A Comparative Study on Loan Management:

With reference to Agricultural development bank ltd And

Rastriya banijya bank limited

A Dissertation Report submitted for impartial fulfillment of the requirement for the award of the for 55th PGDCBM Course at VAMNICOM , PUNE

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Executive Summary

Title :- A comparative study on loan management : With reference to Agricultural development bank ltd And Rastriya banijya bank limited

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Banking plays a significant role to the development of national economy. Bank is a financial institution, which primary deals in borrowing and lending. Modern bank perform many other varieties of function. Therefore, it is difficult to define the functions of a modern bank because of their complexity and precision in operation.

Economic development is the foundation development of any country. Economic development is supported by the financial infrastructure of that country. Financial institution constitutes an important part of the financial infrastructure. A sound banking system mobilizes the small and scattered savings of the community, and makes them available for investment in productive enterprises, which finally leads to national development of the country. Bank pools the fund through deposit and mobilize them to productive sector in the form of loans and advances. Bank is the financial institution which deals with money by accepting various types of deposits, disbursing loan and rendering various types of financial services. It is the intermediary between the deficit and surplus of financial sources. The concept of the banking has been developed from the ancient history with the effort of ancient goldsmiths who developed the practice of storing people's gold and valuables under such arrangement the depositors would leave their gold for safekeeping would get back their gold and valuable after paying a small amount as fee for safe keeping and serving.

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ABBREVIATIONS

A.D.	-	Anno Domini
ADBL	-	Agricultural Development Bank Limited
ATM	-	Automatic Trailer Machine
B. S.	-	Bikram Sambat (Abbreviation of Bikram Era)
CB_s	-	Commercial Banks
Co.	-	Company
CV	-	Coefficient of Variation
EBL	-	Everest Bank Limited
ed.	-	Edition
EPS	-	Earning Per Share
eqn	-	Equation
F/Y	-	Fiscal Year
GDP	-	Gross Domestic Product
i.e.	-	That is
Kath	-	Kathmandu
Ltd.	-	Limited
Mgmt	-	Management
NBL	-	Nepal Bank Limited
NCC	-	Nepal Credit and Commerce Bank
NHMF	-	Nepal Housing and Merchant Finance Limited
NIBL	-	Nepal Investment Bank Limited
NIDC	-	Nepal Industrial Development Corporation
No.	-	Number

NPA - Non Performing Assets

NPL - Non Performing Loan

NRB - Nepal Rastra Bank

NSBIBL - Nepal SBI Bank Ltd

Prof. - Professor

Pvt - Private

RBBL - Rasttriya Banijya Bank Limited

ROA - Retuen on Assets

ROE - Retuen on Equity

SEBON - Security Board Nepal

T.U. - Tribhuvan University

Vol. - Volume

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

A bank is financial institution, which deals with money and credit. It accepts deposits from the public and mobilizes the fund to productive sectors. Banking sector is the most vibrant part of economy which has been playing very vital role in mobilizing the financial resources from the saver to users and get economic growth and prosperity of nation. Bank accepts the deposits from unproductive sectors and channelizes them into the productive sector. It is the backbone of trade, commerce and industry. It makes the smooth flow of funds in the circulation body of the economy. It makes various functions like assets and liabilities transformation, security trading, agency functions, and economies of scale, corporate social responsibilities, and other day to day banking functions.

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Economic development is the foundation development of any country. Economic development is supported by the financial infrastructure of that country. Financial institution constitutes an important part of the financial infrastructure. A sound banking system mobilizes the small and scattered savings of the community, and makes them available for investment in productive enterprises, which finally leads to national development of the country. Bank pools the fund through deposit and mobilize them to productive sector in the form of loans and advances. Bank is the financial institution which deals with money by accepting various types of deposits, disbursing loan and rendering various types of financial services. It is the intermediary between the deficit and surplus of financial sources. The concept of the banking has been developed from the ancient history with the effort of ancient goldsmiths who developed the practice of storing people's gold and valuables under such arrangement the depositors would leave their gold for safekeeping would get back their gold and valuable after paying a small amount as fee for safekeeping and serving.

