

**LOAN MANAGEMENT OF
NARAYANI DEVELOPMENT BANK LIMITED**

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RECOMMENDATION

This is to certify that the thesis

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DECLARATION

I hereby declare that the work reported in this thesis entitled “Loan Management of Narayani Development Bank Limited” submitted to Balkumari College, faculty of management, Tribhuwan University, is my original work done in the form of partial fulfillment of the requirement for the Master’s Degree in Business Studies (M.B.S.) under the supervision of Mr. Babu Ram Panthi lecturer (Chief Person Research Committee) of Balkumari College, Narayangarh Chitwan.

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

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TABLE OF CONTENTS

	Page no.
Recommendation	i
Viva-voce Sheet	ii
Declaration	iii
Acknowledgement	iv
Table of Contents	v-vii
List of Tables	viii
List of Figures	ix
List of Appendixes	x
Abbreviations	xi
CHAPTER ONE	
INTRODUCTION	1-16
1.1 Background of the Study	1
1.1.1 Banking History of Nepal	3
1.1.2 History of Narayani Development Bank Ltd.	8
1.1.3 Bank Overview of Narayani Development Bank Ltd.	9
1.1.4 An Overview of Loan Management	10
1.2 Statement of the Problems	11
1.3 Objectives of the Study	13
1.4 Research Questions	13
1.5 Significance of the Study	14
1.6 Limitations of the Study	15
1.7 Organization of the Study	16
CHAPTER TWO	
REVIEW OF LITERATURE	17-50
2.1 Conceptual Review	17
2.1.1 Concept of Development Bank	19
2.1.2 Functions of Development Bank	20
2.1.3 Definition of Loan	21

2.1.3.1 Types of Loan	21
2.1.3.2 Objectives of Loan/Credit Policy	22
2.1.3.3 Components of Loan Policy	23
2.1.3.4 Principle of Loan Policy	25
2.1.4 Lending Condition	27
2.1.5 Loan Approval Procedures	28
2.1.6 Loan Administration	31
2.1.6.1 Loan Granting Administration	31
2.1.6.2 Loan Repayment Administration	32
2.1.7 Methods and Mechanisms of Project Appraisal	34
2.2 Review of Articles	36
2.3 Review of Thesis	43
2.4 Research Gap	50

CHAPTER THREE

RESEARCH METHODOLOGY 51-62

3.1 Introduction	51
3.2 Research Design	51
3.3 Natures and Sources of Data	52
3.4 Population and Sample	53
3.5 Data Collection Procedure	53
3.6 Methods of Data Analysis	54
3.6.1 Financial Analysis	54
3.6.1.1 Ratio Analysis	55
3.6.2 Statistical Analysis	58
3.7 Respondent Profile	62

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA 63-102

4.1 Deposit Collection of NDB	63
4.1.1 Total Deposit Collection of NDB	65
4.2 Loan Disbursement	67
4.3 Comparative study of every year Loan Disbursement and Collection	69
4.4 Performing and Non Performing Loan	71

4.5 Financial Analysis	73
4.5.1 Ratio Analysis	73
4.5.1.1 Profitability Ratio	73
4.5.1.2 Activity Ratio	75
4.5.1.3 Priority Sectors Ratio	78
4.6 Statistical Analysis	81
4.6.1 Correlation Analysis	81
4.6.1.1 Correlation between Loan Disbursement and Recovery	81
4.6.1.2 Correlation between Total Deposit and Total Loan	82
4.6.1.3 Correlation between Total Loan and Priority Sectors	83
4.6.2 Trend Analysis	84
4.6.2.1 Trend Analysis of Total Deposit Collection	84
4.6.2.2 Trend Analysis of Total Loan Disbursement	85
4.6.2.3 Trend Analysis of Priority Sectors Loan	87
4.7 Analysis of Opinion Survey (Primary Data)	97
4.8 Major Findings	99
CHAPTER FIVE	103-108
SUMMARY CONCLUSION AND RECOMMENDATION	
5.1 Summary	103
5.2 Conclusions	105
5.3 Recommendations	106
Bibliography	109-111
Appendixes	112-123

LIST OF TABLES

Table No.	Titles	Page No.
1.1	Capital Structure	9
4.1	Classification of Deposit	64
4.2	Collection of Total Deposit	65
4.3	Total Loan Disbursement	68
4.4	Comparative Study of Loan Disbursement and Collection	70
4.5	% of Performing and Non Performing Loan on Total Loan	71
4.6	Return on Total Assets	74
4.7	Return on Total Loan and Advances	75
4.8	Loan and Advances to Total Deposit Ratio	76
4.9	Total Loan and Advances to Total Assets Ratio	77
4.10	Priority Sector Loan to Total Loan & Advances Ratio	79
4.11	Priority Sector Loan to Total Deposit Ratio	80
4.12	Performing Assets to Non Performing Assets Ratio	81
4.13	Coefficient of Correlation between Loan Disbursement and Recovery	82
4.14	Coefficient of Correlation between Total Deposit and Total Loan	83
4.15	Coefficient of Correlation between Total Loan and Priority Sectors	83
4.16	Trend Analysis Values of Total Deposit Collection	84
4.17	Trend Analysis Values of Total Loan Disbursement	86
4.18	Trend Analysis Values of Agricultural Sectors Loan	87
4.19	Trend Analysis Values of Industrial Sectors Loan	89
4.20	Trend Analysis Values of Service Sectors Loan	90
4.21	Trend Analysis Values of Hire Purchase	92
4.22	Trend Analysis Values of Home Loan	93
4.23	Trend Analysis Values of Business Sectors	95
4.24	Loan Disbursement in Deprived Sectors	96
4.25	Frequencies of Responses from Loan paying clients of NDB	97

LIST OF FIGURES

Figure No.	Titles	Page No.
4.1	Total Deposit Collection of NDB	66
4.2	Bar Diagram of Total Loan Disbursement	69
4.3	Amount of Performing and Non Performing Loan on Total Loan	72
4.4	Trend Analysis of Total Deposit Collection	85
4.5	Trend Analysis of Total Loan Disbursement	86
4.6	Trend Analysis of Loan Disbursement in Agricultural Sectors	88
4.7	Trend Analysis of Loan Disbursement in Industry	89
4.8	Trend Analysis of Loan Disbursement in Service Sectors	91
4.9	Trend Analysis of Loan Disbursement in Hire Purchase Sectors	92
4.10	Trend Analysis of Loan Disbursement in Home Loan	94
4.11	Trend Analysis of Loan Disbursement in Business Sectors	95
4.12	Loan Disbursement in Deprived Sectors	96

LIST OF APPENDIXES

Appendix No.	Titles	Page No.
I	Data Available Narayani Development Bank Ltd.	112
II	Trend Analysis of Total Deposit collection	112
III	Trend Analysis of Total Loan Disbursement	113
IV	Trend Analysis of Agricultural Sector	113
V	Trend Analysis of Industry Loan	114
VI	Trend Analysis of Service Sector Loan	114
VII	Trend Analysis of Hire Purchase Sectors	115
VIII	Trend Analysis of Home Loan	115
IX	Trend Analysis of Business Sectors Loan	116
X	Correlation between Total Loan Disbursement and Recovery	117
XI	Correlation between Total Deposit and Total Loan & Advances	118
XII	Correlation between Total Loan and Priority Sectors	119
XIII	Calculation of Different Ratios	120
XIV	Research Questions	122

ABBREVIATIONS

%	:	Percentage
&	:	And
A/C	:	Account
AD	:	Anno Domini
ADBL	:	Agriculture Development Bank Limited
B.S.	:	Bikram Sambat
B/S	:	Balance Sheet
B/S	:	Balance Sheet
BS	:	Bikram Sambat
C.V.	:	Coefficient of Variation
EBL	:	Everest Bank Limited
Etc	:	Etcetera
F/Y	:	Fiscal Year
GDP	:	Gross Domestic Product
i.e.	:	That is
Ltd.	:	Limited
NABIL	:	Nepal Arab Bank Limited
NBBL	:	Nepal Bangladesh Bank Limited
NBL	:	Nepal Bank Limited
NDB	:	Narayani Development Bank
NRB	:	Nepal Rastra Bank
RBB	:	Rastriya Banijya Bank
ROA	:	Return on Assets
ROL	:	Return on Loan and Advances
S.D.	:	Standard Deviation
SBI	:	State Bank of India

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Agriculture remains Nepal's principal economic activity employing more than 80% of the population and providing 37% of GDP. Only about 20% of the total area is cultivable. Nepal is a least developed country and one of the poorest countries in the world which has a low per capita income of around us \$ 170, low manufacturing in GDP and low indices in the social indicators of development. This poverty can be attributed to scarce natural resources, a difficult terrain, landlocked geography, a weak infrastructure, unstable government and ineffectiveness of development efforts. Reducing poverty is the main challenge of national development.

Industrial conditions of Nepal have no developed yet as compare to other developed countries. The share of industry in GDP is still around 10% of which clearly notes the infant stage of industrial development. Landlocked country, lack of infrastructure, lack of risk taking entrepreneur, topographical difficulties, political instability etc are the main constraints of the industrialization in Nepal. So as to make the industrialization country, the mentioned constraints should be solved. Developed industrialization play an important role for an all round development of the country.

To drive the country to industrialization, capital is needed. For the capital, money market and capital market should be developed. To develop money market and capital market, developments of banks and financial institutions is very necessary. These financial institutions always help to gather capital and to mobilize in production sectors and facilitate the process of economic development. So for the better economic condition of the country, development of banking sectors, investment opportunities should be broaden.

A Bank is a financial institution licensed by a government to do the economic activities. Banks and financial institutions are important player in financial markets and offer financial services such as investment of fund, gathered scattered deposits etc. In present condition, only the money making bank is not the bank because many kinds of banks arose like; Industrial banks, Reserve banks, Joint stock banks, Co-operative banks, Agricultural development banks, Developments banks etc and these banks always perform the different kinds of activities. Because of the growth of the population, the ultimate change in industrial and business sectors, competition and the development of changing mind of people are interrelated relation of nations themselves.

Financial institutions and banks always play an important role in the economic development of any country. In this industrialized and service oriented era, the financial institutions and banks must operate very effectively with competitive service. While many people believe that the banks only play the limited kind of work of money like taking deposits and makings loans. The modern financial institution has adopted new responsible economic activities by making different kinds of new effective strategies. Now, the services provided by bank have been expanded to many areas as human wants and the development of technology. Remittance, exchange foreign currencies, consultancy, bank guarantee, agency functions are the other main functions of financial institutions. The economy of a country indicates the development of the country. The financial sectors always play the very important role to develop the economy of the country. Strong economic condition makes the nation developed. The financial sectors consist of banks, co-operative societies, insurance companies, finance companies, stock markets, foreign exchange markets, mutual funds, provident fund etc. Financial sector organizes the scattered domestic financial resources and manage them in right way by investing them in different kinds of sectors to develop different sectors, which definitely helps to make the good economic state of nation. There are so many factors required for the economic development and the major are capital formation and proper utilization of the capital. The scattered funds are

collected, mobilize it and invest the fund in best possible manner by the organized financial sectors.

To have the better economic status in the country, the economic policies should be effective. The ultimate objective of economic policies is raising the living standard of the people. That objective is fulfilled only when the loan should have given to invest in different sectors to increase the people's living standard. The mechanism of loan (credit) creation is used to expand the business fluctuation in the credit facilities granted by banks has an important bearing on the level of economic activity. Increase in production, employment, sales and prices expand the banks loan. In the developing economy, the banks and financial institutions should always offer more and more loan to increase resources of the particular sectors in which loan has invested or in any industry and this makes the cause of faster economic development in any country. Banks always play a decisive role in the industrial development and also the other sectors development of the country.

The loan or credit facilities given by financial institution must be uniform and rational, otherwise there will be haphazard development of the country. Credit should flow steadily and evenly through various sectors of the economy. The financial institutions take utmost care in analyzing the credit worthiness of the borrowing customer to ensure that the interest and the principal amount on loans are timely recovered. An effective and powerful lending policy is very essential for the good performance of the banks and further to get economic activities directed towards acceleration of the development. Granting loan or credit policy should be carefully analyzed, the banks should be very careful while implementing its credit function to minimize the risk factor and also to make the effective credit policy.

1.1.1 Banking History of Nepal

The history of banking sector in Nepal is not very long. In comparison with others developing or developed country, the institutional development in banking system of Nepal is far behind. In Nepal, there is not the definite time from when the currency and the banking transaction has held, although in the

history the ancient identify of currency is named as “Mananka” of king Mandev which was once in practice in Nepal.

In the seventh century, the currency of “Ansuverma” and “Jishnugupta” had the coin with their name printed on it. In the beginning of eighth century, in the history the king “Gunakamdev” had took the loan for reconstruction of Kathmandu valley. And at the end of eighth century, the history tells that “Sankhadhar” the businessman had made the loan free to all the people of Kathmandu valley and then he started the “Nepal Sambat”. In the twelve century, king “Sadasiva Dev” winted silver coin with loan image on it which was known as “Dam”. Similarly in fourteenth century the king “Jayasthiti Malla” divide the society into various casts and allocated professions among them in which the “Tankadhari” cast’s people had been given the responsibility of transacting the money and currency by the king. In sixteenth century, king of kathmandu “Ratna Malla” winted copper coins and similarly the king “Mahendra Malla” winted the silver coin And the last king of this century, ‘Prakash Malla’ winted gold coin.

After the unification of Nepal the king “Prithvi Narayan Shah” also brought his coin named as “Mohar” in practice. In 1989 B.S., the “taksar Bivag” had established and then in Nepal the coins were made in the scientific way. In this way, the transactions of currency and transaction of loan to different purpose from the traditional period in Nepalese history.

In 1993 BS, when the king “Ranodip Singh” ruled in Nepal, in Kathmandu the “Tejarath adda” had established in which the loan had granted to sarkari employees and public by taking sufficient security of Gold and Silver and this institution had also the different branches outside of Kathmandu to grant the loan. Now, from this establishment of “tejarath adda” the institutional banking transaction had started in this century although this “Adda” had not right to accept the deposit, so the concept of modern banking had lacked in this adda. So its limited resources were able to serve limited people. There was no provision of loan to fulfill agricultural require wants of farmers.

So the farmers must have to borrow the loan from local lenders or longer at the high interest rate in stead of keeping the collateral of their hand and buildings. The interest of principal amount and interest of interest would become ample amount to leave the right of properly. "Kamaiya" were also the result of such unjust loan transaction.

The first modern financial institution namely Nepal Bank Limited was established in 1994 BS under the act of Nepal Bank Act on Kartik 30th. It is taken as the milestone of modern banking of the country. Being first formal bank, NBL was given the authority and responsibility of central bank was very necessary.

After the long time of the establishment of NBL, Nepal Rastra Bank (NRB), the central bank of the country came into existence in 2013 BS Baisakh 14th under the Nepal Rastra Bank Act 2012 BS. NRB also called as the bank of the banks because it regulates all banks of Nepal and makes policies for them. It has been functioning as the government of banking sectors. NRB the central bank has established to regulate, impacts, surprise and monitor the whole functions of banking and financial sectors of Nepal. Nepal Rastra Bank has established and functioned as the government's bank and always contributed to the growth of financial and banking sectors.

After the establishment of Nepal Rastra Bank, the commercial bank has established in 2022 BS under the commercial bank act 2021 BS which is fully government owned commercial bank, Rastriya Banijya Bank Ltd. RBB bank has established because the banking had to reach each and every people of the country, so that every people can get the facilities of bank easily to make the better economic condition. It is the people's very own and familiar bank. It always plays the vital and important role for the people. At present, Rastriya Banijya Bank has the several branches in many parts of the country, providing services to facilitate the people.

Most of Nepalese depend upon agriculture and people depended upon the traditional forming system, consuming more cut and yielding the low

production. To make the better agricultural system, it needs finance and RBB bank is not enough for that. To solve the many problems of agriculture, the agricultural development bank was established in 2024 BS under the act of Agriculture Development Bank 2024 BS. The main goals of this bank are to make the better life style that people who depends upon agriculture. To provide loan for all kinds of agricultural based business and suggest the technical suggestions to people to develop the production in agriculture.

For more than two decades, no more banks have been established in the country. The established bank has done their efforts but the development of industry, trade was not so good because the techniques of performing banking functions were traditional. There was the lack of effective banking system and well trained bankers and depend greatly on paperwork. The customer was not satisfied by these kinds of services. And the main issue was the required economic development had no owned. The sub-sequent tendency towards liberalization and need of revolutionary change in the banking sectors allowed foreign banks enter into the economy as joint venture banks. This was expected to develop banking with the pace of change and to attract foreign investment and technology. The establishment of Nabil Bank Ltd in the name of Nepal Arab Bank Limited, in 2041 BS, was a stride in the history of modern banking in Nepal. Gradually, the other joint venture banks established like Nepal Indoswez Bank Limited in 2042 BS, Nepal Grindlays Bank Limited, Himalayan Bank Limited etc. These banks are performing very important role in the development of banking sectors. Now the other different types of banks are opening day by day.

By the time, the economic policies are changed for the better adaptation in the market of banking which facilitate the people of the country. After restoration of democracy, the democratic government adopted liberal, independent and market-oriented policy. It has changed its role of control oriented and coordinator a series of fundamental reforms in fiscal monetary, industrial, commercial labor policies have been done to create a appropriate environment for investment and ultimately these efforts provided impetus for incorporation of lots of commercial institutions since then.

In Nepal, many types of banks are existed like central bank, commercial bank, development bank, exchange bank, saving bank, rural bank, co-operative bank and other finance companies. The development bank is very important to develop the bases of the country like; agriculture, industry, business and other sectors. The economic development of the country definitely depends upon the economic development of above-mentioned sectors. The developments banks mobilize the collected financial resources in different form. To develop the bases of the country or particular area, government established the development banks under the special act of Nepal Rastra Bank act 2058 B.S. An outstanding financial development of the post independence period has been the rapid growth of development banks in the country. These banks are specialized financial institutions, which perform the twin function of providing medium and long term finance to private entrepreneurs and of performing various promotional roles conducive to economic development. As the name clearly suggests, they are development-oriented banks. In 1959 AD, the government set up Nepal Industrial Development Corporation (NIDC) an industrial development bank to provide both technical and financial assistance for the establishment, expansion and modernization of industrial projects in the private sector. Another specialized financial institution, Agricultural Development Bank of Nepal (ADB/N) was established in the government sectors with a view to providing financial assistance for agriculture in 1968 AD.

These are the fully government development bank. Gradually, the development banks are opened in private sectors, which makes easier to people to get the advantage of development banks. The first private development bank in Nepal is Nepal Industrial Development Corporation in Katmandu. There is 263mbers of total banks in entire Nepal according to the report "Banking and Financial statistics in mid July 2009" and among them the total number of development bank is 78 as the above mentioned report. Gradually, such kind of development banks are opening day by day and they all are giving their service with effectively and customers facilitate more and more as the competition increasing day by day. The development banks always increase the economic status of the country.

1.1.2 History of Narayani Development Bank Ltd.

Narayani Development Bank Ltd (NDB) is organized as a public limited bank. NDB is the second development bank established by private sector in Chitwan District. Its head office is situated in Ratnanagar, Chitwan. NDB is established at 2058 BS under the act of Bank and Financial Institution act, 2058 with the approval of the central Bank "Nepal Rastra Bank" act 2058 and Company Act, 2063. Till now, NDB has four branches; in Yagyapuri, in Bharatpur, in Shahid Chowk of Narayangarh and in Khairahani, Parsa to facilitate the people easily. At first in the establishment of this bank, its name was Narayani Industrial Development Bank Ltd but now its name has modified only as Narayani Development Bank.

This development bank has been established to gathered the scattered capital through out that area and also the entire nation and invest them to the people to promote the different sectors like trade, tourism, industry, agriculture, foreign employment, industrial production etc. Its main objective is also to facilitate the local people with giving them the special and attractive interest on their deposits and also to establish NDB as a first choice among other development banks in chitwan district for safe and high return on deposits, for getting easy and faster loan as and when required.

As above mentioned, NDB is committed to offer higher interest rate on deposits and lower interest rate on loan for people than other banks. In the context of loan, there is also the Percentage of discount for the customer who repays their loan and interest in time. The management of NDB is operated by the board of directors.

The present capital structure of Narayani Development Bank Limited is as follows:-

Table No. 1.1
Capital Structure of
Narayani Development Bank Ltd.

Types of Capital	Present (End of Ashad 2065)
Authorized Capital (2,000,000 comm. stock @ Rs 100 each)	20,00,00,000/-
Issued Capital (3,50,000 comm. stock @ Rs 100 each)	3,50,00,000/-
Paid up Capital (2,50,000 comm. stock @ Rs100 each)	2,50,00,000/-

(Source: - 7th Annual Report of NDB Ltd., fiscal year 2064/065)

Narayani Development Bank has operating its financial and economic operation very effectively and successfully from the date of opening. Because of the operating cost, this development bank couldn't get the profit in starting year but NDB is running in profit from the second year of its establishment in the fiscal year 2059/060. It was able to earn the net profit of Rs. 4 lakhs 40 thousands in the year 2059/060 and in the fiscal year 2064/65 upto Rs 14 lakhs 16 thousands. The bonus has started to distribute in the fiscal year 2059/60, rupees 49 thousands has distributed and in the fiscal year 2064/65, the distributed bonus is Rs. 5 lakhs 43 thousands .The collection of deposit of NDB was able to increase each year. The NDB started its deposit collection from Rs. 2 crore 07 lakhs in the fiscal year 2058/059 to Rs. 39 crore 21 lakhs in the fiscal year 2064/065. Total loan investment in the fiscal year 2058/059 was Rs. 43 lakhs and now in the fiscal year 2064/065 the loan investment is Rs. 3 crore 61 lakhs. NDB was able to increase its loan investment every year and the repayment process of the granted loan is very effective.

1.1.3 Bank Overview of Narayani Development Bank Ltd.

Narayani Development Bank established on 2058 BS under the act of Bank and Financial Institution act, 2058 with the approval of the central Bank “ Nepal Rastra Bank” act 2058 and Company Act, 2063 BS. In Ratnanagar municipality, there is not other private banks which can provide the fast and effective services to the local people. After the establishment, NDB facilitates the public with the fast banking transactions either in deposit section or in loan

section, till now it provides the good and very effective services to the public which enhances the living standard of ordinary people. It also provides the other business transactions at responsible cost in the bank, not only customers are facilitated but also employees are facilitate by receiving adequate compensation with professional career growth opportunities. In the bank, the stockholder receives satisfactory return for their investment. Till now, it has four branches; in Yagyapuri, in Bharatpur, in Shahid Chowk, in Narayangarh and in Khairahani, Parsa to facilitate the people easily. The bank is providing various types of loan and advance facilities with low interest, which are as follows:-

- Agriculture Loan
- Service Sectors Loan
- Industrial Loan
- Hire Purchase Loan
- Business Loan
- Working Capital Loan
- Over Draft Loan
- Home Loan
- Fixed Deposit Loan
- Share Security Loan
- Miscellaneous Loan

1.1.4 An Overview of Loan Management

In the bank, Loan transaction is the most important transaction from which the bank generates income i.e. the loans are provided to earn interest. It is regarded as the heart of every bank in the senses that; it occupies large volume of transactions; it covers the main part of investment. Most of the investment activities are based on the loan. It is the main factors for creating profitability. The assets side of the balance sheet is dominated by Loan and advances of any bank. But, the most banks failure due to shrinkage in the value of loan and advances. So the loan and advances is regarded as the

risky assets. Risk of non repayment of loan is known as credit risk. To get rid of such situation there should be proper loan management in banks.

