CHAPTER: ONE

INTRODUCTION

1.1 Background of the study

A bank is a mediator or a financial body. It performs many functions. Its functions are very important. Its functions are regarded to be very sensitive because it does the business of currency. It accepts the deposit and provides the loan subject to some terms and conditions against the security of the movable and immovable property and assets of the borrower and the third person. Bank is an organization that provides various financial services, for example keeping or lending money (Oxford Advanced Learner's Dictionary, 7th Edition). Bank is establishing for dealing with money. The basic functions of commercial bank are accepting all kinds of deposits and lending of money. In general there are several challenges confronting the commercial bank in its day today operation. The main challenges facing the banks are the disbursement of funds in quality assets (Loan and Advances).Financial institutions play an important role in development of the nation. It mobilizes the scattered fund to the productive sector like agriculture, industry, trade and commerce integrated and speedy development of the country is possible only when competitive banking services reach nooks and corners of the country.

Banking is regarded as the backbone of economy. Banking helps to achieve fast economy development by mobilizing the available resources and channeling capital to the productive sector of the economy. Commercial banks are established with the intention of encouraging the commercial sector of the country because the country's well developed commercial sector indicates the healthy economic position.

The banking sector is largely responsible for collecting household saving in terms of different types of deposit and regulating it in the society by lending in different sectors of economy, by lending their resources in small scale industries under intensive banking program has enabled the banks to share in economic growth of the economy.

Financial institution is a profit making organization. One of the major motives is wealth maximization and giving maximum benefits to its shareholders. They collect the resources from the public and they play with that money so as to gain profit and distribute more dividends to its shareholders.

Financial institutions are categorized in four classes i.e. A,B,C and D in Nepalese financial system according to the Bank and Financial Institution Act 2063 (BAFIA ,2063). These financial institutions are engaged to collect deposit and provide loans and advance as well. Nepal Bank Limited is the first modern bank of Nepal. It was established in 1937 A.D. To issue national currencies and promote financial organizations Nepal Rastra Bank was established in 1956 A.D. under NRB Act 1955 as the central bank of Nepal. No finance companies were started till the amendment of the act in B.S. 2049. Nepal Awash Bikash Bitta Company Limited is the first finance company of Nepal which was established just after the amendment of finance company act B.S. 2049. Now there are 78 finance company in operation (www.nrb.org.np/List_Banks_n_non_Banks).

Fund or capital is the most essential part for the development of any sector. Establishment of trade and industry is impossible in the absence of sufficient capital. In the context of capital flows, the bank plays a vital role as a financial intermediary. Without banks, capital flow could not be systematic. In the present competitive business market, no one can operate their business successfully only with their own capital. Everyone should depend upon financial intermediary even for the small scale business. Thus, the bank plays the key role in the economic development of the country.

Deposit collection and Loan management is especially focused on accumulating the scattered and excess fund from one place and investing to the needy people and productive field on a effective way. If a finance company handles loan management properly and accordingly then it can earn good profit. Every finance company's success or failure depends on effective loan management.

Introduction of Om Finance Limited

Om Finance Limited is one of the pioneer & leading finance companies of the Pokhara . It was registered in 2054 B.S. by the group of highly reputed & skilled board of directors.

In 29th Bhadra 2057 B.S. Nepal Rastra Bank provided the License as finance company, thus, Om Finance Limited started its operation from 1st Ashwin 2057 B.S. Om Finance Limited is providing the cutting edge facilities to Pokhara Valley as per market demands to fulfill the basic to every level of customer demands. The services provided by the finance is trustworthy, protective and easy financial services. Famous and successful industrialists,businessmen, social workers and people having years of experience in financial sector of Pokhara.

Om Finance Limited is established to provide financial support to different productive and needy sectors by collecting the small and large savings all around the country for the overall development of the nation under the free economy policy of the Nepal government. Other features of OFL is national level financial institution, first financial institution of Pokhara managed by professionals having long experienced in NRB and other commercial banks, promoted by reputed businessman and people, modern computerized and managed accounting system, profitable since the opening of the company. Future plans of OFL are to provide the services to all ethinic group, all places and all kinds of people, Om Finance has opened its branches in different parts of the country, paid-up-capital will increased according to direction of Rastra Bank, right shares will be issued, different facilities like free ABBS services has been launched. It's head office is located in newroad Pokhara, and branches are opened in Kathmandu (Bagdarbar),Damauli (Tanahun),Besisahar(lamjung),Rambazar(Pokhara), Bhairabtole(Pokhara),Maharajjung(kathmandu),Bhaktapur(Golmadi), Kumaripati(lalitpur (www.omfinance.com/branches)

1.2 Focus of the Study

The study aims to analyze the deposit collection and loan management of Nepalese finance companies with the special reference of Om Finance Limited. Further, the study is focused on the analysis of loan and advance, deposit and their trend, profitability and liquidity of OFL from Fiscal year 2064/65 to 2068/69.

1.3 Statement of the Problem

Although large number of financial institutions are in operation and providing services to the customers but their lending procedure is complex and rigid. Without collecting the needed fund and effective and proper loan management no financial institutions can meet its predetermined goals and objectives. Many people want to ignore the lengthy procedure about the loan disbursement and loan repayment pattern of financial institutions which plays the vital role in conducting proper loan management. So it is very important to carry out a study on the issues of deposit collection and loan management of Nepalese finance companies. This research is concerned on the following issues.

i. What is the trend of deposit collection of the company?
ii. What is the trend of loan disbursement of the company?
iii. What is the relationship between principal collection and loan disbursement?
iv. How is the performance of OFL in terms of Liquidity and profitability?

1.4 Objectives of the Study

All the study has some objectives and the study without any objective cannot be imagined. In our concern of the study, the fundamental objective of the study is to evaluate the trend of deposit collection, loan disbursement and loan recovery patterns of Om Finance Limited, Pokhara. The study is undertaken with following specific objectives.

- To analyze the trend of deposit collection?
- To analyze the trend of loan disbursement of the company?
- To analyze the relationship between principal collection and loan disbursement?
- To evaluate the performance of OFL in terms of Liquidity and profitability

1.5 Significance of the Study

Deposit collection and loan management is an integral part of almost every banking operation. As this study is focused on the deposit collection and loan management, it will be helpful to get the clear picture of the deposit collection and loan management. This study will make clear to know the various deposit schemes and facilities. This type of study will be beneficial to shareholders as they are the true owners of the company. This study will be useful to them for acquiring the answers regarding to the funds utilized as loans and advance to extent they are gaining and the productivity of their limited resources satisfactorily. This study will be helpful to compare and examine own with others regarding performance, success or failure, effectiveness and so forth to the management, customers, investors, finance agencies, stock exchange personnel can get information about the loan management of bank and financial institutions.

1.6 Limitations of the Study

Limitation refers to the boundary of the study within which a researcher has to carry out the study. The work has been completed within the periphery of the limitations. This report is related only with the Om Finance Limited with reference to deposit collection, loan disbursement and loan recovery. Despite ample efforts on the part of the researcher, this study is limited to:

a) The study is mainly concerned with Loan management pattern which is provided by Om Finance Limited
b) The study covers only the latest 5 fiscal years from 2064/65 to 2068/69 only.
c) The study is mainly based on secondary source of data. i.e. Annual reports of Om Finance Limited, Nepal Rastra Bank and government publications and relevant journals. Thus, the result of the analysis depends on the information's provided by the concerned offices.
d) Research is based on descriptive and analytical research design.

1.7 Organization of the Study

The study report is organized in five major chapters. Each devoted to some aspects of loan management of the bank. The first chapter of the study serves as an introduction to the study. It deals with several sections including background of the study, statement of the problem, objectives of the study, significance of the study, limitations of the study. The second chapter of the study covers a review of literature. It deals with conceptual review and related research review to Om Finance. The third chapter includes research methodology. This chapter includes various sections like method design, methods of data collection, resources of data, nature of data.

The fourth chapter of the study has the analysis and presentation of the study. This chapter is divided into two parts like descriptive analysis and statistical analysis. A sub chapter termed as major findings has also been included in this chapter which will deal with the summary of the major findings. The Fifth chapter will deal with summary, conclusion and recommendation. The objectives of this chapter will be to summarize conclusion from the study and recommend the findings of the study.

CHAPTER: TWO

REVIEW OF LITERATURE

This chapter provides knowledge about the development and progress made by the earlier scholar on the concerned field of study, review existing books, published and unpublished articles, review of policy documents to provide readers background, familiarity in order to fill the gap of research. It assures readers that are familiar with important research that has been carried out in similar areas. Similarly it also establishes that the study as a link in a chain of research that is developing and emerging knowledge of field. The purpose of literature review is to find what research studies have been conducted in one's area of study and what remains to be done. It provides foundation to the study. This chapter deals in two sections:

- Conceptual Framework
- Review of related studies

2.1 Conceptual Framework

This sub chapter presents the theoretical aspect of the study. It includes concept of finance company in Nepal, development of banking system in Nepal, concept and role of finance company, Bank and Financial Institution Act 2063,concept of deposits, types of deposits and loan of OFL.

2.1.1 Concept of Finance Company

A finance company is an intermediary not a bank which may obtain fund from its own capital resources by accepting deposits (usually for fixed periods) or even by borrowing from other institutions which it lends for variety of purpose, especially to finance hire purchase contract but also leasing (Poudel,2054).

Finance companies are essential factors for the process of economic development and to achieve the economic growth and prosperity. Financial companies offer prospects for the expansions of employment and income. More than that it generates innovation and technological change that bring about shift in the productions frontier, thereby accelerate the growth and factor productivity. Development of the financial sectors among other sectors is equally essential for the rapid economic development of the country. In the context of Nepal, finance companies are regarded as the new type of institutions which are servicing the people of the country. Nepalese financial system can be looked into two broad categories: banking and non banking institutions. All the commercial banks are considered as banking sectors and while financial institutions other than banks are non-banking financial institutions.

