CHAPTER-I

INTRODUCTION

1.1 Background of the Study

The banking sector plays a vital role in the overall development of an economy. Banking industry has acquired a key position in mobilizing resources for finance & social economic development of a country. Different types of institutions like finance companies, micro financing institutions, commercial banks, investment companies, provident fund, insurance companies, security market, and credit Security Corporation etc. are performing in their own way for the national financial strength. In the context of Nepal, specific institutions are still to be promoted & encouraged. There is scarcity of subsidiary institution to support the economic stability in the country.

Bank is an organization that transacts money. It collects funds as a saving from public & invests them full into most desirable and highly yielding sectors as full to a process of economic development. It is develops saving habit of people. So, bank and banking has always played a significant role for the financial activities in the business.

After the financial liberation in 1980's we can see noticeable changes in the financial sector. Work specification, increase in new banking services, & excess to banking facilities for the general people are considered as positive signals in the financial market. However, financial institutions are facing problems like traditional style of work, poor information system & weak management.

The development of countries is possible when banking operation exist in both rural and urban area of the country. Development of banking facilities leads to the developments of trade and industry. So, it is said that the bank is backbone of economic development in modern competitive business world. At present financial institutions are viewed as catalyst in the process of the economic growth. The economic activities of a country can hardly be carried forward without the assistance of financial institutions. They are the indispensable part of the development process. Financial sector include a wide range of economic activities of the country. It covers from national growth to individual saving. Financial sector is basically administered by economic policy. Financial policy monetary policy & policies for financial institutions are also equally important for the balances national economy. Nepal Rastra Bank has the authority to implement the monetary policy with different targets and tools. A financial institutions reform is one of the effective tools to reform the financial sector. Financial institutions are inevitable foe mobilizing resources for finance and social economic development of a country and which is important to all parties i.e., general public, business organization, government and other small parts of financial sector. The development of any country is always measured by its economic development though economic indices. Therefore every country has given emphasis up its economic. The mobilization of domestic resources is one of the key factors in the economic development of a country.

The bank draws surplus money from the public who can't use the money at the time & lend those who give attention to use for productive purpose banks lends loan to the customers. Gain interest amount, the bank draw the money from institution or in dividend or people pay the interest amount by interest rate. Banking institutions collects scattered financial resources from the mass and invest them among those who are associated with the economic, commercial & social activities of the country.

Among the financial institution, the commercial banks are the major components in implementing the reforms policy. Making loan management is important part of the financial institutions. Loan management focus fund collection & mobilization, general principles of good lending, criteria of providing loan, types of loan, elements of effective loan policy, loan approval loan documentation, loan disbursement, loan follow-up, payment of debt & interest, credit renew & security.

1.2 Introduction of Nepal SBI Bank Ltd & Everest Bank Ltd.

1.2.1 Introduction of Nepal SBI Bank Limited

Nepal SBI bank limited (NSBIBL) was in corporate in Nepal on April 28, 1993 as a public limited company. It commenced operations on July 7, 1993 and is principally engaged in the business banking, as defined in the banks & financial institutions act 2006. The bank is listed on Nepal stock exchange, Kathmandu.

Nepal SBI bank has since expanded into a network of 56 branches, 3 administrative offices and a network of 75 online ATMs covering all major cities in Nepal, 24 hours mobile banking and internet banking services support the delivery for speedier customer service.

Nepal SBI bank work as joint venture partners of state bank of India. India's largest bank with over 205 years of history and expertise in banking, which has 55% ownership. The remaining shares are held by employee's provident fund of Nepal (15%) and the general public (30%). As on July 16, 2012 the bank with a staff complement of 538 employees, has equity of Rs 2.3 billion and total assets 58.1 billion with more than 300000 banking customers.

1.2.2 Introduction of Everest Bank Limited

Everest Bank Limited(EBL) started in 1994, a joint venture with Punjab National Bank, India with a view & objective of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer friendly services through its branch network & over 250 correspondent banks across the globe. All the branches of the banks are connected through anywhere branch banking system (ABBS) which enables customers to do all their transactions from any branches other than where they have their account.

Punjab national bank (PNB), its joint venture partner (holding 20% equity in the bank) is the largest nationalized bank in India, with its presence virtually in all the important centers at India and over good ATM counters. It was recently awarded the "best bank award 2011" amongst all banks in India by the leading corporate magazine, business India.

Everest bank has 47 branches offices and 60 ATM spread all over Nepal to provide banking facilities. Everest bank awarded the "bank of the year 2006", Everest bank started branchless banking FINO, first time in Nepal, in Jhapa, Bhaktapur, Baglung and Nepalgunj. Bank has introduced mobile vehicle banking system to serve the segment deprived of proper banking facilities through its Birtamod branch, which is the first of it kinds. Everest bank recently started its new product "cash deposit machine" which is first time in Nepal.

1.3 An Overview of Loan Management

Bank is a business organization that receives and holds deposits of find from other, makes loan or extends credit and transfer finds by written order of depositors. Fund collection & loan management is the most critical factor in determining the strength of any banking organization. Bank collects fund from many sources in the economic activities. Issuing shares and borrowing loan from different sectors includes in these sources, collected fund, bank can be used for liquid funds, loan & advance, fixed deposit, non-banking assets, bills purchase etc. in banking activities, loan management is the life blood because interest is the main source of the bank. Bank loans contribute a lot to the growth of new business which ultimately improved the economic health of the country. The role of the bank loan in the economic development of the country is of great value. Loan management covers the wide area and it is the most important aspects of bank. Many banks have separate department for this & they specialize in it.

Loan is defined as thing that is lent as a sum of money. In financial form, loan or debt means money that bank owes or will lend to individual or business.

In other word, credit can be defined as a contractual agreement in which a borrower receives something of a value with the explicit agreement to repay the lender at some date in future. The borrower pays interest as compensation to lender for allowing the use of fund. Loan can be classified according to fund based & non-fund based. Fund based loan are categorized as overdraft, trust receipt loan, packing credit loan etc. and non-fund based credit are categorized in two parts, letter of credit and guarantee.

Loan & advance constitute a major portion of the bank & the interest income earned from loans & advance is a major contributor to a banks profit. In the loan assets of the bank cannot obtain the targeted return from loans & advances. Thus, an effective's management of loan is a must.

The given table shows the total loan (TL), non-performing loan (NPL) & loan loss provision (LLP) of Nepal SBI Bank Ltd. & Everest Bank Ltd. of 5 years.

Table 1.1

Factors affecting the Loan Management

Year	Nepal SBI Bank			Everest Bank Ltd		
	TL	NPL	LLP	TL	NPL	LLP
2064/65	12746	488	632	18836	127	497
2065/66	15612	316	480	24469	118	585
2066/67	17963	492	483	28156	125	600
2067/68	21719	239	353	31662	108	604
2068/69	26464	144	321	36617	307	706

Source: Annual Reports of NSBIBL and EBL

In the above table lowest NPL ratio indicates the better risk management & robust credit management systems in place and vice-versa. At the same time, while higher loan loss provision indicates poor credit management, it also indicates adequate reserve for possible loan loss and protects balance sheet of respective bank.

1.4 Statement of the Problem

The bank cannot live without managing its liquidity position. This liquidity position depends on the management of disbursement loan in time & their self-standing capacity or all expenses. A bank or any financial institute can disbursement amount in time if there is a good loan management system without effective and proper loan management on enterprise can accomplish its predator mined goals and objectives. Hence, it is the life blood of any financial institutions.

This research paper attempts to show the effective application of loan management with the conceptual framework of loan disbursement and collection procedure.

In this regards the performance of Nepalese commercial Banks is too analyzed in terms of third credit. Therefore the study surrounds and deals with following aspect of the banks.

- Is the bank management is sincere to establish better loan management?
- Is there an appropriate environment for bank loan?
- What is the situation of outstanding loan?
- What are future strategies to improve better creditability?
- What is the condition of loan & advance management?

1.5 Objectives of the Study

To complete any work systematically, there must have some certain set of specific objectives. The basic of the study will be to analyze the, loan management aspect. How to fund collected by bank? Which is related to disbursing loan & their recovery? To achieve this objective, the following specific objectives have been set.

- To show the present condition of loan management in Nepal SBI Bank Ltd. & Everest Bank Ltd.
- To examine the trend of loan & loan & advances and interest income of Nepal SBI Bank Ltd. & Everest Bank Ltd.
- To evaluate the contribution of loans gives by Nepal SBI Bank Ltd. & Everest Bank Ltd. To the country.
- To suggest some remedies for improving loan disbursement and collection procedure of Nepal SBI Bank & Everest Bank Ltd.

1.6 Significance of the Study

Fund collection is the first and important part of any business organization. Without fund, organization cannot be operating. Bank mobilizes its funds in different sector. Loan & advance is the important sector of fund mobilizes. Loan is the important aspect of the every financial institution. If loan is the important aspect of the every financial institutions. If loan is merged properly the banks can obtain maximum profit. So enough concentration should be given to it there are not much studies conducted in this regards. The study may have great significance to various groups of people.

- A business student, it is a golden opportunity to show skill in finance analysis, this report will show the intelligence and skill of the student.
- The management of bank can explorer more about its loan position. It may know about its loan position. It may know about other banks & make comparisons.
- This thesis might be useful for these who are willing to know something about the loan management in bank.
- This thesis will provide information to the student as to how the business house is running.
- The government can also regulate the banks by knowing their positions. It may also help the banks which are weak.
- The other banks can also make comparisons for themselves.
- This thesis may be useful for the library purpose so that any student wanting to prepare a report can have some ideas about it.
- This thesis can be used as a guideline while preparing a small project report.

1.7 Limitation of the Study

Though best possible efforts have been made to prepare this field work report, this report is still not free for some limitations. The limitations of the study are as follows:

- The study is mainly based on the secondary data.
- The study period covers only 5 years (2064/65 to 2068/69).

- These studies for uses mainly on loan management function of Nepal SBI Bank Ltd. & Everest Bank Ltd.
- Some information relating to the subject matter could not be obtained because of the bank's secrecy. So, there are some difficulties to get the sufficient information as banks hesitate to provide data easily.
- A deep knowledge of subject Matter could not be gained because of time restriction. So this study is helpful to study the loan management, procedure of Nepal SBI Bank Ltd. & Everest Bank Ltd. Only but the overall position of Bank cannot be Judge by this report.

1.8 Organization of the Study

The study will be organized according to the prescribed format. The format of the study is described as follows:

Chapter – I Introduction

This chapter has included introduction, Background of the study, introduction of relative bank's overview of loan management, statement of the problem, objective of the study, significant of the study, Limitation of the study.

Chapter – II Review of Literature

This chapter, review of literature, includes some work, analysis & discussion already made in the field of banks in various planning periods and finally, a brief review of previous research works specially made in respect of disbursement and collection procedure.

Chapter – III Research Methodology

In this chapter research methodology deals with research design data collection procedure, method of data analysis tools.

Chapter – IV Data Presentation and Analysis

In this chapter the data has analyzed and presented which will in help in drawing the conclusions.

Chapter –V Summary, Conclusion and Recommendation

This chapter has included the summary of the whole study, relevant conclusion and recommendation.

Finally bibliography and appendix have included.

CHAPTER- II

REVIEW OF LITERATURE

2.1 Conceptual Framework

Scientific research must be based on past knowledge. The previous studies cannot be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies. This continuity in research is ensured by linking the present study with the past research studies.

To explore the relevant and true facts for the research purpose this chapter highlights the literature available related to the study an attempt his been made to look into bank publication periodicals and central banks rules and regulations. In addition, informed interviews with bank personnel have been aimed to receive.

2.1.1 Bank

Banks are those financial intermediaries who accept deposit and grants loan. In other words bank may be defined as financial mediator accepting deposits and granting loans offers the widest menu of service of any financial institutions. Certainly bank can be identified by the function they perform in the economy. "indeed many financial institutions including security dealer brokerage firm mutual funds and insurance companies are trying to the similar as possible to bank in the services they offer."

Bank plays the vital role in developing the economy of the country, it is a resource mobilizing, with accepts deposit from various sources and invests such accumulated resources in the field of agriculture, trade, commerce, industry, tourism etc. "the banking sector is largely responsible for collecting household saving in term of different type of deposit and regulating it in the society by lending in different sector of economy. By lending their resource in small scale industries under intensive banking program has enabled the banks to share in the economic growth of economy.

2.1.2 Banking Program of Nepal SBI Bank Ltd and Everest Bank Ltd.

Nepal SBI bank and Everest bank both are the commercial bank of Nepal. Nepal SBI bank work as a joint venture partner of state bank of India, Which is largest bank of India, Everest bank work as a joint venture with Panjab national bank, India.

Initially, the banks aimed at collecting deposits as a source of fund to meet the increasing business, industrial and agricultural credit demand as a whole economic sector. Bank provides the loan in various activities through the different form such as overdraft, business loan, industrial loan, concept loan, serviced loan, and hire purchasing loan etc. in addition to acceptance of deposit, commercial banks deliver the following service as well:

- Issue of bank guarantee
- Fax transfer service
- Remittance
- Mobile banking and internet banking
- Safe deposit locker
- ATM, Yatra Card
- Collection of Cheque , draft and Bills

2.2 Funds Collection and Mobilization

2.2.1 Sources of Fund Collection

Banks collects fund from many sources in the economic activities. Issuing shares and borrowing loan from different sector includes in these sources. The sources of fund can be categorized in two ways. They are owned funds/ equity capital o f bank and borrowing capital of funds.

A) Owned Funds /Equity Capital of Bank

There string and reliable sources for funds of banks are ordinary shares. Banks promoters issue ordinary shares to the public in fixed number .Banks collects the fund by selling fixed ordinary shares to the public by adopting fixed rules and regulation. These public make shareholder after purchasing the issued shares.

i) Ordinary Shares

The string and reliable sources of funds of banks are ordinary shares. Banks promoters issues Ordinary shares to the public in fixed number. Banks collects the fund by selling fixed ordinary shares to the public by adopting fixed rules and regulation. These public make shareholder after parching the issued shares.

ii) Preference Shares

It is that kind of share which receive-dividend and after liquidation money before ordinary share. But in Nepal, bank cannot issue preference share but some situation it can issue by banking permission from Nepal Rastra Bank.

iii) Bonus Share

Company issue the extra share to the shareholder from the saving from profit and reserved fund by capitalizing these funds is known as bonus share. Bank issue share to shareholders instead of banks amount. From this share, bank collects some share of funds.

iv) Reserve Fund

Bank separates some share of capital in reserve fund in the time of banking activities. The reserve fund size, based on banks earning and rules and regulation. Bank must separate alone share of amount from profit in reserve fund. Bank have been earning by investing the reserve funds in liquid sector.

v) Retained Earning

Banks earn profit by investing the funds in different sector through the principal of profit earning. Banks invests it fund in productive or profitable industries and business. Banks earn some amount from these investments.

vi) Undistributed Dividend

Bank does not distribute all profit to the share holder. Bank invests some amount from profit by not distributing to shareholders. By this, the invested profit makes sources of funds to the banks.

B) Borrowing Fund of Bank

Bank collects the funds from another source except owned funds. Another source is borrowing from different sector. These types of funds collect borrow and debt capital. Following are the sources of the borrowed fund.

i) Deposit

The bank performs two fold function. i,e., the receipt of the deposits and granting the loans. The bank borrows money by accepting afferent types of deposit. The bank attracts the deposits from the public, banks not only undertakes to take care of the deposits but also agrees to honors the demand of the depositor for withdraw of money from the deposits. Bank accepted different types of deposits. They are as follows:

- **Current Deposit**

It is also known as demand deposit. A customer can open a current account with a bank by making an initial of RS 100, Any amount may be deposit in this account

- **Saving this Deposit**

There are restrictions on the maximum amount that can be deposit and also withdraws from the account

- **Fixed Deposit**

A deposit is one where a customer is requirement to keep a fixed amount with the bank for specific periods. There is no allowed to withdraw amount before expiry of the period. The rate of interest is higher than on other deposit account during this period the bank is free to make use this money for granting loans and advances.

ii) Loan from Financial Institutions

Financial institution also provide loan for the banks. Banks can receive loans from financial institutions in the form of borrowing. The loan granted by the financial institution of also a capital of bank.

iii) Loan from Central Bank

NRB is the central bank of Nepal. All banks should operate their banking activities by maintaining the rules and regulation directed by the NRB. In the time of necessity, NRB provided the loans for the banks. The loan granted by the central bank is a bank capital.

iv) Selling of Debenture

Debenture means a “Rinpatra”, which is issued by company by keeping or not keeping assets securities for collection of funds. If bank need a fund, it can collect capital by issuing debenture. The money also collects bank capital, which is collected by issuing debenture.

v) Loan from Commercial Banks

Banks can receive money from other bank in the form of borrowing when need. Banks fulfill the need of cash by taking loan from other banks. It is also the type of bank capital.

2.2.2 Mobilization of Funds

Bank utilizes it funds in suitable area and right sector. Banks cannot achieve it goal until and unless it mobilizes its funds in right sectors and by performing different activities .many kinds of activities and other thing can origin for the purpose of receiving invest from the bank. but bank should separate the useful and profitable sector for mobilization its funds bankers being only a financial intermediary, we will not be able to make any profit unless he has to pay interest on deposits, meet establishment expenses, meet liquidity of cash balance, and yet allow him some balance from out of which he can build reserve and pay dividend to the share holder.

As commercial bank they are expect to make profit. If there is no profit, there will be adverse criticism against public sector banking both in and outside the parliament when these banks are asked to open new branches in areas which do not allow profit for years of asked to grant loan to priority sectors. Such as small industries and agriculture with a high incidence of bad debts, there is need for counter balancing profit from elsewhere. Therefore, these banks will have to show an ascending order of profits in order to ensure growth with stability. For this purpose the bank will have to allocate land able resource to different segment in such a manner these banks can ensure adequate profitability while at the same time responding to policies laid down in accordance with national objectives, Therefore, banks should mobilize its funds in suitable and profitable banking activities and right sector. Generally bank has mobilized it funds in the following activities.

a) Liquid Funds

A bank has kept a volume of amount in liquid funds have so many responsibilities in banking activities. Liquid fund has covered following transaction:

- Cash in hand
- Balance with NRB
- Balance with domestic bank
- Call money

b) Investment

Bank invests its fund in different banking activities and different fields. Many types of fields are shown in market for investment. But banks invest its funds in profitable and safety activities. Bank invests its funds in the following title.