In every organization, the effective management is the most important to complete the every job effectively. So as the bank must have the effective management system to manage every transaction effectively. In other words, loan management refers management of loan arising from loans. Loan exposures are the main source of investment in the development bank and the return from such investment is the main source of income.

In loan management, it recommends strongly the analyzing and making the credit risks. The goal of loan management is to minimize the bank's risk by managing credit risk exposure. The performing loan has many types of benefits whereas non performing loan decreases the existing capital. So the bank must analyze the different aspects about loan before granting loan in order to minimize the credit risk.

Every bank has the loan or credit policies and these policies are a type of framework to determine whether the loan granting or no and how much to grant the loan. There is no risk in collection of deposits but only small careless or mistake in the loan portfolio and procedure can shock the bank profitability and survival, when the bank is unable to recover the loans with interest. So there should be well managed regulations of lending aspects of a bank. Such policies should be strictly followed while evaluating the loan proposal and providing loans. The bank must consider five criteria while lending loan such as character, capacity, capital, collateral and conditions of the borrowers or applicants.

1.2 Statement of Problem

Banking institutions always play the vital role in the developing process of economy in any nations. National economy will developed only when the main sectors like; trade, business, tourism, industry, agriculture etc are developed or promoted and the banking institutions always lend the capital to these

sectors very easily. Hence, necessity of these institutions has been realized the most. In addition to this, such institution provides an effective platform for prospective entrepreneurs planning to capitalize future opportunities with financial as well as technical support. Such kind of financial operation helps to inspire the existing entrepreneurs as well as new one to come forward and surely they make the market of economy the strong one.

Due to open policy and economic liberation, till now the total no. of financial institutions established in Nepal has been reached up to 236 and 58 development banks has established (source: Banking and financial statistics, mid July 2007). They all compete with each other for their domain. There is the tough and stiff competition of development banks from other financial institutions viz; commercial bank, finance companies, co-operatives and other financial institutions.

General perception is that perform activities not being covered by commercial banks but recently, with increasing excess liquidity and down going interest rate in the commercial banks, these development banks have been hurt or attacked even more easily day by day. Hence well manage portfolio of disbursed loans and advances of every development banks along with the effective recovery of these loans gives platform for their existence to continue and growth.

Every bank must make the effective policies for the granting loan and also to recovering the loan. The bank should always provide the loan with proper technical analysis. No organization can run or earn smoothly without well managed portfolio of loan management. Hence the loan management of NDB has been taken as my thesis topic to open the clues about management of loan and default.

1.3 Objectives of the Study

The following are the specific objectives of the study: -

- 1) To analyze the loans and advances provided by NDB to indifferent area.
- 2) To analyze the interest rate on loans, weather it is appropriate or not.
- 3) To analyze the ratio of deposit collection and the loan granted.
- 4) To examine the effectiveness of recovery and repayment of disbursed loan.
- 5) To analyze the capacity to disburse and recovery of the loan.
- 6) To analyze the financial position (profitability position etc) of NDB.
- 7) To analyze the views and attitudes of respondents.

1.4 Research Questions

Here are some questions which can be raised while making the research:

- 1) How effectively the collected fund will be utilized for the loan and advances?
- 2) What kind of loan policies adopted by development banks?
- 3) Are the customers and borrowers of development banks satisfied by the adopted policy?
- 4) How efficiency will the credit policy of the chosen bank is being followed?
- 5) How much the total loan occupied by the idle assets or fund?
- 6) How effectively inspected that the loan has used in right way?
- 7) What kind of collateral has taken instead of lending the loan?
- 8) How much the granted loan is safe?
- 9) Is the non performing loan high?
- 10) Is there the allocation of total loan to different priority sectors or not?

1.5 Significance of the Study

Banks gather the scattered and scarce fund from the different sectors. Only by collecting deposits, it is not possible to run the institution in successive way. For gaining the profit and to run organization successfully and perfectly, the loan must be disbursed in different productive sectors. To lend the loan in different sectors means to develop these sectors which cause the economic development in Nation, reduction of poverty and the increasing unemployment in the country. That's why the credit management or loan management is very important for the economic development of the country. Currently, the nation's economic is only live from the remittance and this remittance has come from the foreign employment. Currently, the development bank helps the people, who wants to go foreign for employment by investing the fund, is the main cause of safe economic condition in the country. The effective process of lending and repayment of loan can help to reduce the poverty and unemployment of Nepal. As all knows, Nepal is one of the poorest countries in the world, which absolutely need the more fund for investment to have the higher rate of economic growth. Nepal's own fund or savings and the foreign capital are two main sources of capital available for the investment and domestic fund or savings is the most important and effective source of capital from which the banks disbursed the loan to required organizations.

Development banks also attract all kind of domestic savings by making different kind of deposit schemes from the saver and grant loan /advances to business, industry, production sectors, foreign employment, agriculture in long term, mid term and short term form to help for developing economic activities in the country. Loan touches each and every productive sector, which directly affects the economic development. The development of above factors causes the complete economic development of the nation. That's why investing fund that is loan is very important for the development of the country. The study of loan management of development bank will be important and beneficial to the following ways:-

1. To the Bank:-

The study of loan management is very beneficial to the bank itself. After the study, the position of bank among other financial institutions can be measure. The success of management can be analyzed.

2. To the Shareholder:

The original owner of the bank is the shareholder. The study of loan management affects directly to the shareholder to know the answers of their questions.

- a) In which sectors, the fund is used mostly?
- b) In which sectors, the fund is used least?
- c) Either the given fund is utilized or not?
- d) How the collected funds are utilized as loan?
- e) Is the loan used in mentioned objectives?

3. To the Outsiders: -

Beside the banker, there are so many other people linked with the bank. Customer (depositors or lender), creditors, competitors, investors, other financial institutions, stock exchange can get information about the performance of bank's loan and advances with the help of this analysis. They can take the right decision about investment decision.

4. To the Policy Maker: -

The policy makers like; government, ministry, central bank, security exchange and tax office can get the help by this study to formulate right policy for development banks.

1.6 Limitations of the Study

- 1) This study will define only single aspect of investment among various aspects.
- 2) The study will base upon only five year's data.
- 3) This study will mainly confine to loan management and recovery of only one development bank NDB.
- 4) This study will base on annual report published by company and data collected by researcher at hand which may not be always reliable

because they may publish the reports according to their profit policy and market situation. So there may be a lack of data accuracy.

- 5) The reliability of the study completely depends on accuracy of data provide and collected.
- 6) The data is not free from the limitations of primary and secondary data.
- 7) This study will conduct financially rather than technically or experimentally.

1.7 Organization of the Study: -

The study of loan management of development bank will present in organized form. The study will be organized into five chapter and they are as given below;

Chapter one

The first chapters will be “Introduction chapter” in which the subject matter of the study is described. This chapter of introduction contains background of the study, brief profile of the bank, statement of problem, objective of the study, need and significance of the study, limitation of the study.

Chapter two

In this chapter, the relevant literatures will review. It includes conceptual review in which major books, journal, research are reviewed.

Chapter three

This chapter contains the research methodology in which research design, nature and sources of data, population and sample, data collection, methods of data analysis have been described.

Chapter four

This chapter deals with “presentation and analysis of data”. In this chapter, collection of data from different sources will be presented and analyzed through different financial tools and statistical tools. The major findings are also included at the last of this chapter.

Chapter five

This chapter will include summary, conclusions and required recommendations and several directions for future research will be recommended in this chapter.

CHAPTER TWO

RIVIEW OF LITERATURE

Review means revision or inspection of different articles of past and present. So the review is a kind of a survey of the past, a periodical publication of articles and essays. It is very important to develop the concepts and ideas about the selected topic. So the review of literature is to examine critically or to revise. Review of literature means reviewing research studies or relevant proposition in the related area of the study so that all the past studies, their conclusions and deficiencies may be known and further research can be conducted.

The main purpose of this chapter is to review the available literature on loan management of financial institutions. Thus honest attempt can be made related with the help of satisfactory structure of the study or concerned topic from various books, newspaper, magazines, research articles as well as past thesis. It is an integral and mandatory process in research works. Thus to review the related literature, a researcher is advised as to identify the past research work and studies by reviewing the literature is to develop some expertise in one's area, to see what new contribution can be made and to receive some ideas for developing a research design. Thus purpose of literature review is thus to find out what research studies have been conducted in one's chosen field of study and what remains to be done.

Thus a literature review is a systematic explicit and reproducible method for identifying, evaluating and interpretation the existing body of recorded work produced by researcher, scholars and practitioners.

2.1 Conceptual Review

Conceptual review includes the review of textbooks and references materials such as newspapers, magazines, research articles and journals besides past thesis.

Bank

Encyclopedia states that “a bank is a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly or through capital markets. A bank connects customers with capital deficits to customer with capital surpluses.” (www.wikipedia.com)

Banks always play the important role for the country. The country like Nepal always needs the banking support to develop the good economic environment. The banks always support the public by investing to their own business and the big institutions. So the bank always decreases the poverty of the country and increases the employment environment which helps the country to yield the good economic environment. For the effective economic environment, capital is needed. For the capital, money market and capital market should be developed. To develop money market and capital market, developments of banks and financial institutions is very necessary. These financial institutions always help to gather capital and to mobilize in production sectors and facilitate the process of economic development. So for the better economic condition of the country, development of banking sectors, investment opportunities should be broaden.

In Dictionary of Oxford states bank as a commercial institution licensed as a taker of deposits. Banks are concerned mainly with making and receiving payments on behalf of their customers, accepting deposits and making short term loans to private individuals, companies and other organizations. (Oxford Dictionary of Finance and Banking; 1997AD: 25)

Lending Policy

Book named “Banking and insurance” explains that banks collect the deposit amount through the different accounts from the customers and the collected amount is invested in different productive sectors by granting the loan. All banks make the lending policies to invest the collected cash amount according to their own objectives and capacity. Commercial banks should formulate lending policies under the direction of the central bank and economic policies under the direction of the central bank. Loan policies should

be formulated to help in development and promotion of nation's industry and business sectors, and also for collecting the interest as the profit of the bank. (Khadka and Singh; 2058; 185)

Oxford dictionary defines the loan as money lent on condition that it is repaid, either in installments or all at once, on agreed dates and usually that the borrower pays the lender an agreed rate of interest. (Oxford Dictionary of Finance and Banking; 1997 : 203)

In this competitive age, to formulate the successful loan policies is very difficult. In money market, there are numerous persons and organizations that demand and supply the loan. There is competition as well as interaction among them in various sides like interest, service, and security etc directly or indirectly. In this situation, the management should formulate the effective secure and profitable loan policies by coordinating the internal and external strong and weak aspects in according to the external environment and also according to the banks goals. When the loan policies are formulated, there should be the effective coordination among bank's liquidity, security and profitability applied in policy of investing in the most profitable sectors.

Another author Hriday Bir Singh in his book "Banking and Insurance" views as: making loans is the principal function of banks to fund consumption and investment spending by businesses, individuals and government office. The fact how well a bank performs its lending function has a great deal to do with the economic health of the country. Bank loans support the growth of new businesses and jobs and promote economic vitality. (Singh; 2007; 254)

2.1.1 Concept of Development Bank

Development bank defines the bank which motive is only to help in developing the country's economic condition. It always helps the people by granting loan and encourages them to invest the amount in productive purpose so that the country can take advantages from that. We know after the establishment of NBL and NRB, the government always needs development bank which will

establish to help in developing the country's economic condition for the better life of public and for the successful economic position of the country. Government established the first agricultural development bank to encourage the people of rural areas and town too. Now a day, the government gives the authority to the private sector for enclosing the development bank in every part of the country, specially the rural part. It is very essential to establish such development bank in remote area and in those areas; the development banks are facilitating the needy people by providing services.

The author Hridaya Bir Singh mentioned C.R. Crowther quotation that "A bank collects money from those who have it to spare or who are saving it out of their incomes, and if lends this money to those who require it."(Singh; 2007; 5)

Development banks also work as the different commercial transactions to facilitate the people from the commercial view. That's why now days; the development banks take the market successfully. The development banks perform various functions of collecting deposits, granting loan, transacting business activities. They accept deposits from the public on the condition that they are repayable on demand or short notice. They grant loans in the form of cash credits. Apart from financing, they also render services like collection of bills and cheques, financing and advising etc to their customers.

2.1.2 Functions of Development Bank

Recent development banks perform most of transactions which is performed by the commercial banks of Nepal. So it is not different from the other modern commercials banks. The function of development banks is to hold deposits and make credits and investments with the object of securing profits. So its primary motive is profit by facilitating the customers through performing different banking transactions. The main functions of development banks are as follows:

1. Accepting deposit
2. Advancing of loan

3. Payment of cheques
4. Remittance
5. Collection and payment of credit Instrument
6. Exchange foreign exchange
7. Consultancy
8. Agency functions
9. Others
- 10 Bank guarantee

2.1.3 Definition of Loan

Oxford advanced learner's dictionary defines loan as "a thing is lent, specially a sum of money and the action of lending something or the state of being lent." (Hornby; 1996; 690)

Loan is sum lent to others for certain time period with the agreement to charge interest on principal. The interest is charged calculating certain percentage on the principal. When money belonging to one is advanced to another of loan advancement is to earn interest as the reward for lending the sum for specific period.

Loan and advances is the important item in the assets side of the balance sheet of commercial banks. Banks earn interest on credits and advances, which is one of the major sources of income for the banks. Banks prepare credit portfolio, otherwise it will not only add bad debts but also affect profitability adversely.

2.1.3.1 Types of Loans

- a) Agricultural Loan
- b) Industrial Loan
- c) Service Loan
- d) Business Loan
- e) Hire Purchase Loan
- f) Working Capital Loan

- g) Home Loan
- h) Debenture/share Loan
- i) Real Estate Loan
- j) Deprived Sector Loan
- k) Foreign Employment Loan
- l) Term Loan
- m) Overdraft Loan

2.1.3.2 Objectives of the Loan / Credit Policy

Credit is always a matter of judgment, based on one's own experience and convictions. There can not be 100% correct approach. The ultimate result may be either good or bad of loan approval, and from such experience one has to arrive at a proper credit policy. Encouraging maximum number of loan of small amounts ensures liquidity and with less incidence of bad loan. Concentration in particular type of loan should be avoided. Necessary conditions have to be incorporated in the sanction letter of loan for safety and liquidity of loans. Performing loans have multiple benefits to the society where as non- performing loans erodes even existing scare loan. The objectives of a written loan policy are to assure compliance by lending personnel with the bank's policies and objectives regarding the portfolio of loans, to provide personnel with a framework of standards with which they can operate.

The objectives of sound credit policy are as follows

a. To have performing assets

Performing assets are those loans that repay principal and interest to the bank from the generated cash flow. The basic objectives of sound loan policy are to maintain the financial health of the banks which results in the safety of depositor's money and increase in the returns to the shareholders.

b. To contribute to Economic Development

Sound loan policy says that loans are given to the productive sector which multiple benefit to the society as direct and indirect employment generation,

earning capital creation, tax to the government, uplift the living standard of the people and many more.

c. To Establish a standard for control

Periodic follow up is essential for proper implementation of any loan policy. A sound loan policy helps in identifying the deviation between actual and standard performance along with corrective actions to be taken.

d. To give guidance to lending officials

There should not be any discrimination whether he deals with one officer or another and one branch or another. There should be a uniform standard procedure throughout the organization which helps in consistent judgment by the individual loan officers.

2.1.3.3 Components of Loan Policy

Normally, the effective loan policy consists of following elements or components:

1. Characteristics of Good Loan Portfolio

The loan should specify the characteristics of a good loan portfolio for the bank in terms of types, maturities, sizes and quality of loans.

2. Specification of Lending Authority

The specifications of the lending authority should be given to each loan officer and loan committee. This helps to measure the maximum amount and types of loan that each person and committee can approve.

3. Line of Responsibility

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

4. Operating procedures:

Appropriate operating procedures should be defined clearly for soliciting, reviewing, evaluating and making decisions on customer loan applications.

5. Documentation

All documents required for loan should be determined clearly. That is to accompany each loan application and bank's credit file. Basically, financial statement, security and agreements are the main documents to be attached with loan file.

6. 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 bank's credit files.

7. Collateral Guidelines:

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

8. Loan Procedures:

There should be perfect policies and procedures for setting loan interest rates and fees and the terms for repayment of loans.

9. Quality Standards:

There should be a statement of quality standards applicable to all loans.

10. Loan limit:

The preferred upper limit for total loans outstanding should be determined in the loan management. It specifies the maximum ratio of total loans to total assets allowed.

11. Loan Area

A description of the bank's principal trade area should be made in the loan management, which most loans should come from.

12. Solving Loan Problems:

There should be a discussion of the preferred procedures for detecting, analyzing, and working out problem loan situations.

2.1.3.4 Principle of Loan Policy

Actually, it is the most important subject to know: how is the bank's loan policy? So, the bank should be very careful while granting the loan because the banks have collected the deposit of many people's and organizations. The bank must pay the interest deposits. On the other hand, the banks have their own internal expenses like salary, administrative expenses and other miscellaneous expenses. These kinds of expenses are occurring regularly. For this type of expenses, the payment of interest of public's deposit or for the profit of bank's shareholders too, the bank must earn the profit. Private Banks are established for the profit. These banks are established for the profit earnings. To earn the adequate profit, the bank banks grant the loan. The banks should be very careful while granting loan. Banks should be very clear in their policy and visions in the context of bank's loan policy. Actually, the bank must apply the profitable loan policy which is accepted by the nation's and NRB's loan policy.

No banks can stop to grant the loan but after investing or granting the loan, there is some fearful environment whether the loan has collected or not from the lenders. So that the bank should formulate the effective loan policies by analyzing internal and external environment of the bank. There are some principles which should be analyzed by the bank, while making the loan policies.

- a) Principle of Liquidity
- b) Principle of Profitability
- c) Principle of Safety
- d) Principle of Diversification
- e) Principle of Marketability
- f) Principle of National Interest

a) Principle of Liquidity:

The bank must study the principle of liquidity. The bank accepts the deposits of public, organization, firms, company etc in large amount through the different accounts. The bank must ready to payment the interest and their deposits in any time when they want which is the responsibility of the bank. To earn profit, the bank must invest the deposited amount but the all deposited amount shouldn't be invested. Liquidity means the process of paying the cash amount when the depositors ask. For maintaining the liquidity, the bank must have very Well managed the accepting and lending the amount. So the bank should think about the liquidity principles and the loan has granted only in safe sectors.

b) Principle of Profitability

In reality, profit and liquidity are two opposite sectors/matters. If the bank only earns the profit then the liquidity part will be weak and similarly if the bank only thinks about liquidity then it can't be earn profit in the absence of long term loan. So that, the bank should makes policies by balancing both liquidity and profit. The private banks are profit oriented, so they invest in productive and profitable projects. Without investment, the profit can't earn but earning the large amount of profit, the bank should not have the risk by investing in risky projects.

c) Principle of Safety

The bank should have safety while investing in any projects. If the safety factors are neglected then there is always risky in granting the loan. If it is neglected then the bank can face not only the big loss but also the possibility of liquidation of the bank. So the bank should always free from this kind of risk. So the bank should be very careful about safety principle while making the loan policies. For this, the bank should make the decision of taking the A grade collateral or the most secure collateral in stead of the loan.

d) The principle of diversification:

The principle of diversification is one of the most important principles. The bank always shouldn't incest in same sector with the same kind of collateral

for the loan. If so, the bank can't collect the loan perfectly. So, the bank should have knowledge of diversification while formulating the loan policies. The bank should invest in different sectors with the different collateral. So that economic condition of the bank should be strong. If the bank can't earn the profit from one sector then it earns profit from another sector. So, by investing in different sectors with different collateral the bank couldn't face the bad economic condition.

e) The principle of marketability:

It is very important to know the market values of the collateral taken. If the lender denies paying the principal and interest, in this condition the bank must collect the loan from the collateral. So the values of the collateral in the market should be analyzed before granting the loan. So the bank should make that kind of policy which will favors in marketability principle.

f) The principle of National Interest:

The bank must think about the national interest while formulating the loan policies although the banks have the objectives of earning profit. Sometime the bank also has to take decision of advantage for the nation than itself. The bank always should give the importance to the direction of Nepal government and also as the NRB.

2.1.4 Lending Conditions

A bank must analyze the 5Cs or character, capital, collateral, capacity and condition of the lender for providing loan and advances.

1. Character

The character refers to the personal traits of the borrowers which are very important for lending decision. Good character means the responsibility, truthfulness, responsible purpose and responsible intention to repay the loan. Lender must have a responsible attitude towards using borrowed funds and is truthful to the bank.

2. Capacity

The borrower must have ability of business acumen, education qualification managerial ability to deal with men and matters so that he would make effective and profitable use of funds and there by able to repay the loans. It must be sure that the applicant requesting credit has the authority to request the loan and the legal standing to sign a binding loan agreement. So the capacity of the borrower must be checked out by the bank.

3. Capital

It is the most important to investigate about the borrowers capital. Before granting the loan for work or any business, bank must know how much the borrowers invest as the capital in that work or business. Generally, the capital invested in his business should be more than the loan borrowed by the applicants. Business capital and economic condition can be known from B/S of that business. On the basis of these information, if the loan is secured then the loan could be accepted.

4. Collateral

The borrower should have the adequate net worth or own enough quality assets to provide adequate support for the loan. Bank should be particularly sensitive to such feature as the age, condition and degree of specialization of the borrower's assets.

5. Condition

It must be clear that how the changing economic conditions might affect the loan. Condition refers to the general economic condition beyond the control of the borrower that affects the borrowers business. It is security, political and social conditions under which the business has to run. Banks grants loan only if the lending official feels the condition are favorable.

2.1.5 Loan Approval Procedures

The loan approval procedures may vary according to size and types of loans. However there is some lending process followed by most banks. In general, the loan approval procedures have the following steps:

a. Loan application

Loan application is the primary source of information given in a systematic manner, required for assessment of the proposal. It includes various documents of borrower along with project proposal, historical financial statements and documents about incorporation with legal existence.

b. Loan interview

Once a customer decides to request a loan, an interview with a loan officer usually follows right away, giving the customer the opportunity to explain he or her credit needs. That interview is particularly important because it provides an opportunity for the bank's loan officer to assess the customer's character and sincerity of purpose. If the customer appears to lack sincerity in acknowledging the need to follow to the terms of a loan, this must be recorded as a strong factor evaluating against approval of the loan request.

c. Site Visit

If a business or mortgage loan is applied for, an officer of the bank usually makes a site visit to assess the customer's location and the condition of the property. Site visit helps to verify the accuracy of the information provided by the applicant. It also reveals the degree of customer's sincerity and character.

d. Reference Check

The loan officer may contact other different peoples and organizations, who have previously loaned money to this customer to see what their experience has been. Did the customer fully adhere to previous loan agreements and keep satisfactory deposit balances? This payment record often reveals much about the customer's character, sincerity of purpose, and sense of responsibility in making use of bank's loan.

e. Documentation

If every thing up to this pint is favorable, the customer is, then, asked to submit several crucial documents in order to fully evaluate the loan request, including complete financial statements. In case of a corporation, the

applicant is also asked for board of director's resolutions authorizing the negotiation of a loan with the bank.

f. Credit Analysis

Once all documents are on file, the credit analysis division of the bank conducts a thorough financial analysis of them aimed at determining whether the customer has sufficient cash flow and back up assets to repay the loan. The credit analysis division then prepares a brief summary and recommendation. This recommendation goes to the loan committee for approval. In case of larger loans, member of the credit analysis division gives and oral presentation and discussion will ensue between staff analysis and the loan committee over the strong and weak points of a loan proposal.

g. Perfecting Collateral

When the loan committee approves the customer's loan request, the loan officer or the credit committee will usually check on the property to be pledged as collateral in order to ensure that the bank immediately assesses to the collateral or can acquire title to the property involved in case the loan agreement is defaulted. This often referred to as perfecting the bank's claim to collateral. Once the loan officer and bank's loan committee are satisfied that both the loan and the collateral are sound, the note and other documents are made up for a loan agreement. Then all parties to the agreement sign on loan deal.

h. Monitoring

After advancing loan to the customer, it seems to be the end of lending process. But, actually it is the beginning of lending process. The new agreement must be monitored continuously to ensure that the terms and conditions are being followed and that all required payments of principal and interest are being made as promised. For larger commercial credits, the loan officer will visit the customer's business periodically to check on the firm's progress.