2.1.2 Development of Banking System in Nepal

The modern banking starts from the establishment of Nepal Bank Limited 1937 A.D. as the first commercial banks in Nepal. NBL had a responsibility of attracting people towards banking sector from predominant moneylenders and expanding banking services. It paid more attention to profit generating business and preferred to open branches in the urban areas as it is a commercial bank. One of the major responsibility of the government is to provide banking services everywhere in the country and also managing the financial system in the proper way. Thus, Nepal Rastra Bank came into existence as the central bank on the April 26, 1956 A.D. under Nepal Rastra Bank Act in 2012, since then it has been functioning as the government bank and has contributed to the growth of the financial sector. It has authorized capital of Rs.10 million fully subscribed by the government. It was empowered by act to have direct control over financial institutions within the country. Nepal Rastra Bank had to engage itself in removing the dual currency system establishing the financial infrastructure, initiating developing activities and promote banking and financial system by providing financial and legal facilities. In 1935, a development agency was constituted under the name of “Udhyog Parishad” which was responsible for accelerating the development of industrial and commercial activities in the country. Immediately in 1936 the Nepal Company Act was formulated. Therefore, various small, medium and large scale companies were established during the short period. Without proper development in trade and industries none country can achieve a better position. Thus, financialization and commercialization of its economic structure have a critical role in overall development of the nation as well as for the international economy.

Within a decade of establishment of Nepal Rastra Bank, many institutions such as Nepal Industrial Development Corporation 1959 A.D. Employee Provident Fund 1962 A.D. Rastriya Banijya Bank 1966 A.D. Nepal Insurance Corporation 1969 A.D. Agricultural Development Bank 1974 A.D. and Securities Marketing Center 1976 A.D. were established.

2.1.3 Role of Finance Company

Finance company plays a vital role in developed and under developing countries. In the context of Nepal, finance companies are regarded as the new type of institutions which are servicing the people of the country. Nepalese financial system can be looked into two broad categories: banking and non banking institutions. All the commercial banks are considered as banking sectors and while financial institutions other than banks are non-banking financial institutions.

Focusing on the importance of the financial system, the efficient financial systems contribute to greater accumulation of productive capital by increasing mobilization of financial resources and sustained high investment levels. It is bridge between the savers and the users. In other words, it collects the scattered saving and mobilizes them into productive channels in order to maximize their wealth. Finance companies are the mediators which help to collect small savings and mobilize saving in various tasks like hire purchase, purchase of land, housing loan etc. between the person who has got the saving and investors and big finance company and also the persons of organization which need the loan of small amount. So, it is considered as a complementary to commercial banks to some extent.

2.1.4 Bank and Financial Institution Act, 2063

Bank and Financial activities are governed by rules and regulations which are reviewed from time to time to reflect the changing economic environment. Financial Act 2042 B.S used to govern finance companies in Nepal due to the absence of parliament, bank and financial institutions ordinance (BAFIO) came into existence in Feb 04,2001 , BAFIO governs all types of financial institutions. The ordinance repeals and replaces all existing Acts relating to Commercial Banks, Nepal Industrial Development Bank, other Development Banks and Finance Companies and brings all such institution under one single Act which is known as Umbrella Act. As per Umbrella Act, banks and financial institutions are to be classified as A, B, C and D class on the basis of minimum paid up capital. Accordingly, Commercial Banks are ranked in ‘A’ class and they are labeled as banks. Similarly, development banks, finance companies and micro credit development banks are categorized into ‘B’, ‘C’ and ‘D’ class respectively and they are called financial institutions (BAFIO, 2004 A.D). For the proper and smooth operation of bank and financial institution, an Umbrella Act named as Bank and Financial Institution Act, 2063 has recently has been enacted, which is effective since 16th Shrawan, 2063 B.S.

Subject to Bank and Financial Institutions Act, 2063, class ‘C’ licensed Institutions (Finance Companies) are allowed to conduct the following types of financial transactions:

- Accept deposits with or without interest and refund such deposit, subject to the limit prescribe by NRB.
- Supply credits other than hypothecation credit as prescribed.
- Supply credit business relating to hire purchase, leasing and housing, as well as for service enterprise.
- Engage in merchant banking business.
- Write off credit subject to the bye-rules framed by the Board.
- Supply credit on the basis of co-financing by joining hands with other licensed institution according to the agreement concluded for the purpose so as to divide the collateral pari passu.
- Supply credit against the guarantee provided by any bank or financial.
- Supply a fresh credit in a lumpsum or in installment against the security of the same movable or immovable assets which have already been pledged with any other licensed institution, to extend covered by the total value of such security.
- Properly manage, sell or lease out its assets.
- Issue, accept, pay, discount or deal in bills of exchange, promissory notes, cheques, drafts or other financial instruments.
- Deal in Indian currency.
- Supply credit not exceeding the amount prescribed by the Rastra Bank to ensure the economic upliftment of the destitute class, low income families, victims of natural calamities and inhabitants of any area of the country with the provision of individual of collective guarantee.
- Exchange with the Rastra Bank or any other licensed institution particulars, information or notices regarding debtors or customers who have obtained credits or any other facility from it or any other licensed institution.

- Supply installment or hire purchase credit to any individual, firm, company or installment for vehicles, machinery, tools equipment, durable household goods or similar other movable property.
- Supply credit to any individual, firm, company or institution for the purchase or construction of residential houses or go downs or for the purchase of lands for the construction of such residential houses or go downs.
- Supply credit (leasing-finance) to any individual, firm, company or institution for taking up vehicles, machinery, tools, equipment, durables goods or similar other movable property on lease or provide such movable property on lease.
- Prescribe conditions according to need in order to protect its interest while supplying credit to any individual or institution or carrying out any transaction with him/her/it.
- Operate projects such as those relating to purchase of lands and construction of building for land development and residential purpose, and sell or manage such lands and buildings or make arrangements for doing so.
- Perform such other functions as are prescribed by the Rastra Bank.

2.1.5. Concept of Deposit

Deposit means the amount deposited in the current, saving and fixed accounts of a bank of financial institution. Deposit collection is the core function of a financial institution. Deposits are the main source of funds by providing certain rate of interest to the customers. There are different types of deposit which are accepted by the finance company but mainly three types of deposit are used. These different types of deposits are used for lending the money to different sector such as agriculture, productive work, trade, irrigation and industry. The deposit leads to increase the working capital of the finance company. So in a developing country like Nepal, deposits have played a significant role for the development of the country.

Commercial bank Act 1974, defines, deposits as the amount in a current, saving or fixed amount of a bank or financial institutions (Bhandari,2003).The deposit function of the finance company is important because it has to aggregate small sums of money lying scattered here and there. The different types of account are as follows.

Current Account

The word current account means an account of amount deposited in bank, which may be drawn at any time on demand. It is non interest bearing account. Especially businessman opens the current account. The main advantage of this account is safe custody of deposit and unlimited facility to account holders. A current account is ideal for carrying out day to day business transactions.

Features:

- unlimited withdrawal and deposit
- free statement on demand
- free cheque facilities
- clearing house facilities
- free balance certificate on demand

Fixed Deposit Account

Fixed deposit is also known as time deposit. Finance company offers fixed deposit interest rates on this deposit and repayment principal together with interest at fixed maturity period or pays interest on regular interval but principal only at the maturity.

OFL has introduced several schemes under fixed deposit account in order to cater the growing needs of various segments of customers. The term of the fixed deposits ranges from three month to above 5 years. There is a flexibility of payment of interest on the same. Customer can get the interest payment on periodic basis or at the time of maturity. Longer the period higher will be the interest rate. Customers usually lodge their money as fixed deposit with finance company with a view to earn interest as well as withdraw the sum on the expiry of the stipulated time period.

Features

- Flexible tenures above 5 years
- Attractive interest rate
- In fixed deposit the interest rate is provided from according to the time period i.e. 5.25% to 11%
- The customer can review the fixed deposit after the expiry of the time period
- The finance company can invest the money of the fixed period deposit in another sector
- The principal amount with interest must be renewed to the customer after expiry of fixed time

Saving Deposit

Finance company accepts saving deposits from individual and organization. The purpose of saving deposit is to encourage the habit of saving among the individuals and institutions. Saving deposit attract which is normally less than that of long term deposit but more than of short term deposit. Saving accounts pay interest to the depositors, but have no specific maturity date on which the funds need to be withdrawn or reinvested. Any amount can be withdrawn from the saving account into the amount of deposited. This account is suitable and appropriate for the people of middle class, farmers and the labors.

Finance companies accept deposit from the public. Under this account the interest allowed is lower than that allowed on fixed deposit account. Interest is calculated on daily basis.

Features

- The interest is posted in every three months
- Generally the finance company provides 6 to 8% interests in this deposit but the percentage may change
- In absence of pre information, the finance company may refuse to give the huge payment
- If the finance company goes into liquidation more priority is given to the saving deposit than recurring and fixed deposit in the payment liability

2.1.6 Concept of Loan

Oxford advance Learners Dictionary dubbed the term loan thing hat is lent especially a source of money (Oxford Learners Dictionary,1997). Similarly Webster's dictionary defined loan as something lent a source of money lent often for specified (Agnes, 2000). Financial institutions lend money out of deposits, they have received. They must increase money by advancing loan since they have received. They must increase money by advancing loan since they have to pay interest on deposits. Financial institutions don't keep cent percent reserve against deposits for meeting demand of depositors. As all depositors with a small reserve satisfy their demand whenever and demonstrated and grant loan from excess reserve than depositor head to needy feasible subscribe.

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

a) Consumer loan, overdraft and credit card

b) residential mortgages

c) non personal loan such as commercial loans to business , financial institutions, government and their agencies

2.1.7 Types of Loan Offered by OFL

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

Finance companies have to advance loans to public and generate interest from them as profit. After keeping certain cash reserves, finance companies provide short, medium and long term loan to the needy borrowers. Due to competition, high liquidity and NRB directives finance companies have to provide loan without mortgages. Such loans are advanced on the basis of good will and relationship with the party.