- Share and debenture
- Government securities
- NRB bond
- Joint venture.

c) Fixed Assets

Land and building are essential for the establishment of bank. Banks funds are used in buying of furniture, vehicle, computer and other commercial instruments which are related to banking activities, but bank should buy it. A bank has need of und to purchase fixed assets for the new branches of the bank.

d) Loan and Advances

Banks mobilize its funds by providing different types of loan and advance to customer by changing fixed interest. Different types of loan and advances are as follows:

- To government enterprises
- To private enterprises

Bank manages the different types of loans ie, estate loan financial institution loan, agriculture loan, industrial loan, individual loan etc.

e) Administrative and Miscellaneous Expenses

Bank should manage funds for administrative and other miscellaneous expenses. The administrative expenses are:

- Salary to staff
- Allowances
- Advertisement
- Rent
- Stationary
- Income tax
- Pensions
- Provident funds
- Insurance
- Commission
- Donation
- Tour expenses

2.2.3 Meaning and Definition of Loan

Loan is defined ad thing that is lent as a sum of money. In financial term, loan or debt means principal or interest availed to the borrows against security. Debt means money that bank owes or will lend to individual or business.

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 date of demand. The bank or financial institution lend the fund as investment which fund is called loan.

Credit can be defined as a contractual agreement in which a borrower receives something of a value with the explicit agreement to repay the lender at some date in future. The borrower pays interest as compensation to lender for allowing the use of fund.

2.2.4 Concept of Loan Management

Loan and advance dominate the assets side of the balance sheet of any bank. Similarly, earning from such lanes and advance occupy a major space in income statement of the bank. Lending can be said to be the raison deter of a bank .However, it is very important to be remained that most of the bank failure in the word are due to shrinkage in the value of loan and advance.

Loan management covers the wide area and it is the most important aspect of bank. Many banks have separate deportment for this and they specialize in it. Various scholars have defined loan and its management in their own words.

So the management of loan is the major task for any banks and financial institution. Let's bifurcate the term loan management in order to deliver the meaningful sense about the topic. Cambridge international dictionary of English dubbed the term ’loan’ as above and the management is the control and organization of something . in other word” the management of a company is /are the group of people responsible for and controlling and organizing it,” so loan management means proper managing organizing and controlling of lending money from the bank.

The loan management term concerned matters are being presented as loan administration involves the creation and management of risk assets, the process of lending takes into consideration the people and system required for the evaluating and approval of loan request, negotiation of terms, documentation disbursement ,administration of outstanding loans and workout .Knowledge of the process and awareness of its strength and weakness are important in setting objective and goals for lending activities and for allocating available funds to various lending function such as commercial, installment and mortgage portfolios (Johnson and Johnson, 1940:132).

2.3 General Principle of Good Lending

Bank collects scattered saving from the public and invests those savings in different securities. In between these rates paid and charged. Thus the income from difference in interest rates paid and charged. Thus the income and profit of each bank and every financial institution depend upon its lending policy in different securities. The greater the credit created by the bank, the higher will be the profitability. Banker is essentially a dealer in lending the funds of other. But it is a risky business. Therefore a banker follows a cautious policy in the matter of lending and is generally governed by the well known principles of sound lending which are explained below:

a) Safety and Security

To protect from loss, financial institutions should not invest their fund in securities of those companies whose securities are too much depreciated and fluctuated . They should accept those securities, which are marketable, durable profitable and high market price as well as stable. In this case MAST should be applied for the investment where.

M=marketability

A =ascertainable

S=stability

T =Transferability

b) Liquidity

Liquidity is that state of position of the firm that pronounces its capacity to meet current of short-term obligation. It is the capacity of firm to pay cash against. concerned parties, like general public , customers deposits their money at bank in different accounts with the confidence that the bank will repay their money they need. To shows the good current position and maintain the confidence, every firm must keep proper cash balance with them while investing in different securities and granting loan excess fund.

c) Profitability

Commercial banks have obtained funds shareholders and naturally if dividend is to be paid on such shares earning profits can only pay it. Even in the case of public sector banks although they are service motivated they will have to justify their existence by earning profits. From out of the revenue earned the banker has to pay interest on deposits, salary to the staffs, meet other establishment expanses, build-up resources, and the balance must permit the payment of dividend to shareholders. However, the banker will not give undue importance to this aspect because a particular customers may offer a higher rate of interest but and advance made to him result in a bad debt. Therefore for the sake of profitability, the other two principles, liquidity and safety cannot be sacrificed.

d) Legality

To issue securities and mobilize their fund every financial institution must follow the rules regulation of the company, government, of financial illegal securities will bring out many problem to the investor. Lastly the reputation and good will of the firm many be lost.

e) Tangible

A commercial bank should prefer tangible security to an intangible one. Through may be considered that tangible property doesn't yield and income apart from intangible security, which have their value due to price level inflation.

f) Diversification

Banker should try to diversify loans as far as possible so that he may minimize his risk in lending. The bank must not invest their funds in only one sector but to the various sectors so that when something goes wrong in on particular sector other will recover. Moreover, diversification spreads risk and prevent from being insolvent.

g) Purpose of Loan

Before, granting loan bank and other financial institution must examine why loan and other financial institution must examine why loan is need for customer misuse institution will have heavy bad debts. So they should collect detailed information about the plan and scheme of the borrowing.

2.3.1 Criteria for Providing Loan

Setup of well established criteria for disbursing advance and loan is the most essential to survive, thrive and enlargement of the banks. Loan should not be haunch to flow loan and advances without systematic, scientific and through study cum analysis may lend to ditch. Ergo will defined and setup criteria to grant loan must be visible to the personnel. These are positively demonstrated below:

- **Personal Character**

Before providing loan, a bank should make an inquiry and examination of a person who comes to the bank with proposal of loan. Through it is very different to find out true character of a person, it must be checking out. The bank should study whether the person has good character with intention to pay the loan or not .Whether he is person of criminal nature or not, whether a creditor has filed a petition against him in the court for recovery or not. If the person of doubtful in nature, character and the accepted the proposal of loan. If he posses good character and other criteria are satisfactory to the bank, it should accept the proposal.

- **Capacity**

At first, it should be checked out whether the person is capable in making contract, according to contract ACT 2056 or not. If he is capable , there after the bank should know what kind of qualification the proposal make does have and in which is related subject or in that business or not . Under this heading the bank should carefully examine all things, which relating to capacity of borrowing

- **Capital**

If any person comes to make to proposal for a loan in a bank, economic condition should be examined. His demand for money should be matched with the status of his household on the business. If the economic condition of the proponent is poor or less, or inferior to the amount for loan, the bank should reject his proposal. In brief, the quantity of amount of proponent financial condition or capital should be strong than the quality of amount demanded.

- **Security**

A security means any property, which is pledge able under the existing law while giving loan or document relating to or any other security acceptable to the bank. Loan is provided only when the right to the property is used in the bank. The security offers protection to the bank against the loan granted. If the borrower fails to repay the loan, the bank has right to sell the security and recover the loan. The security offered must be qualitative and easily cashable in case of failure of loan repayment by the borrower so as to protect banks internet proper legal documents of collateral or security must be obtained while granting loan.

- **Credit Information**

It is appropriate to get the information relating with loan proponent from the person or businessmen working together in the concerned sector. Credit information denoted knowing whether he is back listed or not his capacity and his demand etc. if information obtain is satisfactory, the proposal will be accepted and will be rejected in reverse plight.

- **External Environment**

Before providing loan a bank always should evaluate the external condition or environment of the industry, business shown by the proponent is saleable or useable in the market or not, the proposal of loan proponent should not be approved, though the mentioned five ground are received satisfactory by the bank .because a business cannot gain profit from the financial position whose may deteriorate. Therefore while providing loan, it should study the external environment too. In the business communities an external can be taken as an essential factor.

2.3.2 Objective of Sound Loan Policy

Considering the importance of lending to the individual bank and also the society it serve operations sound credit policy , whose objectives are as follows, is a foundation in this direction.

- **To have Performing Assets**

Performing assets repays principal and interest to the bank from its generated cash flow. The objective of sound loan policy is to keep financial health of the bank meeting interest of depositors and share holders as well.

- **To Contribute Economic Development**

Should loan policy says that loans are granted to productive sector of which provides multiple benefit to the society such as direct and indirect employment generation , capital creation , tax paid to the government and up list of living standard.

- **To Set a Yardstick for Control**

Periodic follow up is essential for proper implementation of any credit policy .sound credit policy aids in identification the deviation between actual and standard performance along with corrective action to be taken.

- **To Provide Guideline to Lending Officials**

There should be not discrimination while dealing while dealing with borrowing by one officer of another and one branch or another. Individual loan officer make inconsistent judgment from each other and also with organizational goals in the absence of credit policy.

2.4 Types of Loan

Banks makes a wide variety of loans to a wide variety of customers for many different purpose. For customers, the cause of loan purposing may be investment in business, purchasing automobiles, taking dream reaction pursuing collage education, constructing home and office building etc.

Classification of Loan can be presented on the Basis of Time use and Security

A) On the Basis of Time

- **Short Term Loan**

Short term loan includes the loan for period not exceeding 24 months. Speculative businessman seats this type of loan to take quick advantages.

- **Medium Term Loan**

Medium term loan for the period exceeding below 5 years. This types of loan usually takes for business promotion, trade expansion and short period capital need.

- **Long Term Loan**

This type of loan for the period exceeding 5 years to 20 years. Long term is very necessary for the smooth operation of business, like that. Installation of plant, contribution of building etc.

B) On the Basis of Security

- **Secured Loan**

Secured loan represent that which has marketable assets as collateral. It includes stocks, bonds, private poverty of person and trust receipt etc.

- **Unsecured Loan**

Unsecured loan means that which do not have sufficient collateral pledged for granting loan. If a person have good financial image, strong willingness to payback loan and is believed by bank, loan may granted to him.

C) On the Basis of Use

- **Commercial Loan**

Commercial loan is given to the business to make their productive use,like that , purchasing of raw material machine, equipment etc.

- **Consumption Loan**

Consumption loan for individual use .daily consumable product comes under it. We can classified the loan the different basis. But we can classified the loan on the basic of simple way is as follows:

i) Consumer Loans

a) Hire Purchase Loan

The bank extend hire purchase loan for purchase of new vehicle to individual as well as companies. The bank also finances equipment under hire purchase financing.

b) Housing Loan

Housing loan is available to purchase readymade or under construction building for purchase of land or extension of existing building.

c) Credit Card Loan

The bank extends credit to individuals through credit cards that could be payable on monthly installment basis.

d) Loan against 1st Class Bank Guarantees

The bank extend various credit facilities, funded as well as non-funded, against unconditional guarantees issued by 1st class international banks.

e) Loan against Government Banks

The bank extends loan against various bonds issued by the Nepal Rastra bank or commercial banks. Under this up to 90% of the value of such bonds can be disbursed as loan.

f) Loan against Fixed Deposit Receipt

The bank existents loan against the fixed deposit receipt issued by the bank itself or by other banks. Under this upto 90% of the fixed deposit receipt value can be disbursed as loan.

ii) Corporate Loan

a) Project Loan

That types of loan are provided for the establishment, capacity addition, up grading of existing facilities as well as acquisition of existing facilities. The loan is extending to manufacturing as well as service sector.

b) Wording Capital Financing

The bank existents working capital loan under various heading to finance the working capital requirement.

c) Overdraft Facility

Overdraft facility a revolving credit facility is offered to customer for meeting fluting working capital needs for funding current assets, overheads and administrative expenses.

d) Trust Receipt Loan

The bank extends trust receipt loans for financing raw materials and trading merchandise while retiring document of the import letters of credit.

e) Export Credit Facilities

The bank extends export credit facilities against export letter of credit. Pre-export loan, post shipment loan and bank to bank are some of the facilities that can be extended.

iii) Small and Medium Enterprises Loan

For the help of establishment, growth and expansion of small and medium sized enterprises. Business house coming from industrial, trading and service sector can avail of this facility to meet their short –term and long term financing needs. This could come in any form – funded or non-funded, depending on specific needs of the business enterprise.

2.5 Meaning of Some Important Terms

In this sector of the study, we have been made to clarify the meaning of some important terms, which are closely related with this topic of this study are as follows

a) Deposits

Deposit is the most important source of the liquidity of every bank and financial institution, for the bank financial strength, deposit is the treaded as the barometer, deposit is the lifeblood of every financial institution. Deposits constitute great bulk liabilities. The source of the bank greatly depends upon the extent to which it may attract more and more deposits. Deposits are categorized in the three types, they are

- Current deposits

- Saving deposits
- Fixed deposits

b) Loan and Advances

Loan and advances have occupied a huge portion for the mobilization of funds of the every financial institution it is the main source of income. Banks deposit can be crossed over never cross it. Banks and financial institution may take more preferential collateral while granting loan and advances funds borrowed from banks are much chapter than those borrows from unorganized money lenders.

c) Interest

Interest is that kinds of additional amount which change on borrowing i.e., paid by borrowing to the bank or paid by bank to the saving own state for certain period.

d) Non-performing Loan

Non-performing loans means an outstanding loan not repaid. In case of bank the loans and advances are the assets as the banks flow loans from the generated through shareholders equity, money deposited by the people and fund having through the borrowings.

2.6 Pricing a Loan

Pricing commercial loan is vague process that needs estimating. The return of the bank should earn on a particular loan and then forming a loan agreement that will generate the desired return.

The yield on loan covers not only the interest rated changed a bank males for commitment and compensation balance. It certain cases, service fee income also fall under total return.

a) Fixed Rate

Fixed interest rate is greed at organization until maturity if there is no chance of in cline in rate of interest.

b) Variable Rate

Depending on the basic rate varying interest rate is installed as:

- Prime base: highest graded customer obtains it.
- Prime plus: prime rate plus a fixed percentage is charged under it.
- Prime times: under it the rate will mount by the multiple and prime rate time fixed multiple.

c) Commitment Fees

It is levied by bank to customer for agreement to availed fund. It is changed on used and unused portion of a credit line.

d) Compensating Balances

It is deposit balance to be kept as per the need of lender until the over of loan period. It is to be kept on average rather than at a strict minimum.

2.7 Elements of Effective Lone Policy

Loan policy should be effective for the well management of loan, without the effective. For effective loan policy, the following elements should be continued in the loan policy of suggested by the federal deposit insurance corporation of united states.

a) Characteristic a Good Loan Portfolio

The loan should specific the characteristic of good loan portfolio for the bank in term of types, maturity, size and quality of loans

b) Line of Responsibility

There should be the line of responsibility in making assignment and reporting information within the loan department.

c) Operating Procedure

Appropriate operating procedure should be defined clearly for soliciting, reviewing, evaluating and making decision customer loan application.

d) Specification of Lending Authority

The specification of lending authority should be given to each loan officer and loan committee. This helps to measure the maxim mum amount and type of loan that each person and committee can approve.

e) Collateral Guidelines

All essential guidelines should be established for taking, evaluating and prefacing loan collateral.

f) Documentation

All documentation should be required for loan determinate clearly. That is to accompany each loan application and banks credit file. Basically financial statement, security and aggrements are the main document to be attached with loan file.

g) Quality Standard

There should statement of quality standards application to all loans.

h) Line of Authority to Review Credit Files

There should be clear line of authority within the bank, detailing who is responsible for maintaining and reviewing the banks credit files.

Commercial banks are motivated for gaining profit. For this they should properly manage their function. They can gain profit by properly managing their loans and advances. They should adopt appropriate credit policy. The credit policy should pay attention for safety of funds, liquidity, security offered, purpose of the loan etc.

2.8 Loan Management Process

Commercial bank provides short term loans such as demand loan, overdraft and time loan for one year period as a working capital loan. It also provides loans. It also provides long term loans for financing fixed assets for a maximum of seven year with repayment on installment basis. Nepal SBI bank ltd and both are provides loan in trading sector and industrial sector and also in priority and deprived sector.

Lending is the most profitable activity of every bank and financial institution and also the greatest contributor to the profit. Loan and advances occupy the largest portion of the total assets of banks. If the loan turns out to be non-performing asserts then the outcome may be terrible. Hus loan should be properly managed.

2.8.1 Loan Approval

Wherever a potential borrower comes to commercial banks to borrow fund the following steps are followed before the loan proposal.

Application → Interview → Credit Analysis → Project Appraisal → Approval/Rejection

A) Loan Application

A loan application has to be submitted by borrower. This application constrains a verity of information.

Loan application must contain information regarding the following aspects:

- Introduction of business (either trading or industry)
- Constitution of business(company or partnership or proprietorship)
- Authorized , issued and paid up capital
- Detail of following business activities

    i) Trading items / raw material

    ii) Sources of items /raw material

    iii) Distribution network

    iv) Name of suppliers

    v) Market demand

    vi) Plan of future expansion

    vii) Expected sales turnover

    viii) Current selling situation

    ix) Profit and loss account of last 3 years

    x) Other necessary document (if needed)

B) Interview

Interview helps in extracting essential and critical information that are not covered by a loan application. Additional information can be gathered by interviewing the borrowing.

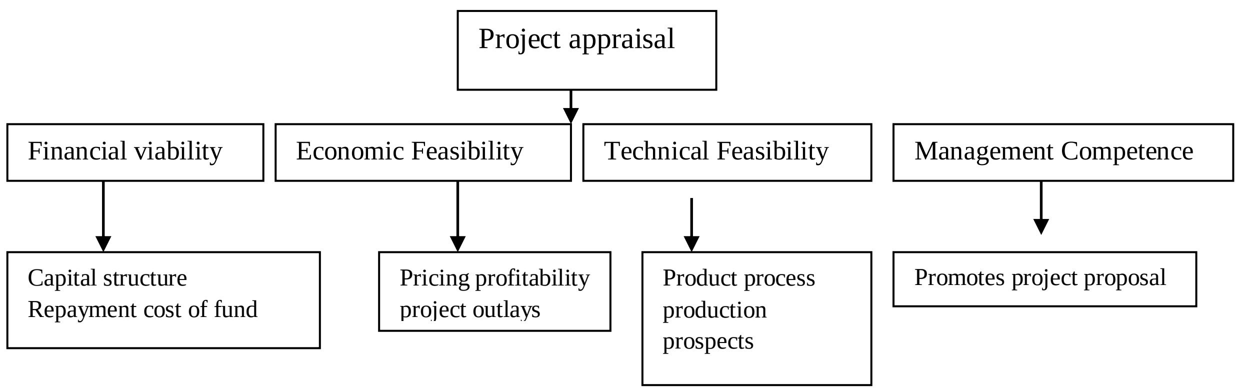
C) Credit Analysis

After interviewing the borrower, the person of bank carryout credit analysis. A credit is mainly concerned with the measurement of the riskiness of a loan proposal. Various aspects such as loan repaying capacity of the borrow, loan purpose, securities offered by the borrower etc. are analyzed and inspected.

D) Project Appraisal

Bank generally carries out project appraised before accepting medium and long-term loan proposals. A project appraised can simply be understood as a process of assessing the viability of project to judge the soundness of loan proposals. A number of factors are taken into account while appraising a project. The factor may be differing as per the types of the project. However, bank generally considers the factor as summarized in the figure.