The role of money in an economy is very important. Proper and well planned total financial sector and the performance of financial sector affect the growth of economy. Hence, Money is the topic to manage and banks are the manager. The existence of a bank is for the change in every aspect of human being and its presence is for the upliftment of people. Banks are the back bone of the economy.

The loan policy of the firm provides the framework to determine whether or not to extend loan and how much loan to extend. The loan policy decision of a bank has two broad dimensions; loan standard and loan analysis. A firm has to establish and use standards in making loan decision, develop appropriate sources of loan information and methods of loan analysis.

Loan management strongly recommends analyzing and managing the loan risks. Loan risk is defined as the possibility that a borrower will fail to meet its obligations in accordance with the agreed terms and conditions. Loan risk is not restricted to lending activities only but includes off balance sheet and inters bank exposures. The goal of the loan risk management is to maximize a bank's risk adjusted rate of return by maintaining the loan risk exposure within acceptable parameters. For most banks, loan is the largest and most obvious source of loan risk, however other sources of loan risk exist throughout the activities of a bank, including in the banking book and in the trading book and both on and off balance sheet. Banks are increasingly facing loan risk in various financial instruments other than land including acceptances; inter-bank transactions, trade financing, foreign exchange transactions, guarantees and the settlement of transactions.

Loan is regarded as the most income generating asset especially in commercial banks. Loan is regarded as the heart of the commercial banks in the sense that; it occupies large volume of transactions; it covers the main part of investment; most of the investment activities are based on loan; it is the main factor for profitability; it is the main source of creating profitability; it determines the profitability. It affects the overall economy of the country. In today's context, it also effects on national economy to some extent. If the bank provides loan to retailer, it will encourage the customer status. Similarly, if loan facility provided to trade & industry, the government will get tax from them and help to stimulate national economy. It is the security against depositors. It is proved from very beginning that loan is the shareholder's wealth maximization derivative. However, other factors can also affect profitability and wealth maximization but the most effective factor is regarded as loan. It is the most challenging job because it is backbone in commercial banks. Thus, effective management of loan should seriously be considered.

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1.1.1 **Introduction of overall Bank and Financial Institution**

There are four categories of banks and financial institutions in Nepal which are **Class 'A', Class 'B', Class 'C' and Class 'D' institutions**. Class 'A' refers to commercial banks, Class 'B' refers to Development Banks, Class 'C' refers to Finance Companies and Class 'D' refers to Micro Finance Companies Altogether **27 commercial banks, 17 development banks, 17 finance companies, and 67 microfinance** are currently operating (as of Mid-Jan 2022) in Nepal. Several development banks and finance companies have entered into a merger/acquisition agreement with commercial banks.

Agricultural Development Bank Limited (ADBL)

With the main objective of providing institutional credit for enhancing the production and productivity of the agricultural sector in the country, the **Agricultural Development Bank, Nepal** was established in 1968 under the ADBN Act 1967, as successor to the cooperative Bank. The Land Reform Savings Corporation was merged with ADBN in 1973. Subsequent amendments to the Act empowered the bank to extend credit to small farmers under group liability and expand the scope of financing to promote cottage industries. The amendments also permitted the bank to engage in commercial banking activities for the mobilization of domestic resources.

The bank worked as a premier rural credit institution since its establishment, contributing substantial agricultural credit supply in the country. Rural finance has been the principal operational area of ADBN in the past. However, the bank is also involved in commercial banking operations since 1984, to provide commercial banking services. The bank has **51% share of Government of Nepal and 49% of general public.** Most of its shareholders are customers and employees.