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.

i) Term Loan

Obtaining loan directly from bank or financial institutions is known as term loan. It refers to money lent in lump sum to the borrowers. It is principal from at medium term debt financing having maturities of 1 to 8 years, term loans are usually repaid in level amounts over the period of the loan, either a large or just single as maturity.

ii) Overdraft

Overdraft connotes the excess amount with drawn over their deposits. The situation of overdraft evolves when bank honors the cheques to an agreed limit. It is a kind of working capital. It is an agreement by which the bank allow the customer to drawn over the above the current account balance. The account balance fluctuation frequently since with drawn and repayment of money tools place. Interest on overdraft is charged on debit balance on daily basis.

iii) Hire Purchase

Hire purchase loan is such type of non-revolving loan, which are borrowed by business firms or individuals to purchase assets such as vehicles, plant and machinery, etc. 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. OFL charges 14% to 18% interest rate in this type of loan and the repayment time is 2-8 yrs. and loan should be repaid in monthly installment basis. In hire purchase loan, the loan will be approved within 48 hrs. If the application is completed in all respects.

iv) Housing Loan

This is the second type of investment sector of Om Finance Limited. This sector is similar to Hire purchase loan. This loan is taken when the person is thinking of purchasing of land (with objective of construction of house at the same time). Constructing of new house or renovating existing one or extension of a residential house of non-residential property or constructed plan. Om Finance finances only 80% in the loan. In this type of loan the land must be clearly demarcated with clear boundaries and must have at least 8 feet access road to the property.

Under this type of investment the customer takes loan in lumpsum for a period of 24-48 months, the loan is paid-back installment basis. OFL charges 14-18% interest rate on housing loan. In housing loan, the loan will be approved within 15 days if the application is completed in all respect and monthly installment, six months moratorium period can be granted for new construction (Broucher of OFL,Aswin 2069).

v) Education Loan

Education is such a loan which is provided for students of college. OFL has been providing education loan to the Nepali Nationals to finance their pursuit of higher education in the country and or abroad. The demand of the education loan has been increased significantly in recent past and the size of the product (in number and amount both) has been increased significantly in their total lending portfolio. The education loan is targeted to the students who are pursuing for higher study in the country as well as abroad. This loan is also provided to the educational institute for their development of infrastructure or operation of other educational activities.

vi) Industrial Loan

Industrial loan are such type of loan which is borrowed by industry firm to purchase raw materials, goods, machine and equipment. Industries strength the democratic foundation of our society. Industries helps to utilize small and medium resources capacity to enhance the production and employment in the community and community's economic life. On the basic of wide sharing of responsibilities and benefits OFL is triaging to direct their resources increasing to support the medium and small business of industrial sector. OFL charges 14-18% interest rate on industrial loan (Broucher of OFL,Aswin 2069).

vii) Loan Against Fixed Deposit Receipt

The Depositors keep fixed deposits for a specific period. The depositor can loan against the collateral of such deposit if they need money before the maturity date in general institutions allow up to 90% of the FDR face value can be taken against of Original FDR receipt for a period not exceeding FDR maturity (Broucher of OFL,Aswin 2069).

viii) Loan Against Gold and Silver

The Depositors keep Gold and Silver for a specific period i.e. one year the depositor can loan against the collateral of such deposit if they need money before the maturity date in general institutions allow up to 75-80% depending the quality of the gold and silver (Broucher of OFL,Aswin 2069).

ix) Agricultural Loan

Agricultural loan is that type of loan which is provided for the credit extended to support farm and branch operations. This type loan is extended to assists in planting and harvesting different types of crops, storing crops and marketing them. This type loan is especially provided to the farmers. Agricultural loans also support the feeding and care of livestock. OFL offers this loan on 14-18% interest rate (Broucher of OFL,Aswin 2069).

x) Deprived Sector Loan

Financial institutions are required to extend advances to the priority and deprived sector. Institutional support to agricultural development bank and rural development bank are also considered under this category

Deprived sector lending includes.

- advance to poor, deprived people up to 50000.00 in generating income on employment
- distributional credit to rural development bank
- loan to NGOs those are permitted to carry out banking transaction for lending up to Rs 50000.00

xi) Other Loans

OFL provides many other loan facilities to its customer/clients such as tourism loan, hydroelectricity loan, foreign employment loan, real state loan etc

2.1.8 Loan Analysis

Commercial loan offers examine numerous financial factors to uncover a company's financial weakness. Their valuation begins with a general analysis involving an examination of key financial trends and factors. When one of those factors no meeting the industry norm, commercial loan offers must perform a more detailed analysis to uncover the causes.

a) General Analysis

The general analysis consists of general trend analysis, and separate analysis of credit, collateral, capital and capacity. General trend analysis provides loan offers with a quick indication of a company's performance in several key areas, sales, operating income, net income, selling/administrative, working capital and cash flow. five years trends of these data permit loan officers to determine quickly whether a company's performance has improved, declined, or remain stable, credit, capital and capacity analyze involve a comparisons of a company's financial ratios against industry standards.

i) Credit

Credit analysis measures a company's ability to repay its short and long term obligation. Thus, it is one of the most important factors considered of efficiency, profitability and liquidity analysis. Inventory turnover, receivables turnover, fixed assets turnover, and total assets turnover, fixed assets turnover are primary efficiency measures. Profitability analysis considers operating margin, return on assets and return on equity, while liquidity analysis includes the current and quick ratio.

ii) Collateral

Collateral analysis proceeds to examine the relationship between the value of all assets and pledged assets. To estimate their value, loan officers appraise book value, age, and condition of assets. Generally, it available collateral is much larger than the loan requests, collateral is strong. Lower level of available collateral lead to normal, week or poor conclusions.

iii) Capital

Capital analysis provided an indication of a company's leverage position. Long term debt to total assets, total debt to total assets, interest coverage, and fixed charge coverage are primary factors. It all four measures of capital are above industry standards, a company's capital position is strong. If they are all below then capital is poor.

iv) Capacity

Capacity analysis measured the degree to which a loan can be supported by a company, using the same ratios as capital analysis. However, the ratios include the actual amount of the loan requested by the borrower. Thus they reflect the leverage position of the company with the additional debt burden.

b) Detailed Analysis

A detailed analysis is performed whenever a general analysis indicates a weakness. For example, if inventory turnover is below the industry average, loan officers examines additional factors such as a source prices and gross margin. Moreover, for any measures that is below the industry norm, loan officers examine its historical trend to determine the condition is temporary or chronic.

As problem areas are identified and examined the loan officers accumulate loan convents, or restrictions, which become part of the final loan agreement.

2.1.9 Business Loan Decision Making Process

When loan officers, credit analyzers and loan review committees evaluate a loan application, they combine financial projections with qualitative information. The loan granting decision information and in the interpretation of qualitative information concerning its product markers and industry characteristics, plus the overall performance of management.

In practice, the evaluation of a loan application is based on the information presents in financial statements plus any qualitative information such as the quality of management, the ability to repay the loan and the availability and value of collateral. Frequently the qualitative information is of greater value in the lending decision than the financial statement analysis.

2.1.10 Principle of Lending

Cautious loan policy is essential to carry out the business of lending consistently. Inevitable policies to be considered and analyzed for granting loans are as follows.

i) Principle of Safety Fund

Bank borrows (accept deposits of other) to lend (grant loan to others) so, it deals others money and its own common sense. There must be authenticity about the get back of lent money (loan). It should look the fact that is there is any unproductive or speculative venture or dishonest behavior of the borrower.

ii) Principle of Liquidity

Liquidity denoted short term solvency of the borrower" Liquidity refers to pay on hands on cash when it in needed without hunting to sell long term assets or loss in unfavorable market (Singh,1999). A banker has to ensure that money will come in as or demand or as per agreed terms of repayment. Under it, banker clarifies that the borrower have utilized money for short term needs but not infixed assets or schemes that take along finance.

iii) Principle of Security

The bank needs collateral (security) as cushion to grant advances and loans. Adequate values of collaterals ensure the recovery of loan correctly or the tight time. Accepted security should readily marketable, handy and free from encumbrance.

iv) Principle of Purpose Loan

Purpose for granting loan has obtained supremacy (attention) over principles of security. Loan request for productive sector only can be accepted rejecting loan request for speculation, social function, pleasure trips as they are unproductive.

v) Principle of Profitability

Profit is the crux for firm's expansion and diversification. Sufficient amount of profit is to be earned by every company for successful day to day operations earn long term survival in the competitive environment. Profitability denotes the value created by the use of resource is more than the total of the input resources. The operating efficiency and adequate return to the investors like in earned profit planned deposit and advances policy results profit. Entire activity must suit for profitability. Lending also affects profitability and is affected itself by banks internal policy like control rate, interbank competition, central bank's directives on lend rates and creation of borrower.

vi) Principle of Spread

Portfolio of advances is to be spread not only among many borrowers of same industry but across the industries in order to minimize the risk of lending keeping "Don't put your all eggs in the single basket"

vii) Principle of National Interest

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

2.1.11 Loan Approval Process

Disbursement procedure works offer the operation of loan approval process under lending conditions and disbursement procedures

Loan approving authority approval loan only offer being convinced that the loan will be recovered along with interest. There may not be the same procedure for all kinds of loan. The process of accepting loan to industry or merchant differs from each other. Similarly, the approving process of loan concerning to primary sector and bigger project is also not similar. Approval of wrong loan proposal on haunch the marks lending institution death-knell it entails the following sequences.

i) Application

Every loan process gets momentum after submission of loan request. It encompasses project proposal, historical financial statement and document about incorporation cum legal experience.

ii) Conducting Interview

Loan officer may conduct oral interview with the applicant to gauge authencity at the bank premise. It should be done in a friendly and positive manner. Here is the threat that interviewer may be extremely negative due to the risk of undesirable loan. It clarifies about

- loan purpose: uniformity between the need of borrower and lender
- Amount of loan: the loan amount will be more accurate if applicant has well defined thought.
- Repayment source: every loan possess primary as well as secondary repayment source. Hence repayment plans should be realistic.
- History of business: past and present of the firm in regard to management, principal and their age, experience as well as product and service position along with heightened competition.

- Banking relationship: Accounts kept indifferent banks and loan taken from them and reason to change financial institution is to be mentioned. Lastly separate credit file is to allowed for each applicant though loan is not allowed. These facilities are the possibility of future business with the applicant.

iii) Credit Analysis

Analysis a credit includes analysis of the character, capacity and capital position of the potential borrower and evaluation of those features in terms of the current economy and the economic conditions predicted over the loan period (Johnson,1940). He further says that the basic question the loan officer attempts to answer in the credit analysis includes:

- What is the character and managerial ability of the borrower?
- What is the borrower's capacity to repay the loan as requested?
- What is the capital position of the borrower in case of the borrower experiences difficulties?
- How will current and predicted economic conditions affects the ability of the borrower or repay the loan?