2.1.6 Loan Administration

Loan administration is the most important and essential administration among different administrations in the bank. Bank always invest the some amount of collected deposit through the customers in productive sectors after allocating definite percentage of amount collected for liquidity. Bank should always investigate the security and the risky aspects of the loan. The future of the bank depends upon the effective work of loan administration.

This department should operate its all duties with coordinating the security, profit earning of the bank and also the all economic management of nation.

There is important role of bank's loan administration in development of economic environment. If the bank maintains the liquidity amount in large volume then there will be lack of capital in industrial sectors which affects negatively in national production. So the bank has to flow the large amount of loan in productive sectors for helping in nation development. In loan administration there is two types of work performed:-

2.1.6.1 Loan Granting Administration

This administration performed following works:

a) Proposal for loan:-

Loan administration manage the form of proposal fro loan. There are different types of short and long term loan according to period and the management of this kind of loan should perform by this administration. It registers the applicant's forms by correcting all criteria of application. In the forms, it checked the applicant's name, address of applicants and also the objective, types, quality, collateral types etc are checked.

b) Loan deed

After the preliminary checked of application, if the form has all term and conditions then the administration sanction the loan. After that that bank prepares a loan deed. It contains the methods of loan recovery, interest rate,

payment system repayment schedule, lending documents, term and conditions etc. The loan administration starts the process of granting loan when the mentioned term and conditions are accepted by the customers.

c) Promissory Note

After the contract of the loan, bank performs the proposal appraisal methods and mechanism. The administration should make the promissory note in which the customers must make promise to obey the bank's term and condition about the loan.

d) Indemnity Bund

Contract deed of indemnity needs to be prepared by same department. In this contract, after granting loan if the customer goes against the contract then he or she should give the compensation or punishment.

e) Invoice

The customer have to present the invoice, letter, catalogue and other documents of the business, industry, technology, plant for which the loan has taken as the bank demand.

f) Securities

Any reliable securities such as movable or immovable should be kept as security to provide cushion for loan beside cash generated.

g) Personal Guarantee

Bank grants loan taking movable or immovable properties of third person if the debtor's security is less than needed or unacceptable or do not meet bank's limit. But all legal process related to it should be fulfilled.

2.1.6.2 Loan Repayment Administration

There is different department of loan repayment in the bank. This repayment administration always keeps the lender in contacts until the principal and

interest of granting loan has collected. In this, the following steps has included:-

1. Credit audit

The customer has taken the advantage of granting loan. The bank has analyzed whether the customer has misused the granting loan or used in mentioned objectives. This process is called credit audit. In this credit audit, the bank should check the related documents, lender's accounting and the bank also observes the site visit. This process is only for checking whether the granting loan is used in mentioned objectives or not.

2. Interest charging

The principal and interest payment schedule has given to lender while granting the loan. So the lender must pay interest and principal according to the schedule in some definite period. If the customer couldn't pay the interest and installment in definite mentioned period then the administration punishes the lender i.e. the lender must pay the interest of interest in higher rate but if the lender repays the interest and installment in mentioned time then the bank give the discount in charged interest.

3. Loan Repayment Process

The bank collects the loan if the time period of loan has completed. Bank recovers the loan by two methods installment basis and lump sump basis as per the deed of loan. Loan period can be extended making new agreement if the borrowers' situation goes beyond his control but after renewal the interest amount must be paid in mentioned period.

4. Return of Security

After the payment of all amounts of interest and principal, the lender can get bank the ownership of the security. The bank returns the lender security's document.

5. Legal Consideration

If the lender can't pay the interest and loan until after extending loan period then the bank must recover the granting loan amount from the security or

collateral of the lender. For this the legal process should be done in court or police station.

6. Maintenance of Data

All documents and information should be gathered and must keep safely by reporting. In this the two process has been performed one is record keeping and another is preparation of report.

2.1.7 Methods and Mechanisms of Project Appraisal

The project application submitted by the customer should be analyzed with very carefully before giving the final decision either pass or not pass the project for loan. For project appraisal, the project must analyze by using different kinds of mechanism to know that it is viable or not in every aspects or environment. If the project becomes sound project by testing from this mechanism then the other process can be done to pass the loan. The banks have to test the project in different kinds of aspects and they are industrial environment, managerial quality, technical aspects, and financial aspects.

a. Industrial Environment

The environment of business or industry for which the loan has proposed should be analyzed properly before granting loan. The proposal should be favorable with industrial environment or the environment of surroundings of the business or industry to know whether the environment is favorable or not. Industrial environment have different aspects which must analyzed by the bank. They are:

- Competition
- Source and supply
- Regulatory environment
- Area coverage
- Seasonal variance
- Attraction of industry and trade
- Future projection

b. Managerial Quality

Before granting the loan, the banks have to confirm about the managerial quality of the applicants i.e. how he or she manages the surroundings things. The effective managerial quality helps the customer to manage on repaying the principal and interest of the loan. Basically the repayment prospects of a loan highly depend upon the competence and integrity of the management. Following are the different managerial quality which should analyzed by the bank.

- Qualification
- Experience
- Faithfulness
- Competences
- Alliance

c. Technical Aspects

In this competitive era, there should be good condition of different technical aspect of the business or industry. Technical aspects are reviewed to find out the availability of resources, costs and physical facilities. Resources and resourcefulness of the borrower are both studied to see that there will be no wastage of men, material and money. In this aspect, the bank should analyze different kinds of technical aspects of the proposal.

- Location of infrastructure
- Plant and machinery layout
- Production items
- Production process
- Pollution

d. Financial aspects

The financial aspects of proposed loan application should be analyzed either the loan proposal can be accepted or not. The bank grants loan only to viable and profitable project because that exists high possibility of loan recovery from generated income of the project. This is the most important aspect

among different aspects of the proposal. The followings matters are studied in this aspect:

- Capital of the project
- Cost of project
- Future cash generations

The entire review work is divided into two headings:-

Review of Articles

Review of Thesis

2.2 Review of Articles

1) In the Nagarik daily's economic section, an article by Manoj Adhikari has mentioned that, in Pokhara the amount of deposit collected by private banks and joint venture is very higher than the government banks. In comparison of government banks, the loan granting and repayment of loan is also very high by private banks and joint venture. Further he states that according to NRB data, the transaction of private banks and joint venture banks is four times bigger than government banks. The attractive interest rates on deposits, modern and active banking system and also effective management make these banks more forward than government banks. In only Kaski district, there is nine branches of government banks, nine joint venture banks' branches and twenty one branches of private banks, also 34 development banks' branches. According to NRB, at the end of Pouse month of current fiscal year the private sector banks collect 14 arab 88 crore rupees which amount is 43% of total deposits. In this period, the total deposits of all banks and financial institutions is rupees 35 arab 63 crore. The private and joint venture banks grant loan amount of Rs. 11 arab 1crore in that fiscal year in only in Kaski which amount is 36% of total loan granted. On the other hand, in this fiscal year the government bank's collected deposit is only 11% of total deposit ie 4 arab 14 crore rupees. The loan granted by the government banks is Rs. 4 arab 9 crore which is 13% of total deposit.

In this fiscal year, the “B” grade thirty four development banks has the deposit of Rs. 9 arab 15 crore and the loan granted is Rs. 7 arab 97 crore. The repayment loan is 5 arab 57 crore of these banks where as the non performing loan amount is 0.31% of total loan granted. (Adhikari; 2067)

2) In the interview of an article published in “Naya Patrika” the chief judge Anup Raj Sharma commented that “now the economic era is starting, so the banking sectors should formulate very effective rules and regulation for the banking sectors by NRB. So he said that NRB must be very active for formulating rules and regulation and also using them effectively.” In the same article, the governor Yubaraj Khatiwada says that the banking acts and laws should be made more effective than previous.

The chief judge Sharma commented that some new established banks don't follow the rules and regulation, the NRB must be very serious about this. The banks should be very lawful when the collaterals are auctioned. (Naya Patrika; 2066)

3) In the “Naya Patrika” daily newspaper, “Gurdan Au” the popular manufacturing businessman of Hong Kong, coated that when the economic crisis is generated then it affects mostly banking and financial institutions. (Au, Gordan; 2066)

4) According to “Naya Patrika” business section an article, the commercial banks grants the doubled loan amount than deposit collected within eight months of this fiscal year. According to NRB, the total internal loan is increased by 10.2% and the total deposit is increased by 4.2% in comparison with the previous year's fiscal year. In previous year, the increased percentage of loan is 7.5% and deposit is 14.3%. so according to NRB the increased in total loan of private sectors results the increment in inter loan. NRB claimed that mostly the loan has invested in industrial production sectors ie production of sugar, cement, iron and steel.

In eight months of this fiscal year the increased percentage of granting loan in small business, finance insurance and fixed assets and service sectors loan, are 23.2%, 41.6% and 20.2% respectively. The real estate loan has increased by the amount Rs.14 arab 92 crore within eight months of this fiscal year.

According to NRB because of the highly increment in loan granting and decreasing trend of deposit collection, the ratio of loan and deposit is increased to 90.2% from 81.2%. Where as the ratio of liquidity and deposit is decreased to 29.3% from 34.2% at the end of Aashadh. (Naya Patrika; 2067)

5) The article published in Kantipur daily economic section, according to economist Dr. Chandra Mani Adhikari, “there should be definite policy of where is the bank established? and in which sectors banks has been sent? Till now only 20% people facilitate from the banking services. So the banks should be established in remote and village area. this kind of policies must be formulated by NRB which helps to develop the economic condition of Nepal.” (Adhikari; 2067)

6) In the interview by Narayan Sapkota and Sudarshan Sapkota in Nagarik daily the current NRB governor Yubaraj Khatiwada commented the condition of banking sectors in Nepal. According to him, nowadays the deposit has collected slowly in the banks. Because of the slow increment in deposit collection, NRB directs to decrease for granting loan because of the liquidity problems arises in the banks. Nowadays the banks almost stop to grant the loan which caused the liquidity problems slowly cover up.

The problem of liquidity arises because of the excess loan granting by the banks and when the granting loan is decreased then the liquidity is easy. So the loan granting and liquidity of the bank are interrelated. Now the ratio of loan and deposit is 89%.

According to him, because of the excess monetary expansion, the investors search for the different portfolios like share, realstate and commodity market to invest their money.

This is also the big cause of not collecting deposit in the banks. The condition of those sectors decides the position of collecting deposits in the banks. If the condition so share markets, realstate and commodity market is going upward then the public definitely deposits their money in the banks fro which the increased percentage of interest on deposit definitely helps too. He has also says that because of the bad loan policy of the banks the situation of stopping to grant the loan has arisen. In past, bank granted the loan in large amount with the expectation of the deposit will be collected. But as the expectation of the bankers, the deposit has not collected which caused the loan deposit ratio increased very highly. So the NRB directs the banks in order to stop granting loan. That's why the bank always should have to careful on these things for not arising this situation of liquidity. At last he says that because of the high loan deposit ratio, the banks can not expand the loan although they have deposits in the banks. This is only for making the satisfactory increment of deposits in the banks. (Sapkota and Sapkota: 2067)

7) An article published in New Business Age (July 2008) entitled “Capital market and role of central bank” by A.R. Bhattarai states that the central bank should understand that capital formulate is a continuing process, not something that is one off deal. Conditional and unstructured policy response will control the much needed capital inflows. Developing countries need huge amount of capital to finance developments projects. Central bankers in developing countries must forecast capital requirement for next twenty years are more and then structure their policy to facilitate capital growth. Therefore while introducing any regulation on the capital market, the central bank must predict long term microeconomic stability and shouldn't be confused with short term control. Looking at future need, we must rethink and redesign our rules and regulation to facilitate capital growth. (Bhattarai; 2008)

8) An interview of the first governor of NRB Himalayan SJB Rana in journal New Business Age (July 2008), according to him, in real business world, things does not happen according to some academic formula. Banks set up their rates according to the market. Even the prime interest rate that NRB sets

is not so influential in Nepal. Banks set rates purely according to the business they get, not on the basis of some academic theories.

Each bank will have its own yield curve. Bank will have a higher yield if they can get deposits at a lower rate of interest. So many embassies, Ingo's and Ngoc's prefer to deposit the money in these banks. So the share of current deposits in the total deposits is very high in these banks. Therefore the financial cost of these banks is remarkably low. Their yield will be higher even if they lend only at 9 or 10%. On the other hand, new banks will have to offer higher rate of interest to attract the depositors. Their yield is very low because there is a small difference between what they have to pay can earn as interest.

There is no cartelling among the bank's to control the interest rates. In fact there is a keen competition among banks. People seeking loan explore their option in different banks offering different interest rates. The new banks that have come up offer loans at a lower interest rate and for depositors they offer higher interest rate. They are operating on a very thin margin.

He further says that in other countries banks are separate class from industrialists and traders. But at present in Nepal almost every big business house owns a bank, an insurance company and a finance company in addition to industries and trading companies. According to him he didn't feel comfortable with that. He thought the central bank should, before providing a banking license to the applicants, ascertain whether the applicants can run the bank as a bank should be run. Its decision should not be based only on the ability to arrange the paid up capital of Rs. 2 billion. The concern is not only about the billion amount they put in. the concern is more about the deposit the bank will collect from innocent people. If such deposits are put at risk, the potential consequences are disastrous. Therefore ability to arrange the capital should not the sole criteria while providing the banking license. The central bank must scrutinize the ability of the group to run the bank for a long period, not for only two or three years. (New Business Age; 2008)

9) An article entitled “Real estate loans go down” published in The Kathmandu Post (June 7, 2010) , Real estate loans went down in the third quarter of the current fiscal year as compared to the second, thanks to the banks tightening the screw on such loans amid NRB’s directive to right size them.

Liquidity problem in the banking system in the past seven months is another factor that has contributed to the lesser lending in the realty sector, according to bankers.

The loan figures came down to Rs. 63.64 billion in the third quarter from 65.72 billion in the second year. With the liquidity crisis, still on, most banks have stopped issuing fresh loans in this sector.

Presidents of Nepal Banker’s Association Mr. Shasin Joshi said the real estate lending witnessed a fall as a result of the liquidity crisis, while banks with high credit and deposit ratio are also required to cut their lending to the realty sector.

He further stated that he believed the banks have virtually stopped new lending to the realty sector although the liquidity situation has improved to some extent in recent days. Joshi said that the strict NRB policy to discourage real estate lending is also responsible for the decline in the real state loans.

Banks and financial institutions are required to reduce their real estate lending to 25% of the total lending and to 40% in both real estate and housing credits by the end of the current fiscal as per an NRB directive issued last December.

Due to restriction in the realty lending, transaction in the sector has also come down heavily. (The Kathmandu Post; 2010)

10) Prithviman Shrestha in his article(Sunday 23 may 2010) entitled “Depositors stay cold to high interest offers” published in The Kathmandu Post, despite their offer of lucrative interest rates, banks failed to attract deposits during the third quarter of the current fiscal year as compared to the second one.

The deposit growth showed in the first nine months of the current fiscal but credits ballooned resulting in a liquidity crunch, especially in the first quarter.

President of Nepal Banker's Association Sashin Joshi said the stagnation in deposits was the biggest challenge facing the banking sector. He added that has also contributed in stagnating the flow of credit. Political situation is of course responsible for this situation, he said. The provision of disclosing the income source while purchasing plots of land, capital gain tax on realty transactions and the provision to disclose the source for deposits above Rs one million in banks and financial institution are other factors that have kept deposits at bay.

He warned that the banks' failure to lend as a result of liquidity crisis for a longer period would have a huge impact on the country's economy. (Shrestha; 2010)

11) An article published in the Kathmandu Post entitled "Banks sell machinery to recover loans." By Binod Bhandari states that commercial banks which have invested millions of rupees in various factories have been selling their loans after the promoters fled.

More than three dozen large scale industries along the Sunsari-Morang industrial corridor have been shut down in the last decade. Banks in Biratnagar have invested over Rs four billion in these industries. Now they have started to sell the equipment and other assets at scrap values to recover their investment.

In the last decade, Ashok Textiles Shivalaya Metal, Shangrila Apparels, JD Apparels, Star Board, Arun Steel, Star Textiles, Ganapati Cotton Mill and others have been closed.

Most of the private banks have invested in machinery while NBL and RBB finance the land and buildings of these industries.

Nepal SBI bank that has loaned Rs 60 million for the machinery of Ashok Textiles Industries has started to sell it to get its money back.

Like wise, RBB and NBL have sold the machinery and buildings of Ganapati cotton mill to recover their loan. The two banks had issued loan in excess of Rs 100 million to Ganapati cotton mill.

NIC bank has also recovered some of its money by selling the machine of OM Jagadamba Textiles. The bank had invested more than Rs 50 million in the company. (Bhandari; 2010)

2.3 Review of Thesis

i. Usha Adhikari has submitted a thesis titled “ A Study of Loan Management of Agricultural Development Bank Limited” on April 2008 to the Balkumari College of Tribhuvan University. (Adhikari, 2008)

She described the main objective of her study is to evaluate the loan management of Agricultural Development Bank and she mentioned the following are the specific objectives in accordance to the main objective:-

- To examine the loan disbursement and collection procedure of ADBL.
- To evaluate the trend of loan investment and collection.
- To examine the achievement of purpose wise, term wise and development region wise loan disbursement and collection of ADBL.

The adopted research methodologies under her research are as follows:

- This study is concerned with the primary and secondary data for the loan disbursement and collection of ADBL.
- The research design of this study is descriptive as well as analytical. She explained that the available information from primary and secondary sources are used to examine, explain and evaluate the disbursement and collection situation of ADBL.

She further explains that the primary data are obtained in the survey and enquires conducted by government, some individual's institutions and

research bodies, various forms and also published sources, unpublished sources.

Further she states that the collection data and information from different sources are analyzed and presented in proper table, chart, format and graphs. To analyze the collection data she used some financial statistical, mathematical tools as per requirements.

Her major findings are:

- Findings from Loan Disbursement:

Portfolio wise highest investment has been in marketing followed by agricultural industry and lowest investment in bio-gas. However investment growth rate was highest in bio-gas, the investment except in the portfolio like irrigation, bio-gas and housing and loan development. The short fall investment in irrigation is due to government policy.

- Finding from Loan Collection:

Portfolio wise the highest collection in marketing followed by Agricultural Industry and lowest collection is on irrigation. However collection growth rate was highest in Tea and Coffee followed by marketing and lowest in irrigation. The collection table emphasizes incremental trend of collection except in the portfolio like irrigation, biogas and housing and loan development.

- Findings from Loan Outstanding:

The percentage composition of outstanding loan of ADBL for the short, medium and long terms found to lie at 60%, 33% and 7% respectively sharing the highest 34.80% the central development region on the outstanding loan. Despite the lowest share of only 8.33% in the far western development region.

- Findings from deposit mix:

The annual growth trend of the deposit collection in the current account is 11.4% where as the annual growth trend of deposit collection in savings account is 13%. Similarly the growth trend of the deposit collection in fixed account is 6.8%.

- Lending policy of the ADBL is found that the majority of the farmers (58.62%) are satisfied where 41.38% are not satisfied. The interest rate of the bank is found higher in the view of farmers. The majority of the farmers knew about the interest rebate and discount facilities provided by the bank. It is also found that all most all farmers are received the letter or other notice for paying their loan in time.

ii. Shova Baral (2008), conducted a study on “Loan Management of Everest Bank Ltd and Nepal Bangladesh Bank Ltd.” (Baral, 2008)

Her research objectives are:

- To analyze the effectiveness of lending practices of EBL and NBBL.
- To measure the performance in quality, efficiency and contribution of profitability.
- To examine the trend of deposit and loans of the bank.
- To study the liquidity position, the impact of deposit on liquidity and its effect on lending performance.
- To analyze the view and opinion of borrowers and bankers to improve the loan management.

In this study, the primary data have been collected through questionnaire, structured interviews and the observation of researcher. Whereas the secondary data have been collected through the annual reports of the concerned banks and also through the NRB reports, various publications dealing in the subject matter of the study various articles published in the News paper.

Tools used to present the secondary data are ratio analysis, statistical tools like coefficient of variation, correlation coefficient analysis and trend analysis.

Her major findings are:

- Loans and Advances to total deposit ratio of EBL and NBBL is in fluctuating trend. The mean ratio of NBBL is higher than that of EBL. The overall performance of NBBL seems the best with the higher mean ratio. EBL has more consistency than NBBL.

- Loan and advances and investment to total deposit ratio of appeared significantly higher in EBBL. It indicates the better utilization of loans and advances and investment in EBBL than NBBL.
- The ratio of loan and advances to shareholders equity has gained the significant importance in measuring the capital fund and contribution in loan and advances. The analysis explain that the ratio of NBBL the highest than EBL. This indicates that the NBBL having small volume of capital in business have been succeeded in generating proportionately higher volume of loans and advances due to the entire business in future.
- Growth rate of total deposit of EBBL is higher than that of NBBL by analysis over the study period, so it seems better performance of EBL in total deposit.
- Growth rate of loan and advances of NBBL and EBL is very high over the study period. It has a significant growth of these two banks and explains its aggressiveness.
- The growth rate of net profit of EBL has increasing trend. But the growth rate of net profit of NBBL has fluctuation. So the increasing trend of net profit of EBL explains its aggressiveness.
- Correlation coefficient between total deposit and loans and advances were found positively correlated of EBL and NBBL. NBBL has high degree of positive correlation shows the significant relation between net deposit and loan and advances.
- Correlation coefficient between investment and loan and advances were found positively correlated of EBL and NBBL. NBBL has high degree of positive correlation shows the significant relation between net deposit and loan and advances.
- Trend analysis of total deposit ratio of NBBL is highly increasing trend, than EBL. The analysis concludes the good performance of NBBL in deposit.
- Trend analysis of loans and advances ratio of EBL is highly increasing trend than NBBL. The analysis concluded the good performance of EBL in loan and advances.

iii. Nandu Khanal, a thesis titled, "A study on Loan management of Nepal Bank Ltd" Was submitted on August 2008. (Khanal; 2008)

The basic objectives of this study are:

- To find out effect of new credit policy on loan and advances of Nepal Bank Ltd.
- To analyze the trend of loan disbursement and loan recovery of Nepal Bank Ltd.
- To analyze the trend of loan disbursement and loan recovery of Nepal Bank Ltd.
- To find out the strength and weakness in loan administration of the bank.

This study is concerned with the primary and secondary data. The primary data basically based on supplementary questionnaire as well as oral information from department employees and clients. Whereas the secondary data is collected from the sources of financial statement of NBL, annual report, website of NBL, NRB directives.

The data obtained from primary and secondary sources are analyzed by using statistical tools like arithmetic mean (average), standard deviation, coefficient of variation, correlation analysis, trend analysis and also using ratio analysis.

The major findings of this study are:

- Agricultural sector loan is seen to be decreasing from the year 2002/03. As the agricultural loan is disbursed mostly in rural areas, it may be the reason that shifting of bank from rural areas due to maoist problems.
- Service sector loan is also seen to be decreasing, but after the fiscal year 2005/06, it is in increasing stage. The reason of the declining of loan is told that it is in increasing stage. The reason of the declining of loan is told that it is due to competition of different financial institutions.
- Nothing is seen to be affection deprived sector loan so much. The highest figure is seen in 2003/04 but the remaining years are almost same. The loan is disbursed in an average range of Rs. 3106013000 to Rs. 316013000.

