Ratio of Total Investment	82
4.22	Growth Ratio of Net Profit	83
4.23	Correlation between Deposit and Loan and Advances	84
4.24	Correlation between Investment and Loan and Advances	86
4.25	Correlation between Shareholders Equity and Loans and Advances	87
4.26	Correlation between Total Income and Loan and Advances	88
4.27	Correlation between Interest Suspense and Interest Income	89
4.28	Correlation between Provision for Loan Loss and Loan and Advances	90
4.29	Correlation between Interest Income and Net Profit	91

LIST OF FIGURES

Figure No.	Title	Page
No.		
4.1	Loan Classification of NABIL 2007 August	66
4.2	Loan Classification of NABIL August 2008	67
4.3	Loan Classification of NABIL August 2009	67
4.4	Loan Classification of Everest 2007	70
4.5	Loan Classification of Everest 2008	70
4.6	Loan Classification of Everest 2009	71
4.7	Loan Classification of SBI –2007	73
4.8	Loan Classification of SBI – 2008	73
4.9	Loan Classification of SBI – 2009	74