  Johnson and Johnson have presented credit analysis under the following eight steps:

- Acquiring basic information about the borrowers
- Acquiring basic information about loans
- Making preliminary review of risk
- Acquiring more complete information
- Varying the critical information
- Making a refined analysis of the risk
- Making an overall decision
- Structuring the loan

iv) Forecast and Risk Rating System

The analysis has to forecast impending major risk based on the finding of historical analysis on the present considering the present and foreseeable future environment. The analyst has to disclose the extent to which inherent risks will be mitigated and how unmitigated risk can be covered.

2.1.12 The management of providing loan: disbursement

The following are inevitable for loan:

i) Proposal of Loan

Printed loan proposal starting essential things should be kept ready and any coming old or new customer should be given it. It includes name, occupation, address, kind of loan, amount of loan and securities. After filling aforesaid, it should be given to loan department where it is to be reviewed carefully to know the correctness.

ii) Deed of Loan

Loan department prepares it and includes name, address of the loan taker and year of loan taken, quality of loan, interest rate, loan recovery date and date of loan agreement etc. such deed has to be registered from the related office.

iii) Granting Loan based Guarantee

Bank grants loan taking movable or immovable properties of the third person if the debtor's security is less than needed or unacceptable or do not meet banks limit, but all legal processes related to it should be helpful.

iv) Commitment Deed

After approval of proponent's proposal, loan departments prepare separate commitment deed to be signed by the debtors. It portrays loan condition and the rules of bank abiding the borrowers.

v) Contract of Indemnity

Contract deed of indemnity needs to be prepared the same department.

vi) Invoice

The debtor must submit all bills, vouchers and documents relating to business on time as per demand of bank.

2.1.13 The Management of Loan Recovery

Bank desires the proper utilization of loan by the debtors. Indeed, recovery of loan denotes sequences by lay down to get back amount will all due interest including remedial and punitive action to be taken if necessary

i) Audit of Credit

Credit audit refers to keeping eyes on the granted loan decide how properly this utilized. It is done until the loan is recovered. It is done from time to time to know the plight of debtors, proper sue of the loan and profit and loss position. It comprises.

- Verification of loan documents
- Field visit
- Forms of credit to be prepared
- It may be different forms such as
    * Internal credit audit
    * External credit audit
    * Credit audit by control bank

ii) Recovery of Interest on Loan

The borrower should pay interest and principal on time as per the deed of the loan and time assigned by the bank. Otherwise, Finance company adds interest according to the rule of finance company it charges the interest on interest if borrower does not pay loan in fixed time.

iii) Loan Recovery Process

Finance Companies recovers granted loan as per the term and conditions stated in the deed of the loan. Loan should be repaid either on installment basis or lump sum basis as per the deed of loan. Loan recovery period can be extended making new agreement if borrower's situation goes beyond control.

iv) Handover of Securities

Finance Companies need to return movable or immovable properties taken as securities from borrower or security received from third person as guarantee.

v) Process of Recovering Data –Expired Loan

Finance Companies recovers principal and interest of not recover loan as per Bank and Finance Ordinance Act 2062. After recovering the loan according the remaining cash from the sale of property (Security) should be returned to the borrower.

vi) Maintenance of Data

A report must be prepared containing clear cut information about loan release date to recovery data. This works as guideline to current and future management.

2.1.14 Loan Recovery Procedure and Policy of the Finance Company

Recovery is a process generally associated with loan and advances granted by banks and financial institutions. It is a integral part of credit management directly related with the credit screening process. Better, the screening processes lower the probability of Non-Performing-Loan (NPL) thereby need of lower recovery mechanism and vice-versa. So, there is no matter how good the credit appraisal system is, every financial institution should (FI's) have emplaced an efficient and effective recovery mechanism. FI's may have separate units/personnel is determined by the volume of problematic loans however, this department cannot operate smoothly until and unless it gets support from the top level management and other departments. Internationally, FI's use specialized agencies for this kind of jobs which we lack.

The OFL provides some direct and indirect benefits to the customers if they pay their installments regularly in time. Such customers get rebate from the company i.e. 0.50% on prevailed interest rate and that can be lead to the good relations between the customers and company. On the contrary the customers are charged penalty of 15% on their due principals incase of irregular payment of installments. Generally, the laborious and efficient customers are supposed to be winners and the efficient customers who neglect their duties in penalized. The provision of rebate and penalty system leads the customers to utilize the amount of loan in most effective manner and thereby pay the installment in time. All the customers of company are not good so the loan classification under NPL is based only on overdue loan of previous year to overdue on the current fiscal year.

OFL has its own recovery system and mechanism along with its separate departments. Three staffs are employed on this department for the complete monitoring accounts, process and performance of customers. A complete securitization of loan is done at certain intervals to ensure that the loans are invested in the right project, business and the repayments are regular there by the, rate of NPL is less. NPLs are identified and graded in accordance to customer's account performance. In addition, OFL has its own Loan Recovery Committee that consists of three members of different departments as a whole. The CEO of OFL is the Chairperson of the Committee whilst head of loan marketing department and head of account department are the other two members. The Loan Recovery Department takes the following actions to the customers which are as follows:

a. First Reminder Call:

This is the very first initial step where the delay in the payment of the installment of any client is immediately followed by a call as a gentle reminder. It is mainly done by staffs who is appointed as loan recovery staff of the organization

b. Personal Visit :

Another second step is followed by the personal visit. It's a kind of informal visit in which one or two staffs from the credit department visit the loanee who fails to provide strong conviction on the time of first call or who is not communicated through call. Face to face interactions sometimes help to find out the real causes behind the delay in payment of installment.

c. Sending of Formal Letter :

It is not sure that all clients will come and pay due to reminding them from phone call or personnel visit Negligence by a particular loanee on time to time call and regular visits is now followed by a formal step. This is a crucial step as loanee's integrity is now challenged by an organization. The following steps are initiated as bellow:

- As a first formal letter, 35 days official letter is either submitted or dispatched to the client in which 35 days time duration is provided to pay the dues principal and accrued interest.
- On the incapability of the client to clear out all the dues within the time frame provided, the next step initiated is a submission of second letter in which 15 days time duration is further extended to clear all the due principals and interests.
- The first and second letter is immediately followed by the third letter in which 7 days letter is provided to the client according to which the clients then have only seven days to clear all the dues. A copy is dispatched to the guarantors stating its consequences as well.

d. Publish of Notice on the National Newspaper :

The client who still fail to either clear all the dues or provide strong conviction now are almost declared as the defaulters. For these defaulters a strong action ought to be taken, either a 21 days or 35 days notice is published on local as well as on National newspapers in which these defaulting parties are informed to collect all the dues principals as well as interests to regularize the loan. In this step, the guarantor's name along with the mortgaged collateral details are also published. A copy of newspaper is filled in the respective customers' file and the other is sent to the concerned party. On the capability of theirs to clear the dues and regularize the loan further process is stopped else wise, it is followed immediately by notice of auction.

e. Notice of Auction :

This step is the crucial of all as it follows a series of legal obligations.

- After the 35 days of publishing notice in newspaper, if the concerned party still seems incapable to regularize the loan, OFL is left with no other option than to go for auction process where foremost, the property mortgaged in our favour is revalued by listed valuator along with physical inspection by the credit staffs. The report thus obtained is presented to the credit committee on the analysis of which gives an authority for auction process.
- The date and the venue for auction procedure is thus finalized which is delegated to the concerned party within the three days of finalization. Company the publishes the notice of auction in national level newspaper after seven days of decision giving the details of customers, owners of collateral, if the collaterals are of third party, and guarantors with their photographs, information about auction place, data, time and details of collaterals.
- If the customer pledges for the additional time for payments of the loan to the BOD through the CEO the company can stop the auction process for some period but not more than 6 months. The loan committee can stop the process for maximum 6 months, but the customer should pay the certain amount of loan in that time. If the customer cannot pay the balance loan amount within the auction stop period, the company again starts auction process and sells the collateral to collect the loan.
- The bidder has to deposit 10% of bid price. The ownership of the assets would be transferred to him only after paying loan amount and excess amount to the company. But, if no one wants to bid, the auction date will be extended further or the company can own the collateral itself as non-banking assets.
- Sometimes the value of the property seems in capable to with stand the existing loan amount. In such case, part is collected by auctioning the existing collateral and other sort balance will be collected from the guarantor’s assets and vice-versa.

If the loan cannot be repaid by the effort of finance company, this will be the last resort that the company can appeal the case of Loan Collection Court of Justice, which is established by Nepal Government with three members of from Law, Banking and Accountancy. The application should be given for overdue loan before this act within three years and after the Act within three years from overdue date. The company should paid 0.25% claimed amount for loan collection charge with the application. Within 15 days from application, the Court of Justice declares the case. After the order being received from court, the Loan Collection Officer should collect the loan from the loan holder and pays to the bank or financial institutions for which he could adopt the following procedure:

a. Adopting or auctioning the pledge secured or other fixed and current assets of proprietor.
b. Adopting or auctioning the fixed, current assets of guaranteed person.
c. To arrest the keen in jail for the loan holder (proprietor) or guaranteed person according to laws.

2.2 Review of Related Studies

Under this heading the review of relevant studies and research article published in different economic journals, bulletins, dissertation papers, magazines, newspaper, websites and other related materials have been consulted.

2.2.1 Review of Journals

Different research works were carried out by different scholar within the different country. Those studies and issue are reviewed in this section.

Crosse (1963) says that lending is 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 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.

Gitman and Jochnk (1972) in their book, fundamental of investing, compare the bank investment with a vehicle. He says that it is such vehicle into which funds can be planed with the expectation that will preserve in a value generates positive results. A banker seeks optimum combination of earning liquidity and safety while formulating investment policy.

Singh S.P and S. Singh (1983) put their view that the investment (credit) policies of banks are conditioned to great extent by national policy framework; every banker has to apply his own judgment for arriving at a credit decision , keeping his banker's credit policy also in mind. As inference from all these above stated authors it can be said that loan management refers to systematic identification of needy one to required party (loan taker), verifying their documents, pre and post disbursement inspection cum sound recovery of granted loan as far as practicable.