Project Appraisal Process



Thus it is after appraising the project from all corners the bank personnel comes to the conclusion that whether the amount lent for that particular project can be repair safety or not. It is on the basis of this appraisal process that medium and long term loan proposal are accepted or rejected in banks.

Finally, upon fulfillment of all necessary requirement, the loan proposal is submitted to the approving authority for final decision, Bank sometimes approaches some authority business men in the banking sector, which require making market efforts for sustaining the business.

2.8.2 Loan Documentation

Bank does not disburse the approval loan until all necessary documents have been obtained. The necessary documents are given below.

- All companies are required to submit their board resolution authorizing to execute loan /security document with the bank to avail credit facility.
- Original certificates should be presented for verification while submitting this form.
- Corporate guarantee should be should be supported by resolution of board of directors.
- Salary certificates must be in the official letterhead having seal and must certain net salary , your designation , year of service, date of retirements or expiry of contract and type of employment (permanent or contract) . It should be signed along with the name and designation of the signatory.
- For commercial vehicles, detail breakdown of the income from and expenses of the vehicle id necessary.
- Bank can demand any additional documents at its own discretion.
- In case of swapping loan, loan statement from current bank/a financial institution is required.

2.8.3 Loan Disbursement

In bank, a request for disbursement of loan from the borrower with an authorized signature should be obtained for disbursing amount of loan. A bank personnel verifies the signature of the borrower and the requested amount is credited to the respective borrowers amount.

Loan Disbursement Procedure

Disbursement procedure for different type of loan are given below:

- Long term time loan: the fund is disbursed as per the schedule normally fixed in advance by debiting long term loan account.
- Short term time loan: the fund limit is disburdened once by debiting time loan account and normally crediting current account.

- Demand loan: the loan is disbursed as and when demanded by the borrower by debiting demand loan account and by normally crediting current account.
- Overdraft loan: a borrowing can draw a cheque in current account up to the approved limit at any time.

2.8.4 Loan Follow –Up

The loan follow –up can simple be understood as a post assessment of the approved loan. The bank personnel keep close contact with the borrowers to know the development that may under the repayment of loan. At the same time loan follow –up helps to build up a good rapport of borrowers that ultimately may result in good future prospects for the bank itself.

2.8.5 Payment of Debt and Interest

Bank collects principle and interest from the borrower in the basis of "Bullet payment method". A bullet payment method means the method in which interest is received on quartile basis and principal is received upon maturity . bank changes interest on Ashwin-end, Paush end, Chaitre end and Ashadh end.

2.8.6 Credit Renew

Bank provides the facility of renewal of loan to the borrowers based on the utilization of loan amount without any adverse record, Which regular interest payment and also if the bank is satisfied with the transactions of the borrower throughout the year.

2.8.7 Security

Bank asks both primary and secondary security from the borrower. The security are viewed on various ground such as possibility of marketability, valuation, validity, enforcement and other necessary economic considerations. In bank non-repayment of loan sometimes takes place because of wrong valuation of securities or the wrong assessment of loan requirement itself.

To sum up, it is found that all the aspects of loan management such as loan approval, loan documentation, loan disbursement, loan follow –up etc in bank have been paid proper attention. Bank is able to perform loan management satisfactory till date.

2.9 Risk Management

Primary goal of risk management framework is to ensure that outcomes of risk taking activities are predictable and that there is an appropriate balance between risk and return in order to maximize return to shareholders. We have been engaged in extensive and detailed evaluation and assessment of risk management framework in all areas of banking activities.

2.9.1 Credit Risk Management

Credit risk is the risk of financial loss, the bank may face as a result of a borrower or a counterparty not meeting its obligations in line with the original contract. Since, majority of the bank's assets is in the form of loans and advance, management of credit risk therefore becomes the most crucial task.

The credit risk management committee (CRMC), focus on monitoring of credit risk, ensuring compliance and implementations of credit risk policy/strategy approved by the board and incorporation of regulatory compliance in banks policies and guideless.

2.9.2 Market Risk Management

Market risk as defined by market risk management policy of the bank is the risk of probable loss due to adverse changes in the market value of the bank's assets and liabilities. The market value of the bank's assets and liabilities. The market risk management committee has the overall responsibility to monitor /manager various market risks exposure of the bank through market risk limits, stop loss limits etc at a more granular level. it is involved identification assessment, monitoring, reporting and analysis of market risk profile associated with treasury operations.

2.9.3 Operational Risk Management

Operational risk can be defined as a risk arising from execution of a company business function and arising from the people, system and processes through which a company operates. It also includes other categories such as a fraud risk, legal risks, physical or environmental risks. The operational risk management committee reviews the risk profile, anticipates changes and threats and concurs in areas of highest priority and related mitigation strategies and of highest priority and related mitigation strategies and ensures that adequate resources are being – assigned to mitigate risks as needed.

2.9.4 Interest Rate Risk Management

Interest rate risk of the overall balance sheet is measured through the use of re-pricing gap analysis and duration analysis. We prepare interest rate risk reports on a periodic basis which are submitted to Nepal Rastra bank. Interest risk limits approved by the assets liability management committee (ALCO)

2.9.5 Liquidity Risk Management

Banks maintain diverse sources of liquidity to facilitate flexibility in meeting funding requirements. Incremental operations in the domestic market are principally funded by accepting deposits from retail and corporate depositors.

2.10 Review of NRB Directives

Nepal Rastra bank is the apex institution in the money and capital market. Nepal Rastra bank has issued various directives in order to develop healthy, competitive and secured banking and economic system to ensure to national development.

Banks collect deposit from public, banks collect the fund and provide loan and advance. Bank should identify and recognize those loan and advances when there is possibility that the loans advances issued cannot be recovered according to the contractual agreement. Bank should maintain reserve of fund as loan loss provision against the disbursed loan. It is often seen that most of the banks are liquidity because of bad debt or non repayment of loan by borrowers.

Therefore to avoid his situation NRB has issued the directives by which joint venture banks should make provision against the loan disbursed. For this, loan should be categorized and the certain percentage. For this loan should be required to be maintained.

Directives Relating Loan Classification and Provisioning

In the directive given by Nepal Rastra bank loans and advance are initially categorized as performing and non-performing loan under which pass is considered as performing loan whereas substandard, doubtful and bad debt are considered as non performing loan. They are shows as follow:

Classification of Loan	Loan Loss Provision
pass loan	1%
sub-standard loan	25%
doubtful loan	50%
bad loan	100%

a) Pass Loan

loan and advance whose principal amount are not due and past due for a period up to 3 month shall be included in this category .these are classified and defined as per forming loans.

b) Sub-Standard Loan

All loans and advance which are past for period of more than 3 month up to 6 month is called substandard loan.

c) Doubtful Loan

All loans and advance which are past due for a period of 6 month to 1 year shall be included in this category .These area also classified as non-performing loans.

d) Loss Loan/Bad Loan

All loans which are past for period of more than 1 year is called bad debt.

Additional arrangement in respect of Loss Loan

- Even if the loan is not due, loan having any or all of the following discrepancies shall be classified as loss.
- Non-security is all or security that is not in accordance with the borrowers agreement with the bank.
- The borrower is absconding or cannot be found.
- Purchase or discounted bills are not realized within 90 days from the due date.
- The credit has not been used for purpose originally intended.
- Loans provided to the borrowers included in the black list and where the credit information bureau blacklist the borrower.

Provisioning against Priority Sector Credit

Full provisioning as per the normal loan loss provisioning shall be made against the uninsured priority and deprived sector loans. However in respect of insured loans the requisite provisioning shall be 25% of the percentage normal loan loss provisioning. The required provisioning in the case of insured priority sector credit is as follows.

Pass loan	0.25%
Substandard loan	5.00%
Doubtful loan	12.50%
Bad debt	25%

2.11 Review of Previous Related Studies

Some of relevant reviews of literature from journal, news paper and text book are presented below with in periphery of this research to know enoughness this original were.

2.11.1 Review of Books

Sound, vibrant and competitive financial sector is a key to the economic development. As the countries are becoming more and more interdependent through globalization and liberalization, most of the poor and developing nations are finding themselves way behind the developed countries in term of trade and development. To become a successful trade partner and to achieve economic development of a financial sector is a must.

Many researches and writers have conducted their research in the field of commercial bank specially on their financial performance and fund mobilization policy. Here are some review of books and journal regarding this subject.

Dangol, Ratnaman and Prajapati, Keshab Prasad in the Books "Accounting for financial analysis and planning" mention the use of ratio analysis as follows,

- For expressing trend
- For showing changes in financial statement
- For explaining plan for future
- For setting standard
- For effective control
- For comparing efficiency
- For maintaining uniformity

Joshi, Shyam and Shrestha, Hari Prasad in the book "Principle of banking and insurance "Mention the principle of sound investment policy of commercial bank. In this topic the authors identify the investment policy as profitability, liquidity, shift ability, safety, diversification of risks, capital adequacy, solvency, social welfare etc.

Bhandari, Dilli Raj in the book of banking and insurance (principle and practice).in banking sector or transaction, an unavoidable of loan this management and its methodology is regarded very important. Under this management, many subject matter are considered and through. For example, there are the subject matter like the policy of loan floe, loan administration and audit of loan, renewable of loan, the conditions of loan flow, the documents of loan flow and the provision of security, the provision of the payment of the capital and its interest and other such procedures. This management plays a great role on healthy competitive activities.

Khan and Jain view in the book "Financial Management" the type of relationship to be investigated depends up on the objectives and purpose of evaluation. The purpose of evaluation of financial statement diggers among various groups creditors shareholder, potential investor, management, government, labor leader and soon interested in the results and relationships reported in the financial statement. For example, short – term creditors are currently – maturity obligation.

Morris (1990), In his discussion paper on "Latin Americas banking system in the 1980's has concluded that most of the banks concentrated on compliance with central bank rules on reserve requirement, credit allocation and interest rates. On the other hand, analyzing loan portfolio quality, operation efficiently and soundness of bank investment management has larger been over hooked. he further adds the mismanagement in financial institution has involved inadequate and over optimistic loan appraisal, high risk densification of loan portfolio and investment, high risk concentration, related parties lending etc are major cause of investment and loan that has gone bad (Source: Morris, 1990; Latin America's Banking System in the 1980's).

2.11.2 Review of Article and Research Papers

Various researches and scholars have written about the topic selected. Their view and expressions are presented in this section.

Bajracharya, Bodhi B. in his article "Monetary Policy and Deposit Mobilization in Nepal" has concluded that mobilization of domestic saving is one of the monetary policies in Nepal in Nepal. For this purpose, commercial banks stood as the virtual and active financial intermediary of generating resources in the form of deposit of the private sector so far providing credit to the investors in different aspect of the economy.

In an article "challenge of non –performing loan management in Nepal", Uma Karki has mentioned the cause of increasing trend of non-performing loan. She identifies the major cause such as poor loan analysis grantee originated loan system ,depreciation on valued assets misuse of loan lack of regular supervision of loan (Karki, Uma; Nepal Rastha Samachar –Vol 47, 2059:87).

Chopra, Sunil in his articles “Role of foreign banks in Nepal” has written that JVBs are playing increasing dynamic and vital role in the economic development of the country that will undoubtedly increase with time . He has among the commercial banks. It has enforced the other banks to improve the quality and extend services (Chopra, 1989:1-2).

Shrestha, Ramesh Lal in “A study on deposit and credit of commercial banks in Nepal “ has reviewed that credit deposits ratio would be 51:30, other things remaining the same in Nepal , which was lowest under the period of review . JVBs should try to give more credit entering new field as far as possible. Otherwise they might not be able to absorb even the total expense (Shrestha, 1988: 32).

Subedi, Kamal in “Growth in Major Commercial Banks” has compared between the first six months of fiscal year 2059/060 and 2061/062 which shows that there has been noticeable increase in credit outflow by commercial banks except of Nepal bank ltd, and RBB. There has been increase in C/D ratio of all commercial banks accepts NBL and RBB. It may be because their concentration was only one recovery of hung non-performing assets (New Business Age, 2004: 47-48).

In an article “Restructuring Process of Commercial Banks and Responsibility of Restructuring Term”, Mehesh Bhandari is trying to indicate the problem of banks bad debt and non-performing assets. According to him “If a bank cannot recover its loan lending, banks cash flow will be badly affected.” Similarly it can affect the close relationship between depositors.

Pradhan, K. in “Nepal Ma Banijya Banking Upalabdhi Tatha Chunauti” has stated that the HVBs are in better position than local commercial banks in profit making. In an average, no foreign banks have suffered looses till now, but local banks owned negative profit (Pradhan, 1991:13).

Pradhan (1984) in his article ”Financial liquidity assessment and discriminate analysis” in the “Pravaha”, Journal of Management Vol 8,1984, published by Nepal commerce campus , Tribhuvan university, has made an effort to show how discriminate analysis may be useful in assessing the financial liquidity position of the selected public enterprises of Nepal . He tried to arrange 10 public enterprises (5 from manufacturing sectors and 5 from non- manufacturing sectors) on the basis of their risk indicated by z-score. The objective of the article was, however to evaluate and combine two explanatory variables in a manner that forces the selected groups to be as statistically distinct as possible (Pradhan, 1984; Pravaha, Vol 8:24).

Shrestha, M.K in “Commercial Banks, Comparative Performance Evaluation” has expressed that there has been substantial growth in number of JVBs in Nepal since 1990s. The basis reason behind this is the government deliberate policy of allowing foreign JVBs to operate in Nepal. Government liberalization policy also encourages the traditionally run domestic commercial banks to enhance their efficiency and competitiveness through modernization , mechanization and computerization and prompt customers services by setting them to the exposure of the JVBs (Shrestha, 1990:31).

2.11.3 Review of Thesis

Tandukar, S.M. (2003), in his thesis paper “Role of NRB in Deposit Mobilization of Commercial Banks” has tried to examine role of NRB in deposit collection by the commercial banks and to analyze the trend of deposits mobilization towards total investment and loan and advances. Projection is for five years i.e. (1998 to 2002). The data used for the studies are both primary and secondary nature. The researcher used different financial tools such as liquidity ratio, profitability ratio, risk ratio and coefficient of correlation, trend analysis as statistical tools. The found that all directives of NRB of commercial banks are effective and it is good for both nation and future of the banks but the loan classification and provisioning seems to be little bit uncomfortable to the commercial banks. Deposit and loan and advances of NBBL are higher than EBL but in case of the EBL are able to mobilize more fun than NBBL in this sector.

Sapkota, Uddab Prasad (2002) in his thesis paper "A Study on Fund Mobilizing Policy of Standard Chartered Bank Ltd in comparison to Nepal Bangladesh bank Ltd, and Himalaya Bank Ltd" having main objective to examine the fund mobilizing policy adopted by three joint venture banks SCBNL. NBBL and HBL study period i,e. from 1996/97 to 1999/2000.

He found that overall condition of SCBNL seems in satisfactory position in comparison to NBBL and HBL. In other words, he recommends that banks are strongly recommended to provide information about its services, facilities and extension of their services towards rural areas. These three banks are recommended to increase case and bank balance to meet the need of investment and demand of loan and advances. And banks are to be investing its funds in the purchase of shares and debentures of other financial, non-financial companies, hotels and government companies.

Sapkota has not explained about the risk ratios which have to be faced by these joint venture banks. His study cannot shows the fund mobilizing policy of the selected banks for the succeeding years because of time limitation I,e, up to 1999/2000. While reviewing the books and articles and previous studies, it is found that banks are not just the storehouse of the country wealth but are the reservoirs of resources necessary for economic development and employment generation. There are still different obstacles in the effective operation of the economic development of Nepal.

Rana, Shrijana (2007) carried out a research on “Efficiency of Lending Policy of Commercial Banks” and found the many causes of lending inefficiency in commercial banks and she recommended that capable manpower is always required to any organization and improvement in internal system and formulation of strategies should be done to improve lending policy system.

Mandal, Mahendra (1998) in his this paper “A Comparative Financial Performance a proposal of Joint Venture Banks” has studies primary their joint venture banks i.e. NABIL, NGBL and NIBL. His main objective is to find out the both banks, NGBL and NABL have mobilized the debt funds in proper ways for generating more return but NIBL could not mobilize as NABIL and NGBL. He has recommended that all the banks should provide their recommended that all the banks should provide their facilities in ruler areas and encourage the small entrepreneurs development programmers, play merchant role, mobilize the deposit funds unproductive sectors and grant priority to the local manpower .

He has not attempt to show the investment policy and concentrated only on financial performance of JVBs. Therefore it cannot represent the performance appraisal of JVBs. His study period is up to fiscal year 1997/98 and it cannot analyze the investment policy after that fiscal year.

CHAPTER - III
RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is the overall framework for how to conduct, process, analysis & present data on table & diagrams to find answer of this research problem questions/objective. It may be understood as a science of studying how research is done scientifically. In it the various steps that are generally adopted by researcher in studying his research problem along with the logic behind them. Research can be defined as an organized, systematic, data base critical, scientific inquiry or investigation in to a specific problem, under taken with the objective of finding answer or solution to it.

Research methodology describes the methods of process applied in the entre study. This research is concerned with primary & secondary data. For the purpose of achieving the objective the following research methodology has been purposed. It include research design, data collection procedure, population & sample, method of data analysis and data analysis tools.

3.2 Research Design

Research design means systematic planning of research, usually including, the formulation of a strategy to resolve a particular question, the collection & recording of the evidence, the processing & analysis of these data & their interpretation and the publication of results.

Research design is an organized approach and not a collection of loose, unrelated part. It is an integrated system that research in formulating, implementing & controlling the study. Research design is an overall framework of plan for collection & analysis of data that focuses on the data collection method, the research instrument utilized and the sampling plan structure & strategy of investigation conceived do as to obtain answer to research questions & control variance. The plan is overall scheme or program of research.

The research study attempts to analyze the loan management of Nepal SBI Bank Ltd. and Everest Bank Ltd. The research design basically follows its loan proceed methods, current scenario of management and future planning for this section. Mostly the analysis is based upon secondary data. i.e., of few years financial statements of the sample firm, collected directly from these firms & their websites.

Descriptive and Analytical Method

Descriptive research design involves the systematic collection & presentation of data to give a clear picture of a particular situation. This studies attempt to obtain a complete & accurate description of a situation. To fulfill the objective of this study, How to make strong fund & the case of hove & Everest Bank Ltd has to be analyzed for the descriptive type of research design in adopted.

Statistical Method

It is a method which concerns the questions of how many items are to observe and how the information and data items are to be analyzed. This process of analysis is adopted to see the trend situation of loan management of Nepal SBI Bank Ltd. & Everest Bank Ltd. from the year 2064/65 to 2068/69.