- The coefficient of correlation is 0.99 which shows that loan disbursed and collected is highly correlated. It implies that NBL has successfully collected the loan disbursed during 2001/02 to 2005/06.
- The calculated coefficient of correlation is -0.2315 which shows that deposit collected and loan disbursed are negatively correlated. Hence it can be said that NBL hasn't successfully mobilized its increasing deposit in granting loan during the five year period.
- The return on assets from the year 2001/02 to 2002/03 is negative, but there is positive return on assets in the year 2003/04. In the middle of 2002 new management entered in the bank. So in 2003 only the management get chance to do full duty. The ratio shows vast different between 2002 and 2003. The loss is almost recovered in 2003. This is the most effective part of new management.
- The ratio of loan and advances to total deposit is decreasing every year because loan disbursement also decreasing. But the bank is increasing its investment out of deposit. Loan and advances to total assets of NBL is decreasing regularly in the research period.
- From the responses depicted above everyone come to conclude that loan paying clients of NBL are positive about lending policy and process, interest rate charges, service charges, rebate and concession offered by the NBL and finally they are willing to deep on transaction with NBL. All this provoked that loan paying clients' responses are mixed. Hence, their grievances are to be analyzed completely in order to achieve objectives and goal of NBL without any barriers in day to day practice of lending and recovery policy of loan.

iv. Ramji Sapkota (2009) conducted a study on "Effectiveness of loan management of joint venture Banks of Nepal". (Sapkota; 2009)

His research objectives are:

- To analyze the deposit and practices of loan and advances.
- To measure the bank lending strength in terms of relative and absolute.
- To measure the bank lending efficiency in term of quality and its turnover.

- To analyze the relationship of loan and advance and other variables with the profitability of different banks.
- To analyze the view's and opinion of executive and customer to improve the loan management.

Primary data has collected from a structured interview was taken based on questionnaire with loan management, personnel of the concerned joint venture banks and observation of institution itself. Where as the secondary data had from annual reports of concerned banks, NRB reports, quarterly bulletins, economic reports, various articles and publication dealing in the subject matter of study, website etc.

To present the secondary data, the tools used are different financial ratios, coefficient of determination, probable error, and hypothetical test.

His major findings are as follow:

- The liquidity position of all selected sample bank is not satisfactory due to lower liquidity ratio.
- In case of utilization of total deposit to generation profit is not so satisfactory. However, SBI and Everest banks have moderated position.
- In case of loan and advances, NABIL and Himalayan banks have greater position than other sample joint venture banks they are success in investment as loan and advances.
- Ratio of return on total assets ratio of among sample joint venture bank, NABIL and Everest have greater than mean ratio but Himalayan and SBI has lowest mean ratio.
- The ratio of return on loan and advances of Himalayan and Everest bank have greater than mean ratio which indicate that these bank able to get higher return than other two banks.
- Trend analysis of loans and advance, interest income and net profits increasing but provision for doubt full debts is also increasing except Himalayan Bank.
- Correlation coefficient between total deposit and loan and advances of all banks shows positive relationship between these two variables.

Everest and SBI have highly positive degree of correlation. It indicates that these bank good performing in generating loan and advances from the deposits and probable error shows significant relationship for SBI and Everest but rest, banks have insignificant relationship.

- The test of hypothesis helps to conclude that loan and advances of four sampled joint venture has significantly different or not. It seems that there is significant difference in loan and advances. It means there is variation in loan and advances of sampled banks.
- F test for deposit of sampled joint venture bank seems that, there is significant different at 5% level of significance. It means there is variation in deposit of sampled banks.
- The test of hypothesis 'F' statistic in net profit is significant different at 5% level of significance. It means there is variation in net profit amount of sampled banks.

2.4 Research Gap

Research is the process of a systematic search of any particular topic, subject or area of investigation backed by the collection, compilation, presentation and interpretation of relevant details or data. It is a careful search or inquiry into any subject matter, which is an endeavor to discover or find out valuable facts, which will be useful for further application or utilization.

Regarding the objectives, Researcher had selected the title of this thesis. In reference to the other dissertations most of them research only on the overall performance of the commercial banks. Most of them are selected the popular commercial banks but in this study, the local development bank's loan management has taken for the study. Nowadays, the current problems arise in the banking sectors is to maintain liquidity properly and the main thing is the ratio of loan granting and deposit collection should be managed properly. Because of these things, the bank may face the problem of liquidation. Concerning these matters, to analyze the loan & advances, measure the lending strength and efficiency, analyzing the loan and deposit position, profitability position, lending contribution to profitability, examine the effectiveness of recovery and repayment of disbursed loan the topic "A study of Loan management of "Narayani Developmet Bank Ltd" is selected.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology aims at discovering the truth by applying various sequential steps to be adopted by a researcher. Research is undertaken to discover answer to question by applying scientific method. A research may be defined as a “careful critical enquiry or examination in seeking facts or principles, diligent investigation in order to ascertain something. The process of methods used in research is called as methodology. The basic objectives of this study is to analyze and to examine the loan management i.e. loan disbursement and recovery of NDB and also to provide recommendation for their financial improvement.

The sole objective of this study is to analyze about the disbursement and collection methods. In this, the causes of non recovery, delayed recovery of loan from borrowers is also explained. For the systematic analysis or examination of collected data and information of collected data and information, the proper research methodology is necessary. To help the analysis or examine and interpretation of data and information, the research methods are used in the study.

Research design, nature and sources of data, research variables, sample and method of data analysis are incorporated under this chapter.

3.2 Research Design

The research design is an integrated system that guides the researcher in formulating, implementing and controlling the study. It is thus an integrated frame that guides the researcher in planning and executing the research works. The difficult matter of this research is to analyze the soundness of NDB about loan disbursement, collection as well as recovery. Wilkinson and Bhandarkar mentioned the definition of Seltiz, Jahoda, Deutsch and cook, “A

research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.” Thus a research design is a plan for the collection and analysis of data. It presents a series of guide posts to enable the researcher to progress in the right direction in order to achieve the goal. In this study, the research design will be either descriptive or analytical. The data gathered from primary as well as secondary methods is used to examine, analyze, explain, and evaluate the loan disbursement and recovery situation of NDB in this study. (Wilkinson and Bhandarkar; 2001; 98)

a) Descriptive Analysis:

The descriptive studies are the one's that aims at describing accurately the characteristics of a groups, community or people.

The descriptive research design is used to fulfill the objective of this study. It is quite difficult to study the principal causes arising from borrowers' side and quantify them in relation to repayment performance of NDB.

b) Statistical Analysis:

Gathered data of loan disbursement, collection and recovery from fiscal year 2060 to 2065 from primary and secondary methods is analyzed by using Karl Pearson's coefficient of correlation. In this, the relationship between Loan and Deposit, Loan and recovery, Loan in Priority Sectors etc are analyzed. The different analytical ratios are used to test and also there are graphs, diagrams, charts are included to show the data very clearly.

3.3 Natures and Sources of Data

The primary and secondary source data have been collected in order to achieve the real and factual data as far as available. Mainly, the information or data will collect by applying two methods; primary sources and secondary sources.

a) Primary Source of Data

Primary data are original data gathered by the researcher for the research project. These data are basically based on supplementary questionnaire as

well as oral information from department employees and clients. Informal dialogues and discussion is also helpful for this thesis.

For the calculation of primary data, ten clients of loan paying were selected randomly. One set of questionnaire were distributed to loan paying clients and the responses collected in objective form. These informal questionnaires to clients can be said as a part of primary data collection.

b) Secondary Source of Data

Almost, all the secondary data are obtained from the published material like books, journals, newspapers, reports, dissertations etc and also from different internet sites related to banking and finance.

3.4 Population and Sample

Sample is very tiny part, which represents the total or whole population. It allows the researcher to make an intensive study of a research problem. Loan management of one development bank i.e. Narayani Development Bank Ltd has been taken as sample among 58 development banks in Nepal in this study. Hence, loan management means loan disbursement and loan repayment has been analyzed on this study for which five fiscal years 2060/61 to 2065/66' data of NDB will be taken as sample for the study. All NDB data published by Nepal Rastra Bank and itself for the study period is taken as population of the study.

3.5 Data Collection Procedure

The research is also based on primary analysis for the primary data; information will be collected developing a scheduled questionnaire and distributing these to the customers of loan granted. The questions are open end i.e. Yes/No.

In case of primary data collection, the sample has taken from the selected clients of loan paying group for study. Annual report, brochure, financial statement etc of NDB was obtained from the direct visit to the bank premises. Other required data and information are collected from institutions other than

the bank like Ratnanagar Rotary Library, Balkumari College Library, Other information are collected from the articles of National Daily (like Kantipur Daily, Nagarik Daily, The Kathmandu Post, Republica, The Himalayan Times), New Business Age, The Boss, Himal etc.

3.6 Methods of Data Analysis

The main purpose of analyzing the data is to change it from an unprocessed form to an understandable presentation. The analysis of data consists of data performed statistical analysis. In this study, the data are organized by tabulation and then placing that data in presentable form by using figures and tables. These organized data are computed and analyzed statistically. Usually in research studies, after data is collected and coded, statistical analyses are performed. To understand the information collected, the data are analyzed with number of statistical analyses. Using statistical analyses, it is possible to talk about the relations and differences of variables.

In this, especially two methods are used:-

- Financial Analysis
- Statistical Analysis

Mean or average, standard deviations, correlation, coefficient of variation are calculated under statistical analysis. Financial analysis is the starting point for making plans before using any sophisticated forecasting and budgeting procedures. Hence, ratio analysis is used under financial analysis to attain the result after the data.

3.6.1 Financial Analysis

Financial statements provide information about a firm's position at a point in time as well as its operation over some past period. However, the real value of financial statements lies in the fact that they can be used to help predict the firm's financial position in the future. According to Weston, Besley and Brigham from an investor's standpoint, "predicting the future is what financial statement analysis is all about." While from management's standpoint,

“financial statement analysis is useful both as a way to anticipate future conditions and more important, as a starting point for planning action that will influence the future course of events.”(Weston, Besley and Brigham;1996; 93)

An analysis of the firm’s ratios is the first step in a financial analysis. The ratios are designed to show relationships between financial statement accounts within firms and between firms.

It is the process of identifying the financial strength and weaknesses of the firm by properly establishing the relationship between the item of the balance sheet and the profit and loss account.

3.6.1.1 Ratio Analysis

A widely used tool of financial analysis is ratio analysis. The term ratio refers to the numerical or quantitative relationship between two items/variables. A ratio is calculated by dividing one item of the relationship with the other. It is a powerful tool of financial analysis. In financial analysis a ratio is used as an idea or yard sticks for evaluating the financial position and performance of a firm. It expresses mathematical relationship between two accounting figures.

Ratio analysis isn’t just comparing different numbers from the balance sheet, income statement, and cash flow statement. It’s comparing the number against previous years, other companies, the industry, or even the economy in general. Ratios look at the relationships between individual values and relate them to how a company has performed in the past, and might perform in the future. In this study following rations are seen of the bank which is also a crucial factor to know the fact of loan management.

- Profitability Ratio
- Activity Ratio
- Priority Sector Ratio

A. Profitability Ratio

a) Return on Assets Ratio:

Return on assets ratio is the ratio of net income to total assets which provides an idea of the overall return on investment earned by the firm. It measures how efficiency profits are being generated from the assets employed in the business when compared with the ratios of firms in a similar business. A low ratio in comparison with industry averages indicates an inefficient use to business assets. The return on assets ratio is calculated as follows:

$$\text{Return on Assets} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

b) Return on Loan and Advance

Return on Loan and Advances ratio shows how efficiency of the banks has utilized their resources to earn good return from provided loan and advances. This ratio is computed to divide net profit or loss by the total amount of loan and advances. It can be calculated as:

$$\text{Return on Loan and Advances} = \frac{\text{Net Profit}}{\text{Total loan \& advances}}$$

B. Activity Ratio

It is also called efficiency test ratio. Activity ratio is employed to evaluate the efficiency with which the firm manage and utilize its assets. The following ratios are calculated to judge the effectiveness of assets utilization.

i) Loan and Advances to Total Deposit Ratio

it measures the banks success in utilizing the outsider's funds for generation profit. It explains how quickly total collected funds are converted into loan and advances. Higher ratio is favorable since it flashes out the efficiency of the bank in terms of making effective loans and advances. It is shown as:

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

ii) Loan and Advances to Total Assets Ratio

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

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

C) Priority Sector Ratio

Every bank is required to extend advances to the priority and deprived sector. Poor, downtrodden, weak, deprived people are included in this sector. The following financial tools can be used to find out the ratios.

i) Priority Sector Loan to Total Loan & Advances Ratio

This is the ratio of total loan grant in priority sector and the total loan disbursed by the firm which shows the loan disbursed in priority sector from the Bank in different academic year for 2060 to 2065. The ratio is shown by following way:

$$\text{Priority Sector Loan to Total Loan and Advances} = \frac{\text{Priority Sector Loan}}{\text{Total Loan and Advances}}$$

ii) Priority Sector Loan to Total Deposit Ratio

This ratio shows the loan invested in the priority sectors from the total deposit by the bank in the academic year 2060 to 2065. This can be shown by using following formula:

$$\text{Priority sector Loan to Total Deposit} = \frac{\text{Priority Sector Loan}}{\text{Total Deposit}}$$

iii) Performing Assets to Non Performing Assets Ratio

This ratio is calculated by the following formula:

$$\text{Performing Assets to Non Performing Assets Ratio} = \frac{\text{Performing Assets}}{\text{Non Performing Assets}}$$

3.6.2 Statistical Analysis

After collecting data and information from different sources are analyzed and presented in proper graphs, charts and tables. To analyze the collected data and information, some financial and statistical tools have been used as per requirements like co-coefficient of correlation, trend analysis and different ratio analysis. So the different tools are categorized into statistical methods and financial methods.

Under this, the statistical tools like mean, standard deviation, coefficient of correlation, and hypothesis, also diagrammatic and pictorial tools have been used.

I) Arithmetic Mean (Average)

According to the author “the averages are the measures which condense a huge unwidely set of numerical data into single numerical values which are representative of the entire distribution.” (Gupta; 2000; 236)

In another book named fundamentals of statistics describes the Simpson and Kafka’s definition that “A measure of central tendency is typical value around which other figures congregate.” (Eihance, Eihane and Agrawal; 2002; 8.1)

The objective of arithmetic mean is to get a single value which is representative of the characteristics of the entire mass of data. Averages give a bird’s eye view of the huge mass of statistical data which ordinarily are not easily intelligible. It is calculated as:

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

Where,

\bar{X} = Mean Value or Arithmetic Mean

N= Number of observation

ΣX = Sum of observation

II) Standard Deviation

The concept of standard deviation was first used by Karl Pearson in the year 1893. It is the most commonly used measure of dispersion.

Standard deviation is the square root of the arithmetic average of the squares of the deviations measured from the mean. It measured the scatter ness of the mass of figure in a series i.e. the standard deviation measures the absolute and consistency of the specified variables. Thus in the calculation of standard deviation, first the arithmetic average is calculated and the deviation of various items from the arithmetic average are squared. The squared deviations are totaled and the sum is divided by the number of items. The square root of the resulting figure is the standard deviation of the series. The standard deviation is conventionally represented by the Greek letter. Thus if x_1, x_2, \dots, x_n is a set of n observations then standard deviation is given by:

$$\sigma = \sqrt{\frac{1}{N}(X - \bar{X})}$$

The standard deviation can be calculated as follows:

1. For each value calculate the differences $((X - \bar{X}))$ between X and the average value is \bar{X} .
2. Calculate the squares of these differences.
3. Find the average of the squared differences. This quantity is the variance σ^2 .
4. Take the square root of the variance.

iii) Coefficient of Variation

The standard deviation is an absolute measure of dispersion and is expressed in terms of the units of the variable. The small value of CV means high degree

of consistency in the observed distribution and vice versa. The coefficient of variation is given below:

$$\begin{aligned}\text{Coefficient of standard deviation} &= \frac{\text{Standard deviation}}{\text{Mean}} \\ &= \frac{\sigma}{\bar{X}}\end{aligned}$$

This value would be in a fraction and as such not very good for comparison and therefore coefficient of variation is calculated by multiplying the coefficient of standard deviation by 100.

Thus,

$$\text{Coefficient of Variation } (C_v) = \frac{\sigma}{\bar{X}} \times 100$$

This measure was evolved by Karl Pearson, so this is also called Karl Pearson coefficient of variation. When C.V. is high the series is less consistent or variable and when it is low the series is more consistent or less variable. This measure is most commonly used for a comparative study of the variability or consistence of two or more series.

The standard deviation of an exponential distribution is equal to its mean, so its coefficient of variation is equal to 1. Distributions with $CV < 1$ (such as an Erlang distribution) are considered low variance, while those with $CV > 1$ (such as a hyper exponential distribution) are considered high variance. Some formulas in these fields are expressed using the squared coefficient of variation, often abbreviated standard CV.

iv) Correlation Analysis

The term correlation (co-variation) indicates the relationship between two such variables in which with changes in the values of one variable, the values of the other variable also change. Correlation analysis attempts to determine the degree of relationship between variables.

According to S.C. Gupta “the correlation is a statistical tool which studies the relationship between two variables and correlation analysis involves various methods and technique used for studying and measuring the extent of the relationship between the two variables.” (Gupta; 2000; 510) He states that “correlation is an analysis of the co-variation between two or more variables.” (Gupta; 2000; 511)

If we have a series of n measurements of X and Y written as x_i and y_i where $i = 1, 2, \dots, n$, then the pearson product moment correlation coefficient can be used to estimate the correlation of X and Y. the pearson coefficient is also known as the “sample correlation coefficient”. It is especially important if X and Y are both normally distributed. The Pearson correlation coefficient is then the best estimate of the correlation of X and Y. the pearson correlation coefficient is written as,

$$r_{.xy} = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

Where,

N = Number of observation of X and Y

$\sum X$ = Sum of observation in series X

$\sum y$ = Sum of observation in series Y

$\sum X^2$ = Sum of observation in series X

$\sum Y^2$ = Sum of observation in series Y

$\sum XY$ = Sum of the product of the observation in series X and Y

v) Trend Analysis

The trend analysis is a sequence of a variable made at a regular point or intervals of time and arranged in chronological order. The trend analysis shows the future train of any variables based on the historical information. The expectations and growth situation of financial information can be made by the trend analysis. There are many methods of trend analysis, among them only least square method is used to study purpose. The least square method

is used to fit a straight line trend to forecast the trend value of future. The straight line trend is represented by the equation:

$$Y_c = a+bx$$

Where,

Y_c = Trend value of Y variables

Y = Financial Variables

b = Slope of trend line

x = Time i.e. independent variable

a = Y interceptor computed trend figure of Y variable.

In this study , the different kinds of trends values of different variables like trend of total deposit, trend of total loan disbursement, loan disbursement in different priority sectors like agriculture, cottage industry, service sectors, hire purchase, real estate and home, business, others sectors are analyzed and evaluated.

3.7 Respondent Profile

While making of this thesis, there is some questions asked without formal makings of questionnaires i.e. some informal questions asked to different respondents as the requirement of this study which can be said primary analysis for data. They are:

- How many types of deposit accounts are held in this bank?
- Is there any interest free deposit account in the bank?
- What is the process of lending loan?
- Are the interest rates fluctuating by the time?
- Should the account open while having the loan?
- Is there any priority sectors allocated by the NRB for granting loan?
- Is there any priority sectors allocated by the self NDB for granting loan?

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

The previous chapters provided the introduction, review of literature and research methodology. This chapter presentation and analysis of data is the main heart of the body part of this study. This chapter deals with the presentation and analysis of the data collected from various sources. The main objective of this study is to evaluate and analyze the loan management of NDB.

4.1 Deposit Collection of NDB

The most important function of any Bank is to collect scattered money from the public as the deposit, so as Narayani development bank first collects the scattered money from the people of different sectors and public too. The bank takes various types of deposits from individuals, business organization and other institutions. The bank collects deposits in order to mobilize it in the form of loan i.e. it's only possible to grant loan to the required person if the bank collect the scattered or idle money from the public. Hence, the disbursement of loan depends upon the collection of deposit. So, the trend of deposit collection has been analyzed in order to analyze the trend of loan disbursement.

All banks including development bank collect deposits and they also give definite interest in the deposits to the depositors. Some deposits have bear interest and some deposits haven't beard interest. Since this study is only concerned only one development bank i.e. Narayani Development bank Ltd. There are two types of deposits in the Narayani Development bank Ltd that is interest bearing deposit and interest free deposits which are presented below in the following table.

Table No. 4.1
Classification of Deposit

SN	Interest Bearing Deposit	Interest Free Deposit
1	Saving Deposits	-
2	Current Deposits	-
3	Fixed Deposits	-

(Source: NDB Bank)

As the figure shown in above table, Narayani Development Bank has different kinds of interest bearing deposits. The deposits in which interest has not paid called interest free deposits but the tough competition among the banks the interest free current deposits also have % interest. These types of current account are generally opened by the customers who have the business i.e. the people in business sectors. In these deposit accounts, the bank must make the payment of numerous cheques in one day if there is adequate balance in the depositor's account. Hence banks do not pay any interest on these accounts. Other deposit includes overdue fixed deposit. Interest free deposits required high level of liquidity because these types of deposits are very movable. So banks cannot depend completely on this type of deposits which may cause the risk of liquidity. That's why higher the interest free deposit, lower is the chance of deposit mobilization.

Deposit in which banks must pay interest is known as interest bearing deposit. Savings deposit, continuous deposit and fixed deposit are interest bearing deposits. Savings deposit is that kind of deposit in which the amount is deposited by the normal public to save their earnings in order to get some interest for the deposited amount. In this kind of deposit, banks maintain some restrictions on withdrawal and pay interest. There are different types of savings deposit which is categorized by according to their features and they are normal savings, special savings, housewife savings, elder people savings, provident fund savings, NDB savings, shareholder savings, and child savings. And these various kinds of deposit have their own interest rate which is managed accordance to their features and benefits. Fixed deposit is that kind

of deposit in which the deposited amount is fixed for some period which is the maturity period and after the definite period is matured; the deposited amount can be withdrawn. NDB has various types of fixed deposit in accordance with their maturity period and charging interest rates of fixed deposit are also differ in accordance with their maturity period. The higher maturity period have the higher interest rate. Hence, the interest rate will be increased according to the increased maturity period. The interest rate of fixed deposit is higher than the savings deposit because of the fixed nature. The amount deposited in fixed deposit is fixed for some definite time, so the bank can utilize those amounts for other objectives to earn but in savings deposit the time is not fixed so the depositor can withdraw their amount in any time they required. The bank utilizes the amount deposited through the different types of deposit accounts by investing other fields and the most is by granting the loan. Therefore, the bank mobilizes the deposited amount of interest bearing deposits.

4.1.1 Total Deposit Collection of NDB

The disbursement of loan is affected by the amount of collected deposits in any financial institutions, that's why it is very necessary to analyze the total deposits collection and the deposit trend of NDB.

Here the total deposit of fiscal year from 2060/61 to 2064/65 of Narayani Development bank is present in the following table.