Shrestha (1997) Lending operation of commercial banks of Nepal and its impact on GDP has presented with the objective to make an analysis of commercial banks lending of the commercial banks to the GDP. In research methodology she has considered GDP as the dependent variable and various sectors of lending through agriculture, industrial commercial service and social sectors as independent variables. A multiple regression techniques have been applied to analyze the contribution. The multiple analyzes have shown that the variables except service a sector lending has positive impact on GDP. Thus in conclusion, she has accepted the hypothesis i.e. there has been positive impact on GDP. In conclusion, she has accepted the hypothesis i.e. there has been positive impact of commercial in various sectors of economy, except service sector economy.

Dahal,B and Dahal,S.(2002) has mentioned in his book, A hand Book to Banking, that loan and advances dominate the assets side of the balance of any bank. Similarly, earning from such loan advances occupy a major space in income statement of the bank. Lending can be said to reasoned extra of bank. However, it is very important to be remained that most of the bank failures in the world due to shrinkage in the value of loan and advances. Hence loan known as risky assets. Risk of non repayment of loan is known as credit risk as default risk.

Bhandari (2003) says that in banking sector or transaction an unavailability of loan management and its methodology is regarded very important under this management many subject matters are considered and thought for example there are subject matters like policy of loan flow, the documents of loan flow, loan administration audit of loan, renewal of loan, the condition of loan flow, the provision of security, the provision of the payment of capital and its interest and other such procedures. This management plays a great role in healthy competitive activities. Yet another dubbed as: loan and advances dominate the asset side of the Balance sheet at any bank. Similarly, earnings from such loans and advance occupy a major space in income statement of the bank. Lending can be said to be visor of bank. However, it is very important to be denuded that most of the bank failures in the world are due to shrinkage in the value of loan and advances. Hence, risk of non payment of loan is known as credit risk or default risk.

Shah (2003) the article published in Nepali times outlined ,the dynamics of consumer banking has crossed the threshold...... He has clarified that lenders in Nepalese turning towards consumer banking. The prevailing stagnation investment and competition ha forced most banks to look at individuals and tailor products for their needs. He has introduced the concept of consumer banking as, according to him, prior main utility of a safe-keeping the savings of individual depositors. But today a bank means much more than that. It is now looked upon as a provider of financial solutions for individuals, which provides products and services that compliment their lifestyle. And that is what consumer banking is all about. He had further concluded that historically, banks used to concentrate their lending activities to companies and institution, but the stagnation of economy and growth of competition has forced banks to look at alternative avenues. Their first foray into consumer lending was with their auto loan. Their main objective is not just to provide a loan to buy a car, but to provide a solution to put the customer in the driving seat as it were.

Upadhaya (2004**)** has conducted a study on "Financial Analysis of Finance Companies in Pokhara: a comparative study of POFIL and AFCL" with the objective of analysis and compare the past and present performance of POFIL and AFCL. He used five years data i.e. fiscal year 2055/56 to 2059/2060. His study has used different types of financial ratios to check up the financial performance of these two finance companies. Basically, he used solvency ratio, liquidity ratio, efficiency ratio, profitability ratio and valuation ratios in his study. As a conclusion he found the solvency position of both companies is not sound. Based on the cash reserve ratio the liquidity position of AFCL is better than that of POFIL. Based on the operating efficiency, return on investment, return on equity, return on assets and P/E ratio POFIL is better than that of AFCL.

2.2.2 Review of Thesis

Under this heading effort has been made to review some related thesis/dissertations done by different scholar

Bhattarai (1978) carried out study on: Lending Policy of Commercial Banks in Nepal. During her study she found that important aspect of commercial bank is lending its funds effectively more than deposit collection. Unless proper lending of resources are done deposit collection will be useless. It leads to disparity in economic life of people. There will be low capital formation and so less rate of development. So, only the increase in interest rate cannot develop the economy of a nation though it is obvious that higher interest rates motivate savers and so many generate higher volume of deposit.

Shahi (1999) conducted a research on Investment Policy on Commercial banks in Nepal concluded that commercial banks are the prime mover of the economic development of the nation. He has studied the investment policy of Nepal bank (Ltd) in comparison to other joint ventures banks of Nepal. He recommended Nepal Bank Limited (NBL) weak in collecting cheaper funds i.e. current and saving deposit and also pays higher interest on deposit than that of joint venture banks. Higher administrative expense due to over staffing, loan loss provision, less productivity of management and poor quality of loans has led to the low profitability of the bank. He also recommends NBL to formulate and implement effective cost of funding for its credit and investment policies.

Palikhe (2000) has conducted: A study on performance Evaluation of Finance Company. The major objective of the study was to evaluate the performance of AFCO in terms of its impact, both negative and positive in Pokhara . She has concluded that the allocation of loans and advances by the AFCO limited.

Acharya (2002) has conducted: A study on investment and deposit pattern of joint ventures banks in Nepal. The objective of this study was to carry out the comparative analysis and evaluation of deposit collection and investment of Nepal Bangladesh bank

Ltd (NBB) and Himalayan Bank ltd.(HBL). In this study, he has used financial ratios viz. liquidity profitability and turnover, statistical tools viz. Karl Pearson's correlation coefficient, coefficient of variation and simple average. The researcher found that average fixed deposit to total deposit of NBB was found to be greater than average ratio of HBL. But the average ratios with respect to short term loan to total deposit of HBL were greater than of NBB. In regard to investment in government securities HBL proved to be better than NBB during the study period. So on the whole HBL was superior to NBB with respect to total investment to total deposit ratio.

Thapa (2002) has conducted a research on: A study on performance evaluation of Annapurna Finance Company Ltd. The major objective of the study was to evaluate the performance of AFCO in terms of its impact in Pokhara . He has mentioned in his conclusions that finance companies are the outcome of the government's economic liberalization policy. Allocation of loans and advances by the company don't seem as meaningful as the productive sector has not got its due share in the loan portfolio. As compared to housing loan, term loan and fixed deposit loan have got quite negligible share percentage in the loan disbursement of the company. The financial indicators show the liquidity and profitability position of the company is satisfactory. There is a high positive relationship between deposit and investment. Increase in deposit leads to increase in investment portfolio but it is not a proportionate manner likewise; there is a high positive relationship between investment and return. It is true that increase in investment leads to increase in return.

Shrestha (2006) conducted A research on investment portfolio of Pokhara Finance Company Ltd. In her study she has analyzed deposit mobilization and investment trends in different sector made by the company. Six years of data from 2055 B.S to 2061 B.S has been taken into consideration for conducting the research. The researcher found that the said company has high liquidity during the period and has focused more on loan and advances than on other government securities. From the study, she has concluded that Pokhara Finance has to relate to immanence of appropriate risk return trade off between credit outflow by the way of loans and investments and strict monitoring of it's repayment to ensure timely case inflows. She further recommended launching demand driven or customer oriented schemes so as to initiate depositors and to focus on diversification of investments.

Karki (2008) has conducted: A study on Deposit Collection, Loan Disbursement and Loan Recovery of Fewa Finance Company Limited. According to him the deposit collection trends is increased and almost of the type wise deposit collection also increase. Similarly, the amount of total loan is also increased. The housing loan, business loan and hire purchase loan purposes are covered high amount of loan. Most of loan customers are paid the interest with rebate and companies are needed to retain these customer satisfaction. The hire purchase loan has taken 23.71% of the total loan of FFCL on his study period i.e. fiscal year 2059/60 to 2063/64.

Manandhar (2008) conducted a research work on Consumer loan Mobilization by selected finance Companies of Pokhara. The main objective of this study is to analyze the consumer credit policy and to determine the consumer loan flow in comparison to the deposit of selected finance companies. He has taken POFIL, AFCL, and OFL as sample for the studies. According to him all selected finance companies have diversified their loans and advances on four different sectors namely Hire purchase loan, Home loan, Term Loan and Fixed deposit loan. He found that the lending activities of these institutions are in growth rend during his research period. He further add that the consumer loan to total deposit ratio of selected finance companies are not adopting the appropriate policies to manage and utilize the fund in income generating activities as well as to increase the quality of assets.

These are the various studies that have been conducted in the past on deposit collection and loan management, management policies for commercial banks, lending operation of commercial banks in Nepal. This study is also assumed as emerging aspects in financial institutions in these days. Therefore, an effort has been contributed towards this study.

Sigdel (2009) has done research on Deposit Collection and Investment Pattern of NABIL Bank Limited .Her major objectives is to find out the general Deposit and Investment Policy of NABIL Bank Limited ,its composition ,liquidity assets mangement ratio analysis of total deposit ,loans ,etc .and trend analysis of different variables related to investment. Sigdel has found that deposit collection of NABIL Bank Limited has been increasing at lower rate with respect to increase in investment. Assets management ratio is 65 %of its total deposit which shows that the banks effectiveness in mobilizing its total funds. There is a positive relationship between deposit and loans and advances, investment and loan and advances. She recommends bank need to update customer’s demand and arrange for special schemes. The bank is suggested to increase the weight of saving deposit without ignoring the other types of deposits. As liquidity position of the bank, liquidity ratio is found to be high in liquids assets to total deposit; the bank is suggested to look after the new areas of investment and lending that helps in minimizing the idle fund of the bank which helps in profitability.

K.C. (2011) has conducted : A study on investment portfolio of Fewa Finance Company Limited Pokhara. The investment portfolio of FFCL from F/Y 2061/062 to F/Y 2066/067 has been regarding loans and advances where it shares the hightest perentage of investment i.e 99.9 %in F/Y 2063/ 064and F/Y 2066/ 067respectively .While the lowest percentage of investment is 99.64% in F/Y 2064/065 during the study period. FFCL has made all of the investment on loan and advances which indicate that it has managed to efficiently as to maximize the return there from but it has not sufficienty diversivied its investment to reduce the porfolio risk. FFCL made the investment regarding on government securities and other investments has low investment percentage in comparison to other total investment.