The enactment of Banks and Financial Institutions Act (BAFIA) took all the banks and financial institutions (BFIs) under its umbrella and abolished all the acts related to the BFIs including the ADBN Act, 1967. Since then, the bank has been working as a public limited company registered under the Companies Act, 2006 and is licensed as "A class financial institution" by Nepal Rastra Bank from 2006.

Having glorious history of more than 52 years, the bank is one of the leading commercial banks of the country. With its investment in agriculture, industry, trade, commerce and households, the bank has above 1.2 million happily satisfied customers. Just like its slogan "*Sampurna Banking SuvidhasahitkoTapaiHamroGharAanganko Bank"* (*The bank with complete banking solution at your own door step*), it is spread all over the 7 provinces & 77 districts of the nation with its 278 offices. While providing comprehensive services with complete banking solution, the bank has main motto of promoting rural agriculture, productive and deprived sectors. The bank is committed to provide best banking services through its widespread network and help the government from its part, to achieve the aim of **"Prosperous Nepal, Happy Nepali"**.

RastriyaBanijya Bank Limited (RBBL)

RastriyaBanijya Bank Limited (RBBL) has a history of serving its customers far and wide across the nation for more than half a century. The bank then fully owned by Government of Nepal, was established on 10 Magh 2022 (23 January 1966) under the special statute "RastriyaBanijya Bank Act, 2021" and had operated under "Commercial Bank Act,2031" until it was re-registered as public limited company on 6 Baishak 2063 (19 May 2006). At present, the Bank operates as "A" class financial institution licensed by Nepal Rastra Bank and carries out commercial banking activities as per the provisions of the "Bank and Financial institutions Act 2073,". (2017).

RBBL endured many stressful years of business and faced existential questions at some point of time in the past. But learning the lessons from the events and craving towards the brighter future, the Bank successfully implemented a restructuring plan; and now it stands as one of the most preferred bank with the highest number of customers all 77 districts and 7 provinces of the country. The Bank has been able to imprint its presence in national economy through efficient allocation of resources in all sectors of economy thereby enhancing production and generating employment opportunities within the country. The unflinching faith and goodwill bestowed by our customers continued support from the Government, well wishers and general public has been the reason for us to stand as the most trusted bank in the country.

1.2 Statement of the Problem

Commercial bank and financial institutions in Nepal have been facing several problems like of smooth functioning of its everyday activities by adopting Nepal Rastra bank guidelines. Another problem is the banks are in constant pressure to increase their investment in priority sector on one hand and on the other hand they are burdened with increasing volume of non-performing assets. Assets are the most critical factor in determining the strength of any bank. The primary factors that can be considered are the quality of the loan portfolio, mix of risk assets and the credit administration system. The lower NPL ratio indicates better risk assessment and robust credit management system are in place and vice-versa. At the same time higher loan loss provisions indicate poor credit management; it also indicates adequate reserve for possible loan loss, protecting the balance sheets of respective banks.

The numbers of commercial banks and other financial institutions are increasing in recent time. Number of commercial banks, in long run can survive without implementing effective lending policy and practices. Commercial banks in Nepal have been facing various challenges and problems. Some of them are arising due to the economic condition of the country, some of them arising due to the confused policy of government and many of them arising due to the default of borrowers. After liberalization in economy in banking sector, there are various opportunities. In banking sector volume of deposit and loan are increasing. Now, due to high competition among the banks, interest rate in savings as well as in loan is in decreasing trend. Non-performing assets have become a large problem to the commercial government own banks. Due to NRB rules, commercial banks have to keep certain percent of profit for provision on bad loan and non-performing assets. Due to high provision and economic condition of country, banks are not able to get high profits.

The mushrooming of banking and being finance companies and about a dozen of rural banks and cooperative societies in a short span of time has brought new competitive scenario and has faced a challenge to the previously monopolistic banks that were making attractive profit. In the changed scenario, these banks need to explore their strengths and weakness, and improper their performance because their success depend upon their ability to their productivity and financial preference.