3.3. Data Collection Procedures

Secondary Data

Those data which are collected by one agency, organization or person but used by other agencies, organization or person are called secondary data or secondary sources. It refers to those, which are for already gathered or copied by others prior to our study are also secondary data. Collection of secondary data is comparatively cheaper than the collection of primary data but the secondary data may not be in the form that the investigator needs.

The secondary sources of data are collected from the head office of the respective bank. Annual reports are collected from the bank and other required data are collected from various sources like the website, magazines, published & unpublished reports as well.

3.4 Population & Sample

Population covers the whole or total of the observation. The well specified or identifiable group of people, events or things of interest that the researcher wishes to investigate is known as the population.

There are many banks and non-bank financial institution operated in Nepal for eg, commercial banks, development banks, finance company, micro credit development banks, saving & credit co-operative. It is not possible to study about all these banks & non-banks financial institution due to lack of time.

There are all total 32 licensed "class A' commercial banks in Nepal.

- Nepal Bank Limited
- Rastriya Banijya Bank Limited
- Agriculture Development Bank Limited
- Nabil Bank Limited
- Nepal Investment Bank Limited
- Standard Chartered Bank Nepal Limited
- Himalayan Bank Limited
- Nepal SBI Bank Limited
- Nepal Bangladesh Bank Limited

- Everest Bank Limited
- Bank of Kathmandu Limited
- Nepal Credit and Commerce Bank Limited
- Lumbini Bank Limited
- Nepal Industrial & Commercial Bank Limited
- Machhapuchhre Bank Limited
- Kumari Bank Limited
- Laxmi Bank Limited
- Siddhartha Bank Limited
- Global IME Bank Limited
- Citizens Bank International Limited
- Prime Commercial Bank Ltd
- Sunrise Bank Limited
- Bank of Asia Nepal Limited
- Grand Bank Nepal Limited
- NMB Bank Limited
- Kist Bank Limited
- Janata Bank Nepal Limited
- Mega Bank Nepal Limited
- Commerz & Trust Bank Nepal Limited
- Civil Bank Limited
- Century Commercial Bank Limited
- Sanima Bank Limited

Sample is the part of the population that we actually examine in order to gather information. Population is a large unit so, it is time consuming, tedious, and hearly impossible to analyze each & every individual of the population. So, only a part of population is considered. That finite subject of any population is called the sample.

Among the 32 commercial banks, 6 banks are joint venture Bank as follows:

- Everest Bank Limited
- Himalayan Bank Limited
- Nabil Bank Limited
- Nepal Bangladesh Bank Limited
- Nepal SBI Bank Limited
- Standard Chartered Bank Limited

Two Banks are selected as the sample of the study. The following banks are selected for the study on the basis of their homogeneous nature in term of market coverage performance & popularity.

- Everest Bank Limited
- Nepal SBI Bank Limited

3.5 Methods of Data Analysis

In the study, Data analysis is done according to the pattern of data available. Specific financial & statistical tools are used in this research to show the relationship between different variables related to the study. Regarding presentation, the calculated results are tabulated under different headings and then they are compared with each other to interpret the results. Mean, correlation Analysis are done to study the relationship between the variables.

Presentation and analysis of the collected data is the core part of the research work. The collected raw data are first presented in systematic manner in tabular form & then analyzed by applying different financial and statistical tools to achive the research objective. Beside that some graph charts and tables have been presented to analyze & interpret of the study.

3.6 Data Analysis Tools

Analysis & presentation of the data is the main part of every research work. To draw the strong conclusion & make the analysis more effective, convenience, reliable & authentic, various financial statistical and accounting tools have been used. Statistical tools & financial tools have been used to achieve the certain goals.

3.6.1 Statistical Tools

Statistical method are the mathematical techniques used to facilitate the analysis & interpretation of numerical data secured from groups of individual or group of observation from a single individual. The figure provides detailed description & tabulate as well as analyze data without subjectivity, but only objectivity. The result can be presented in brief and precise languages and complex & complicated problems can be studies in a very simple way. If becomes possible to convert abstract problem into figures and complex data on the form of tables.

The various statistical tools used in this study to analyze the collected data are as follows:

- **Arithmetic Mean**

The sum of all the observations divide by number of observations is called arithmetic mean or simple average.

In equation

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

Where, $\sum X = X_1 + X_2 + \ldots\ldots\ldots\ldots\ldots. + X_n$ = sum of given se of observation

n = number of items observed

X = variables

- **Standard Deviation (S.D.)**

Karl person first suggested standard deviation in 1893A.D. as a measure of dispersion. It is usually denoted by sigma (6). The measurement of scatterness of the mass of figures in a series about an average is known as dispersion and standard deviation measures the absolute dispersion. Greater the amount of dispersion greater will be standard deviation and vice versa. A small standard deviation means high degree of uniformity of the observation as well as homogeneity of the series.

Symbolically, S.D. (σ) = $\sqrt{\frac{\sum(X-\bar{X})^2}{N}}$

- **Coefficient of Variation (C.V)**

In comparing the risk of assets with different expected returns, the use of the standard deviation can easily be improved upon by converting the standard into a coefficient of variation. The coefficient of variation, Coefficient of Variation, is calculated by dividing the standard deviation by mean.

Symbolically

Coefficient of Variation (CV) = $\frac{\sigma}{\bar{X}}$

Where,

σ = Standard Deviation

$\bar{X}$ = Mean

- **Correlation**

Correlation is defined as the "relationship" between the one dependent variable and one independent variable or factor. In the other words, correlation is the relationship between (or among) two or more variables (i.e., any one variable dependent and one or more variable/variables independent.

Correlation of coefficient, $r = \frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2}\sqrt{N\sum Y^2 - (\sum Y)^2}}$

Where,

N = Number of pairs of observation

X = Variable

Y = Variable

r = Correlation of coefficient

The relationship between the two variable can be measured either by graphical method (scatter diagram) of by numerical calculation method.

Karl person's correlation coefficient has been used to find out the relationship between following variables.

- Coefficient of correlation between Loan & Advance to Total Assets
- Coefficient of correlation between Loan & Advance to Total Deposit

The numerical measurement of relationship between the two variables is denoted by the symbol "r" whose values arranges from $-1 \leq r \leq +1$.

Interpretation:

If r = 0, there is no relationship between the variables.

If r < 0, there is negative relationship between the variable

If r > 0, there is positive relationship between the variable

If r = +1, the relationship is perfectly positive

If r = -1, the relationship is perfectly negative.

The probable error of the correlation coefficient is applicable for the measurement of reliability of the computed value of the correlation coefficient, “r”

The probable error (P.E.) is denoted by,

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

Where,

P.E.(r) = Probable error of correlation coefficient

r = correlation coefficient

N = Number of observation

Tables

A table is presentation of data in row & column form. The presentation of table is concerned with labeling to make context clear. The raw data collected should be tabulated. So that (it will be revealing. The better the organization) and sequencing of that data, the better it will be revealing. If the data is displayed in table form, it becomes easier for its analysis.

Figure

The term figure usually includes graphs & charts. These presentations help clarify & understand the data at a glance. In other words, figure assists to the reader in understanding the subject.

3.6.2 Financial Tools

Financial tools basically help to analyze the financial strength & weakness of the firm Ratio analysis is the part of the whole process of analysis of financial statement of any business or industrial concerned specially to take output & management decision. Ratio analysis is used to compare firm’s financial performance and status that of the other or to it overtime. Even though there are many ratios to analyze and interpret the financial statement those ratios that are related to the investment operation of the bank have been covered in this study. The following types of ratios have been used in this study.

- **Total Assets to Total Liability Ratio**

The ratio of total assets to total liability measures the volume of total liability in total assets of the firm. Banks create by way of lending activities and multiply their assets many lines than their liabilities permit. Thus this ratio measures the Bank's ability to multiply its liability in to assets.

It is always recommended to have higher ratio of total assets to total liabilities ratio. Since, it signifies overall increase of credit & overall development of a bank.

$$\text{Total Assets to Total Liability Ratio} = \frac{\text{Total Assets}}{\text{Total Liability}}$$

- **Loans & Advances to Total Assets Ratio**

The ratio of loans & advances to total assets measures the volume of loans & advances in the structure of total assets.

The high degree of this ration indicates the good performance of bank is mobilizing its funds by the way of lending functions.

$$\text{Loans \& Advances to Total Assets Ratio} = \frac{\text{Loan \& Advances}}{\text{Total Assets}}$$

- **Loan & Advance to Total Deposit Ratio**

The ration shows the percentage of loans & advances that have been granted out of total deposits of bank. Granted out of total deposits of bank higher ratio indicates higher use of fund & generating more income.

$$\text{Loans \& Advances to Total Deposit Ratio} = \frac{\text{Loan \& Advances}}{\text{Total Deposit}}$$

- **Interest Income to Loan & Advance Ratio**

When loans are generated it can perform as well as non-performing. Whether it is performing or not is judge by the loans.

$$\text{Interest Income to Loans \& Advances Ratio} = \frac{\text{Interest Income}}{\text{Loans \& Advances}}$$

- **Investment to Loan & Advance Ratio**

This ration measures the contribution made by investment in total amount of loans & advances. The proportion between investment and loan & advance. Measures the management attitudes towards risky assets & safety assets.

$$\text{Investment to Loans \& Advance Ratio} = \frac{\text{Investments}}{\text{Loan \& Advance}}$$

- **Loan Loss Provision to Loan & Advance Ratio**

The ratio of loan loss provision to total loan and advance describes the quality of assets in form of loan is bank holding. Loan loss provision, in fact is the cushion against future contingency created by the default of the borrowers. Loan loss provision indicates the figure that is the summation of provision made against all types of loan as per the NRB directives. Loan loss provisions occupies the large share in the total provision presented in the profit & loss A/c and definitely decrease the profit of the company.

$$\text{Loan Loss Provision to Loan \& Advance Ratio} = \frac{\text{Loan Loss Provision}}{\text{Loan \& Advance}}$$

- **Non-performing Loan to Loan & Advance Ratio**

As the NRB directives given to the Joint venture banks, sub-standard, doubtful & bad loans are categorized under non-performing loans. Increase in non-performance loans increase loan loss provision and interest suspense too, which ultimately results in profit deduction.

$$\text{Non- performing Loan to Loan \& Advance Ratio} = \frac{\text{Non-performing Loan}}{\text{Loan \& Advance}}$$

- **Interest Income to Total Income Ratio**

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

$$\text{Interest Income to Total Income Ratio} = \frac{\text{Interest Income}}{\text{Total Income}}$$

- **Interest Income to Interest Expenses Ratio**

The ratio of interest income to interest expenses ratio measures the difference between interest rates offered and interest rate charged. The spread between the interest income & interest expenses is the main foundation for the profit of the bank.

NRB had restrictions on the interest rate spread of the joint venture banks. The interest offered and the interest changed should not be more than 5 percent. The joint venture banks are free to fix interest rate on deposit and loan. Interest rates on all types of deposit and loan should be published in the local newspaper and communicated to Nepal Rastra Bank (NRB) on quarterly basis and immediately when revised.

$$\text{Interest Income to Interest Expenses Ratio} = \frac{\text{Interest Income}}{\text{Interest Expenses}}$$

- **Loan Loss Provision to Non-Performing Loan Ratio**

This ratio determines provision held to Non-performing loan. NRB had directed all commercial banks to provide prevision for all types of loan & advances. This ratio measures up to what expend of risk inherent in Non-performing loan is covered by the total loan loss provision.

$$\text{Loan Loss Provision to Non-performing Loan} = \frac{\text{Loan Loss Provision}}{\text{Non-performing Loan}}$$

- **Net Profit to Loan & Advance Ratio**

Return on loan & advance ratio indicates how efficiency the bank has employed its resources in the forms of loan & advances. Net profit of a bank largely depends upon interest earn from loan & advances and there is positive correlation between effective utilization of loan and advances and Net profit. This ratio measures the bank's profitability with respect to loan & advances. Higher the ratios better the performance of the bank and vice-versa.

$$\text{Net Profit to Loan \& Advance} = \frac{\text{Net Profit}}{\text{Loan \& Advance}}$$

CHAPTER - IV

DATE PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter contains the analysis and interpretation of the available and relevant data of Nepal SBI bank ltd. and Everest bank ltd. Five year data period covering from the fiscal year 2064/65 to 2068/69 B.S. Have been analyzed and interpreted as per the research methodology defined in chapter three. Loan management is the important activities of every banks and financial institutions.

Nepal SBI bank ltd. And Everest bank ltd. Both are the joint nature commercial banks, function in a same way by accepting deposits from the savers and giving loans to the needy people. But before giving loans to pay firm, company or project, bank makes appraisal and if seemed viable then only grants loan. It provides on various heading like overdraft, term loans, hire purchase loan, housing loan etc.

4.2 Presentation of Secondary Data

4.2.1 Loans, Advance and Overdraft

Nepal SBI Bank ltd. And Everest bank ltd provides on different heading like vehicle loan , housing loan, project loan , trust receipt loan , credit card loan etc. the position of loans and advances of NSBIBL and EBL from fiscal year 2064/65 to 2068/69 is presented through table and figure.

Table No. 4.1

Loan, Advances and Overdraft

Fiscal Year	Nepal SBI Bank ltd.			Everest Bank ltd.		
	Loan and Advances	Change in Rs	Change in %	Loan and Advance	Change in Rs	Change in %
2064/065	12746	-	-	18836	-	-
2065/066	15612	2866	22.48	24469	5633	29.90
2066/067	17964	2352	15.06	28156	3687	15.07
2067/068	21719	3755	20.90	31662	3506	12.45
2068/069	26464	4745	21.84	36617	4955	15.65

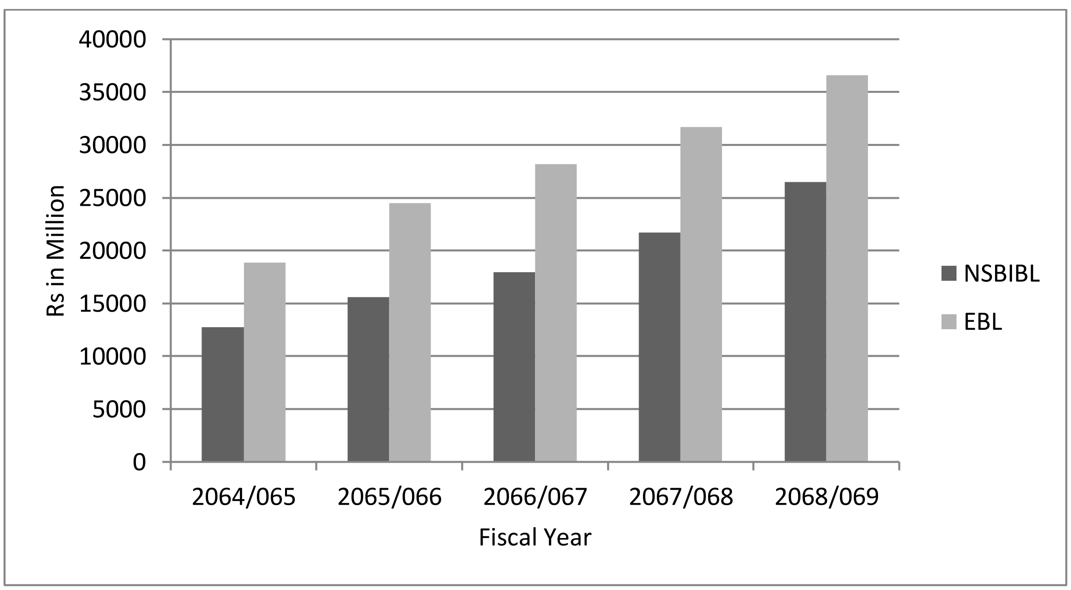
Source: Annual Reports of NSBIBL and EBL

The table shows the total loan extended by NSBIBL and EBL. It shows the incensement to loan amount in each year. The amount in percentage is fluctuating. This is possible only when there is good loan management.

This can be shown with the help of bar diagram as below.

Figure No 4.1

Loan, Advances and Overdraft 2068/069



Secondary data consist of the data collected from the annual reports of the banks, obtained from the respective banks websites and other journal and newspapers. The trend of loan disbursement, it recovery and the ratios to measure the bank loan efficiency are analyzed by the help of figures and data.

4.2.2 Total Deposit

How much deposit has been collected by each bank over the year and what is the increscent percentage of the deposit is tried to be explored in this part.

Table No. 4.2

Total Deposit

Fiscal Year	Nepal SBI bank ltd.			Everest bank ltd.		
	Deposit	Change in Rs	Change in %	Deposit	Change in Rs	Change in %
2064/065	13715	-	-	23976	-	-
2065/066	27957	14242	103.84	33323	9347	38.98
2066/067	34896	6939	24.82	36932	3609	10.83
2067/068	42415	7519	21.55	41128	4196	11.36
2068/069	53337	10922	25.75	50006	8878	21.59

Source: Annual Reports of NSBIBL and EBL

From table 4.2 we can know that both banks have witnessed the higher and low increment in total deposit collection too. During fiscal year 2065/066, Nepal SBI bank and Everest bank both have observed high increase in deposit.

4.2.3 Interest Income

Interest incomes is the major income source of every financial institution which is depends upon loan and advance depends upon deposit.

Table No. 4.3

Interest Income

Fiscal Year	Nepal SBI bank ltd.			Everest bank ltd.		
	Interest Income	Change in Rs	Change in %	Interest Income	Change in Rs	Change in %
2064/065	970			1549		
2065/066	1460	490	50.52	2187	638	41.19
2066/067	2270	810	55.48	3102	915	41.84
2067/068	3100	830	36.56	4331	1229	39.62
2068/069	3769	669	21.58	4960	629	14.52

Source: Annual Reports of NSBIBL and EBL

The table No. 4.3 reveals that both banks interest income is increasing in decreasing rate. During the fiscal year 2066/067, both banks have observed high increase in interest income but the rate is decreasing now.

4.2.4 Non-performing Loan

The position of non-performing loan in each bank and the increment or decrease of NPL in the banks has been tried to know in this segment.

Table No.4.4

Non-Performing Loan (NPL)

Fiscal Year	Nepal SBI bank ltd.			Everest bank ltd.		
	NPL	Change in Rs	Change in %	NPL	Change in Rs	Change in %
2064/065	488			127		
2065/066	316	-182	-35.24	118	-9	-7.09
2066/067	492	176	55.70	125	7	5.93
2067/068	239	-253	-51.42	108	-17	-13.60
2068/069	144	-95	-39.75	307	199	184.26

Source: Annual Reports of NSBIBL and EBL

If non performing loan is decreasing, it is very good for any bank. The table above reveals that all three banks are trying to reduce their non-performing loan, during the fiscal year 2068/069, Nepal SBI bank has been able to reduce but Everest bank has been increased the non-performing loan.