Poudel (2011) has conducted: A study on deposit collection and investment pattern of Bishal Co-operative Society Limited.. His major objectives of study were to measure the trend of Investment composition of Bishal co-operative, evaluate liquidity, profitablilty and risk position analyze different ratios like as growth ratio, loan and advance, total investment and net profit. The study covered 5 years from F/Y 2004/2005 to F/Y 2008/2009 liquidity ratio, current ratio, activity ratio, profitability ratio risk ratio and growth ratios were used as major tools for finding the outcomes of the study. Finally, he concluded satisfactory on deposit collection, investment made on companies share and loan and advances. And also the co-operative had made good level of resource utilization in order to attain the profitablitiy position.

2.3 Research Gap

This review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make study meaningful and purposive. There has been lots of article published related to investment policy, loans and advances commercial banks. There are various researches conducted on investment analysis and policy of commercial banks but few researches conducted on deposit and loan management of finance companies. However, no one has done a study on "Deposit and Loan Management " with Om finance Limited. Therefore, the research attempts to study in this area .To know the deposit and loan management of Om finance limited will probably be the first study of this finance company in the subject matter.

So this study will be fruitful to those interested person, parties, scholars, professor, students, businessman and government for academically as well as policy perspective.

CHAPTER: THREE

RESEARCH METHODOLGY

This chapter includes various sections like method design, methods of data collection, resources of data, nature of data. It includes the research design, sources of data, population and sample, data gathering procedures, data processing procedures and statistical procedures. This chapter presents the theoretical relation between figure of loan disbursement and collection and to explain the causes of delay payment from borrowers.

3.1 Research Design

Research design is an overall framework or plan for the collection methods, the research instruments utilized and the sampling plan to be followed. It is the task of defining the research problem. It provides a way to research objective. It describes general framework for collecting, analyzing and evaluating data after identifying what the researcher wants to know and what has to be deal with in order to obtain required information (Wolf and Panta, 2000). Research design is the plan, structure and strategy of the investigation conceived so as to obtain answers to the research questions and to control variance. To solve the research problem descriptive analytical research design is used.

3.2 Population and Sample

The well specified indefinable group of people, events or thing of interest that the researcher wishes to investigate is known as population.

Sample is the part of the population that we actually examine in order to gather information. Thus a same is maker representation of the population. At present there are altogether 78 finance companies on operation in Nepal (www.nrb.org.np/List_Banks_n_non_Banks).All finance companies have been taken as population. Among them OFL has been selected as the sample for the study on convenience of the researcher.

3.3 Nature and Sources of Data

Both primary and secondary sources of data have been collected in order to achieve the real and actual results and analyze the real scenario. This study is basically concentrated on secondary data. The sources of secondary data have been collected from the published data as annual reports, financial statistics, article, journal and annual published balance sheets of OFL, NRB reports and directives.

Other sources of secondary data relating to this study are collected from the publication of NRB. In addition to above sources, primary data has been collected by distributing related questionnaire among employees of OFL.

3.4 Data Collection Procedure

Collecting data is the connecting link to the world of reality for the researcher. The data has been collected on secondary sources from the related banks. To collect necessary data and information, other concerned people was also consulted. Secondary data is collected from annual reports, Custom reports provided by the companies especially for the dissertation, websites of the company and other sites as well. The annual reports, audited and unaudited financial reports of OFL was collected by making visit to the head office and website of the finance company.

3.5 Data Analysis Tools

Data analysis is done according to the pattern of data available. For study, any analytical tools can be used in solving the problem. All collected primary as well as secondary data are arranged, tabulated under various heads and then after descriptive statistical analysis have been carried out. Mean, Correlation are being calculated under statistical analysis.

3.5.1 Ratio Analysis

Ratio analysis is a part of the whole process of analysis of financial statement of any business or industrial concerned especially to take output and Deposit and Loan management decision. Ratio analysis is used to compare forms financial performance and status that of other forms or to it overtime.

a) Liquidity Ratio

This measures the liquidity position of a firm. It measures the ability to meet its short term obligations or its current liabilities. It measures the speed with which banks assets can be converted into cash to meet deposit withdrawal and other current obligation. The following lodging ratios have been calculated in order to exhibit the liquidity position of the OFL.

i) Current Ratio

It provides about the short term solvency of the firms. It established the relationship between current assets and current liabilities of which is expressed as :

$$\text{Current ratio} = \frac{\text{Current Assets (CA)}}{\text{Current Laibilities (CL)}}$$

Current assets are those assets which can be converted into cash within a year and so. It includes cash and bank balance, investment in treasury bills, bills purchase and discounted, customer acceptance liabilities, prepayment expenses, bills for collection. Likewise current liabilities denote current account deposits, saving account deposits, margin deposits, bills payable, call deposits, bank overdraft, intra bank reconciliation account, provision customer's acceptance liabilities an so on.

ii) Cash and Bank Balance to total Deposit Ratio

The ratio points the banks capacity to cover their deposits like current call saving and margin. A higher ratio is preferred since finance company is able to cover deposits. It can be expressed as:

$$\text{Cash and bank balance to deposit ratio} = \frac{\text{Cash and bank balance}}{\text{Total Deposit}}$$

iii) Cash And Bank Balance to current Assets Ratio

This ratio highlights the percentage of readily available funds with the bank. A higher ratio is preferable like the earlier stated ratio in its case too. It is calculated as :

$$\text{Cash and bank balance to Current Assets ratio} = \frac{\text{Cash and bank balance}}{\text{Current Assets}}$$

iv) Loans and Advances to Current Assets

This ratio highlights the percentage of loan and advance in current assets. A higher ratio means greater loan and advances are in current assets.

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

b) 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. Some important profitability ratios are used here as follows.

i) Net interest to Total Assets Ratio

Net interest means receive interest minus interest paid. It is also known as interest spread. The high ratio indicates that profitability of the finance company. Similarly, the low ratio indicates that low profitability of the finance company

$$\text{Net interest to total Assets ratio} = \frac{\text{Net Interest}}{\text{Total Assets}}$$

ii) Net profit to Total Assets Ratio

It measures the profitability of fund invested in the bank assets. it is computed by dividing the net profit by total assets including profit and loan account (Debit Side) higher ratio is preferable since it has more operating efficiency of the firm and vice versa. It is expressed as:

$$\text{Net profit to total Assets ratio} = \frac{\text{Net profit}}{\text{Total Assets}}$$

iii) Return on Net worth(ROE)

Net worth denotes the owners claim in the asset of the financial banks remains often subtracting total external liabilities from total assets. Here, total assets represent all the assets beside accumulated loss and intangible assets. The ratio exhibits the rate of return earned on net worth (or Shareholders fund or equity). It is compensation is to be done as:

$$\text{Return on Net worth} = \frac{\text{Net Worth after tax}}{\text{Total worth(TA} - \text{external liabilities)}}$$

3.5.2 Statistical Tools

i) Arithmetic Mean (Average)

The sum of all the observation divided by number of observation is called arithmetic mean or simple average. In equation

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

Where $\sum x = x_1 + x_2 + x_3 + \ldots\ldots.. + x_n$ = sum of observation

N= Number of items observed

X= variables

ii) Correlation (r)

Correlation may be defined as the degree of linear relationship existing between two or more variables. These variables are said to be correlated when the change in the value of one results change in another variable correlation may be .

* Simple or partial multiple correlations
* Positive or negative or zero correlation
* Linear or non linear Correlation
* Perfect or non perfect or zero correlation

In words of L.H.C . Tippet The effect of co relation is to reduce the range of uncertainty of our prediction (Tippet,Ibid) It is calculated as:

$$r_{xy} = \frac{N\sum Xy - \sum X\sum Y}{\sqrt{N\sum x2 - (\sum x)2}.\sqrt{N\sum y2 - (\sum y)2}}$$

.

r_{xy} = correlation between x and y

$N\sum Xy$ = product no of observation and sum of product x and y.

$\sum X\sum Y$ = product of sum x and y

iii) Coefficient of determination(r^2)

It explains the variation deprived in dependent variable due to the any one specific variable it denotes the facts that the independent variable is good predictor of the behavior of the dependent variable. It is square of correlation coefficient.

iv) Probable Error

The probable error of the coefficient of correlation helps to determine the reliability of the value of r and interpret it.

Mathematically expressed,

$$P.E = 0.6745\ \frac{1 - r2}{\sqrt{N}}$$

v) Time Series Analysis

A series forms from a set of data arranged in accordance with time of occurrence is said to be a time series. A time series shows the relationship between two variables, one being the time

Mathematically, time series is defined by the fundamental relationship y=f(t), where y is the value of the variable under consideration in time t. The time t may be yearly, monthly, daily etc.

Among the many time series analysis methods, a widely and most commonly used to describe the trend is the method of least square. Under this method the line between the dependent variable y and the independent variable x (i.e. time) be represented by y=a+bx

Where $\Sigma y = na$

$$a = \frac{\sum y}{n}$$

$$\Sigma xy = b\sum x2$$

$$b = \frac{\sum xy}{\sum x2}$$

a gives the average of y and b the rate of change.

CHAPTER: FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter deals with the summary of the whole along with the conclusion and recommendation. The study derives the following summary and conclusion. On the basis of the findings of this study, following recommendations are to be pointed out. Therefore this chapter is categorized into three main heading. The first deals with summary, second conclusion and third one is recommendation.

5.1 Summary

All knows that collection of deposits and making loan and advances are core functions of banks and financial institutions. While collecting the deposits, the bank or finance company has to provide interest to the depositors, it is cost to the bank.

Loan management is one of the most important functions in many financial institutions. Without effective and efficient loan management no financial institutions can achieve its goals, success of any financial institutions basically depends on the effective and systematic loan management. Loan management is the most important part of finance companies. OFL have invested more deposited amount as loan and advances. Due to lack of investment opportunities pressure in interest rates, increase of non performing assets, stagnant economy and changing business environment, banking sector is becoming more and more competitive and challenging. These factors have impacted on the profitability of the banks as well. In such circumstances, to maintain sustainable growth and profit has become challenging job for every finance company.