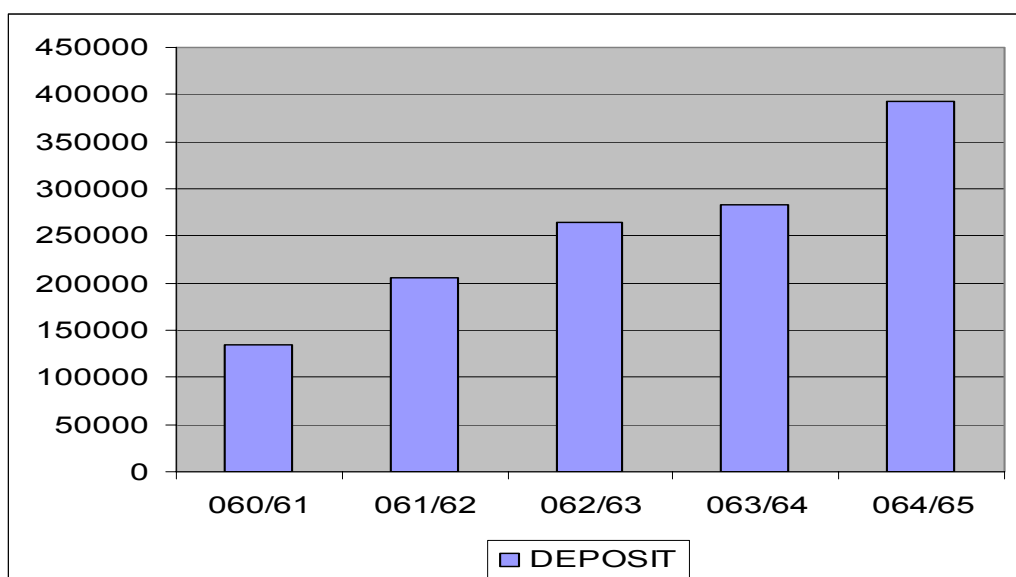
F/Y	Collection of Total Deposit		(in Rs.000)
	Total Deposit Collection	Amount (Inc/Dec)	% (Inc/Dec)
2060/61	134937	55234	69
2061/62	205605	70668	52
2062/63	264452	58847	29
2063/64	282236	17784	7
2064/65	392113	109877	39

(Source: Annual Report – B/S of NDB)

In the above table, the total deposit collected by NDB from the fiscal year 2060/61 to the fiscal year 2064/65 BS. The above table shows that the amount of deposit has fluctuated. The amount is in increasing order i.e. the deposit is growing up but the growth rate is not equal. In the fiscal year 2059/60, the total deposits 79703341 and in the fiscal year 2060/61 is 134937067 i.e. the amount increased in deposit is 55233726 and the percentage increased is 69% which is the highest growth rate as shown in table among five fiscal year. Likewise the total deposit in the fiscal year 2061/62 is 205605021 which are increased by 70667954 than that of 2060/61 and the percentage increased is 52%. Similarly, the amount of total deposit collected in the fiscal year 2062/63, 2063/64 and 2064/65 is 264452096, 282236319, and 392113118 respectively. The amount of increased deposit in the year 2062/63 is 58847075 than that of previous year and the growth rate is 29%. Lastly in the fiscal year 2064/65, the deposit increased by 109876799 than the previous year and the increasing rate is 39%. The above analysis of total deposit collection of the different five fiscal year shows that the total deposit is in increasing rate i.e. deposit collection is in positive condition but the rate is fluctuated.

The above data of total deposit collection can be presented in the Bar Diagram as below:-

Figure No. 4.1
Total Deposit Collection of NDB



(Source:- Table no 4.2)

4.2 Loan Disbursement

All banks depend upon the loan for their earnings. Granting loan is the most important part of the bank. Narayani development bank grants or provides different types of loan to its customers. It provides loans as different headings according to the different needs of customers and they are Agriculture loan, Service loan, Industry loan, Hire purchase loan, Overdraft loan, deprived sectors loan, FD loan, Miscellanies loan, loan against government securities. Narayani development bank disbursed all these different kinds of loan against different kinds of securities. Before granting loan to customers, the bank always analyze the different aspects about the loan i.e. credit analysis. Bank usually involves a detailed study of five aspects of the loan character of applicants, capacity, cash, collateral, conditions. The lending activities of the bank are performed by taking into account the factors like liquidity, profitability and safety and maintaining the balance among these factors. Lending is the risky business of the bank that's why there must be very careful to analyze about borrowers. The analyst must know the credit worthiness of borrowers. There is also other required necessary steps which are general must be taken for loan disbursement and collection are general and similar to those adopted by almost all the banks in Nepal. Overall the granting loan must be very safe and portfolio, too.

Securities Needed by NDB for providing loan:-

Like other bank, NDB disbursed loan against the securities of properties. There are various types of securities which are accepted by NDB as collateral like stocks, receivable, land, building, plant and industrial building of business organization etc. These securities are categorized as movable and immovable. All fixed properties are kept in immovable and other variable securities are kept in movable. After the loan has granted, the bank has effective control over the security before the borrowers clear all the interest and principal s of loan. Mostly NDB has taken fixed type of securities like in Hire Purchase loan; NDB takes fixed securities like Land, Building and other fixed assets. NDB also takes stocks, shares as collateral. The final process

for granting loan of required legal process depends upon the nature and types of collateral and loan.

Loan disbursement of NDB limited for five fiscal periods (F/Y 2060/61 to 2064/65) is presented in the table below:-

Table no. 4.3

F/Y	Total Loan Disbursement		Rs in '000
	Loan Disbursement	Amt. Inc/Dec	% Inc/Dec
2060/61	120763	49467	69
2061/62	148290	27527	22
2062/63	195414	47125	31
2063/64	230487	35073	17
2064/65	325588	95101	41

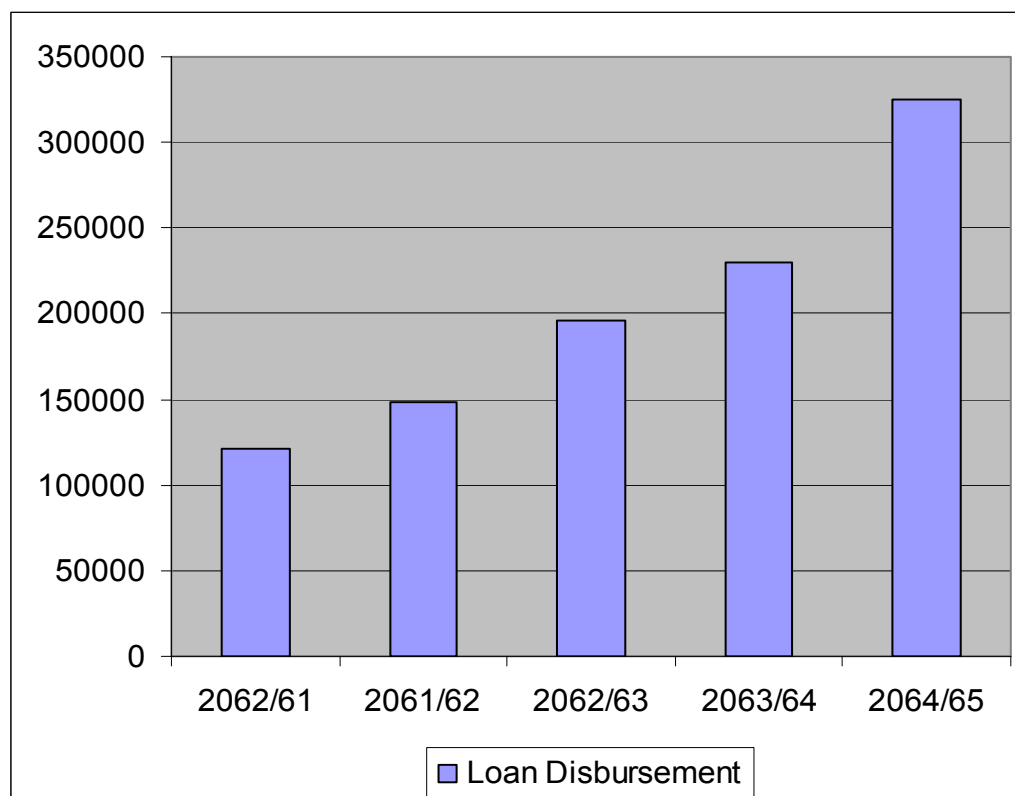
(Source: Annual Report B/S of NDB)

The above table shows the loan (credit) disbursement of NDB. The amount of loan disbursement has increased every year. In the fiscal year 2060/61, the loan has disbursed Rs. 120762612 and 148289629 in the fiscal year 2061/62. In 2062/63, 2063/64, and 2064/65, the amount of disbursed loan is 195414325, 230486827, and 325588219 respectively. The amount increased in 2060/61 is 49467276 from the previous year 2059/60. In the other fiscal year 2061/62, 2062/63, 2063/64 and 2064/65, the amount increased from their own past years are 27527017, 47124696, 35072502 and 95101392 respectively.

The percentage of loan amount increased in 2060/61 is 69% from the previous year which is the highest increasing percentage among five fiscal years. But in 2061/62, the percentage increased in loan amount is not higher as previous year i.e. 22%. Similarly, in the years 2062/63, 2063/64 and 2064/65 the percentages increased are 01%, 17%, and 41% respectively than their previous years. From the above table, the highest increased loan amount as well as increased percentage of loan disbursed is shown in the fiscal year

2060/61. This analysis of loan or credit disbursement amount has increased each year. The above tabulated data can be also presented in the following bar diagram:-

Figure No. 4.2
Bar diagram of Total Loan Disbursement



(Source:- Table No. 4.3)

4.3 Comparative Study of Every year Loan Disbursement and Collection:-

The loan disbursement is only not important, it is more important to recover the granting loan and all the success of loan depends on how effectively the loan has disbursed and collected. So, loan recovery should be in accordance with loan disbursed. The data of loan disbursed and loan collection has shown in the following table below of NDB.

Table No 4.4

Comparative Study of Loan Disbursement and Collection (Rs.000)

Fiscal year	Loan Disbursed	Percentage inc/Dec	Loan Recovered	Percentage Inc/Dec
2060/61	120763	-	115753	-
2061/62	148290	22.79	136452	17.88
2062/63	195414	31.78	173555	27.19
2063/64	230487	17.95	198478	14.36
2064/65	325588	41.26	293229	47.74

(Source: Annual Reports and Loan Dept. of NDB)

The above table shows the amount of loan disbursed and the amount of loan recovered in which loan recovered compares the loan disbursed. The proportionate amount of loan has been recovered every as per the amount of loan disbursed.

In the above table, it shows that in the fiscal year 2061/62, the loan amount disbursed is increased by 22.79 % where as the loan amount recovered is increased by 17.88%. In the fiscal year 2062/63, the loan disbursed amount is increased by 31.78% as compared the previous year whereas the loan recovered is increased by 27.19 %. In the fiscal year 2063/64, the loan amount is increased by 17.95%. And the loan amount recovered in that year is increased by 14.36% from the previous year. In the fiscal year 2064/65, the increased percentage of loan disbursed is 41.26% as well as the increased percentage of loan recovered is 47.74 % which is the highest increased percentage of loan recovered and loan disbursed. So it is observed that the both loan amount disbursed and the loan amount recovered are in increasing order but the percentage of both loan disbursed an loan recovered are not in increasing order. The lowest percentage of loan disbursed and loan recovered is 17395% and 14.36 % respectively in 2063/64 as well as it is the highest in 2064/65. Finally, the increased percentage of loan disbursed and loan recovered has been fluctuating.

4.4 Performing and Non Performing Loan:-

As the direction of the NRB, the development bank started to classify their loan and advances in different categories for improving the quality of assets of banks. The NRB has given the five different categories and they are pass loan, standard loan, sub standard loan, doubtful loan, bad loan. Pass and standard loan is defined as performing loan in which principal amounts are not past due and past due period is limited up to three months. Substandard, doubtful and bad loan are defined as non performing loan and in this types of loan, the collection is not so good or the collection of granted loan will not happen within the fixed period. The bank should not have this kind of loan in large amount. So the non performing loan should be as low as possible because it is very danger to have higher non recovery in the bank.

Table No.4.5

% of Performing and Non Performing Loan on Total Loan (in Rs.'000)

Fiscal year	Total loan	performing loan	% of performing loan	Non performing loan	% of non performing loan
2060/61	120763	114346	94.69	6417	5.31
2061/62	148290	139005	93.74	9284	6.26
2062/63	195414	182848	93.57	12567	6.43
2063/64	230487	212669	92.27	17818	7.73
2064/65	325588	309674	95.11	15914	4.89

(Source: Annual Report of NDB)

From the above table, it shows that in the fiscal year 2061/61, the performing loan amount is Rs. 114346000 which is 94.69 % out of total loan amount and in the same year, the non performing loan amount is Rs. 6417000 which is 5.31 in percentage. This result is good sign because the percentage of non performing loan is very small amount that means the recovery of the disbursed loan is in good condition. The next year in 2061/62, the performing loan amount is Rs. 148290000 and the percentage is 93.74. In the same year, the non performing loan amount is Rs. 9284000 which is 6.26 in percentage.

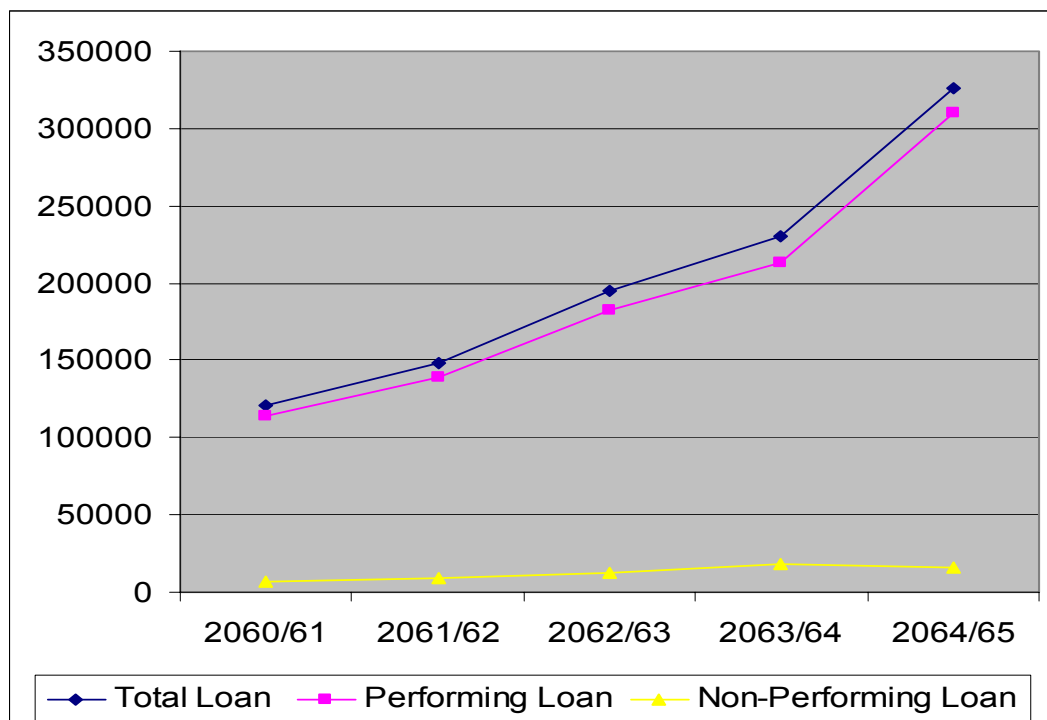
Similarly, in the fiscal year 2062/63 the loan amount in performing section is Rs. 182847000 and 6.26 is in percentage whereas the non performing loan is Rs 12567000 which is 6.43 in percentage. Likewise in the fiscal year 2063/64 and 2064/65, the performing loan amount is Rs 212669000 and Rs. 309674000 respectively. The percentage of performing loan in these two years is 92.27 and 95.11 where as the percentage of non performing loan is 7.73 and 4.89 respectively.

As the table, it finds that the highest and the lowest percentage of the performing loan on their total loan is 7.73 in the year 2063/64 and 4.89 in the year 2064/65. The percentage of non performing loan in the five fiscal years is in good position, the differences percentage of five year's aren't so high. That's why the recovery of the loan is in satisfactory position.

The above tabulated data are presented in the form of bar diagram which shows the condition of performing and non performing loan on total loan very clearly.

Figure No 4.3

Amount of Performing and Non Performing Loan on Total Loan



(Source: Table no. 4.5)

In the above bar diagram, it shows that the curve of total loan and the performing loan are very closer but the non performing loan's curve are very far from the total loan. That means the position of the loan recovery is very satisfactory.

4.5 Financial Analysis

4.5.1 Ratio Analysis:-

The ratio analysis defines the financial position of any bank so as NDB too. In this study the five fiscal year's data has been collected to evaluate the financial ratios of NDB and to know the efficiency of the bank. The following ratio analysis represents the financial situation of NDB.

Profitability Ratio

Assets Management Ratio

Priority sectors Ratio

4.5.1.1 Profitability Ratio:-

The profitability ratio measures the effectiveness of management and it includes the net profit on Assets, loan and advances, number of equity shares and total income.

1) Return on Total Assets:-

Return on assets defines the relationship between net profit and total assets which ratio is also called net profit to assets ratio. From this ratio return can be determined or measured by dividing return on net profit/loss by total assets which is explained below as:

$$\text{Return on Assets} = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100$$

The calculated ratio of Return on Total Assets and their Mean, Standard deviation and Coefficient of variation values are tabulated in the following table:

Table No 4.6
Return on Total Assets

Fiscal year	Ratio in Percentage
2060/61	1.30
2061/62	0.73
2062/63	1.14
2063/64	1.33
2064/65	0.32
Mean	0.96
S.D.	0.3878
C.V.	40.40

Source: Appendix XIII (i)

Above in the table, the calculated all values are in positive which shows that the bank is in good position because the positive values shows that the organization always is in profit. The value of return on assets is fluctuating because the highest value is in the year 2063/64 and the lowest value is in the year 2064/65.

The average of ROA is 0.96 which means the utilization of bank's sources and tools is in satisfactory position. The standard deviation is 0.3878 and the coefficient of variation is 40.40 % i.e. $0.40 < 1$ which implies there is high degree of consistency in ROA distribution.

2) Return on Total Loan and Advances

The return on loan and advances describes that how efficiently the bank utilizes their resources to earn good profit from provided loan and advances. Return on loan and advances calculated by dividing the net profit to total loan and advances which is as below:-

$$\text{Return on Loan and Advances} = \frac{\text{Net Profit}}{\text{Total loan \& advances}} \times 100$$

The calculated ratio of Return on Total Assets and their Mean, Standard deviation and Coefficient of variation values are tabulated in the following table:

Table No. 4.7
Return on Total Loan and Advances

Fiscal year	Ratio in Percentage
2060/61	1.72
2061/62	1.15
2062/63	1.75
2063/64	1.89
2064/65	0.43
Mean	1.388
S.D.	0.5418
C.V.	39.04

Source: Appendix XIII (ii)

The above table shows that the five year's values of return on loan and advances are all positive that means the bank always in profit. But the tabulated values are fluctuating i.e. The highest percentage of ROL is 1.89% in the fiscal year 2063/64 and the lowest percentage of ROL is 0.43 in the year 2064/65. Although the ROL percentages are fluctuating, all ROL values are in positive. This shows that the good condition of profit in NDB.

The mean value of above five years ratios is 1.388 ie the utilization of total loan & advances is satisfactory. The standard deviation of this distribution is 0.5418 and the coefficient of variation is 39.04% which tells the consistency of this ROL distribution.

4.5.1.2 Activity Ratio:-

Every bank has their different types of assets and the ratio measures that those assets are properly used or not to increase the profit of the bank. So in this activity ratio, we can find whether the assets and resources of bank are

operated effective or not for development of bank. Under this ratio the following ratios need to be calculated in this study:-

1. Total Loan and Advances to Total Deposit Ratio:-

The loan and advances total deposit ratio shows the relationship between the total loan disbursed and the total deposit collected by the bank. In this ratio it can be found that how much the total deposit is used for granting loan? I.e. either the mobilization of total deposit and total loan is effective or not. The ratio is formulated as below:-

$$\text{Loan and Advances to Total Deposit Ratio} = \frac{\text{Total Loan \& advances}}{\text{Total Deposit}} \times 100$$

The calculated ratio of Return on Total Assets and their Mean, Standard deviation and Coefficient of variation values are tabulated in the following table:

Table No. 4.8

Loan and Advances to Total Deposit Ratio

Fiscal year	Ratio in Percentage
2060/61	89.49
2061/62	72.12
2062/63	73.89
2063/64	81.66
2064/65	83.03
Mean	80.04
S.D.	6.3468
C.V.	7.93

Source: Appendix XIII (iii)

As the above table, it shows that in the first fiscal year 2060/61, the ratio is 89.49% which is the highest ratio percentage and the second fiscal year 2061/62, the ratio is decreased to 72.53% and from this year, the ratio of loan and advance to total deposit is increasing order which are 73.89% in the year 2062/63, 81.66% in 2063/64 and 83.03% in the year 2064/65. Total deposits

are increasing and total loan disbursement is also increasing in five fiscal years. So the ratio is also increasing from the year 2061/62 i.e. the loan disbursement is made from the total collected deposit very effectively. The mean value is 80.04% that means the used of deposit collected as loan and advance is very satisfactory. The C.V. i.e. 7.93% shows the consistency is also in good condition.

2. Total Loan and Advances to Total Assets Ratio:-

The loan and advances to total assets ratio describes the used of bank's total assets in generating earnings by mobilizing fund always defined that effective mobilization of bank's total assets on loan and advances for the making of profit. This ratio is calculated as follows:

$$\text{Loan and Advances to Total Assets Ratio} = \frac{\text{Total Loan \& Advances}}{\text{Total Assets}} \times 100$$

The calculated ratio of Return on Total Assets and their Mean, Standard deviation and Coefficient of variation values are tabulated in the following table:

Table No. 4.9

Total Loan and Advances to Total Assets Ratio

Fiscal year	Ratio in Percentage
2060/61	75.59
2061/62	62.96
2062/63	65.34
2063/64	70.42
2064/65	74.26
Mean	69.714
S.D.	4.91
C.V.	7.04

Source: Appendix XIII (iv)

In the table, it shows that the ratio of total loan and total assets is 75.59% in the fiscal year 2060/61 which is the highest ratio and then the ratio are increasing in order, they are 62.96% in the year 2061/62,65.34% in the year

2062/63,70.42% in the year 2063/64 and 74.26% in the year 2064/65. The investment by using total assets for making profit is in good condition because the ratio is increasing from the fiscal year 2061/62. The average value 69.71% shows the used of bank's total assets in generating earnings by mobilizing fund is in good position,7.04% value of CV shows there is high degree of consistency.