Thus the study aims to answering following problems and has tried to analyze, how the banks are performing in credit sector and how they stand in comparison to one another:

- How do Agricultural Development Bank Limited and RastriyaBanijya Bank Limited manage its loan?
- What are the impact of deposit on lending of Agricultural Development Bank Limited and RastriyaBanijya Bank Limited?
- Is there any relationship between loan position and profitability situation?

1.3 Objectives of the Study

The primary objective of the study is to analyze loan management of Agricultural Development Bank Limited and Rastriya Banijya Bank Limited. The specifics objectives of the present study are listed down as follows:

- To assess the impact of deposit on lending (loan and advances) of Agricultural Development Bank Limited and Rastriya Banijya Bank Limited.
- To analyze the lending portfolio of Agricultural Development Bank Limited and RastriyaBanijya Bank Limited.
- To analyze the relationship between loan position and profitability situation.

1.4 Significance of the Study

There are 27 commercial banks functioning in our country at present but there are only few researches in credit practices of partially and fully government own commercial banks in Nepal. Loan practices are one of the main functions of commercial banks where the whole banking business is rested upon. Thus the study on two commercial government own banks and especially in their loan practices and policies carry a great significance to the government of Nepal, to other stakeholder, to the banking professionals, to deprived sector financing, to the students who want to know about credit practice of public own commercial banks. This study has proposed to measure the efficiency of proposed banks in their loan practices. This study adds new idea and findings about concerned government own commercial banks. So the study is expected to fill the research gap and add to the input to financial literature relating to loan practice.

1.5. Limitations of the Study

The study has been conducted with certain limitations. The time is the one factor of limitations. Besides it, the scope of the study is limited within the bank. Some more limitations are follows:

- The study mainly concentrates only on the loan management of Agricultural Development Bank Limited (ADBL) and RastriyaBanijya Bank Limited(RBBL).
- The study, lack of the sufficient time resources are the major limitations therefore the study has been conducted as partial fulfillment of the requirement for the the award of the for 55th PGDCBM Course.
- The study period will be covered by only five fiscal years i.e. from 2073/74-2077/78.
- The study mainly based on secondary data collected from different sources.
- The study deals with only two commercial banks and data related to other commercial banks have not been accounted.

- The study has been carried out based on the published financial documents such as balance sheets, Profit and loss accounts, related journals, magazines and brochures. These published documents have their own limitations.

1.6. Organization of the Study

To make research work better, it is essential to organize the whole things and divide the work as related chapter. So this thesis is organized in the following sequences. First chapter includes background of the study, size of study, statement of problem, objectives of study and limitation of study. In second chapter, review of literature is broadly divided into many parts which include the issue related to the study which are already published such as in articles, journals, unpublished thesis etc. Third chapter covers the methods to be used in analysis of collected data or tools and techniques required to analyze and present the collected data. Fourth chapter deals with systematic presentation and analysis of data where various financial and statistical tools and techniques are used to analyzed and interpret the collected data. It also includes the main findings based upon analysis. Finally, in fifth chapter, whole study is summarized, in recommendation, statement suggestion and problem solving suggestion are included and summary and conclusion are drawn on the basis of the findings. Bibliography and other appendixes used in analysis of data have been attached at the end of the study

CHAPTER II

REVIEW OF LITERATURE

Review of literature is a compilation of theoretical review and the review of the thesis/ dissertation carried out in the similar field. Literature here means the related printing materials about the subject matter of the research work. It may be in various forms like book, booklet, thesis reports etc. review of literature is vital while doing research work as it gives the finding of the previous study. It can be used as a secondary data, and it gives the valuable information about the subject. This chapter aims to gives a conceptual framework and makes a review of the relevant studies that have already been done in this research topic so that some new contributions could be given to the established body of knowledge.

2.1 Conceptual Review

It consists of review of textbooks and other reference material such as newspaper, journals, magazines etc.