Due to lack of investment opportunities, pressure in interest rates, increase of non – performing assets, stagnant economy, liquidity crisis, rapidly increase in the number of banks and financial institutions, unfavorable political situation, power shortage in business organizations and industries, narrow market, high competition, labour problem and changing business environment, the banking sector is becoming more and more competitive and challenging. These factors have impacted on the profitability of the banks as well. In such circumstance, to maintain sustainable growth and profit has become very challenging job for every financial institution. The main objective of this study is to analyze the loan management of OFL, deposit collection and loan disbursement, relationship between deposit and loan. In addition, to the loan management practice of OFL, the profitability, liquidity have also analyzed in the study with a view to find out the impact of loan management in the overall financial performance of the Finance company. The required information is secondary as well as primary. This study is one of the new studies which are focused on the loan management of OFL. The primary information was collected by using the questionnaire to the concerned staffs of OFL and secondary data were taken from website, annual reports of OFL. Collected primary data have been analyzed by using different financial and non financial tools. Specially, mean percentage, trend analysis, correlation coefficient, profitability ratio, liquidity ratio etc. and results have been presented in as required. The analysis has been done year wise as well as the average of total study period.

Deposit and loan and advances are in increasing trend. Fixed deposit is highest portion in deposit collection. Highest amount is disbursed in housing (Personnel) and lowest loan is disbursed in the two wheeler hire purchase. Coefficient of correlation between deposit and loan is positive. Liquidity ratios are unstable during the study period. Profitability ratio is also changing over the study period

5.2 Conclusion

The following conclusions have been derived by based on the major findings of this study.

- Deposit collection of the bank shows continuous increasing despite the high competition in banking sector. It indicates that deposit is increasing.

- Fixed deposit has the highest contribution in total deposit from the beginning to final year. It indicates that cost of fund is increasing because interest rate of fixed deposit is higher than the saving deposit.

- Trend of deposit is in continuous increasing trend.

- Loan and advance disbursement of the bank shows continuous increasing despite high competition in banking sector. It indicates that finance company's performance is higher and finance company can get more profit in coming year if other factors remain constant.

- The greatest loan disbursed to working capital and lowest loan disbursed in two wheeler hire purchase. Collateral of movable/immovable assets is pledged as security of loan and advances.

- Trend of loan and advances are in continuous increasing .It indicates that finance company's performance is higher and finance company can grab market to get more profit in coming year if other factors remain constant.

- Deposit collection and loan and advances of the finance company show continuous increasing despite the high competition in banking sector, it indicates that trends of deposit and loan and advances is increasing but finance company is losing its market. Loan and advances are disbursed sometimes lower than deposit and sometimes more than total deposit.

- Correlation Coefficient between deposit to loan and advance is positive, relation between deposit to loan and advance is significant because r>6P.E. It indicates that there is optimum utilization of deposit and loan and advance, bank has efficient management. Total deposit is also increasing and loan and advance is also increasing.

- Net interest to total asset ratio is increasing up to four fiscal years and decreasing in last fiscal year. Net profit to total assets ratio is also increasing trend for two fiscal year and decreasing trend for one fiscal year after that increasing trend for final year. Return on equity capital is decreasing trend for four fiscal year from starting and increasing trend in last fiscal year of the study.

- Cash and bank balance to total deposit ratio is decreasing in second fiscal year and continuously increasing up to final fiscal year of the study. Cash and Bank balance to current asset ratio is decreasing in second fiscal year and continuously increasing up to final fiscal year. Loan and advances to current assets is increasing up to second fiscal year and decreasing up to final fiscal year of the study.

5.3 Recommendations

By based on the major findings and conclusions the present study has forwarded the followings recommendations for the betterment of the loan management of the study unit.

- While analyzing the deposit pattern, it is found that amount of deposits are collected from saving deposit and fixed deposit in increasing order i.e. saving deposit only. Increasing in saving and fixed deposit is good for the finance companies but in limited conditions. So, the finance companies are suggested to increase saving and fixed deposit without ignoring the other types of deposits.

- Saving deposit and fixed deposit of OFL is also in increasing order in every year but it is seen that fixed deposit in higher percentage i.e. 56.87% and saving deposit in lower percentage i.e. 32.12%. Though fixed deposit is expensive type of deposit account, it is less risky and the customers are highly attracted towards it and also high interest rate. But saving deposit is much risky. Customer can take out money at any period, it has not fixed time period due to this situation it seems to be lack of saving deposit in financial institution. So, the finance company is also suggested to apply new and attractive strategies and policies to raise the deposit volume through the saving deposit.

- As the main source of company is fixed deposit and hence, to increase is deposit the company should make the attractive scheme like increase in interest rate.

- The increasing trend of total loan disbursement of OFL indicates its liberal credit policy. OFL needs to continue this policy in future. But, the disbursement of loan is not only the measurement of effective management; it needs careful study while making the loan decision. This is the competitive age, so OFL also considers the present scenario of the business and issue the loan only those areas where the investment will more secure.

- While analyzing the total deposit pattern and total loan disbursement, it is seen that amount of total deposit is much higher that the amount of total loan disbursement from 2065/66 to 2068/69. It is not good for any financial institution. If the value of deposit is higher than the value of loan than it takes the company in the condition of liquidation. It shows that the company is not in the good condition. So, the finance company must take the positive action and also needs careful study while making the loan decision to adapt in the changing business environment.
- The company should strictly follow the direction given by NRB, so as to manage deposit collection, loan disbursement of the company. Since, NRB has given different direction to the company time to time for the betterment of the company.

BIBILIOGRAPHY

Aacharya, Basanta.(2002). *A comparative Analysis of Investment and Deposit Pattern of Nepal Bangladesh Bank Limited and Himalayan bank Ltd.* Unpublished Master level Thesis, Central Department of Management, Tribhuvan University.

Adhikari, N.K and P, Shrestha.(2063). *A Text book on Corporate Finance.* Kathmandu: Khusbhu Prakshan Pvt Ltd.

Aryal, Khimanda.(2000). *A study of Loan management of Agriculture Development Bank*. Unpublished Master level Thesis, Central Department of Management, Tribhuvan University.

Bhandari,Dilliraj.(2003). *Banking and Insurance. Kathmandu*: Utas Books and Stationery.

Bhandari,D.R.(2003). *Banking and Finance Management*.Kathmandu: Ayush Prakshan.

Bhattarai,K.(2005). *A study of Loan Management of Kathmandu Finance Limited.* Unpublished Master level Thesis, Central Department of Management, Tribhuvan University.

Bhattarai,R.(1978). *Lending practice of Commercial Bank in Nepal*. Unpublished Master level Thesis, Central Department of Management, Tribhuvan University.

Crosse, H.D.(1963). *Management Policies of Commercial Banks.* New Jersey: Prentice Hall Inc.

Dahal,B and Dahal,S.(2002) *A Handbook to Banking*. 1st Edition, Kathmandu: Ashmita Books and Stationary.

Gitman,L. J and Jochnk.(1972). *Fundamentals of Investing.* Newyork: Harper and Row Publishers.

Johnson and Johnson.(1940). *Commercial bank Management.* Newyork: The Drden Press.

Karki, Bir Bahadur.(2008). *Deposit Collection, Loan management and Loan Recovery Of Fewa Finance Company Limited*. Unpublished Master level Thesis, Central Department of Management, Tribhuvan University.

K.C, K.K. (2011). *Investment portfolio of Fewa Finance Company Limited of Pokhara*. Unpublished Master's thesis, Prithvi Narayan Campus, Tribhuvan University.

Kothari, C.R.(2001). Research *Methodology: Method and Techniques*. New Delhi: Wiley Eastern Limited.

Manadhar, Sujan.(2008). *Consumer Loan Mobilization by selected Finance Companies of Pokhara*. Unpublished Master level Thesis, Central Department of Management, Tribhuvan University.

Monetary Policy 2010/11(2067/68 B.S). Nepal Rastra Bank

Monetary Policy 2011/1(2068/69 B.S). Nepal Rastra Bank

Nepal Rastra Bank Unified Directives(2010/11, 2067 B.S). Nepal Rastra Bank.

Nepal Rastra Bank Unified Directives(2011/12, 2068 B.S). Nepal Rastra Bank.

Nepal Rastra Bank Unified Directives(2012/13, 2069 B.S). Nepal Rastra Bank.

Neupane, D.K and K,Thapa.(2008).*Banking and Insurance*. Kathmandu: Ashmita Publication.

Om Finance Limited(Fy 2064/65 -2068/69): Annual Reports: Pokhara

__________.(1997) *Oxford Learner's Dictionery* New Delhi: Oxford University Press.

Palikhe, Shova.(2000). *A case study on Performance Evaluation of Finance Company. A case Study of Annapurna Finance Company Limited.* Unpublished Master level Thesis, Central Department of Management, Tribhuvan University.

Poudel,B. (2011). *Deposit collection and investment pattern of Bishal Co-operative Society Limited.* Unpublished Master's thesis, Prithvi Narayan Campus, Tribhuvan University.

Rose, Peter S.(2002). *Commercial Bank Management*. Fifth Edition. New York: MC Graw- Hill Publications.

Shah, Anil.(2003). *The Dynamics of Consumer Banking has crossed the threshold…*, Internet version on Nepal News.

Shahi, Prem Bahadur.(1999). *Investment Policy of Commercial Bank in Nepal.* Unpublished Master level Thesis, Central Department of Management, Tribhuvan University.

Sharma, Puspa Raj.(2007). *Research Methodology with SPSS(useful for Thesis, project work and report writing)*. Kathmandu: Resunge Computer, kritipur.

Shrestha,S.(1997). *Lending Operation of Commercial banks of Nepal and its impact on GDP,* The business voice of Nepal.

Shrestha. Shelina.(2006). *A study on Investment Policy of Pokhara Finance Limited.* Unpublished Master level Thesis, Central Department of Management, Tribhuvan University.

Sigdel, L. D. (2009). *Deposit collection and investment pattern of Nabil Bank Limited*. Unpublished Master's thesis, Central Department of management, Tribhuvan University.

Singh S.P and S. Singh.(1983). *Financial Analysis for credit Management in Bank*s: New Delhi:Vikash publishing House Ltd.

Sthapit, Azaya B.(2007). *Statistical Methods*, 4th Edn. Buddha Academic Publishers and Distributors Pvt Ltd.

Upadhya, Krishna Pd.(2004). *Financial Analysis of Finance Companies in Pokhara: A comparative study of POFIL and AFCL*. Master level Thesis, Central Department of Management, Tribhuvan University.