4.5.1.3 Priority Sectors Ratio:-

It is important to show the relation of ratio of priority sectors with others. It helps to know the actual ratio in percentage between two variables. In our study, we show the comparison with loan & advances and total deposit.

i) Priority Sectors Loan to Total Loan & Advances

The priority sectors loan and total loan & advances ratio can be shows by the following way, the formula is:

$$\text{Priority Sector to Total Loan \& Advances} = \frac{\text{Priority Sector Loan}}{\text{Total Loan and Advances}} \times 100$$

The calculated ratio of Return on Total Assets and their Mean, Standard deviation and Coefficient of variation values are tabulated in the following table:

Table No 4.10
Priority Sectors Loan to Total Loan & Advances

Fiscal Year	Ratio in Percentage
2060/61	95.84
2061/62	89.67
2062/63	85.84
2063/64	61.01
2064/65	68.77
Mean	80.23
S.D.	13.1528
C.V.	16.39

Source: Appendix XIII (v)

The values of priority sectors loan to total loan & advances are all in positive. The average ratio percentage is 80.23 which show the good utilization of total loan in priority sectors. The value of CV is 16.39% which shows the consistency in distribution.

ii) Priority Sectors Loan to Total Deposit Ratio

The ratio of priority sectors loan and total deposit ratio can be calculated by dividing priority sectors loan to total deposit ratio, which can be shown as following:

$$\text{Priority sector Loan to Total Deposit} = \frac{\text{Priority Sector Loan}}{\text{Total Deposit}}$$

The calculated ratio of Return on Total Assets and their Mean, Standard deviation and Coefficient of variation values are tabulated in the following table:

Table no 4.11
Priority Sector Loan to Total Deposit Ratio

Fiscal Year	Ratio in Percentage
2060/61	85.78
2061/62	64.67
2062/63	63.43
2063/64	49.82
2064/65	57.10
Mean	64.16
S.D.	12.031
C.V.	18.75

Source: Appendix (VI)

All values of priority sectors loan to total deposit is in positive but it is decreasing. The mean value is 64.16 that imply the use of total deposit collection as priority sector loan is 64.16% which is good sign.

iii) Performing Assets to Non Performing Assets Ratio

This ratio shows the relationship between the performing assets and non performing assets. This ratio is calculated by dividing the performing assets by non performing assets which is as follows:-

$$\text{Performing Assets to Non Performing Assets Ratio} = \frac{\text{Performing Assets}}{\text{Non Performing Assets}}$$

The calculated ratio of Return on Total Assets and their Mean, Standard deviation and Coefficient of variation values are tabulated in the following table:

Table No 4.12

Performing Assets to Non Performing Assets Ratio

Fiscal Year	Ratio
2060/61	17.82
2061/62	14.97
2062/63	14.55
2063/64	11.93
2064/65	19.45
Mean	15.74
S.D.	2.366
C.V.	15.03

Source: Appendix XIII (vii.)

From the above table, it shows the ratio of performing assets to non performing assets of the NDB's five fiscal year 261/61 to 2064/65. The five fiscal year's ratios are 17.82, 14.97, 14.55, 11.93 and 19.45 respectively. Among the different ratios, the lowest ratio is 11.93 of the year 2063/64 and the highest ratio is 19.45%. The five ratios are all in positive which indicates the good condition of the bank. The higher ratios reflects the good condition of performing assets with comparing non performing assets which also reflects the effective management of NDB. So the NDB should maintain this kind of ratio further in future too. The average mean value of ratios is 15.74, standard deviation is 2.366 which are very good and the CV is 15.03.

4.6 Statistical Analysis:

4.6.1 Correlation Analysis

4.6.1.1 Correlation between Loan Disbursement and Recovery

The coefficient of correlation between loan disbursement and loan recovery measures the degree of relationship between them. in this study, loan disbursement is taken as an independent variable which is denoted by x where as the loan recovery is taken as a dependent variable denoted by y. the main objective of calculating coefficient of correlation between these two variables is to know weather the loan disbursement are significantly used as recovery or not.

In the following table, the calculation of coefficient of correlation (r), r^2 , probably error (PE) and 6PE between total loan disbursement and the recovery of NDB during the five fiscal year. Where r measures the relation between two variables, r^2 measures strengthen of relation is measured and PE measures the probable error between them.

Table No 4.13
Coefficient of Correlation between Loan Disbursement and Recovery

Coefficient of correlation (r)	r^2	P.E.
0.997	0.994	0.0018

(Source: Appendix X)

From the above table, it shows that coefficient of correlation (r)= 0.997 which shows , there is positive relation between the total loan disbursement and the total recovery. The table shows the value of r^2 is 0.994 which shows the average relation as the relation is strong when it is above 0.7 to 1. This means 99.4% of the variation of the dependent variable (loan disbursement) has been explained by the independent variable (recovery). When the value of r i.e. 99.7% is compared with six times the probable error or 6PE which is 0.181, it can be explained that there is significant relationship between recovery and loan disbursement because r is greater than six times PE i.e. $0.97 > 0.108$.

4.6.1.2 Correlation between Total Deposit and Total Loan

As the above explained the correlation coefficient is the method of measuring the degree of relation ship between two variables, here the total deposit is denoted by independent variable i.e. x and the total loan and advances is denoted by dependent variable i.e. y. here it is most important to find the

relation between two variables either the total deposit is significantly used as the loan disbursement or not.

The calculated values of r , r^2 , PE and 6PE between the total deposits and total loan disbursed of NDB of 5year have given in the following table:-

Table No 4.14
Coefficient of Correlation between Total Deposit and Total Loan

**Coefficient
of
correlation
(r)**

r^2

P.E.

0.98

0.96

0.012

(Source: Appendix XI)

In the above table, it shows that the coefficient of correlation between total deposit and total loan disbursement i.e. r is 0.98 which means there is positive relationship between them. The coefficient of determination between them i.e. r^2 is 0.96. This means the 96% of variation of the independent variable i.e. total deposit has been explained by the dependent variable which is total loan and advances. The 6PE the six times of probable error is 0.072 which is less than r that means there is significant relationship between total deposit and total loan and advances.

4.6.1.3 Correlation between Total Loan and Priority Sectors

The coefficient of correlation between total loan and priority sectors measures the degree of relationship between them. In this study, the independent variable is total loan i.e. x and dependent variable is priority sectors i.e. y . The main objective of calculating r between these two variables is to justify whether total loan & advances is significantly used in priority sectors or not.

The calculated values of r , r^2 , PE and 6PE between total loan and priority sectors loan of NDB of 5 fiscal years have given in the following table:-

Table No 4.15

Coefficient of Correlation between Total Loan and Priority Sectors

Coefficient of correlation (r)	r²	P.E.
0.92	0.85	0.04525

(Source: Appendix XII)

In the above table, it shows that the coefficient of correlation between total loan and priority sectors loan i.e. r is 0.92 which means there is positive relationship between them. The coefficient of determination between them i.e. r^2 is 0.85. This means the 85% of variation of the independent variable i.e. total loan has been explained by the dependent variable which is priority sectors. The 6PE the six times of probable error is 0.04525 which is less than r that is 0.92 which means there is significant relationship between total loan and priority sectors loan.

4.6.2 Trend Analysis

4.6.2.1 Trend Analysis of Total Deposit Collection

The trend analysis is that kind of analysis which measure or analyze the trend of total deposit in the coming fiscal years. The calculation of trend forecast has been presented in appendix 1. The following trend analysis shows the projection of total deposit of NDB up to 2067/68 BS.

Table No. 4.16

Trend Analysis Values of Total Deposit Collection (in '000)

Year	Total Deposit Collection	Trend Values
2060/61	134937	137673
2061/62	205605	196771
2062/63	264452	255869
2063/64	282236	314967
2064/65	392113	374065

2065/66

433163

2066/67

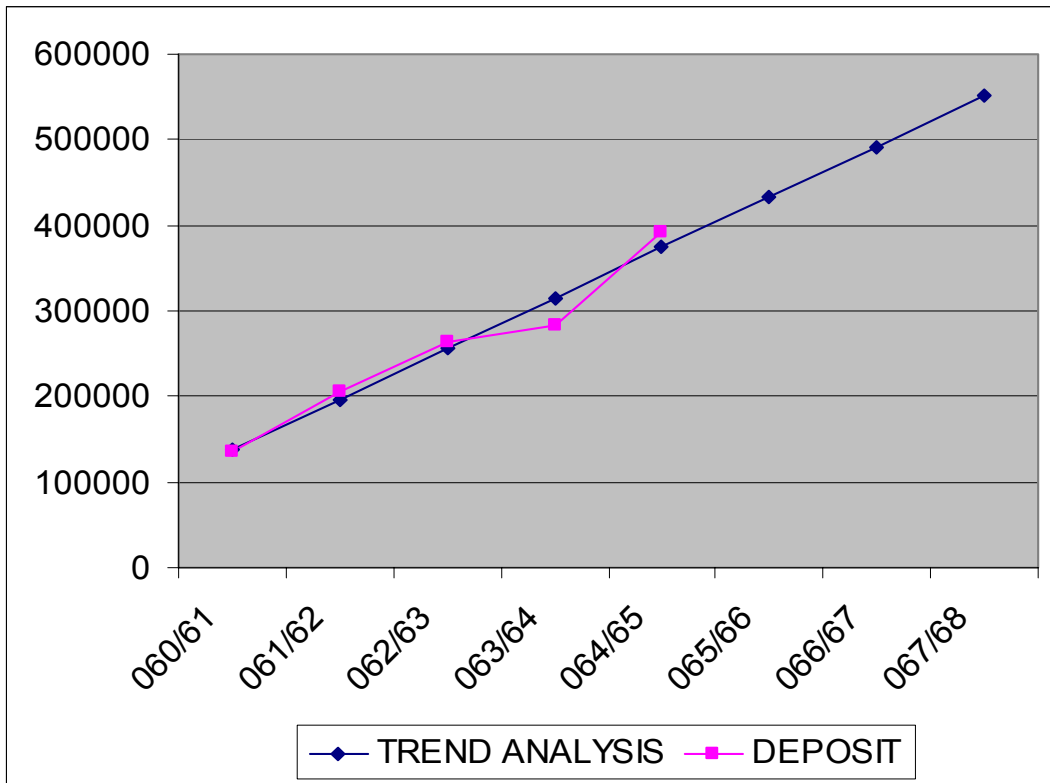
492261

2067/68

551359

(Source: Appendix No. II)

Figure No. 4.4
Trend Analysis of Total Deposit Collection



(Source:- Table No 4.16)

From the above trend analysis figure, it shows that total deposit collection of NDB is in increasing order within five fiscal years 2060/61 to 2064/65 and the trend values of deposit in further three years also in increasing order.

4.6.2.2 Trend Analysis of Total Loan Disbursement

The following trend analysis is the trend analysis of total amount of loan disbursed which forecast the total disbursed loan amount of every year from 2060/61 to 2067/68.

Table No. 4.17

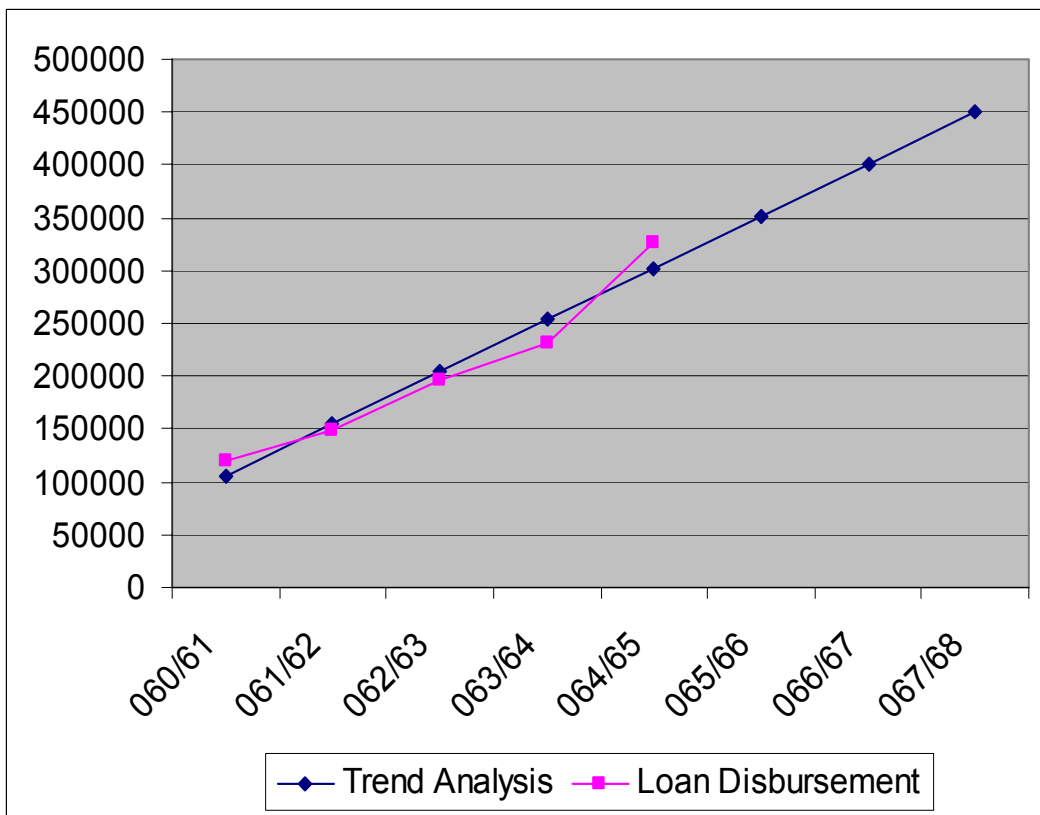
Trend Analysis Values of Total Loan Disbursement (in '000)

Year	Total Loan Disbursement	Trend Values
2060/61	120763	105739
2061/62	148290	154924
2062/63	195414	204108
2063/64	230487	253293
2064/65	325588	302478
2065/66		351663
2066/67		400847
2067/68		450032

(Source: Appendix III)

Figure No 4.5

Trend Analysis of Total Loan Disbursement



(Source: Table No. 4.17)

From the above figure, it describes that the trend of NDB's total loan disbursement is increasing order. The trend of deposit is forecasted from this trend analysis and the highest figure is in the year 2067/68. The both figure of deposit and trend values are in increasing in order.

4.6.2.3 Trend Analysis of Priority Sectors Loan

1. Agriculture Loan:

Most of people of Nepal depend upon the agricultural i.e. it is the backbone of Nepalese economy is contributed by the agriculture. So it is very necessary to disburse the loan to the people who depends upon the agriculture. To invest in this sector means to promote the Nepalese economy and Nepalese people's living standard.

Table No. 4.18

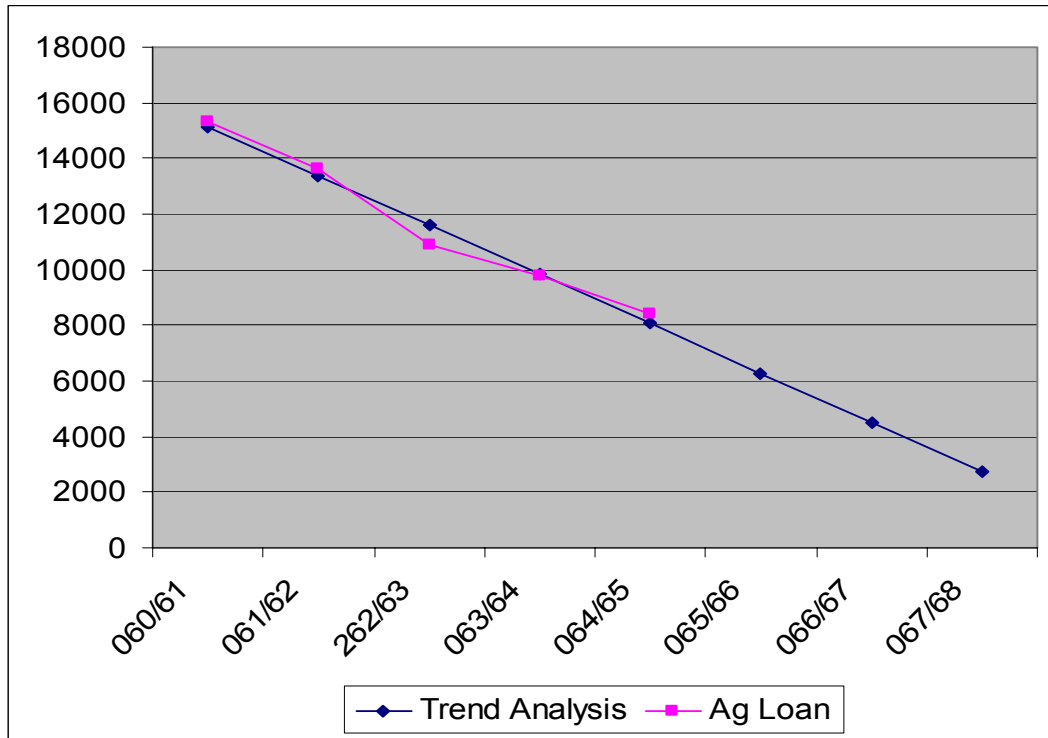
Trend Analysis Values of Agricultural Sectors Loan (in '000)

Fiscal Year	Agricultural Loan	Trend Values
2060/61	15335	15150
2061/62	13629	13377
2062/63	10867	11604
2063/64	9808	9831
2064/65	8381	8058
2065/66		6285
2066/67		4512
2067/68		2739

(Source:- Appendix IV)

Figure No 4.6

Trend Analysis of Loan Disbursement in Agriculture Sectors



(Source: Table No. 4.18)

The above trend analysis figure shows that the trend of disbursing loan is in decreasing order in agricultural sectors. It clearly shows that the disbursement of loan is decreasing every year. The figure shows that the highest disbursement has been in 2060/61 where as the lowest have been seen in 2064/65. The decreasing trend is started in the year 2060/61. This trend shows clearly that the slowly the people who depends only on agriculture moves to other sectors i.e. the people slowly invest to other field rather than agriculture.

2. Industry Loan Disbursement

Now, many people change their profession. They don't want to their money invest only in Agriculture sectors, now the people moves towards industry because there is so many sources in their surroundings and there sources are easily used by the people of today. The NDB bank always promotes the different kinds of industry and cottage industry like Candle industry, Masala industry, Food industry etc.

Table No. 4.19

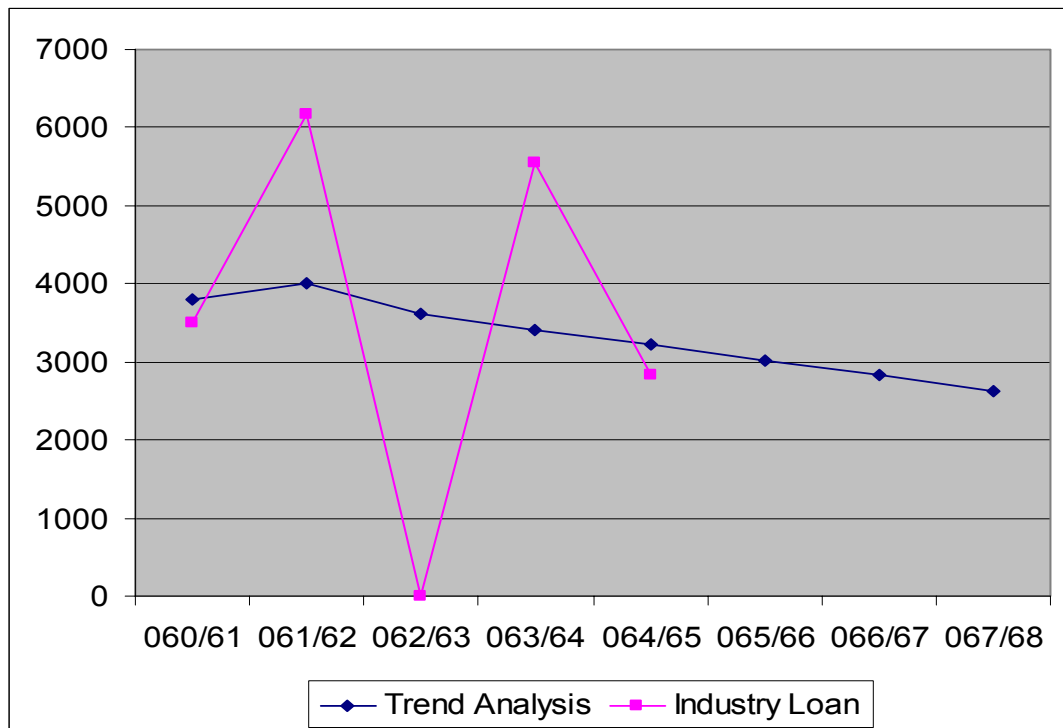
Trend Analysis Values of Industrial Sectors Loan (in '000)

Year	Industrial Loan	Trend Values
2060/61	3495	3806
2061/62	6178	4002
2062/63	0	3610
2063/64	5546	3414
2064/65	2831	3218
2065/66		3022
2066/67		2826
2067/68		2630

(Source: Appendix V)

Figure No 4.7

Trend Analysis of Loan Disbursement in Industry



(Source: Table No. 4.19)

The above figure shows that the trend of loan disbursement in cottage industry is fluctuating. The figure clearly shows that in the year 2061/62 the loan disbursement is very higher than previous year 2060/61 and in the year

2062/63, there is not any transactions of loan disbursement because the loan is zero. The highest disbursement of loan is seen in 2061/62. In the year 2063/64, the disbursement loan amount is slightly decreased, this means the trend of disbursement loan in cottage industry is fluctuating is only because of the instable nature of political environment of the country. The people couldn't find the suitable environment or safe environment for investing in cottage industry. The calculation shows that the trend is in decreasing order of the amount Rs.1960000.

3. Service Sectors Loan Disbursement

There are several sectors in which the bank disburses the loan for enhancing that field. Service sectors are among of them in which the loan has disbursed for service oriented works like in Hotel, Hospital, finance companies etc. In Chitwan, the environment for hotel business is very suitable because of the very attractive and adventurous national park of Chitwan but nowadays the hotel business is in danger because of the unstable political situation. Hospital, finance are also very suitable for the Chitwan but the investment on these area also decreasing because the political situation as well as there is recession situation in all over the world within two three years.

Table No. 4.20

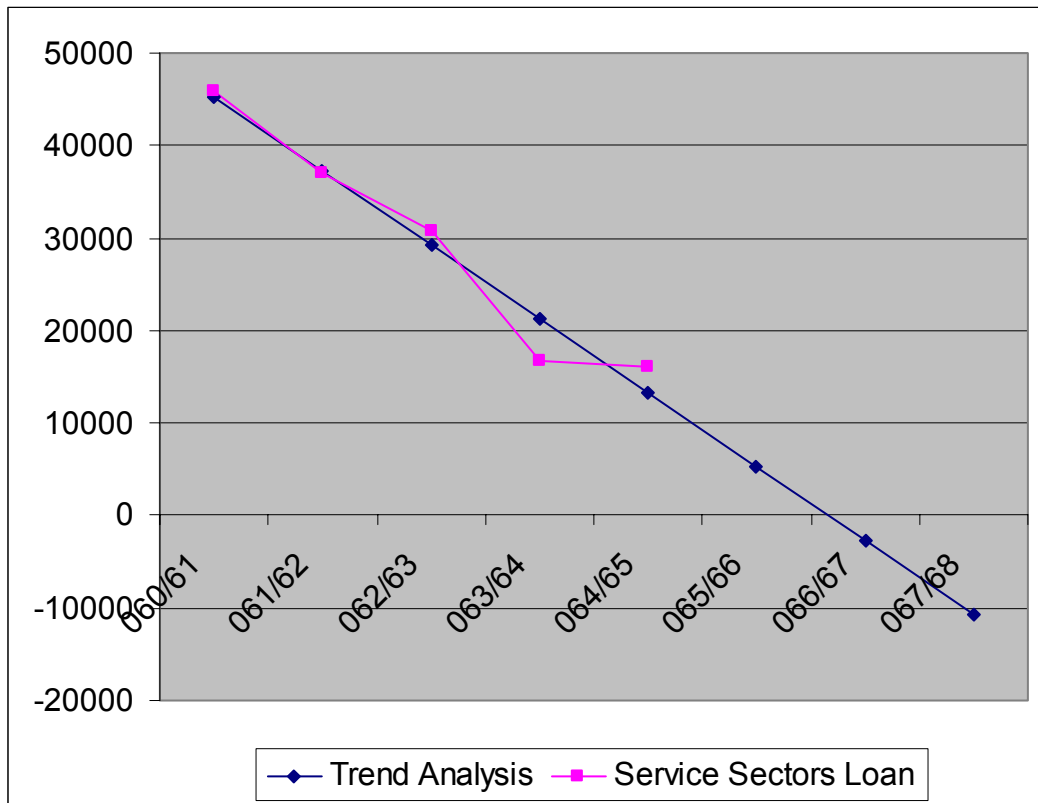
Trend Analysis Values of Service Sectors Loan (in '000)

Year	Service Sectors Loan	Trend Values
2060/61	45923	45281
2061/62	36972	37283
2062/63	30711	29285
2063/64	16800	21287
2064/65	16019	13289
2065/66		5291
2066/67		-2707
2067/68		-10705

(Source: Appendix VI)

Figure No 4.8

Trend Analysis of Loan Disbursement in Service Sectors



(Source: Table No. 4.20)

As the above figure shows that the trend of investing in service sectors is in decreasing order. In the figure, in the fiscal year 2060/61, the loan disbursement is increased later gradually, it is decreasing and at the end year 2064/65, the disbursing loan is very small in amount. The trend is decreasing because of the bad political scenario, the government and unfavorable economic condition of the country. The calculation of trend shows that the trend is in decreasing order of Rs. 79980000.