“Banking is the business of collecting and safeguarding money as deposits and lending of same. The banker’s business is then to take the debt of other people to offer his own in exchange and thereby to create money. He may be a dealer in debts, but in distress is only the observe of wealth and it would be equally permissible to describe the banker as a liquefies of wealth.”(Geoffery , 1945: 81)

A frequently neglected but increasingly of the total marketing package is the role of the provision of credit. Credit policy is sometimes, omitted entirely from an analysis of marketing mix by academics. This is despite empirical findings that although the credit package is unlikely to be the primary factor in determining overall patronage success. It may serve to clinch a contract when suppliers’ offerings are otherwise equally attractive.

The study seeks first and like some other to examine the relative importance of credit policy in marketing decisions and, seconds, to assess the case for differentiating credit packages. It is also presented the result of an empirical survey into the credit policies pursued. In concept, the empirical study is similar to earlier studies.

The credit policy cannot be sound unless it is based on a clear knowledge of the cost of credit. The cost is determined by the quantity of credit sales, the average collection period and the opportunity cost of capital. Whilst a marginal costing approach should be used which takes only incremental cost into account, the full opportunity cost has to be considered. The overall cost of credit will also be affected by the expected rate of inflation. Foreign accurate assessment of the cost of capital, a discounting approach should be used. A credit package can be differentiated in various ways; by duration, by interest charge, and by the interaction with the rest of the pricing mix.

A commercial Bank is business organization that receives and holds deposits of fund from others makes loans or extends credits and transfers funds by written order of deposits.

Commercial Bank is a corporation, which accepts demand deposits subject to check and makes shorts-term loans to business enterprises, regardless of the scope of its other services.

A commercial banker is a dealer in money and substitute for money such as cheques or bill of exchange. He also provides a variety of financial services.

Financial activities are necessary for the economic development of the country and commercial banking in this context is the heart of financial system. Optimal investment decision plays a vital role in each and every organization. But especially for the commercial bank and other financial institutions the sound knowledge of investment is the most because this subject is relevant for all surrounding that mobilize funds in different sectors in view of return.

As it is concerned to the commercial banks and other financial institution, they must mobilize (i.e., investment in different sectors) their collections (deposits) and other funds towards the profitable, secured and marketable sectors so that they will be in profit. For this purpose, these banks and financial institutions should gather the sufficient information about the firm (client) to which supposed to be invested, this information include as financial background, nature of business as well as its ability to pay the loan back. This all information should be gathered from the viewpoint of security.

The income and profit of the bank depend upon the lending procedure applied by the bank. And, lending policy and investment in different securities also affect the income and profit. In the investment procedures and policies is always taken in mind that “the greater the credit created by the bank, the higher will be the profitability". A sound lending and investment policy is not only prerequisite for bank’s profitability but also crucially significant for the promotion of commercial savings of a developing country like Nepal.

The sound policies help commercial banks maximize quality and quantity of investment and thereby, achieve the own objective of profit maximization and social welfare. Formulation of sound investment policies and coordinated and planned efforts pushes forward the forces of economic growth.

Commercial banks as financial institutions perform a number of internal functions. Among them, providing credit is considered as most important one. "Commercial banks bring into being the most important ingredient of the money supply, demand deposit through the creation of credit in the form of loan and investment."

The review of textbooks and other reference materials such as Newspapers, Magazines, Research Articles, Journals and past Thesis have been included in this topic.

For most banks, loans account for half or more of their total assets and about half to two-third of their revenues. Moreover, risk in banking tends to be concentrated in the loan portfolio. When a bank gets into serious financial trouble, its problems usually spring from loans that have become uncollectible due to mismanagement, illegal manipulation of loans, misguided lending policies, or an unexpected economic downturn. No wonder, then, when examiners appear at a bank they make a thorough review of the bank's loan portfolio. Usually this involves a detailed analysis of the documentation and collateral for the largest loans, a review of a sample of small loans, and an evaluation of the bank's loan policy to ensure that it is sound and prudent in order to protect the public's funds (Rose: 2002:517).