4.2.5 Loan Loss Provision

The position of loan loss provision in each bank and the increment or decrease of LLP in the bank has been tried to be know in this segment.

Table No. 4.5

Loan Loss Provision

Fiscal Year	Nepal SBI bank ltd.			Everest bank ltd.		
	LLP	Change in Rs	Change in %	LLP	Change in Rs	Change in %
2064/065	632	-	-	497	-	-
2065/066	480	-152	-24.05	585	88	17.71
2066/067	483	3	0.63	600	15	2.56
2067/068	353	-130	-26.91	604	4	0.67
2068/069	322	-31	-8.78	706	102	16.89

Source: Annual Reports of NSBIBL and EBL

Loan loss provision is made to cover the possible losses of loan in future. If non-performing loan decrease, loan loss provision is also reduced. Nepal SBI bank has been decreasing its loan loss provision during fiscal year 2068/69 but Everest bank has increased the loan loss provision in every year.

4.2.6 Investment

Investment disbursed have been presented in this segment with the increment over the previous fiscal year. How much of investment has been disbursed and what is the increment is tried to be identified.

Table No. 4.6

Investment

Fiscal Year	Nepal SBI Bank Ltd.			Everest Bank Ltd.		
	NPL	Change in Rs	Change in %	NPL	Change in Rs	Change in %
2064/065	3088	-	-	5059	-	-
2065/066	13286	10198	330.25	5948	889	17.57
2066/067	16306	3020	22.73	5008	-940	-15.80
2067/068	18911	2605	15.98	7744	2736	54.63
2068/069	24463	5552	29.36	7864	120	15.50

Source: Annual Reports of NSBIBL and EBL

The table no 4.6 revels that Nepal SBI bank continuous increment in investment. But in the year 2065/066 it has increased in high rate. Everest bank has been in the normal condition of increasing. But in the year 2066/067 it has decrease the investment.

4.2.7 Total Income

The total profit earned by each bank over the year and the rate of increment is tried to be identified in this segment.

Table No. 4.7

Total Income

Fiscal Year	Nepal SBI bank ltd.			Everest bank ltd.		
	NPL	Change in Rs	Change in %	NPL	Change in Rs	Change in %
2064/065	638	-	-	1210	-	-
2065/066	829	191	29.94	1545	335	27.69
2066/067	1107	278	33.53	1928	383	24.79
2067/068	1406	299	27.01	2193	165	13.74
2068/069	1497	91	6.47	2610	417	19.02

Source: Annual Reports of NSBIBL and EBL

4.2.8 Total Assets

The total assets of each bank over the year and the rate of increment is tried to be identified in this segment.

Table No. 4.8

Total Assets

Fiscal Year	Nepal SBI Bank ltd.			Everest Bank ltd.		
	Total Income	Change in Rs	Change in %	Total Income	Change in Rs	Change in %
2064/065	17187	-	-	27149	-	-
2065/066	30917	13730	79.89	36917	7968	35.98
2066/067	38048	7131	23.06	41383	4466	12.10
2067/068	46088	8040	21.13	46236	4853	11.73
2068/069	58060	11972	25.98	55813	9577	20.71

Source: Annual Reports of NSBIBL and EBL

From the above table, both banks have very high rate of assets increment in fiscal year 2065/066. After that their assets is increasing in decreasing rate. During fiscal year 20687/069. Both banks increase their assets in increasing rate.

4.2.9 Total Liability

The total liability of each bank over the years and the rate of increment are tries to be identified in this segment.

Table No. 4.9

Total Liability

Fiscal Year	Nepal SBI Bank ltd.			Everest Bank ltd.		
	Total Income	Change in Rs	Change in %	Total Income	Change in Rs	Change in %
2064/065	15773	-	-	25228	-	-
2065/066	29205	13432	85.16	34714	9486	37.6
2066/067	35598	6393	21.89	38624	3910	11.26
2067/068	43209	7611	21.38	43123	4499	11.65
2068/069	54863	11654	26.97	51636	8513	19.74

Source: Annual Reports of NSBIBL and EBL

From the above table 4.9, it is showing the total liability of NSBIBL and EBL. Both banks have been increasing their total liability in every year.

4.2.10 Net Profit

The net profit earned by each bank over the years and the rate of increment is tried to be identified in this segment.

Table No. 4.10

Net Profit

Fiscal Year	Nepal SBI bank ltd.			Everest bank ltd.		
	Total Liability	Change in Rs	Change in %	Total Liability	Change in Rs	Change in %
2064/065	248	-	-	451	-	-
2065/066	316	68	27.42	639	188	41.69
2066/067	392	76	24.05	832	193	30.20
2067/068	465	73	18.62	931	99	11.90
2068/069	480	15	3.23	1090	159	17.08

Source: Annual Reports of NSBIBL and EBL

The table no. 4.10 reveals that both banks selected for study have earning profit over the years but the rate is not always high. During the fiscal year 2068/069, Nepal SBI bank has very low increase as well as Everest banks ltd.

4.3 Analysis of Various Ratios

4.3.1 Total Assets to Total Liabilities Ratio

The ratio of total assets to total liabilities measures the volume of total liabilities in total assets of the firm. Banks create credit by the way of lending activities and multiply their assets many times than their liability permits. Thus this ratio measures the bank's ability to multiply its liability in to assets.

Total Assets to Total Liability= $\frac{\text{Total Assets}}{\text{Total Libilities}}$

Total No. 4.11

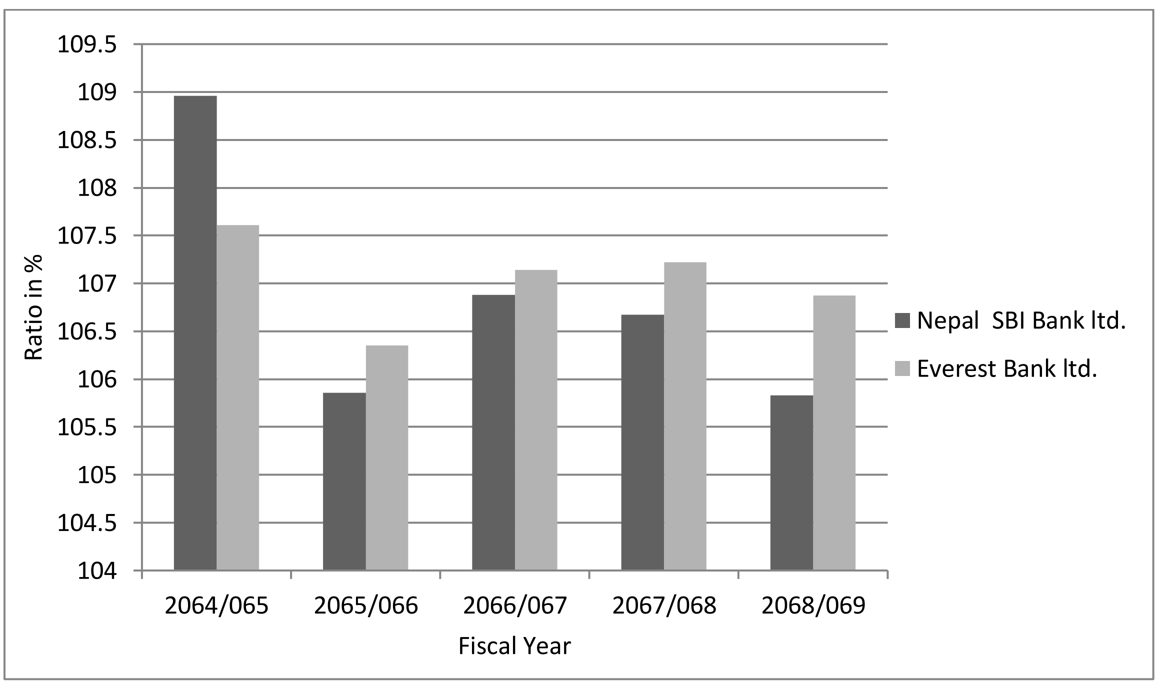
Total Assets to Total Liabilities Ratio

Fiscal Year	Nepal SBI Bank ltd.			Everest Bank ltd.		
	Total assets	Total Liability	Ratio %	Total Assets	Total Liability	Ratio %
2064/065	17187	15773	108.96	27149	25228	107.61
2065/066	30917	29205	105.86	36917	34714	106.35
2066/067	38048	35598	106.88	41383	38624	107.14
2067/068	46088	43209	106.67	46236	43123	107.22
2068/069	58060	54863	105.83	55183	51636	106.87
Mean			106.84			107.04
S.D			1.16			0.42
C.V			1.08%			0.39%

Source: Annual Reports of NSBIBL, EBL and Appendix - *I*

Figure No. 4.2

Total Assets to Total Liabilities



The above table and figure shows the total assets to total liabilities ratio of Nepal SBI bank Everest bank ltd. Total assets to total liabilities of NSBIBL is 106.84%

and EBL is 107.04%. The highest ratio of total assets to total liabilities is considered best.

Standard deviation (S.D) of NSBIBL and EBL are 1.16% and 0.42% respectively and coefficient of variation (CV) are 1.08% and 0.39 respectively. This indicates that NSBIBL has highest variability in total assets to total liabilities ratio and EBL has the lowest variability.

The total assets of the banks should play active role in profit generation through lending activities. So from analysis, it can be said that the highest mean ratio of EBL indicates the bank's ability to multiply its liability into assets and also signifies overall increase of credit. The performance level of NSBIBL is also.

4.3.2 Loan and Advance to Total Assets Ratio

Loan and advance of any commercial banks respect the major portion in the volume of total assets. The ratio of loan and advances to total assets measures the volume of loans and advances in the structure of total assets. the high degree of this ratio indicates the good performance of a bank in mobilizing its fund by the ways of lending function . However in its reverse side the high degree of this ratio is reprehensive of low liquidity ratio.

Granting the loan and advances always carries a certain degree of risk. Thus, this assets of banking business is regarded as rising assets, low ratio of safety in liquidity and vice versa.

This ratio determined the interaction of risk and return.

Table No. 4.12

Loan and Advance to Total Assets Ratio

Fiscal Year	Nepal SBI Bank ltd.			Everest Bank ltd.		
	Loan and Advance	Total Asset	Ratio %	Loan and Advance	Total Assets	Ratio %
2064/065	12746	17187	74.16	18836	27149	69.38
2065/066	15612	30917	50.50	24469	36917	66.28
2066/067	17964	38048	47.21	28156	41383	68.04
2067/068	21719	46088	47.13	31662	46236	68.48
2068/069	26464	58060	45.58	36617	55813	65.61
Mean			52.92			67.56
S.D			10.77			1.40
C.V			20.35%			1.51%

Source: Annual Reports of NSBIBL, EBL and Appendix - I

Figure No. 4.3

Loan and Advance to Total Assets

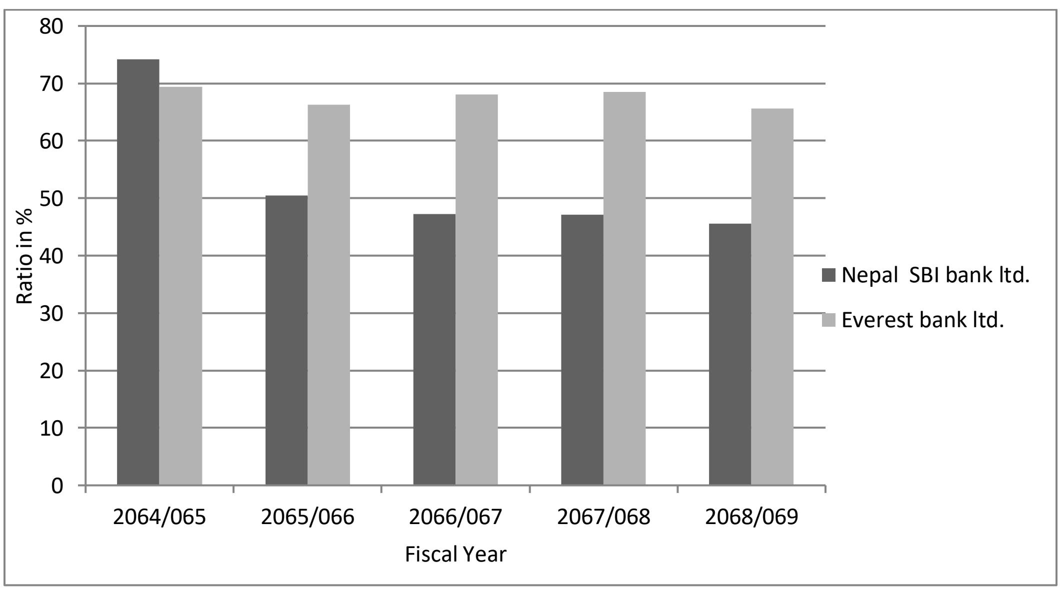


Table shows that total loan and advance and total assets of Nepal SBI bank and Everest bank lid. Loan and advance to total assets ratio of Nepal SBI bank is 52.92% whereas this ratio of Everest bank is 67.56% which indicates EBL has higher portion of its assets in risk bracket whereas NSBIBL has comparatively low risky assets in their portfolio. Higher portion in loan and advances of EBL obviously generates higher interest income and lower liquidity with these banks whereas lower portion of loan of SBI indicates comparatively high liquidity available with this banks but lower portion of assets is generating low income.

If we see the standard deviation and coefficient of variation of the ration of these banks we can see that the SBI has the highest SD and CV of 10.77% and 20.35% respectively. This means it has the highest variability in the portion of loan and advances in total asset .EBL has SD of 1.40% and CV of 1.51% which shows that EBL has the most consistency in the proportion of loan and advances in total assets.

4.3.3 Loan and Advance to Total Deposit Ratio

The ratio shows the percentage of loan and advances that have been granted out of total deposits the bank. Higher ratio is preferable for the profitability of the bank. Higher ratio indicates higher use of fund and generating more income.

Loan and advances and investment are the major area of fund mobilization of commercial banks. Loan and advance are the first type of application of funds which have more risk as compared to investment and gives more return , the ratio indicates the firms fund mobilization power in gross. The main sources of banks lending and investment is it deposits. This ratio measures how well the deposits have been mobilized.

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

Table No. 4.13

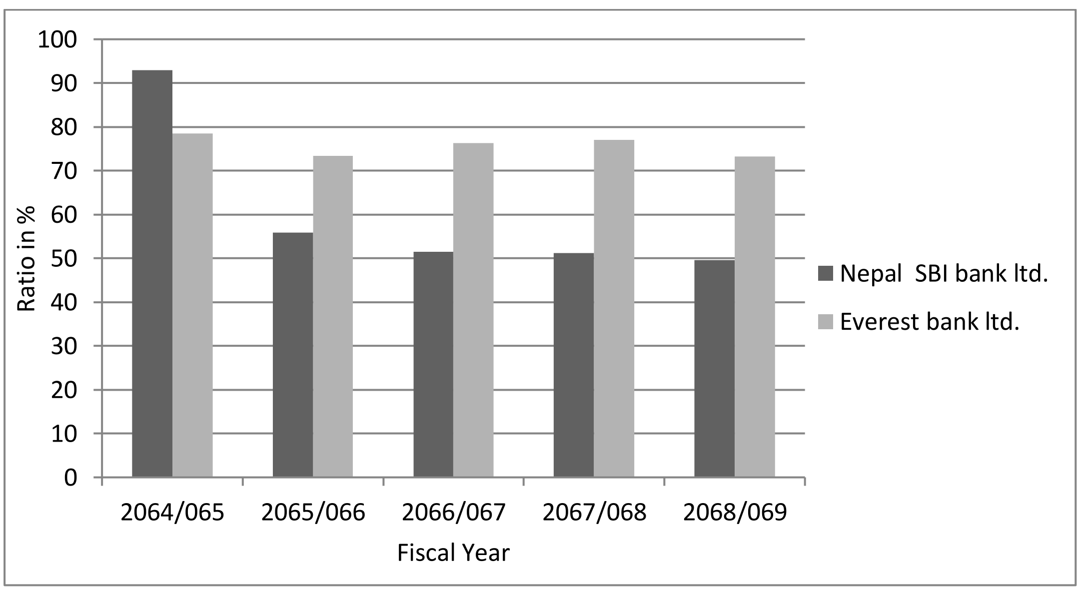
Loan and Advances to Total Deposit Ratio

Fiscal Year	Nepal SBI Bank Ltd.			Everest Bank Ltd.		
	Loan and Advance	Total Deposit	Ratio %	Loan and Advance	Total Deposit	Ratio %
2064/065	12746	13715	92.93	18836	23976	78.56
2065/066	15612	27957	55.84	24469	33323	73.43
2066/067	17964	34896	51.48	28156	36932	76.24
2067/068	21719	42415	51.21	31662	41128	76.98
2068/069	26464	53337	49.62	36617	50006	73.23
Mean			60.22			75.69
S.D			16.49			2.07
C.V			27.38%			2.73%

Source: Annual Reports of NSBIBL, EBL and Appendix - *I*

Figure No. 4.4

Loan and Advance to Total Deposit



The above table exhibits the amount of loan and advances and total deposits of NSBIBL and EBL for five year starting from fiscal year 2064/065 to 2068/069. From the above table it is clear that SBI has highest total deposit amount than that of Ebl. Loan and advances of EBL also occupies the highest portion of total assets, we can see that EBL is in the top in utilization of depositors money. It has the highest average CD ratio of 75.69% which is high in banking industry. Similarly, SBI has 60.22% average of CD ratio. These ratios indicates that both banks have enough liquidity available.

Standard deviation S.D of NSBIBL and EBL are 16.49% and 2.07% respectively and coefficient of variation (C.V) are 27.38 and 2.73% respectively. This indicates that NSBIBL has highest variability in CD ratio and EBL has the lowest variability in their CD ratio.

The total we can say that EBL utilizes its depositor money optimally with considering the liquidity position of the bank too. And Nepal SBI bank has not been able to utilize its deposits optimally .60.22% average CD ratio implies that either balance of it has invested high amount in low yield investment portfolio.

4.3.4 Investment to Loan and Advances Ratio

The ratio measures the contribution made by investment in total amount of loans and advance. The proportion between investment and loan and advances measures the management attitudes towards risky assets and safety assets.

Here the total mobilized fund I e, investment and loan and advance in whole does not provide the quality of assets that a bank has created. Thus it measures the risk of banking business too. The high ratio indicates the mobilization of fund in safe area and vice versa. However, safety does not provide with satisfactory return .so a compromising ratio between risk and profit should be maintained.