4. Hire Purchase Sector Loan Disbursement

In hire purchase sectors the loan has disbursed for purchasing vehicles for any kind of use either public or personal. The process of disbursing loan is slightly different for these sectors. In the very beginning, the loanee should pay the advance amount (10% of full amount) by himself and the remaining amount is financed by the bank. Later the remaining amount of loan has paid

in installment. The right of ownership is transferred to the purchaser only when the loan installment has paid completely.

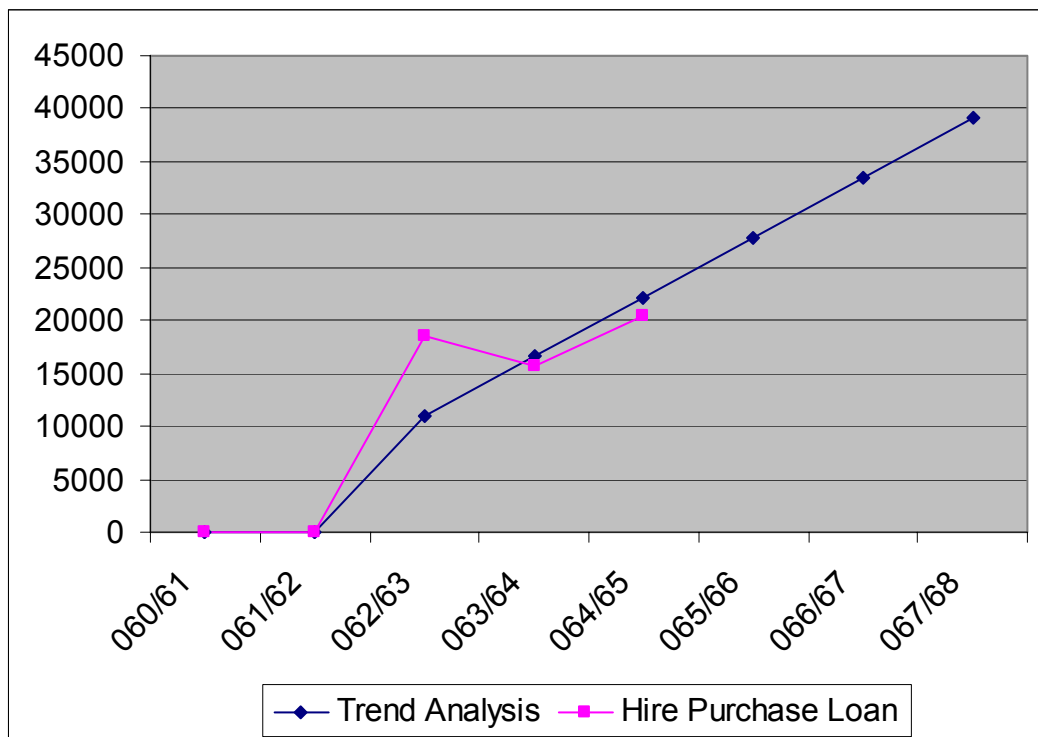
Table No. 4.21

Trend Analysis Values of Hire Purchase (in '000)		
Year	Hire Purchase Loan	Trend Values
2060/61	-	-
2061/62	-	-
2062/63	18529	10915
2063/64	15684	16556
2064/65	20361	22197
2065/66		27838
2066/67		33479
2067/68		39120

(Source: Appendix No. VII)

Figure No 4.9

Trend Analysis of Loan Disbursement in Hire Purchase Sectors



(Source: Table No 4.21)

As the above table, the loan has disbursed on this sector is started in the year 2062/63, before that period NDB not invest on the hire purchase. In the

second year of 2063/64, the loan disbursed is slightly decrease for the previous year and in the 2064/65 the loan disbursed is the highest. From the figure, the hire purchase sector loan disbursed trend is in increasing order. Because the vehicles make every people's life easier that's why people keen to invest or to purchase vehicles.

5. Home Loan

Home loan is very popular loan. People like to invest in their own buildings. The bank also provide loan for the home, buildings, land. This sector is also the loan demanding sectors.

Table No. 4.22

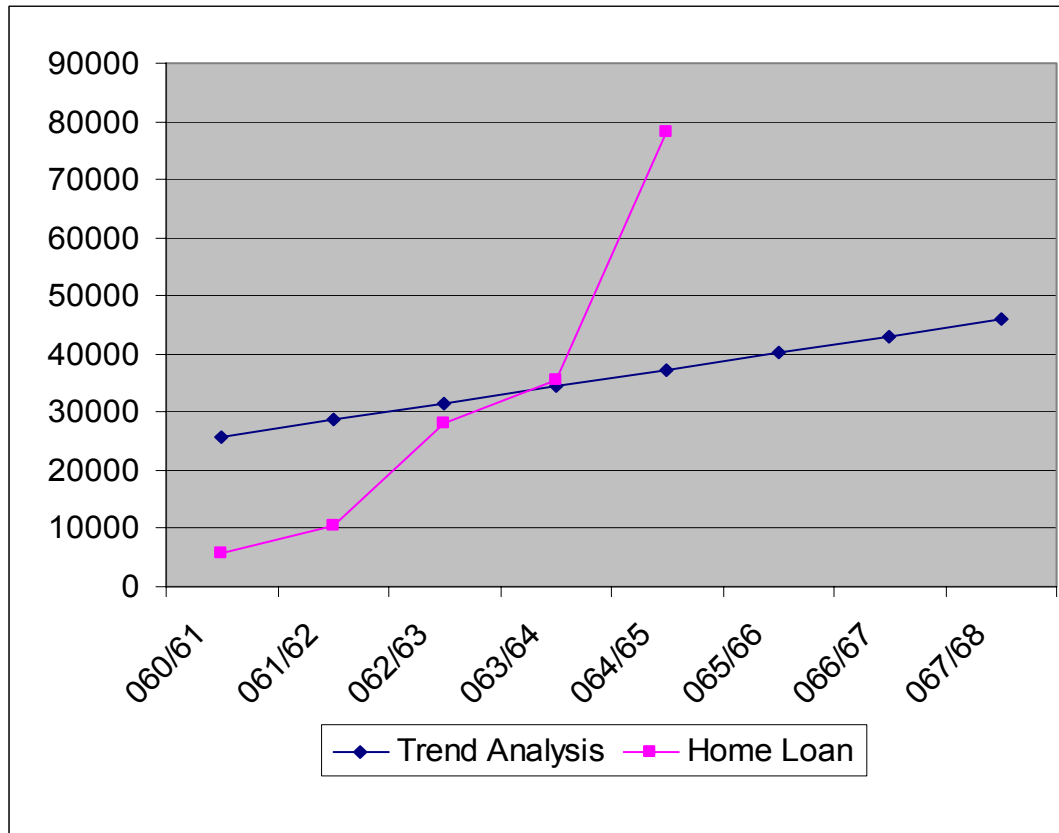
Trend Analysis Values of Home Loan (in '000)

Year	Home Loan	Trend Values
2060/61	5795	25837
2061/62	10393	28717
2062/63	28093	31597
2063/64	35625	34477
2064/65	78081	37357
2065/66		40237
2066/67		43117
2067/68		45997

(Source: Appendix VIII)

Figure No 4.10

Trend Analysis of Loan Disbursement in Home Loan



(Source: Table No 4.22)

From the above table, it shows the highest loan amount disbursed is in the year 2064/65 and the lowest loan disbursed is in the year 2060/61 BS. As the table, it shows that the disbursement amount is increasing from the year to year. That means the disbursement trend is increasing in order by Rs. 28804000 that is because the people like to build the beautiful buildings houses etc.

6. Business Sectors loan

The NDB bank always promotes the business either the small one or big one. Nowadays, the business is the main source to enhance the economy. Out of the different sectors, business is the most loan demanding sectors.

Table No. 4.23

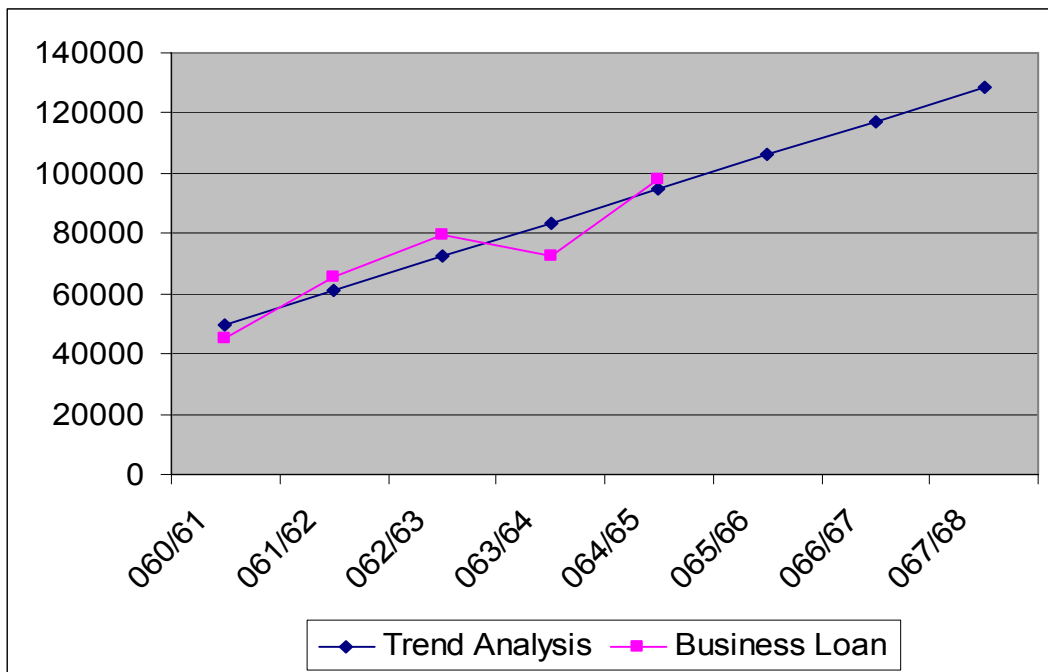
Trend Analysis Values of Business sectors (in '000)

Year	Business Sectors Loan	Trend Values
2060/61	45201	49707
2061/62	65812	60986
2062/63	79551	72265
2063/64	72513	83544
2064/65	98246	94823
2065/66		106102
2066/67		117381
2067/68		128660

(Source:- Appendix IX)

Figure No. 4.11

Trend Analysis of Loan Disbursement in Business Sectors



(Source: Table No. 4.23)

As the above graph, it shows that the highest loan has disbursed is in the year 2064/65. In the beginning year 2060/61, the loan disbursement is the lowest one. In the fiscal year 2061/62 and 2062/63, it is increasing but in the fiscal year 2063/64, the loan disbursed is decreased but after that the business sectors loan is increasing. That means, the trend of disbursement in the

business sectors is fluctuating because the unstable political environment and the bad economic condition. Although the disbursement is fluctuating, it is increasing trend by Rs. 112791000.

7. Deprived Sectors Loan

Deprived sectors loan is that kind of loan which has been granted not for profit earning but also to earn the social goodwill. This type of loan is granted to deprived areas people and this also directed by the NRB. Therefore the NDB also started to give preference in deprived sector from 2064/65 fiscal years as shown in the table.

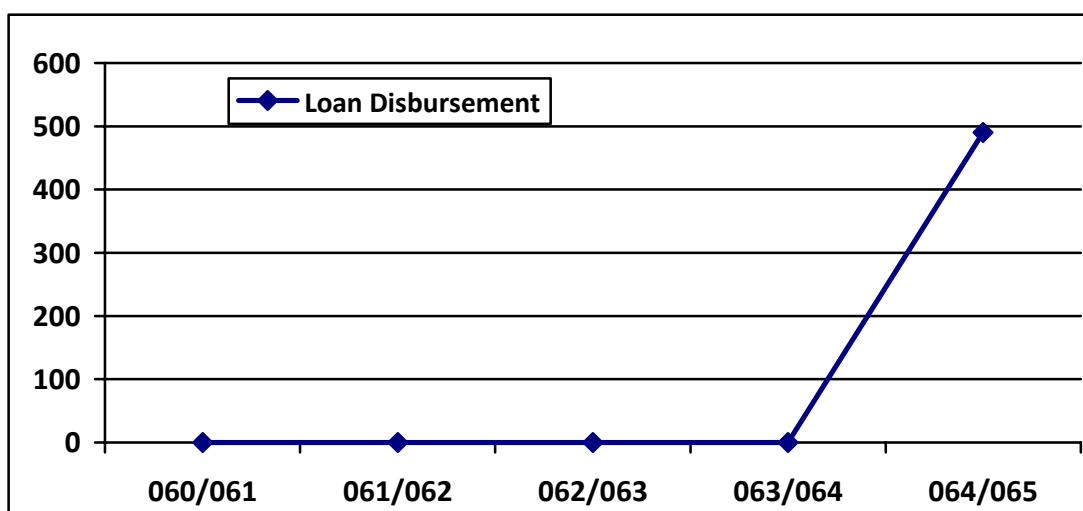
Table No 4.24

Loan Disbursement in Deprived Sectors (in '000)	
Fiscal Year (X)	Loan Disbursement (Y)
2060/61	-
2061/62	-
2062/63	-
2063/64	-
2064/65	490

(Source: - Annual report of 2060/61 to 2064/65)

Figure No. 4.12

Loan Disbursement in Deprived Sectors



(Source: Table No 4.24)

The above table shows that the disbursement of loan in deprived sectors is started from the fiscal year 2064/65 i.e. NDB started to give priority for deprived people recently.

4.7 Analysis of Opinion Survey (Primary Data)

In this, the primary data are collected or information is collected by making the questionnaire and this questionnaire has been analyzed. From the questionnaire, the data are collected in yes, no and no idea forms and these responses are expressed in percentage. Here, the responses are collected through the loan paying clients of NDB.

Table No. 25
Frequencies of Responses from Loan paying clients of NDB

Issues (Particulars)	Total		Yes		No		No Idea	
	No.	%	No.	%	No.	%	No.	%
Information about NDB before taking loan	10	100	8	80%	2	20%	-	-
Correctness of lending policy of NDB	10	100	7	70%	-	-	3	30%
Easiness of lending policy of NDB	10	100	6	60%	2	20%	2	20%
Raising of economic status after taking the loan	10	100	5	50%	4	40%	1	10%
Appropriateness of present charged interest rate on loan	10	100	6	60%	2	20%	1	10%
Knowledge about interest rebate and other discount on loan	10	100	8	80%	2	20%	-	-
Relevancy of service charged taken	10	100	7	70%	2	20%	1	10%
Use of whole loan amount for specified purpose for which loan is taken	10	100	10	100%	-	-	-	-
Toughness of loan repayment process	10	100	8	80%	2	20%	-	-
get the repayment schedule	10	100	10	100%	-	-	-	-
Happy with the lending process of NDB	10	100	7	70%	2	20%	1	10%
NDB's preferable in compare to other banks	10	100	6	60%	2	20%	2	20%
Satisfied with the behavior of employees of NDB	10	100	8	80%	-	-	2	20%
Verification of property as collateral	10	100	10	100%	-	-	-	-
Like to continue the transaction with NDB on future	10	100	7	70%	2	20%	1	10%

Above table shows the frequencies and percentage of client responding to given questionnaire.

- 80% of respondents said that NDB is well known bank for them but 20% of them didn't know about NDB before.
- For correctness of lending policy, 70% of them accepted it while 30% of them have no idea about it.
- 60% of loan paying clients agreed the easiness of lending policy while 20% respondents said it is not but 20% of them have no idea.
- Only 50% of the respondents accepted that their economic status is raised after loan taking but 40% and 10% respondents said "No" and "No Idea" respectively.
- Nowadays the interest rates are fluctuating, so 60% of the client agreed that it is appropriate but 20% disagree with this and 10% respondents have no idea about it.
- About 80% of the loan paying clients had knowledge of interest rebate and other discount while other 20% clients had unknown about that.
- About 70% of respondent agreed that the service charged is relevant while 20% of the respondents disagree and 10% have no idea.
- All respondents responded that they used whole loan amount for specified purpose for which loan has taken.
- 80% of the respondents feel that the loan repayment process is tough whereas 20% respondents didn't feel so.
- All the clients responded that they got the repayment schedule.
- 70% of respondents replied that they are happy with the lending process of NDB while 20% of respondents are not happy and 10% of them have no idea.
- About 60% of clients thought that NDB is more preferable than other banks whereas 20% of them didn't thought that and remaining 20% have no idea about it.
- 80% of respondents are satisfied with the behavior of employees of NDB but 20% of them have no idea about it.
- 100% of respondents responded that their property has verified as collateral.

- Only 70% of them like to continue the transaction with NDB in future whereas 20% of them don't like it and 10% have no idea about it.

By observing the responses of all respondents, overall it is concluded that the loan paying clients of NDB are positive about charged interest rate on loan, taken service charged, lending process of NDB, and behavior of employees and finally, they are willing to keep on transaction with NDB. All the responses of loan paying clients are mixed. Hence their grievances are to be analyzed completely in order to achieve objectives and goal of NDB without any barriers in day to day practice of lending and recovery policy of loan.

4.8 Major Findings

From the analysis of this chapter, following general things are revealed.

- The position of total deposit collection looks good by analyzing its amount of increase/decrease in the five fiscal year of 2060/61 to 2064/65. The trend of deposit collection shows the good picture with increasing consistently. On the other hand, total loan disbursement amount is also increased within five fiscal years and its trend is also increasing in order. The highest amount of deposit collected as well as loan disbursed is observed in the year 2064/65 in five fiscal years.
- The loan disbursement in agriculture sectors is decreasing in the five fiscal years and the trend is also decreasing very rapidly which shows that the people invest their amount to other field rather than agriculture.
- The industry loan disbursement can be seen fluctuated position. It is increasing up to 2061/62 but the investment in 2062/63 is zero ie no loan granting in that fiscal year. After that loan granting is increased in 2063/64 and again it is decreased which shows fluctuating result in the amount of industrial sector. Trend also shows that it is decreasing in order and will decrease in future too. It is only because of the maoist problem and also instable politics which always discourage people to invest in industry.

- The service sectors loan is also in decreasing in order. The trend shows that the loan granted in this sector is decreasing by the year. The cause is only poor economic condition, bad politics of the country and also the competition among different banks.
- Hire purchase loan is seen to be fluctuated. in the beginning year of 2060/61 and 2061/62, the hire purchase loan has not started to grant but after 2063/64, it is started to grant and after that in 2063/64, the loan is decreased and in the year 2064/65, it is again increased. The trend of this loan is seen to be increase in further years too. Now a day, it is common that every person should have their own vehicles, so people keen to buy the luxuries vehicles to make their daily busy life easier.
- Home loan is very popular loan and nowadays every people like to have their own beautiful buildings and homes. That's why the home loan is increasing within five years. It is observed that the loan granted in the year 2064/65 is the highest. The trend shows that the home loan is increasing year by year.
- The business sector loan is increased up to fiscal year 2062/63 while in the year 2063/64, the business loan is decreased then in the year 2064/65, it is increased highly ie the highest loan amount among five years. The trend shows that the business loan is increasing in order i.e. the position of business loan is in good position. The main income source of the local public is business, so the people like to invest in it although the bad political and economic condition of the country.
- Deprived sectors loan is seen to be started only in the fiscal year 2063/64 because NDB started to give priority for deprived people recently.
- Loan recovery of the NDB is very satisfactory position. In the fiscal year 2061/62 the loan granted is increased by 22.79% while loan recovery increased by 17.88% which is good. The percentage of loan amount decreased in the year 2063/64 while in this year the percentage of loan recovery also decreased. The increased percentage of loan disbursed and loan recovered has been fluctuating.

- The percentage of performing loan is in good position i.e. the loan has recovered successfully by NDB while percentage of non performing loan is very low i.e. good situation. It has been seen that the total loan and performing loan is increasing while the non performing loan is very small in amount which shows the NDB's recovery policy is satisfactory.
- The coefficient of correlation between loan disbursed and recovery is highly correlated with each other which also shows that NDB has successfully collected the loan disbursed during the five fiscal year of 2060/61 to 2064/65.
- Coefficient of correlation is 0.98 between total deposit and loan granted which shows that they are positively correlation. It implies that the use of collected deposit as loan is satisfactory position.
- The calculated value of coefficient of correlation between total loan and loan granted in priority sector is 0.92 which is position. It shows there is positive relationship between them. And also both have significant relation i.e. $0.92(r) > 0.2715(6PE)$.
- Return on total assets ratio in percentage, all are in positive which is good sign but the ratios are fluctuating year by year. The mean value is 0.96 which shows banks tools and sources are employed efficiently. Whereas C.V. is 0.404 i.e. less than 1 which shows the consistency in ROA distribution.
- All the percentage of return on total loan & advance are in positive which shows good position of net earnings as compare to total loan and advance. The average value in 1.388 and C.V. of the ratios 39.04 which shows 39% consistency in distribution i.e. good sign for bank.
- Loan & advance to deposit collected ratios in percentage are in positive values. The mean value is 80.04% that means the overall the used of deposit collected as loan and advance is very satisfactory. Coefficient of variation is 7.93% implies the consistency is also very good in the five fiscal years.
- Total loan & advance to total assets ratio are all in positive values. The average value i.e. 69.74% shows the used bank's total assets in

generating earnings by mobilizing fund is in good condition. The value of C.V. shows there is high degree of consistency.

- Priority sectors to total loan & advance ratios are all in positive. The average ratio percentage is 80.23 which show the good utilization of total loan in priority sectors. The value of C.V. is 16.39% which tells the consistency in distribution.
- Priority sectors loan to total deposit ratios' average is 64.16%. It implies the use of total deposit collection as priority sectors loan is 64.16 which show good position of use of total deposit as priority sectors loan. The value of C.V. 18.75% tells the consistency position is high.
- Performing assets and non performing assets ratio of NDB is very good. That means the collection policy is very tough.
- From the responses depicted above everyone come to conclude that loan paying clients of NDB positive about lending policy and process, easiness of lending policy, interest rate charged in loan, rebate & other discount in loan, about service charge taken, happiness in lending process offered by NDB and finally they like to continue the transaction with the bank in future. All this provoked that loan paying clients' responses are mixed. Hence their grievances are to be analyzed completely in order to achieve objectives and goal of NDB without any barriers in day to day practice of lending and recovery policy of loan.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Nepal is a small beautiful Himalayan Kingdom is attempting to achieve economic solvency, complete development and also uplift of the life standard of the public although it is facing several political, economic, socio cultural and geological barriers. Restoration of democracy has started to open ample doors for the economic enrichment of all concerned over its economic arena. But there also remain instable politics which also cause the barriers in economic development. The hope of economic growth can be seen in the eyes of every citizen although country has such barriers. Economic development of the country is not possible without the systematic and pre planned development of trade and commerce. For the development of trade and commerce the country must promote the industrialization. Industrial conditions of Nepal have no developed yet as compare to other developed countries. Landlocked country, lack of infrastructure, lack of risk taking entrepreneur, topographical difficulties, political instability etc are the main constraints of the industrialization in Nepal. So as to make the industrialization country, the mentioned constraints should be solved. Developed industrialization play an important role for an all round development of the country. To drive the country to industrialization, capital is needed. For the capital, money market and capital market should be developed. To develop money market and capital market, developments of banks and financial institutions is very necessary. These financial institutions always help to gather capital and to mobilize in production sectors and facilitate the process of economic development. The economy of a country indicates the development of the country. The financial sectors always play the very important role to develop the economy of the country. Strong economic condition makes the nation developed. Commercial or industrial development can tremendously change the livelihood of the people by providing employment, utilizing their capability, skill for generating income, increasing

per capita income, mobilizing productive natural resources etc. So for the better economic condition of the country, development of banking sectors or financial institutions, investment opportunities should be broaden.