Thapa,Mohan Bahadur.(2002).*A study on Performance Evaluation of Annapurna Fincance Company Limited*. Unpublished Master level Thesis, Central Department of Management, Tribhuvan University.

VanHorne, C . James.(1989). *Financial Managmenet and Policy*. New Delhi: Prentice Hall of India.

Wolf, H and P,R.Pant.(2000). *A handbook of social science Research And Thesis writing. 3rd edition*. Kathmandu: Buddha Academic Publisher and Distribution Pvt Ltd.

www.nrb.org.np/List_Banks_n_non_Banks.

www.omfinance.com/branches

Appendix I
Deposit Composition of OFL

Deposit/F.Y	2064/65	2065/66	2066/67	2067/68	2068/69	mean	Mean%
Fixed deposit	466.89	649.75	1005.75	1373.80	1625.90	1024.42	56.87
Saving Deposit	427.66	481.68	398.16	558.54	1027.27	578.66	32.12
Current Deposit	21.92	29.35	34.01	25.40	15.43	25.22	1.40
Other Deposit	5.80	7.55	89.35	204.22	558.91	173.17	9.61
Total Deposit	**922.27**	**1168.34**	**1527.28**	**2161.96**	**3227.51**	**1801.48**	**100.00**

Appendix II
Calculation of Trend Value of Deposit

Fiscal year	Year(x) T-2066	Depsoit(y)	x^2	xy	y=a+bx
2064/65	-2	922.27	4	-1844.54	680.65
2065/66	-1	1168.34	1	-1168.34	1241.06
2066/67	0	1527.28	0	0	1801.47
2067/68	1	2161.96	1	2161.96	2361.88
2068/69	2	3227.51	4	6455.02	2922.29
2069/70	3				3482.70
2070/71	4				4043.70
2071/72	5				4603.52
2072/73	6				5163.93
2073/74	7				5724.34
T=2066	∑x=0	∑y=9007.36	$\sum x^2=10$	∑xy=5604.10	

Take 2066 as base year

here N=5

$$a = \frac{\sum y}{N}$$

$$= \frac{9007.36}{5}$$

=1801.47

$b = \frac{\sum xy}{\sum x2}$

$= \frac{5604.10}{10}$

=560.41

let the trend line be
y=a+bx………………….(i)
The two normal equation are

$\sum y = na + b\sum x$……………….(ii)

$\sum xy = a\sum x + bx^2$…………….(iii)

From (ii)
$a = \frac{\sum y}{N}$…………………….(iv)
From (iii)

$b = \frac{\sum xy}{\sum x2}$…………………….(v)

The straight line trend for total deposit is y=a+bx
y=1801.47+560.41x

For year 2064/65, when x=-2,
y =a+bx
=1801.47+560.41*-2
=1801.47-1120.82
=680.65

For year 2065/66, when x=-1,
y =a+bx
=1801.47+560.41 *-1
=1801.47-560.41
=1241.06

For year 2066/67, when x=0,
y =a+bx
=1801.47+560.41*0
=1801.47+0
=1801.47
For year 2067/68, when x=1,
y =a+bx
=1801.47+560.41*1
=1801.47+560.41
=2361.88
For year 2068/69, when x=2,
y =a+bx

=1801.47+560.41*2
=1801.47+1120.82
=2922.29

For year 2069/70, when x=3,
y =a+bx
=1801.47+560.41*3
=1801.47+1681.23
=3482.70

For year 2070/71, when x=4,
y =a+bx
=1801.47+560.41*4
=1801.47+2241.64
=4043.11

For year 2071/72, when x=5,
y =a+bx
=1801.47+560.41*5
=1801.47+2802.05
=4603.52

For year 2072/73, when x=6,
y =a+bx
=1801.47+560.41 *6
=1801.47+3362.46
=5163.93

For year 2073/74, when x=7,
y =a+bx
=1801.47+560.41*7
=1801.47+3922.87
=5724.34

Appendix III
Sector wise Loan Disbursement (In million/percentage)

S. N	Investment sector	2064/65	%	2065/66	%	2066/67	%	2067/68	%	2068/69	%	mean	Mean %
1	Housing(institutional)	40.72	4.55	37.67	2.94	13.42	0.91	11.87	0.61	5	0.20	21.74	1.34
2	Term loan	32.88	3.67	85.35	6.67	110.78	7.55	121.05	6.19	173.48	6.88	104.71	6.45
3	Hire purchase(4 wheeler)	75.34	8.41	124.16	9.70	141.35	9.64	186.28	9.53	174.42	6.92	140.31	8.64
4	Loan Against FDR	15.77	1.76	59.03	4.61	133.27	9.09	115.33	5.90	71.35	2.83	78.95	4.86
5	Working Capital	304.23	33.96	354.8	27.71	446.79	30.46	708.84	36.27	847.6	33.62	532.45	32.79
6	Hire(2 wheeler)	0.68	0.08	0.98	0.08	1.46	0.10	3.12	0.16	2.9	0.12	1.83	0.11
7	Housing(personal)	426.18	47.57	605.04	47.26	384.36	26.21	161.06	8.24	56.23	2.23	326.57	20.11
8	other loans	0	0.00	13.25	1.03	235.31	16.04	646.85	33.10	1190.11	47.21	417.1	25.69

	Total loan	895.83	100.00	1280.28	100.00	1466.74	100.00	1954.4	100.00	2521.09	100.00	1623.66	100

Appendix IV
Calculation of Trend Value of Loan and Advances

Fiscal year	Year(x) T-2066	Total Loan(y)	x^2	xy	y=a+bx
2064/65	-2	895.83	4	-1791.66	838.74
2065/66	-1	1280.28	1	-1280.28	1231.20
2066/67	0	1466.74	0	0	1623.66
2067/68	1	1954.40	1	1954.40	2016.12
2068/69	2	2521.09	4	5042.18	2408.58
2069/70	3				2801.04
2070/71	4				3193.50
2071/72	5				3585.96
2072/73	6				3978.42
2073/74	7				4370.88
T=2066	∑x=0	∑y=8118.34	$\sum x^2=10$	∑xy=3924.64	

Take 2066 as base year
here N=5

$$a = \frac{\sum y}{N}$$

$$= \frac{8118.34}{5}$$

=1623.66

$b = \frac{\sum xy}{\sum x2}$

$= \frac{3924.64}{10}$

=392.46

let the trend line be
y=a+bx…………………(i)
The two normal equation are

∑y=na+b∑x……………….(ii)

∑xy=a∑x+bx^2…………….(iii)

From (ii)
$a = \frac{\sum y}{N}$…………………….(iv)
From (iii)

$b = \frac{\sum xy}{\sum x2}$…………………….(v)

The straight line trend for total deposit is y=a+bx
y=1623.66+392.46x

For year 2064/65, when x=-2,
y =a+bx
=1623.66+392.46* -2
=1623.66-784.92
=838.74

For year 2065/66, when x=-1,
y =a+bx
=1623.66+392.46 * -1
=1623.66-392.46
=1231.20

For year 2066/67, when x=0,
y =a+bx
=1623.66+392.46* 0
=1623.66+0
=1623.66

For year 2067/68, when x=1,
y =a+bx
=1623.66+392.46 *1
=1623.66+392.46

=2016.12

For year 2068/69, when x=2,

y =a+bx

=1623.66+392.46* 2

=1623.66+784.92

=2408.58

For year 2069/70, when x=3,

y =a+bx

=1623.66+392.46 * 3

=1623.66+1177.38

=2801.04

For year 2070/71, when x=4,

y =a+bx

=1623.66+392.46 * 4

=1623.66+1569.84

=3193.50

For year 2071/72, when x=5,

y =a+bx

=1623.66+392.46 *5

=1623.66+1962.30

=3585.96

For year 2072/73, when x=6,

y =a+bx

=1623.66+392.46 * 6

=1623.66+2354.76

=3978.42

For year 2073/74, when x=7,

y =a+bx

=1623.66+392.46 *7

=1623.66+2747.22

=4370.88

Appendix V

Calculation of correlation Coefficient between Deposit and Loan

Year	Deposit(x)	Loan(y)	x^2	y2	xy
2064/65	922.27	895.83	850581.95	802511.39	826197.13
2065/66	1168.34	1280.28	1365018.36	1639116.88	1495802.34
2066/67	1527.28	1466.74	2332584.20	2151326.23	2240122.67
2067/68	2161.96	1954.40	4674071.04	3819679.36	4225334.62
2068/69	3227.51	2521.09	10416820.80	6355894.79	8136843.19
Total	$\sum x=9007.36$	$\sum y=8118.34$	$\sum x^2=19639076.35$	$\sum y2=14768528.64$	$\sum xy=16924299.95$

$$r_{xy} = \frac{N\sum Xy-\sum X\sum Y}{\sqrt{N\sum x2-(\sum x)2}.\sqrt{N\sum y2-(\sum y)2}}$$

$$r_{xy} = \frac{5\ x16924299.95 - 9007.36\ X\ 8118.34}{\sqrt{5X19639076.35-(9007.36)2}.\sqrt{5X14768528.64-(8118.34)2}}$$

$=$

$$\frac{84621499.75 - 73124810.98}{\sqrt{98195381.75 - 81132534.17}.\sqrt{73842643.20 - 65907444.36}}$$

$$= \frac{11496688.77}{\sqrt{17062847.58}.\sqrt{7935198.84}}$$

$$= \frac{11496688.77}{4130.71 \text{ X} 2816.94}$$

$$= \frac{11496688.77}{11635962.23}$$

$$= 0.9880$$

Now P.Er = $0.6745\ X\ \frac{1-r2}{\sqrt{N}}$

P.Er = $0.6745\ X\ \frac{1-(0.9880)2}{\sqrt{5}}$

P.Er = $0.6745\ X\ \frac{1-0.9761}{2.24}$

P.Er = $0.6745\ X\ \frac{0.0239}{2.24}$

P.Er = $0.6745\ X\ 0.01066$

P.Er = 0.00719

here 6.P.Er =6 X0.00719
=0.0431

r>6*P.Er (it shows that there is significant relationship between deposit and total loan . Similarly correlation coefficient and probable error for other variables are also calculated accordingly.)