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

Table No. 4.14

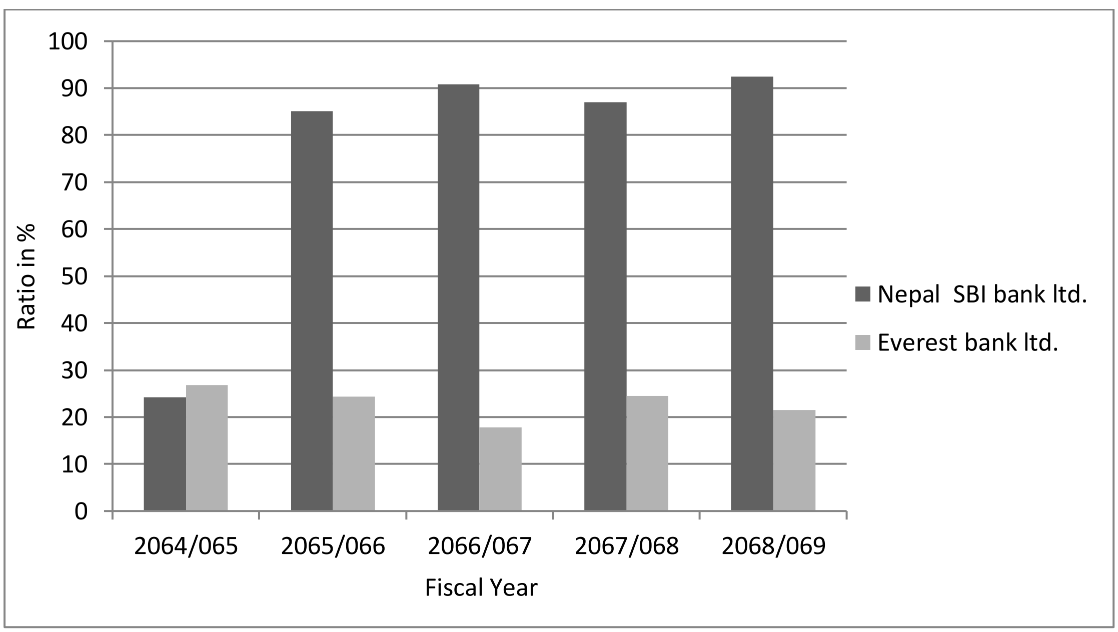
Investment to Loan and Advances Ratio

Fiscal Year	Nepal SBI Bank Ltd.			Everest Bank Ltd.		
	Investment	Loan and Advance	Ratio %	Investment	Loan and Advance	Ratio %
2064/065	3088	12746	24.23	5029	18836	26.86
2065/066	13286	15612	85.10	5948	24469	24.31
2066/067	16306	17964	90.77	5008	28156	17.79
2067/068	18911	21719	87.07	7744	31662	24.46
2068/069	24463	26464	92.44	7864	36617	21.48
Mean			75.92			22.98
S.D			25.97			3.11
C.V			34.21%			13.57%

Source: Annual Reports of NSBIBL, EBL and Appendix - I

Figure No. 4.5

Investment to Loan and Advances



The above table and figure show the ratio of investment to total loan and advance. This ratio measures the contribution made by investment. From the above table it is clear that investment of both joint venture commercial banks have been increasing. NSBIBL and EBL started from 24.23% and 26.87% respectively of investment to total loan and advances in year 2064/065.

NSBIBL highly increase the investment in every year. Investment to total loan and advances ratio of NSBIBL and EBL in fiscal year 2068/069 is 92.44% and 21.48% respectively. It shows that NSBIBL mobilization of fund in safe area.

But safety does not provide satisfactory return. So, NSBIBL cannot earn maximum profit as well as EBL.

(NSBIBL and EBL have 75.92% and 22.98% average of investment to loan and advances ratio).

Standard deviation (S.D) of NSBIBL land EBL are 25.97% and 3.11% respectively and coefficient of variation (C.V) are 34.21% and 13.54% respectively. This indicates that NSBIBL has highest variability investment to loan and advances ratio.

4.3.5 Interest Income to Loan and Advances Ratio

When loans are granted it can be performing as well as non-performing and whether it is performing or not is judged by the interest earned by the loans. So to arrange whether the loan is performing or not can be viewed form the following table and figure.

Interest Income to Total Loan and Advance Ratio= $\frac{\text{Interest Income}}{\text{Loan and Advance}}$

Table No. 4.15

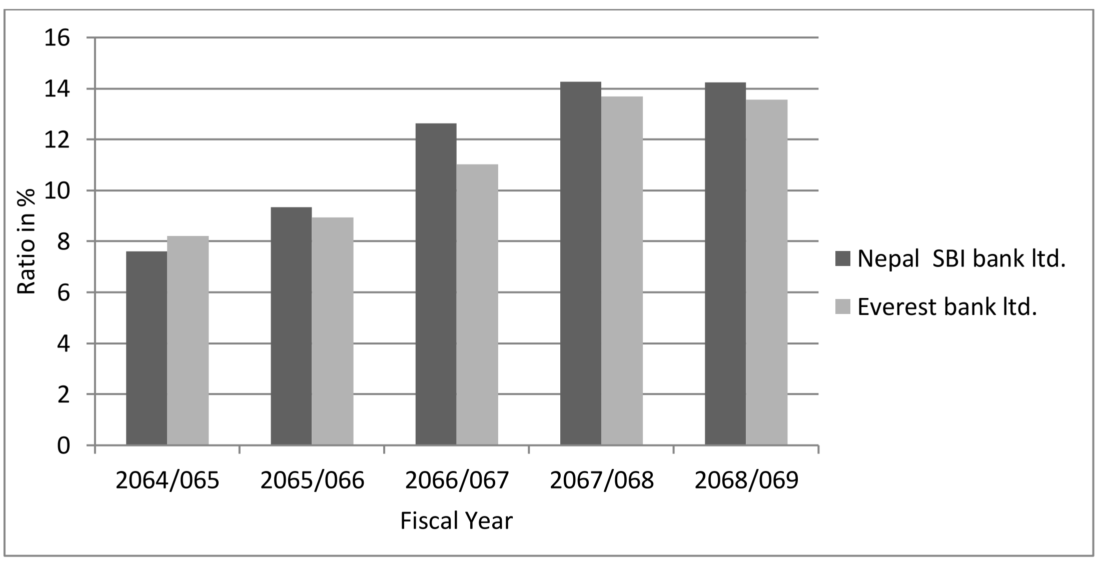
Interest Income to Total Loan and Advances Ratio

Fiscal Year	Nepal SBI Bank ltd.			Everest bank ltd.		
	Interest Income	Loan and Advance	Ratio %	Interest Income	Loan and Advance	Ratio %
2064/065	970	12746	7.60	1549	18836	8.22
2065/066	1460	15612	9.35	2187	24469	8.94
2066/067	2270	17964	12.64	3102	28156	11.02
2067/068	3100	21719	14.27	4331	31662	13.68
2068/069	3769	26464	14.24	4960	36617	13.55
Mean			11.62			11.08
S.D			2.69			2.26
C.V			23.17%			20.43%

Source: Annual Reports of NSBIBL, EBL and Appendix - I

Figure No. 4.6

Interest Income to Loan and Advance



The ratio shows the percentage of interest earned from loan and advances. The higher ratio is preferable for the profitability of the bank. Higher ratio indicates the higher utilization of fund in loans and advances and income from it.

From the above table and figure, it is clear that both the loan amount and interest income is increasing simultaneously. Loan and advance ratio also increase every year. NSBIBL and EBL started from 7.60% and 8.22% respectively of interest income in total loan advances in year 2064/065 and both banks have been able to increase the interest income to 14.27 % and 13.68% respectively in year 2067/068 . in fiscal year 2068/069 the ratio has decrease the interest income to 14.24% and 13.55% respectively .as a whole ,present condition of the both banks id better.

4.3.6 Loan Loss Provision to Loan and Advances Ratio

Loan loss provision to loan and advances shows percentages of loan is covered against the possible future loss due to non-payment of loan. Since, there is risk inherent in loan and advances, NRB has directed commercial banks to classify its loan and advances into different category and accordingly to make provision for possible losses. Loan loss provision signifies the cushion against the future contingencies created by the default of the borrower in payment of loan and endures the continuous solvency of the bank. Since high provision has to the made for non-performing loan, higher provision for loan loss reflects increasing non-performing loan in volume of total loan. The low ratio signifies the good quality of assets in the volume of total loan. It indicates show efficiently it manages loan and advances and make efforts to cape with probable loan loss. Higher ratio implies higher portion of NPL in the total loan portfolio.

Table No. 4.16

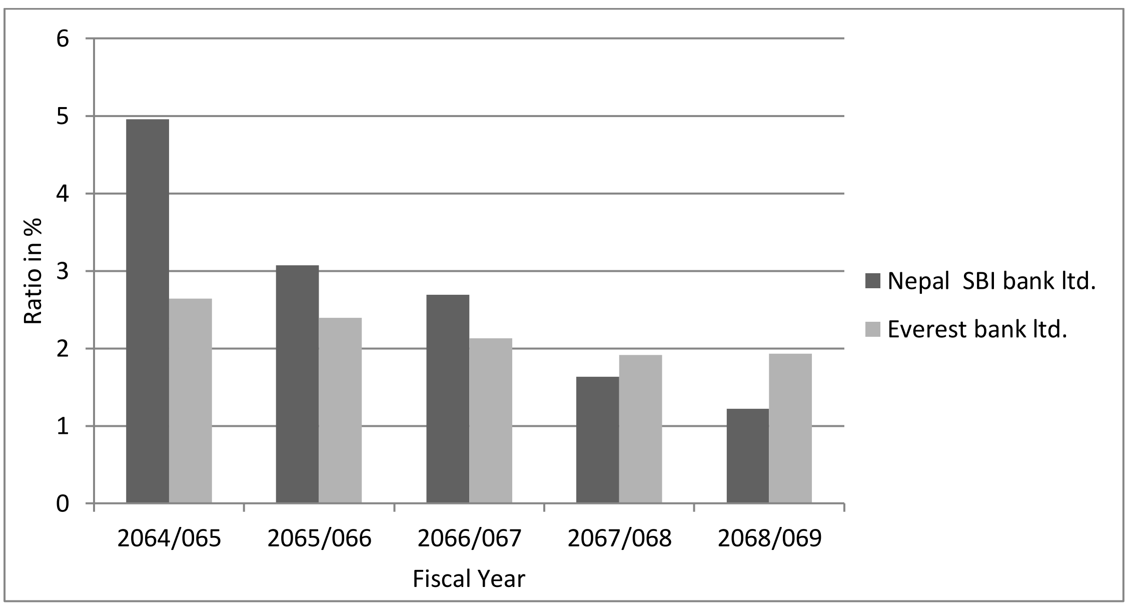
Loan Loss Provision to Loan and Advances Ratio

Fiscal Year	Nepal SBI Bank ltd.			Everest Bank ltd.		
	Loan Loss Provision	**Loan and Advance**	**Ratio %**	**Loan Loss Provision**	**Loan and Advance**	**Ratio %**
2064/065	632	12746	4.96	497	18836	2.64
2065/066	480	15612	3.07	585	24469	2.39
2066/067	483	17964	2.69	600	28156	2.13
2067/068	353	21719	1.63	604	31662	1.91
2068/069	322	26464	1.22	706	36617	1.93
Mean			2.71			2.20
S.D			1.31			0.28
C.V			48.33%			12.65%

Source: Annual Reports of NSBIBL, EBL and Appendix - I

Figure No. 4.7

Loan Loss Provision to Loan and Advance



The above table and figure shows the ratio of loan loss provision to loan and advance of selected banks, NSBIBL and EBL from fiscal year 2064/065 to 2068/069. it is clear to see that NSBIBL has higher average ratio of loan loss provision in total loan and advances making 2071% which indicates that NSBUBL is not able to manage loan and advance and make efforts to cope with probable loan loss. Whereas EBL keep its loan loss provision ratio 2020% . It means EBL is efficiently managing its loan and advances and making better to recover probable loan loss.

NSBIBL and EBL have decreasing trend of loan loss provision in total loan and advances which indicates that these banks have been able to flow quality loan in recent years. This is the positive thing happening in Nepalese banking sector. If loan loss provision goes on increasing then it is not the sign of well management and good for the banks.

Standard deviation (S.D) of NSBIBL and EBL are 1.31% and 0.28% respectively. This indicates that banks have both banks which are positive symptoms.

4.3.7 Interest Income to Total Income Ratio

Income is one of the most important factors of each and each and every organization. Interest income occupies a greater portion of the total income in a banking business. This ratio measures the volume of interest income in total income. The high ratio indicates the high contribution made by lending and investment whereas low ratio indicates low contribution made by lending and investment in total income.

Table No. 4.17

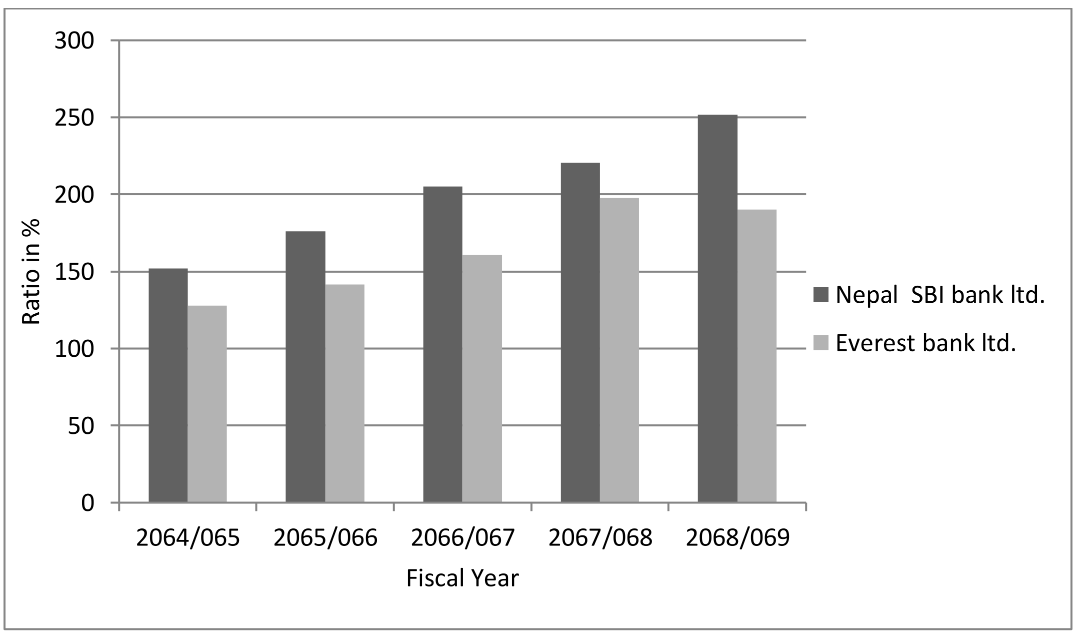
Interest Income to Total Income Ratio

Fiscal Year	Nepal SBI Bank ltd.			Everest Bank ltd.		
	Interest Income	Total Income	Ratio %	Interest Income	Total Income	Ratio %
2064/065	970	638	152.04	1549	1210	128.02
2065/066	1460	829	176.12	2187	1545	141.55
2066/067	2270	1107	205.06	3102	1928	160.89
2067/068	3100	1406	220.48	4331	2193	197.49
2068/069	3769	1497	251.77	4960	2610	190.04
Mean			201.10			163.60
S.D			34.61			26.85
C.V			17.21%			16.41%

Source: Annual Reports of NSBIBL, EBL and Appendix - I

Figure No. 4.8

Interest Income to Total Income



Above analysis shows that NSBIBL and EBL have increasing trend of ratio. NSBIBL has highest ratio of 201.10 and EBL has lowest mean ratio 163.6. The mean ratio of NSBIBL shows higher contribution in total income than other.

Standard deviation (S.D) of NSBIBL and EDL are 34.61% and 26.85% respectively and coefficient of variation (C.V) are 17.21% and variability in interest income to total income.

From analysis it can be said that NSBIBL gives higher contribution of interest income in total income. But the mean ratio of EBL indicates the low contribution made by lending and investing activities.

4.3.8 Non –Performing Loan to Loan and Advances Ratio

NRB has directed the commercial banks to classify their total loan portfolio into two category, performing loan and non-performing loan. Non – performing loan to total loan ratio determines the proportion of non-performing loan in the total loan portfolio. Higher ratio indicates the bad performances of the banks in mobilizing loans and advances and bad recovery rate and vice-versa. Amount of no-performing loan in million is shown below in the tabulated from below of the selected banks starting from fiscal year 2064/065 to 2068/069. The ratio is calculated as follows:

Table No. 4.18

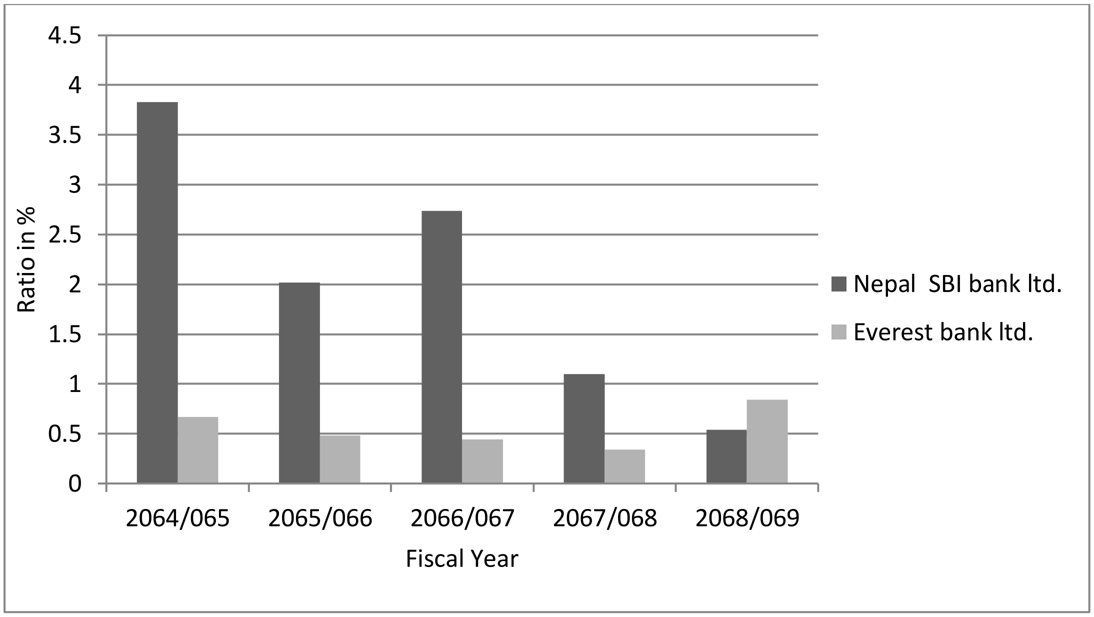
Non-performing Loan to Loan and Advances Ratio

Fiscal Year	**Nepal SBI Bank Ltd.**			**Everest Bank Ltd.**		
	Non-Performing Loan	**Loan and Advance**	**Ratio %**	**Non-Performing Loan**	**Loan and Advance**	**Ratio %**
2064/065	488	12746	3.83	127	18836	0.67
2065/066	316	15612	2.02	118	24469	0.48
2066/067	492	17964	2.74	125	28156	0.44
2067/068	239	21719	1.10	108	31662	0.34
2068/069	144	26464	0.54	307	36617	0.84
Mean			2.05			0.55
S.D			1.17			0.18
C.V			57%			32.49%

Source: Annual Reports of NSBIBL, EBL and Appendix - I

Figure No. 4.9

Non-Performing Loan to Loan and Advance



The above table exhibit the ratio of non-performing loan to loan and advance of selected joint venture commercial banks for the five year starting from 2064/065 to 2068/069. From the above table it is clear that non-performing loan of both commercial banks have been decreasing except EBL of fiscal year 2068/069. The fluctuating trend of ratios shows the satisfactory mobilizing of loan and advances.