Narayani Development Bank (NDB) established in 2058 B.S. is organized as a public limited bank. This bank promotes the local public in many subjects by providing the fair and fast service to them. As of other banks, the very basic function of this bank is also to collect deposit and loan disbursement. This development bank has been established to gathered the scattered capital through out that area and also the entire nation and invest them to the people to promote the different sectors like trade, tourism, industry, agriculture, foreign employment, industrial production, home loan, service sectors etc. Its main objective is also to facilitate the local people with giving them the special and attractive interest on their deposits and also to establish NDB as a first choice among other development banks in chitwan district for safe and high return on deposits, for getting easy and faster loan as and when required.

As my research topic is “Loan Management of Narayani Development Bank Limited”. In this study the management of loan disbursement and loan recovery of the concerned institution is been analyzed. The effective and efficient flow of loan & advances always helps the bank in long run with income and earn profit to banks.

The primary and secondary data are collected for the objectives of this study. Five fiscal years' annual report are provided by NDB itself, different NRB reports & bulletin, Articles from newspapers, past thesis, different authors books, internet are the sources of secondary data where as some informal questions asked by self to employees of NDB and questionnaire given to clients, direct observation, are sources of primary data. In this study, the descriptive analysis as well as statistical analysis has been used to fulfill the research objectives. Different ratio analysis and statistical analysis are used herein to obtain the early determined objectives.

Management of Loan disbursement includes lending management and impact study of lending practices. Similarly it encompasses trend analysis of loan disbursement, sector wise loan disbursement with statistical tools of correlation analysis i.e. correlation between total deposit and loan, correlation between total loan and priority sectors etc. Lending practices and procedures of NDB includes its lending activities of which is guided by its own loan policy.

5.2 Conclusions

From the analysis of the available data, the researcher has been able to draw certain conclusion. This study is mainly focused on the study of loan management of one bank i.e. NDB. The overall performance of this bank is satisfactory. In this study, we studied various factors about loan management of NDB with sector wise disbursement to total disbursement. Mainly this bank has given priority to different priority sectors and these sectors are agriculture loan, industrial loan, service sectors loan, hire purchase sector loan, home loan, business sectors loan, deprived sectors loan. By analyzing the study, it has been found that in overall the bank is seen to be progressing from the fiscal year 2060/61 to 2064/65. This shows that the management of NDB seems to be good from the beginning. NDB has taken the reasonable interest rate on loan and service charge is not as high as compare to other banks. The trend analysis of total loan disbursement also shows that the loan disbursement is increasing year by year.

As the data of recovery is analyzed, it is seen that the recovery process is very effective. The percentage of recovery loan is very high as compare to non recovery. Since the actual data of recovery of the recovery is not found in the bank, it is quite difficult to evaluate the recovery properly. The performing loan is also very high as compare to non performing loan which shows the good sign i.e. there is not big amount of bad debts in NDB.

In case of correlation analysis, there is positive correlation between total loan disbursement and loan recovery. The total deposit and loan is also positively correlated between them & total loan and priority sectors loan is positively

correlated which shows the significant relation between above mentioned relation. The average values of return on assets and return on total loan & advances are positive that implies the good position or return in NDB. The average values of ratio between loan & advances to deposit collected, total loan & advances to total assets ratio, priority sectors to loan & advances, priority sectors to total deposit ratio are all in positive which defines the good relation between the variables.

The responses obtained from the questionnaire, it is concluded that loan paying clients of NDB are seen to be positive about charged interest rate on loan, taken service charged, lending process of NDB, and behavior of employees and they are willing to keep on transaction with NDB. All the responses of loan paying clients are mixed. Hence their grievances are to be analyzed completely in order to achieve objectives and goal of NDB without any barriers in day to day practice of lending and recovery policy of loan.

5.3 Recommendations

In order to improve “Loan management of NDB Ltd.”, the following suggestions and recommendations are portrayed here on the basis of analysis, findings and conclusions of the entire research study.

a. The utilization of collected deposit as loan:

In the bank the collected deposit should be used properly for granting loan. Now a days, the problem of the bank is properly managed the deposit for lending, otherwise it may cause the danger of liquidation by unbalancing between deposit collected and loan granting. So, NDB should be very careful in granting loan and collected deposit, there should be balance in them.

b. The bank should give priority to agriculture and industrial sectors

In this study it is found that the trend of agriculture sectors and industrial sectors are declining within year so, the bank must promote granting loan in these sectors. Agriculture is the main source of income of Nepalese people and it is the most needed sectors for everybody, for promoting internal

agricultural business it is very necessary to invest and promote this sector. Industries are also very important for the economic development of the country; it also increases the employment in the country which facilitates the people more. So, NDB must promote both of these sectors by granting the loan to them.

c. Service and Deprived Sectors Loan must be very important

As we see the trend of service sectors loan, it is declining within years. The service sectors are the important sectors for Ratnanagar because in this region the hotels, hospitals, finance companies (service related work) are very important places for enhancement of tourism and also for economic development. The bank must promote these sectors for developing tourism and economy of nation.

d. The bank should invest in other new sectors

Our nation is enriched with varieties of natural resources but they are not properly exploited in absence of appropriate and sufficient financial and technical support. Numerous opportunities like rural and small electricity, small scale women entrepreneur, agro based and forest based business. Hence NDB should promote these new sectors by investing them.

e. Interest rate of loan and deposit should be balance and normal

Now days in banking sectors, the policy of increasing interest rate on deposit accounts is applied for collecting high volume of deposit because of low liquidity in the banking market as well as in interest on loan too. This also may invite some problem in the economy. It is obvious the lending interest and collecting interest should have some difference to earn the profit i.e. the main earnings of bank. But the interest rate on deposit and loan is so high which may cause difficult situation. People motivate to deposit their amount in accounts because of high interest in collected deposit on the other hand people don't want to invest in different sectors by lending loan because of high interest rate in loan, they just want to keep their money in bank account and earn high interest amount. If this process became long, the collected deposit can be remain idle in the bank only many people don't like to have

high interest rate loan which cause the very slow development of economy because no investment no development. The collected money should not remain idle, in the bank money should deposit and invest very normally for which very normal and balance interest rate on deposit and loan should be maintained by the bank.

f. The bank should open in village area rather than in city

The current affair is to open the bank and branches in city not in village. We know all banks want have profit that's why they establish their branches in city but they also think about village development. The bank and branches should open in village too, to facilitate the all Nepalese people. So it is very necessary to establish the bank branches in village for developing village and villagers' economic status

g. The bank should increase the efficiency of employee

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

h. The lending and recovery policy should be effective

By analyzing the data of NDB, it is found that the lending and recovery policy is satisfactory and this should be continuing further too. The lending and recovery policy should be more and more effective by applying new technologies and policies in the bank to facilitate the people

i. The bank should perform social responsibility for quality service

Every organization has some social responsibilities in which place they work. This kind of operations always promotes the bank towards the quality. From this, public believe to transact more than other banks which is most important in this competition market of banking either for collecting deposit or for granting loan. To believe by the people in banking sectors is very important task for earnings profit. So the banks must perform their social responsibilities towards the society where they alive.

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Appendix-I

Data Available of Narayani Development Bank Ltd.

Fiscal Year	2060/61	2061/62	2062/63	2063/64	2064/65
	(In '000)				
Net Profit	2078	1708	3422	4368	1416
Total Assets	15974	235503	299052	327271	438423
Total Loan & Advance	120763	148290	195414	230487	325588
Total Deposit	134937	205605	264452	282236	392113
Priority Sectors	115749	132984	167751	140622	223919
Performing Assets	114346	139005	182847	212669	309674
Non-Performing Assets	6417	9284	12567	17818	15914
Loan Recovery	115753	136452	173555	198478	293229
Agricultural Sector	15335	13629	10867	9808	8381
Industry sector	3495	6178	0	5546	2831
Service sector	45923	36972	30711	16800	16019
Purchase Sector	-	-	18529	15684	20361
Home Loan	5795	10393	28093	35625	78081
Business Sectors	45201	65812	79551	72513	98246

(Source: Five year's fiscal year Annual Report of NDB)

Appendix-II

Trend Analysis of Total Deposit Collection

Year (t)	x = (t-2062/63)	x ²	(In '000)		
			y ₁	x y ₁	Y _c = a+bx
2060/61	-2	4	134937	-269874	137673
2061/62	-1	1	205605	-205605	196771
2062/63	0	0	264452	0	255869
2063/64	-1	1	282236	282236	314967
2064/65	-2	4	392113	784226	374065
2065/66					433163
2066/67					492261
2067/68					551359
N=5		$\sum x^2 =$ 10	$\sum y_1 =$ 1279343	$\sum xy_1 =$ 590983	

$$a = \frac{\sum y_1}{N} = \frac{1279343}{5} = 255869$$

$$b = \frac{\sum xy_1}{\sum x^2} = \frac{590983}{10} = 59098$$

Appendix-III

Trend Analysis of Total Loan Disbursement

(In '000)

Year (t)	x = (t-2062/63)	x ²	Y _c = a+bx		
			y ₁	x y ₁	Y _c = a+bx
2060/61	-2	4	120763	-241526	105739
2061/62	-1	1	148290	-148290	154924
2062/63	0	0	195414	0	204108
2063/64	-1	1	230487	230487	253293
2064/65	-2	4	325588	651176	302478
2065/66					351663
2066/67					400847
2067/68					450032
N=5		∑x² = 10	∑y₁ = 1020542	∑xy₁ = 491847	

$$a = \frac{\sum y_1}{N} = \frac{1020542}{5} = 204108.4$$

$$b = \frac{\sum xy_1}{\sum x^2} = \frac{491847}{10} = 49184.7$$

Appendix-IV

Trend Analysis of Agricultural Sector

(In '000)

Year (t)	x = (t-2062/63)	x ²	Y _c = a+bx		
			y ₁	x y ₁	Y _c = a+bx
2060/61	-2	4	15335	-30670	15150
2061/62	-1	1	13629	-13629	13377
2062/63	0	0	10867	0	11604
2063/64	-1	1	9808	9808	9831
2064/65	-2	4	8381	16762	8058
2065/66					6285
2066/67					4512
2067/68					2739
N=5		∑x² = 10	∑y₁ = 5802	∑xy₁ = -17729	

$$a = \frac{\sum y_1}{N} = \frac{58020}{5} = 11604$$

$$b = \frac{\sum xy_1}{\sum x^2} = \frac{-17729}{10} = -1773$$

Appendix- V Trend Analysis of Industry Loan

(in '000)

Year (t)	x = (t-2062/63)	x ²	Y _c = a+bx		
			y ₁	x y ₁	Y _c = a+bx
2060/61	-2	4	3495	-6990	3806
2061/62	-1	1	6178	-6178	4002
2062/63	0	0	0	0	3610
2063/64	-1	1	5546	5546	3414
2064/65	-2	4	2831	5662	3218
2065/66					3022
2066/67					2826
2067/68					2630
N=5		∑x² = 10	∑y₁ = 18050	∑xy₁ = -1960	

$$a = \frac{\sum y_1}{N} = \frac{18050}{5} = 3610$$

$$b = \frac{\sum xy_1}{\sum x^2} = \frac{-1960}{10} = -196$$

Appendix- VI Trend Analysis of Service Sector Loan

(in '000)

Year (t)	x = (t-2062/63)	x ²	Y _c = a + bx		
			y ₁	x y ₁	Y _c = a + bx
2060/61	-2	4	45923	-91846	45281
2061/62	-1	1	36972	-36972	37283
2062/63	0	0	30711	0	29285
2063/64	-1	1	16800	16800	21287
2064/65	-2	4	16019	32038	13289
2065/66					5291
2066/67					-2707
2067/68					-10705
N=5		∑x² = 10	∑y₁ = 146425	∑xy₁ = -79980	

$$a = \frac{\sum y_1}{N} = \frac{146425}{5} = 29285$$

$$b = \frac{\sum xy_1}{\sum x^2} = \frac{-79980}{10} = -7998$$

Appendix- VII
Trend Analysis of Hire Purchase Sectors

(in '000)

Year (t)	x = (t-2062/63)	x ²	Y _c = a+bx		
			y ₁	x y ₁	Y _c = a+bx
2060/61	-2	4	-	-	-
2061/62	-1	1	-	-	-
2062/63	0	0	18529	0	10915
2063/64	-1	1	15684	15684	16556
2064/65	-2	4	20361	40722	22197
2065/66					27838
2066/67					33479
2067/68					39120
N=5		∑x² = 10	∑y₁ = 54574	∑xy₁ = 56406	

$$a = \frac{\sum y_1}{N} = \frac{54574}{5} = 10915$$

$$b = \frac{\sum xy_1}{\sum x^2} = \frac{56406}{10} = 5641$$

Appendix- VIII
Trend Analysis of Home Loan

(in '000)

Year (t)	x = (t-2062/63)	x ²	Y _c = a + bx		
			y ₁	x y ₁	Y _c = a + bx
2060/61	-2	4	5795	-11590	25837
2061/62	-1	1	10393	-10393	28717
2062/63	0	0	28093	0	31597
2063/64	-1	1	35625	35625	34477
2064/65	-2	4	78081	156162	37357
2065/66					40237
2066/67					43117
2067/68					45997
N=5		∑x² = 10	∑y₁ = 157987	∑xy₁ = 28804	

$$a = \frac{\sum y_1}{N} = \frac{157987}{5} = 31597$$

$$b = \frac{\sum xy_1}{\sum x^2} = \frac{28804}{10} = 2880$$

Appendix- IX
Trend Analysis of Business Sectors Loan

(In '000)

Year (t)	x = (t-2062/63)	x ²	Y _c = a + bx		
			y ₁	x y ₁	Y _c = a + bx
2060/61	-2	4	45201	-90402	49707
2061/62	-1	1	65812	-65812	60986
2062/63	0	0	79551	0	72265
2063/64	-1	1	72513	72513	83544
2064/65	-2	4	98246	196492	94823
2065/66					106102
2066/67					117381
2067/68					128660
N=5		∑ x² = 10	∑ y₁ = 361323	∑ xy₁ = 112791	

$$a = \frac{\sum y_1}{N} = \frac{361323}{5} = 72265$$

$$b = \frac{\sum xy_1}{\sum x^2} = \frac{112791}{10} = 11279$$

Appendix- X

Correlation between Total Loan Disbursement and Recovery

(In '000)

F/Y	Loan (X)	Recovery (Y)	X ²	Y ²	XY
060/61	120.763	115.753	14583.7021	13398.75701	13978.67954
061/62	148.290	136.452	21989.9241	18619.1483	20234.46708
062/63	195.414	173.555	38186.6314	30121.33803	33915.07677
063/64	230.487	198.478	53124.2571	39393.51648	45746.59879
064/65	325.588	293.229	106007.545	85983.24644	95471.84365
	$\sum X =$ 1020.542	$\sum Y =$ 917.467	$\sum X^2 =$ 233892.060	$\sum Y^2 =$ 187516.005	$\sum XY =$ 209346.665

Where,

$$N = 5$$

$$\sum X^2 = 233892.060$$

$$\sum X = 1020.542$$

$$\sum Y^2 = 187516.005$$

$$\sum Y = 917.467$$

$$\sum XY = 209346.6658$$

$$r_{xy} = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

$$= \frac{5 \times 209346.6658 - 1020.542 \times 917.467}{\sqrt{5 \times 233892.060 - (1020.542)^2} \sqrt{5 \times 187516.005 - (917.467)^2}}$$

$$= 0.997$$

$$r^2 = 0.994$$

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

$$P.E. = 0.6745 \times \frac{1-0.994}{\sqrt{5}} = 0.0018$$

$$6P.E = 0.0108$$

Appendix- XI

Correlation between Total Deposit and Total Loan & Advances

(In '000)

F/Y	Total Deposit (X)	Total Loan (Y)	X ²	Y ²	XY
060/61	134.937	120.763	18207.99397	14583.70217	16295.39693
061/62	205.605	148.29	42273.41603	21989.9241	30489.16545
062/63	264.452	195.414	69934.8603	38186.6314	51677.62313
063/64	282.236	230.487	79657.1597	53124.25717	65051.72893
064/65	392.113	325.588	153752.6048	106007.5457	127667.2874
	∑ X = 1279.343	∑ Y = 1020.542	∑ X² = 363826.0348	∑ Y² = 233892.0606	∑ XY = 291181.2019

Where,

$$N = 5$$

$$\sum X^2 = 363826.0348$$

$$\sum X = 1279.343$$

$$\sum Y^2 = 233892.0600$$

$$\sum Y = 1020.542$$

$$\sum XY = 291181.201$$

$$r_{xy} = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

$$= \frac{5 \times 291181.201 - 1279.343 \times 1020.542}{\sqrt{5 \times 363826.035 - (1279.343)^2} \sqrt{5 \times 233892.0606 - (1020.542)^2}}$$

$$= 0.98$$

$$r^2 = 0.96$$

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

$$P.E. = 0.6745 \times \frac{1-0.96}{\sqrt{5}} = 0.012$$

$$6P.E = 0.072$$

Appendix- XII

Correlation between Total Loan and Priority Sectors

(In '000)

Fiscal Year	Total Loan (X)	Priority Sectors (Y)	X ²	Y ²	XY
2060/61	120.763	115.749	14583.70217	13397.831	13978.19649
2061/62	148.29	132.984	21989.9241	17684.74426	19720.19736
2062/63	195.414	167.751	38186.6314	28140.398	32780.89391
2063/64	230.487	140.622	53124.25717	19774.54688	32411.54291
2064/65	325.588	223.919	106007.5457	50139.71856	72905.33937
	$\sum X =$ 1020.542	$\sum Y =$ 781.025	$\sum X^2 =$ 233892.0606	$\sum Y^2 =$ 129137.2387	$\sum XY =$ 171796.17

Where,

$$N = 5 \qquad \qquad \qquad \sum X^2 = 233892.0606$$

$$\sum X = 1020.542 \qquad \qquad \qquad \sum Y^2 = 129137.2387$$

$$\sum Y = 781.025$$

$$\sum XY = 171796.17$$

$$r_{xy} = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

$$= \frac{5 \times 171796.17 - 1020.542 \times 781.025}{\sqrt{5 \times 233892.0606 - (1020.542)^2} \sqrt{5 \times 129137.2387 - (781.025)^2}}$$

$$= 0.92$$

$$r^2 = 0.85$$

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

$$P.E. = 0.6745 \times \frac{1-0.85}{\sqrt{5}} = 0.04525$$

$$6P.E = 0.2715$$

Appendix-XIII

Calculation of Different Ratios

i) Net Profit to Total Assets Ratio

F/Y	Net Profit	Total Assets	Ratio	(In '000) Ratio in %
2060/61	2078	159740	0.013	1.301
2061/62	1708	235503	0.0072	0.725
2062/63	3422	299052	0.0114	1.144
2063/64	4368	327271	0.0133	1.334
2064/65	1416	438423	0.0032	0.323

ii) Net Profit to Total Loan & Advances

Fiscal Year	Net Profit	Total Loan & Advances	Ratio	(In '000) Ratio in %
2060/61	2078	120763	0.0172	1.72
2061/62	1708	148290	0.0115	1.15
2062/63	3422	195414	0.0175	1.75
2063/64	4368	230487	0.0189	1.89
2064/65	1416	325588	0.0043	0.43

iii) Total Loan & Advances to Total Deposit Ratio

Fiscal Year	Total Loan & Advances	Total Deposit	Ratio	(In '000) Ratio in %
2060/61	120763	134937	0.8949	89.49
2061/62	148290	205605	0.7212	72.12
2062/63	195414	264452	0.7389	73.89
2063/64	230487	282236	0.8166	81.66
2064/65	325588	392113	0.8303	83.03

iv) Total Loan & Advances to Total Assets Ratio

Fiscal Year	Total Loan & Advances	Total Assets	Ratio	(In '000) Ratio in %
2060/61	120763	159740	0.7559	75.59
2061/62	148290	235503	0.6296	62.96
2062/63	195414	299052	0.6534	65.34
2063/64	230487	327271	0.7042	70.42
2064/65	325588	438423	0.7426	74.26

v) Priority Sectors to Total Loan & Advances

Fiscal Year	Priority Sectors	Total Loan & Advances	Ratio	(In '000) Ratio in %
2060/61	115749	120763	0.9584	95.84
2061/62	132984	148290	0.8967	89.67
2062/63	167751	195414	0.8584	85.84
2063/64	140622	230487	0.6101	61.01
2064/65	223919	325588	0.6877	68.77

vi) Priority Sectors to Total Deposit

Fiscal Year	Priority Sectors	Total Deposit	Ratio	(In '000) Ratio in %
2060/61	115749	134937	0.8578	85.78
2061/62	132984	205605	0.6467	64.67
2062/63	167751	264452	0.6343	63.43
2063/64	140622	282236	0.4982	49.82
2064/65	223919	392113	0.5710	57.10

vii) Performing Assets to Non- Performing Assets

Fiscal Year	Performing Assets	Non- Performing Assets	Ratio	(Rs. In '000) Ratio in %
2060/61	114346	6417	17.8192	1781.92
2061/62	139005	9284	14.9725	1497.25
2062/63	182848	12567	14.5498	1454.98
2063/64	212669	17818	11.9356	1193.56
2064/65	309674	15914	19.4592	1945.92

Appendix-XIV

Research Questions

Questionnaire to Loan Paying Clients of Narayani Development Bank Ltd

Name:

Age:

Sex:

Address:

Occupation:

Please tick the following given answers as your thoughts.

1. Did you hear about NDB before taking the loan?
a. Yes b. No c. No Idea
2. What do you think the lending policy of NDB, is it correct?
a. Yes b. No c. No Idea
3. Is the lending policy of this bank is easy?
a. Yes b. No c. No Idea
4. Do you think the loan raises your personal economic status after taking the loan?
a. Yes b. No c. No Idea
5. Do you think the present charged interest rate on loan in NDB is appropriate?
a. Yes b. No c. No Idea
6. Do you know about the rebate and other discount process on loan in NDB?
a. Yes b. No c. No Idea
7. Is the service charge taken while taking the loan is relevant?
a. Yes b. No c. No Idea
8. Have you used whole amount of loan taken on your purpose for which loan has been taken?
a. Yes b. No c. No Idea
9. Is the loan repayment process is tough?
a. Yes b. No c. No Idea

10. Do you get the repayment schedule?
a. Yes b. No c. No Idea
11. Are you happy with the lending process of NDB?
a. Yes b. No c. No Idea
12. Is NDB more preferable in compared to other banks?
a. Yes b. No c. No Idea
13. Are you satisfied from the behaviors of employee of NDB?
a. Yes b. No c. No Idea
14. Does this bank verify your property as collateral?
a. Yes b. No c. No Idea
15. Do you like to continue the transactions with NDB on future?
a. Yes b. No c. No Idea