EBL has maintain the average non- performing loan to total loan and advances level low making 0.55% which indicates that the bank has been making continuous effort to maintain the ratio level low. If we compare the non-performing loan with other banks we can see that when other banks has above 4% of non-performing loan and advances.

4.3.9 Loan Loss Provision to Non-Performing Loan Ratio

NRB had directed all commercial banks to provide prevision for all types of loan & advances. This ratio measures up to what expend of risk inherent in Non-performing loan is covered by the total loan loss provision.

Table No. 4.19

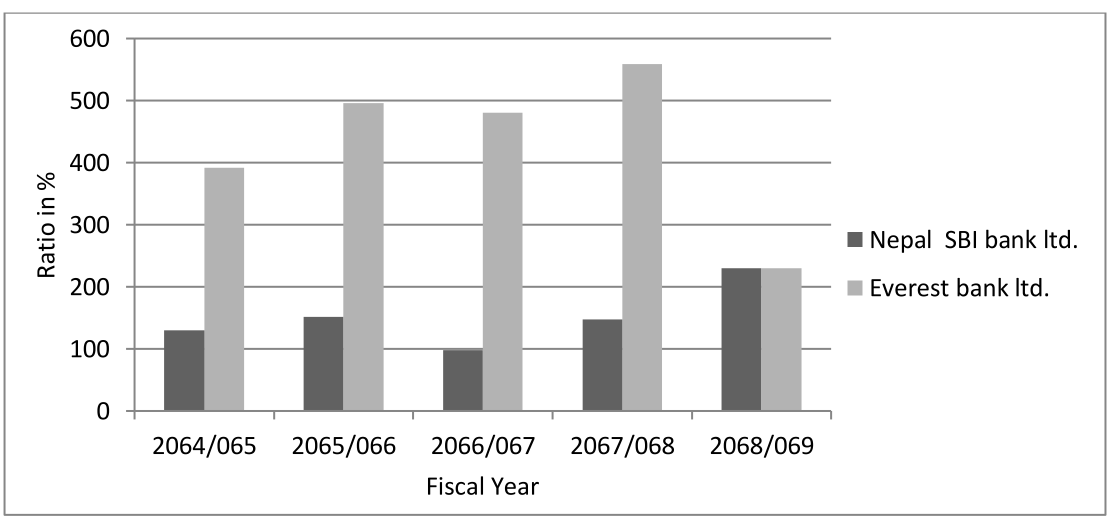
Loan Loss Provision to Non-Performing Loan Ratio

Fiscal Year	Nepal SBI Bank ltd.			Everest Bank ltd.		
	Loan Loss Provision	Non-Performing Loan	Ratio %	Loan Loss Provision	Non-Performing Loan	Ratio %
2064/065	632	488	129.51	497	127	391.38
2065/066	480	316	151.90	585	118	495.76
2066/067	483	492	98.17	600	125	480
2067/068	353	239	147.70	604	108	559.26
2068/069	322	144	229.61	706	307	229.97
Mean			150.18			431.27
S.D			41.31			114.04
C.V			27.51%			26.44%

Source: Annual Reports of NSBIBL, EBL and Appendix - I

Figure No. 4.10

Loan Loss Provision to Non-Performing Loan



The above table shows the ratio of loan loss provision it non-performing loan f selected joint venture commercial banks for five years starting from fiscal year 2064/065 to 2068/069. From the above table it can be seen that total provision of all banks are increasing and both commercial banks have created provision greater than amount of non-performing loan which provision greater than the amount of non- performing loan which shows that all banks are safe against the future contingencies that may create due to non-payment of loan.

EBL has higher average loan loss provision ratio of 431.27% and NSBIBL has comparatively lower average loan loss provision ratio of 150% which indicates that EBL is aware of future possible loss and NSBIBL needs more changes to becomes as former banks.

The standard deviation of the both banks highly varies each other. EBL has highest standard deviation of 114.04 and NSBIBL has moderate standard deviation of 41.31% which shows the dispersion between the banks.

As we knows that more than 100% ratio signifies that the banks is safeguard against future contingencies that may create due to bad loans , whereas lower than 100% may create hung provision in coming future due to requirement of high provision to substandard loan and advances.

4.3.10 Net Profit to Loan and Advances Ratio

Return on loan and advances ratio indicates how efficiently the bank has employed its resources in the forms of loan and advances. Net profit of a bank largely dependents upon interest earn from loan and advances and there is positive correlation between effective utilization of loan and advance and net profit. This ratio measures the bank’s profitability with respect to loan and advances. Higher the ratio better the performance of the bank and vice- versa

Table No. 4.20

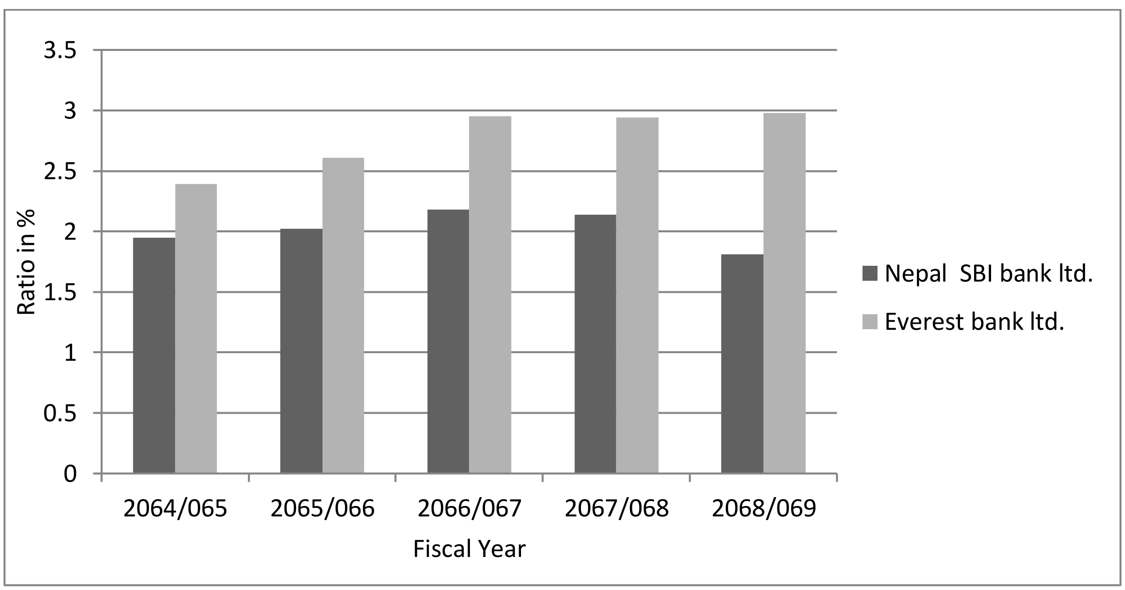
Net Profit to Loan and Advance Ratio

Fiscal Year	Nepal SBI Bank ltd.			Everest Bank ltd.		
	Net Profit	Loan and Advance	Ratio %	Net profit	Loan and Advance	Ratio %
2064/065	248	12746	1.95	451	18836	2.39
2065/066	316	15612	2.02	639	24469	2.61
2066/067	392	17964	2.18	832	28156	2.95
2067/068	465	21719	2.14	931	31662	2.94
2068/069	480	26464	1.81	1090	36617	2.98
Mean			2.02			2.77
S.D			0.17			0.23
C.V			8.48%			8.47%

Source: Annual Reports of NSBIBL, EBL and Appendix - *I*

Figure No. 4.11

Net Profit to Loan and Advance



The above table displays the ratio of net profit to loan and advances of selected joint venture commercial banks. For fiscal year 2064/065 to 2068/069 . From above table it can be seen that net profit of both banks are increasing and the percentage of net profit in respect to loan and advance is increasing and also decreasing.

Return on loan and advance ratio of NSBIBL is decreasing whereas the ratio of EBL is increasing its fiscal year 2068/069. Average ratio of EBL is higher than that of NSBIBL, which indicates that the performance of EBL is better than that of NSBIBL.

4.3.11 Interest Income to Interest Expenses Ratio

This ratio measure the gap between interest rate offered and interest rate charged. The credit creation power of commercial banks has high impact on this ratio.

Table No. 4.21

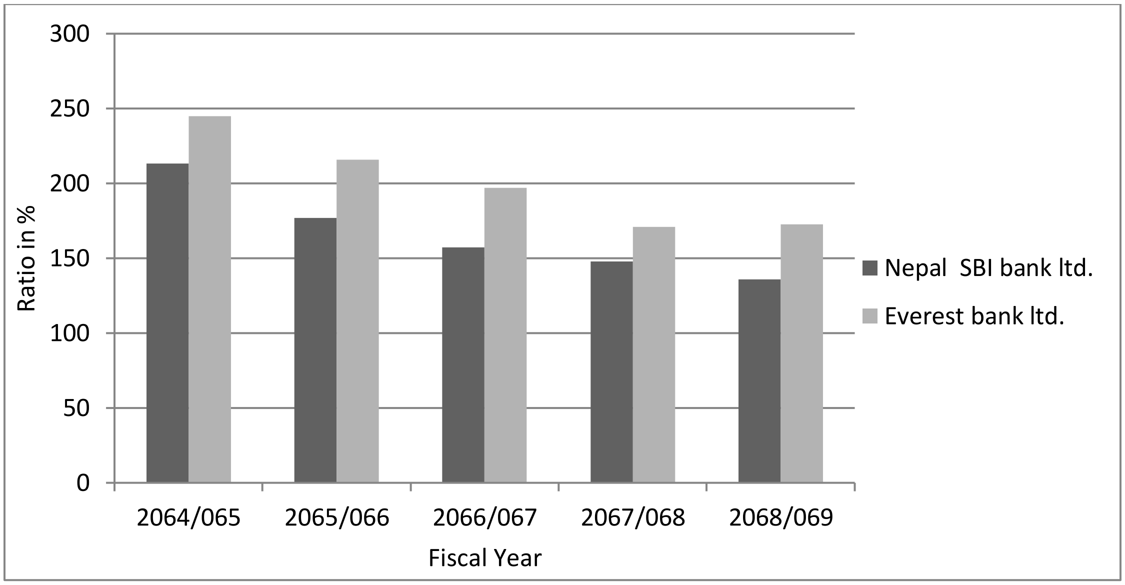
Interest Income to Interest Expenses ratio

Fiscal Year	Nepal SBI Bank ltd.			Everest Bank ltd.		
	Interest Income	Income Expenses	Ratio %	Interest Income	Income Expenses	Ratio %
2064/065	970	455	213.19	1549	633	244.71
2065/066	1460	825	176.97	2187	1013	215.89
2066/067	2270	1444	157.20	3102	1573	197.20
2067/068	3100	2096	147.90	4331	2536	170.78
2068/069	3769	2771	136.02	4960	2873	172.64
Mean			166.26			200.24
S.D			27.02			30.91
C.V			16.25%			15.43%

Source: Annual Reports of NSBIBL, EBL and Appendix - I

Figure No. 4.12

Interest Income to Interest Expenses



Above table shows that EBL has highest mean ratio and the ratio 200.24. But NSBIBL has lowest mean ratio i.e., 166.26 in comparison. The highest cost of deposit mix of NSBIBL has caused the gap between interest income and interest expenses to be least.

Standard deviation of NSBIBL and EBL are 27.02% and 30.91% respectively and coefficient of variation are 16.25% and 15.43% respectively. There is no high difference between NSBIBL and EBL.

From above analysis it can be said that EBL have charging high interest rate to borrowers and offering low interest rate to the depositors in comparison to the NSBIBL.

4.4 Analysis of Correlation Between Loan and advance and Total Assets

The correlation between loan and advances to total assets shows the degree of relationship between them , the value of 'r' explain whether percentage change in loan and advance contribute to increase the same percentage of total assets or not.

Table No. 4.22

Correlation between Loan and Advance and Total Assets

Banks	r	r^2	P.E	6P.E
NSBIBL	0.9845	0.97	0.00628	0.05568
EBL	0.9970	0.99	0.0018	0.0108

Source: Appendix – II

The above table revels that there is high degree of positive correlation in between these two variables in both the banks selected as value of 'r' is almost 1. It shows that total assets and loan and advance are positively correlated and there is increase in total assets with increase in loans.

The value of 'r' is also significant as it is more than 6P.E for both the banks selected and it can be concluded that relationship between these two variables is certain.

The coefficient of determined shows the variation of total asst with respect to total where it has been explained by 0.97 for NSBIBL and 0.99 for EBL.

4.5 Analysis of Correlation Between Loan and Advance and Total Deposit

Accepting deposit and generating loan are the major function of commercial bank. The relationship of deposit and loan and advance should be perfect positive.

Following table exhibits the correlation between loan and advances to total deposit.

Table No. 4.23

Correlation Between Loan and Advances to Total Deposit

Banks	r	r2	P.E	6P.E
NSBIBL	0.9789	0.96	0.0126	0.0756
EBL	0.9953	0.99	0.0028	0.168

Source: Appendix – II

Above table shows the relationship between loan and advances and total deposit for NSBIBL and EBL. It is clear that both banks have positive correlation between deposit and loan and advance for the review period.

NSBIBL and EBL have positive correlation of 0.9789 and 0.9953 respectively between loan and advance largely depends on deposit column of these banks. If the bank want to increase loan and advance amount it has to accept additional deposit. Likewise correlations of these banks are higher than the six times of its P.E which prove that the correlation calculated above are highly significant and reliable.

4.6 Major Finding of the Study

Total assets to total liabilities ratio of CBL is higher than NSBIBL. So EBL is better than NSBIBL because higher ratio indicates higher productivity and higher asserts conservation and vice versa.

Loan and advance to total assets ratio of EBL is higher than NSBIBL (67.56%>52.92%). It lower ratio of NSBIBL needs diverting its lending function for more free based activities.

We analyze ratio of loan and advance to total deposits. The analysis has cleared that EBL is in the top utilizing the depositors money as well as NSBIBL. It has the highest average loan and advance to total deposit ratio of 75.69% and NSBIBL has 60.22%.

The measurement of efficiently on lending has revealed that loan provision to loan and advance ratio is pretty satisfactory since according to NRB directives. Loan loss provision indicates provision against both performing and non-provision indicates provision against both performing and non –performing loans. Thus even the increase in loan increase the loan loss provision. But generally, increase in this ratio suggests the increasing the non-performing loans.

Interest income and total income of concerned banks are in increasing trend and ratio of both bank are also in increasing trend.

Non-performing loan and advance is also increasing trend of EBL but decreed profit of both banks is increasing and percentage net forming loan to loan and advance of NSBIBL has been decreasing but EBL cannot reduce the level of its non-performing loan.

Net profit of both bank is increasing and percentage of net profit in respect of loan and advance is also increasing trend of EBL but decreasing trend of NSBIBL.

Profitability is the best indicator of overall efficiency of any organization, EBL shows better performance regarding profitability ratio. The mean ratio of interest income to interest expenses of EBL is higher than NSBIBL. So it can be said they have average profitability position in comparison.

Correlation between loan and advance to total deposit indicates perfect positive correlation between deposit and loan and advance for review period. There is high degree of positive correlation between loan and advance and total assets in both banks selected.

Most of the JVBs have been facing different type of credit related problem. Out of 50 respondent, 43% have shown the problem of non-repayment of credit in time by customer. So it is found that non-repayment of credit in time by customer is main credit related problem which is still facing by JVBs.

CHAPTER -V

SUMMARY CONCLUSION AND RECOMMENDATION

This chapter is a complete conclusion and suggestive package which contains summary conclusion of the finding and actionable plans i.e., suggestion for further improvement. This would be meaningful to the JVBs in credit management. Summary gives the brief introduction to all the chapter of the study and shows the actual facts of the present situation under the topic of the study. Conclusion of the finding is based on the consequences of the analysis of the relevant data by using financial as well as statically tools. The recommendations are presented in term of suggestions, which are prepared on the basis of finding and conclusion.

5.1 Summary

Banks are the backbone of the country economic development. They are providing a foundation to develop country through economic ways. Now days there are commercial banks are operation in all over the country. In this study six joint venture banks, namely Nepal SBI bank ltd. and Everest bank ltd are chosen. The data, which were used in this dissertation, are secondary nature. They were obtained from concerned banks annual report, literature, publication, balance sheet, profit and loss account, previous thesis report, different website, related books journal and articles. For the analysis and interpretation of data various related financial and statistical tools ,which are used in this study are total assets to total liability ratio, loan ratio and advance to total asset ratio, loan and advance and total deposit ratio, Interest income to loan and advance ratio, investment to loan and advance ratio, loan loss provision to loan and advance ratio, non-performing loan to loan and advance ratio, interest income to total income ratio, loan loss provision to non-performing loan ratio, interest income to interest expenses ratio, net profit to loan and advance ratio. Similarly statistical tools, which used in this study are means, standard deviation, coefficient of variation, coefficient of correlation.

To fulfill the objectives of the study all secondary data are compiled, processed and tabulated in the second last chapter. To make the analysis easier and understandable line chart are also used. This study also bounded by many limitation, such as secondary data, unreliability of time and resources are the constraints of the study. In this study the focus is given to the quantities aspect of two JVBs. Qualitative factors are not studies. Therefore the study may not be generalizes in all provided by the concerned organization.

5.2 Conclusion

Most of the Nepalese commercial banks have lack of effective credit policy for loan management. However it is necessary to access the appropriate credit policy in commercial banks for performance effectiveness.

After conducting a thorough study of loan management of NSBIBL and EBL it can be concluded that both banks are able to perform the loan management satisfaction torridly till date .all the aspects of loan approval to loan settlement have been paid due attention. The deposit of both banks is increasing during the study period of five years. It also increases its lending capacity.

On the basis of assets management ratio, it has been concluded that EBL has better position than of other. It has high total assets to total liabilities ratio.

On the basis of loan and advance to total assets ratio. It has been concluded that EBL has better position than NSBIBL. Similarly, EBL has higher percentage of loan and advance to total deposit ratio. This ratio measures how well the deposit have been mobilized .EBL is successful in mobilizing the fund as well as NSBIBL.

In credit portfolio, NSBIBL has made more investment in priority, deprived and government sector and EBL has made more investment in private sector . It shows that NSBIBL mobilization of fund in safe area but safety does not provide satisfactory return. So, NSBIBL cannot earn maximum profit as well as EBL.

On the basis of profitability ratio, it has been concluded that the profitability position of EBL is comparatively better than NSBIBL. EBL is able to change high interest rate but it has low rate of interest offered in deposit. Here we can say in simple word, interest margin of EBL is greater than NSBIBL but in the basis of interest income to loan and advance ratio, ratio of NSBIBL is greater than EBL. which indicates that interest rate of NSBIBL is greater than EBL. So, it can concluded that EBL has better profitability of funds invested in banks assets and it has been able to mobilize its assets and able to utilize of resource of owners.

On the basis of loan loss provision to loan and advance ratio, NSBIBL has higher average ratio of loan loss provision in total loan and advance. Which indicates that NSBIBL is not able to manage loan and advance and NSBIBL has higher percentage of nonperforming loan also. So, bank should try to adopt sound credit collection policy which helps to control loan loss and decrease non –performing loan. If they do not, It will causes great losses.

for both banks the major source of funds are capital funds, deposits and other liabilities whereas on the major uses loan and advances, capital funds, investment, and other assets have the major contribution.

Correlation coefficient between loan and advance and total deposit indicates perfect positive correlation between deposit and loan and advance for review period. Both banks have increasing trends of loan and advances. EBL shows the highest growth rate of loan and advance. LLP of the EBL has been in increasing trend but NSBIBL has been able to decrease the level of provision throughout the year. There is positive correlation between loan and advance and total assets in both the banks. Most of the respondents have selected the bank for better and instant service, so it can be concluded that joint venture banks should try to give better and instant service to their clients. They should encourage their client to take loan if bank is unable to float its deposit then there might be able problem in sustaining in long run.

From staffs points of views, it is found that JVBS do not want to take any kind of risk related investment. Both banks provided comparatively more facilities to their staffs and it is also found that most of the JVBS have been facing credit related problem and the main credit related problem is non-repayment of credit in time by customers,

So it can be concluded that CBS should search the new investment potentially towards the deprived and priority sector for poverty elimination. During analysis it is known that the main causes of dissatisfaction are not getting promotion, bonus scheme, overload of work, low pay scales etc, so banks should try to provide better facilities to their staffs.

5.3 Recommendation

The following recommendation and suggestion have been made to improve the related commercial banks on the basis of present situation.

- **Need to Diversify its Loan**

Banks should take the steps to diversify its loan so that risk can be minimized and small borrowers are promoted .also bank should develop the concept of micro financing. In addition bank is recommended to the group financing thereby diversifying its lending by identifying new avenues rather than focusing nearly in one sector.

- **Adopt Sound Credit Collection Policy**

Increase in loan loss decreases the profit result. If high loan loss is expected, great loan loss provision is made in income statement and this will lead to low profit and possible losses. If loan are not distributed properly and cautiously then it may be main cause of the failure of the banks.

- **Utilization of Risky Assets and Shareholder Fund**

The main focus of commercial banks in to be enough profit. The management of the firm is interested in operating efficiency of the firms profitability ratio but commercial banks should be careful in increasing profit in a real sense to maintain the confidence of shareholders, depositors and its customers. Comparatively, EBL has been able to utilize resources of owners. The profitability position of EBL is better than that of NSBIBL. So, banks are recommended to utilize its risky assets and shareholders fund to gain high profit margin.

- **Need to Expand Branches**

All the banks are concentrated in the urban area. Not concentrating only in big cities and large bank should expand new branches in rural areas so that people of all sectors and area could be benefited with banking services and for the development of all country and fulfill the government objectives of people in the economic development.

- **Need to Reduce the Interest Rate on Loan**

The interest rate can be minimized with appropriate management of the operating expenses and thereby spreads rate (i.e. difference between rate of deposit and lending). It does mean that the bank should make the interest rate that the bank should make the interest rate by bearing loss. The rate should be minimized with the scientific management of the fund and operating expenses.

- **Follow NRB Directives**

Strictly followed NRB directives, helps to reduce credit risk arising from borrowers defaulter, lack of proper credit appraisal arising from borrowers defaulter, lack of proper credit appraisal defaulter by black listed borrower and professional defaulters. Government has established credit information beuro which will provide suggestion to commercial banks. So these banks are recommended to follow NRB directives.

- **Formulate Marketing Strategy**

Looking at the current trend of banking business these banks must be very much careful on formulating marketing strategy to serve its customer. The marketing strategy should be innovative that would attract and retain the customer. So these banks are recommended to develop an innovation approach to bank marketing for its well being and sustainability in the market.

- **Need to Invest the Small Entrepreneur Development Program**

Loan should provide to those who are economically backward and uplifting the condition of those people so bank should come to forward to increase the number of clients, develop entrepreneurs, diversify its business with large number of small investors according with investing to small entrepreneur development programmed.

- **Need to Invest to Productive Area that Utilize the Natural Resources**

Nepal is full of natural resources but these are not used properly due to lack of financial support as well as technical assistant. So, bank should grant the loan to this area for fruitful development of the country, mainly, Nepalese economy bases on agriculture and major proportion of population dependents upon this sector. Therefore , bank should promoter these areas focusing its lending.

- **Preference to the Short Lending**

It is justified that the risk can be minimized through short term lending than long term. Therefore, preference should be given for short term trade financing and discoursing long-term and also focusing multiple returnable loan.

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APPENDICES

Appendix - I

Calculation of S.D and C.V

S.D. (σ) = $\sqrt{\frac{\sum(X-\bar{X})^2}{N}}$

CV = $\frac{\sigma}{\bar{X}} \times 100$

Total Assets to Total Liabilities

NSBIBL		EBL	
X	**$(x-\bar{x})^2$**	**X**	**$(x-\bar{x})^2$**
108.96	4.4944	107.61	0.3249
105.86	0.9604	106.35	0.4761
106.88	0.0016	107.14	0.01
106.67	0.0289	107.22	0.0324
105.83	1.0210	106.87	0.0289
$\sum X$= 533		$\sum X$= 535.2	
$\bar{X}$ = 106.84	$\sum(x-\bar{x})^2$=6.7664		$\sum(x-\bar{x})^2$=0.8723

NSBIBL

$\sigma = 1.16$,

C.V=$\frac{1.16}{106.84}$ =1.0857%

EBL

σ =0.4176,

C.V =$\frac{0.4176}{107.04}$ =0.39%,

Loan and Advance to total Assets Ratio

NSBIBL		EBL	
X	**(x-$\bar{x}$)^2**	**X**	**(x-$\bar{x}$)^2**
74.16	451.13	69.38	3.3124
50.50	5.8564	66.28	1.6384
47.21	32.604	68.04	0.2304
47.13	33.524	68.48	0.8464
45.58	53.8756	65.61	3.8025
$\sum$X=264.6		$\sum$X=67.56	
$\bar{X}$ = 52.92	$\sum$**(x-$\bar{x}$)^2**=576.99		$\sum$**(x-$\bar{x}$)^2**= 9.8301

NSBIBL,

σ=10.77,

C.V=$\frac{10.77}{52.92} \times 100$ =20.351%

EBL

σ =1.402

C.V=$\frac{1.402}{67.56} \times 100$=1.509%

Loan and Advance to Total Deposit

NSBIBL		EBL	
X	**(x-$\bar{x}$)^2**	**X**	**(x-$\bar{x}$)^2**
92.93	1070	78.56	8.2369
55.84	19.78	73.43	5.1076
51.48	76.387	76.24	0.3025
51.21	81.18	76.98	1.6641
49.62	112.36	73.23	6.05
$\sum$X= 301.1		$\sum$X= 378.45	
$\bar{X}$ = 60.22	$\sum$**(x-$\bar{x}$)^2**=1359.107	$\bar{X}$=75.69	$\sum$**(x-$\bar{x}$)^2**=21.3624

NSBIBL

$\sigma = 16.486$,

a)C.V=$\frac{16.486}{60.22}$= 27.38%

EBL

$\sigma = 2.067$

b)C.V=$\frac{2.067}{75.69}$=2.73%

Investment to Loan and Advance

NSBIBL		EBL	
X	**$(x-\bar{x})^2$**	**X**	**$(x-\bar{x})^2$**
24.23	2671.85	26.86	15.13
85.10	84.27	24.31	1.768
90.77	220.52	17.79	26.94
87.07	124.32	24.46	2.19
92.44	272.91	21.48	2.25
$\sum X= 379.6$		$\sum X= 114.9$	
$\bar{X} = 75.92$	$\sum(x-\bar{x})^2=3373.9$	$\bar{X} = 22.98$	$\sum(x-\bar{x})^2=48.448$

NSBIBL

$\sigma=25.97$

$C.V=\frac{25.97}{75.92}=34.21\%$

EBL

$\sigma = 3.113$

$C.V= \frac{3.113}{22.98}=13.54\%$

Interest Income to Loan Advance Ratio

NSBIBL		EBL	
X	**$(x-\bar{x})^2$**	**X**	**$(x-\bar{x})^2$**
7.60	16.16	8.22	8.179
9.35	5.153	8.94	4.579
12.64	1.04	11.02	-
14.27	7.02	13.68	6.76
14.24	6.86	13.55	6.10
$\sum X= 58.1$		$\sum X=55.4$	
$\bar{X} = 11.62$	$\sum(x-\bar{x})^2=36.237$	$\bar{X} = 11.08$	$\sum(x-\bar{x})^2=25.618$

NSBIBL

$\sigma = 2.692$

$C.V=\frac{2.692}{11.62} =23.17\%$

EBL

$\sigma=2.2635$

$C.V=\frac{2.2635}{11.08} =20.43\%$

Loan Loss Provision to Loan and Advance Ratio

NSBIBL		EBL	
X	**$(x-\bar{x})^2$**	**X**	**$(x-\bar{x})^2$**
4.96	5.0625	2.64	0.194
3.07	0.13	2.39	0.036
2.69	-	2.13	-
1.63	1.17	1.91	0.084
1.22	2.22	1.93	0.073
$\sum X = 13.55$		$\sum X = 11$	
$\bar{X} = 2.71$	$\sum(x-\bar{x})^2 = 8.58$	$\bar{X} = 2.20$	$\sum(x-\bar{x})^2 = 0.387$

NSBIBL

$\sigma = 1.31$

C.V$= \frac{1.31}{2.71} = 48.33\%$

EBL

$\sigma = 0.278$

C.V$= \frac{0.78}{2.2} = 12.65\%$

Interest Income to Total Income Ratio

NSBIBL		EBL	
X	**$(x-\bar{x})^2$**	**X**	**$(x-\bar{x})^2$**
152.04	2406.88	128.02	1265.93
176.12	624	141.55	486.20
205.06	15.68	160.89	7.34
220.48	375.58	197.49	1148.53
251.77	2567.45	190.04	699.07
$\sum X = 1005.5$		$\sum X = 818$	
$\bar{X} = 201.10$	$\sum(x-\bar{x})^2 = 5989.59$	$\bar{X} = 163.60$	$\sum(x-\bar{x})^2 = 3607.07$

NSBIBL

$\sigma = 34.61$

C.V$= \frac{34.61}{201.1} = 17.21\%$

EBL

$\sigma = 26.85$

C.V$= \frac{26.85}{163.60} = 16.41\%$

Non- Performing Loan and Advance Ratio

NSBIBL		EBL	
X	**$(x-\bar{x})^2$**	**X**	**$(x-\bar{x})^2$**
3.83	3.168	0.67	0.0144
2.02	-	0.48	0.005
2.74	0.476	0.44	0.0121
1.10	0.903	0.34	0.0441
0.54	2.28	0.84	0.0841
$\sum X = 10.25$		$\sum X = 2.75$	
$\bar{X} = 2.05$	$\sum(x-\bar{x})^2 = 6.827$	$\bar{X} = 0.55$	$\sum(x-\bar{x})^2 = 0.1597$

NSBIBL

$\sigma = 1.168$

$C.V = \frac{1.168}{2.05} = 57\%$

EBL

$\sigma = 0.1787$

$C.V = \frac{0.1787}{0.55} = 32.49\%$

Loan Loss Provision to Non- Performing Loan

NSBIBL		EBL	
X	**$(x-\bar{x})^2$**	**X**	**$(x-\bar{x})^2$**
129.51	427.25	391.38	1591.2
151.90	2.96	495.76	4159
98.17	2705	480	2374.6
147.70	6.15	559.26	16381.44
229.61	5391.96	229.97	40521.69
$\sum X = 750.9$		$\sum X = 2156.39$	
$\bar{X} = 150.18$	$\sum(x-\bar{x})^2 = 8533.32$	$\bar{X} = 431.27$	$\sum(x-\bar{x})^2 = 65027.93$

NSBIBL

$\sigma = 41.31$

$C.V = \frac{41.31}{150.18} = 27.51\%$

EBL

$\sigma = 114.04$

$C.V = \frac{114.04}{431.27} = 26.44\%$

Net Profit to Loan and Advance

NSBIBL		EBL	
X	**$(x-\bar{x})^2$**	**X**	**$(x-\bar{x})^2$**
1.95	0.00625	2.39	0.1444
2.02	-	2.61	0.0256
2.18	0.0256	2.95	0.0324
2.14	0.0144	2.94	0.0289
1.81	0.0441	2.98	0.0441
$\sum X= 10.1$		$\sum X= 13.85$	
$\bar{X} = 2.02$	$\sum(x-\bar{x})^2=0.1466$	$\bar{X} = 2.77$	$\sum(x-\bar{x})^2=0.2754$

NSBIBL

σ= 0.1723

C.V=$\frac{0.17123}{2.02}$ =8.48%

EBL

σ =0.235

C.V=$\frac{0.235}{2.77}$ = 8.47%

Interest Income to Interest Expenses Ratio

NSBIBL		EBL	
X	**$(x-\bar{x})^2$**	**X**	**$(x-\bar{x})^2$**
213.19	2202.40	244.71	1977.58
176.97	114.70	215.89	244.92
157.20	82.08	197.20	9.24
147.90	337.09	170.78	867.89
136.02	914.46	172.64	761.76
$\sum X= 831.3$		$\sum X= 1001.2$	
$\bar{X} = 166.26$	$\sum(x-\bar{x})^2=3650.73$	$\bar{X} = 200.24$	$\sum(x-\bar{x})^2=4776.15$

NSBIBL

σ= 27.02

C.V=$\frac{27.02}{166.24} \times 100$ =16.25%

EBL

σ =30.91

C.V=$\frac{30.91}{200.24} \times 100$ = 15.43%

Appendix – II

Calculation of Correlation of Coefficient

Correlation of coefficient, $r = \frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2}\sqrt{N\sum Y^2 - (\sum Y)^2}}$

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

Loan & Advances to Total Deposit (NSBIBL)

X	Y	X^2	Y^2	XY
12746	13715	162919696	188101225	174811390
15612	27957	243734544	781593849	436464684
17964	34896	322705226	1217730816	626871744
21719	42425	471714961	1799032225	921211385
26464	53337	700343296	2844835569	1411510368
$\sum X$=94505	**$\sum Y$=172320**	**$\sum X^2$=1901417793**	**$\sum Y^2$=6831293684**	**$\sum XY$ = 3570869572**

$$r = \frac{17854347860 - 16285101600}{\sqrt{9507088965 - 8931195025}\sqrt{34156468420 - 29694182400}}$$

= 97.89%

$$P.E.(r) = 0.6745\frac{1-(0.9789)^2}{\sqrt{5}} = 0.0126$$

$$6P.E = 6 \times 0.0126 = 0.0756$$

Loan & Advances to Total Deposit (EBL)

X	Y	X^2	Y^2	XY
18836	23976	354794896	574848576	451611936
24469	33323	598731961	1110422329	815380487
28156	36932	792760336	1363972624	1039857392
31662	41128	1002482244	1691512384	1302194736
36617	50006	1340804689	2500600036	1831069702
$\sum X$=139740	**$\sum Y$=185365**	**$\sum X^2$=4089574126**	**$\sum Y^2$=7241355949**	**$\sum XY$ = 5440114253**

$$r = \frac{27200571270 - 139740 \times 185365}{\sqrt{20447870630 - 1952726760}\sqrt{36206779750 - 34360183230}}$$

= 99.53%

$$P.E. = 0.6745\frac{1-(0.9953)^2}{\sqrt{5}} = 0.0028$$

6P.E =6 × 0.0028 = 0.168

Loan & Advances to Total Assets (NSBIBL)

X	Y	X^2	Y^2	XY
12746	17187	162919696	295392969	219065502
15612	30917	243734544	955860889	482676204
17964	38048	322705226	1447650304	683494272
21719	46088	471714961	2124103744	1000985272
26464	58060	700343296	3370963600	1536499840
$\sum X$=94505	**$\sum Y$=190300**	**$\sum X^2$=1901417793**	**$\sum Y^2$=8193971506**	**$\sum XY$ = 3922721090**

$$r = \frac{19613605450 - 17984301500}{\sqrt{9507088965 - 8931195025}\sqrt{40969857530 - 36214090000}}$$

= 98.45%

$$P.E.r = 0.6745\frac{1-(0.9845)^2}{\sqrt{5}} = 0.00928$$

6P.E =6 × 0.00928 = 0.05568

Loan & Advances to Total Assets (EBL)

X	Y	X^2	Y^2	XY
18836	27149	354794896	737068201	511378564
24469	36917	598731961	1362864889	903322073
28156	41383	792760336	1712552689	1165179748
31662	46236	1002482244	2137767696	1463924232
36617	55813	1340804689	311509096.9	2043704621
$\sum X$**=139740**	$\sum Y$**=207498**	$\sum X^2$**=4089574126**	$\sum Y^2$**=9065344444**	$\sum XY$ **= 6087509238**

$$r = \frac{30437546190-28995770520}{\sqrt{20447870630-1952726760}\,\sqrt{45326722220-43055420000}}$$

$$= 99.70\%$$

$$P.E.r = 0.6745\frac{1-(0.9970)^2}{\sqrt{5}} = 0.0018$$

$$6P.E = 6 \times 0.0018 = 0.0108$$