Loan administration involves the creation and management of risky assets. The process of lending takes into consideration the people and system required for the evaluation and approval of loan requests, negotiation of terms, documentation, disbursement, administration of outstanding loans and workouts, knowledge of the process and awareness of its strength and weakness are important in setting objectives and goals for lending activities and for allocating available funds to various lending functions such as commercial, installment and mortgage portfolios.

The central focus of commercial banking concerns the acquisition and servicing of loans. A bank mobilizes deposits and lends to businesses. Banks lend or invest up to 75 – 80% of their deposits. Indeed, commercial banks are the primary, if not only, source of loans for smallest and medium-sized business firms and provide vital service to business organizations and to the community as a source of loans. Banks also have a responsibility to those depositors who have entrusted their funds for safekeeping. Banks also have responsibility to those who have provided debt and equity capital; thus banks are expected to operate profitably. It is through returns to equity holders in the form of dividends and through retained earnings that banks are enabled to continue in operation and to grow along with the communities they serve. Accordingly, the well managed bank must institute loan policies designed to ensure that adequate control exists in the approval and disbursement of loans and that outstanding loan are monitored so as to ensure compliance with terms of the loan and ultimate repayment of principal and interest.

The business mainly borrows from the bank to acquire/create assets, to meet cash flow gap, to optimize return on shareholders' capital and to manage tax.

2.1.1 Concept of Loan

Loan is the amount that has been provided to the deficit group of the society by bank. Banking business is to accept deposit from the surplus group of the society (or from those who want less risk to their money with less return) and supply those fund to the deficit group of society or to those entrepreneurs who have skill and knowledge but less financial resources to implement those viable projects. Almost all the banks have the loan as their prime assets and interest earning from the loan is the major source of income. Therefore, the management is always concerned about the quality of their loan and advances.

"A bank that cannot grant loan applications from the good customers is in serious problem, a position which every well-run bank seeks to avoid. A bank must have an active turnover of its loan in order to properly allocate its supply of loanable funds. Since long-term loans are normally repaid more slowly the short or intermediate term loans, they have limited place in the bank portfolio. This fundamental need for the loan turnover is also the basis for the banks' normal insistence or repayment plans for all loans, no matter how secured they are."(*American institute of Banking; 1973, 164)* Thus the management of funds is constantly directed towards the bank's need for liquidity, safety and income. Balancing these three goals is similar to trying to juggle three balls; it involves care, co-ordination and experience.

“An analysis of pattern of loans and advances provided by the banks in various developing countries reveals that banks have geared their loan policies to the interest of the national economy. More liberal and expansion loan policies have become a characteristic feature with them. The loan deposit ratio has soared to very high levels showing that there are arising new outlets for the employment of the resources.”*(Basu; 1974, 252)*

The primary business of commercial banking is one of collecting funds from the community and extending loan to the people for useful purpose. Commercial banks put their deposit money to work by making loans and advances, and buying bonds. “Commercial Bank is a unique financial institution and although loan practices vary widely among the individual commercial banks, their loan portfolios have several characteristics in common. Controlling the loan portfolio is a complex task because of the interaction of a variety of factors. The basic type of restrictions affecting the size and composition of the portfolio may be broken down into legal and practical.”*(American institute of Banking; 1973, 164)*

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

i. Consumer installment

ii. Residential mortgage

iii. Direct finance leasing

iv. Non- personal loan, such as loan to business, financial institution, government and their agencies.

v. Other financial arrangement that are in substance loans.

Thus the loans of commercial banks can be classified on the basis of what borrowers intend to do with the money they obtain. On this basis, there are six major classes of loans business loans, farm loans, loans for purchasing and carrying of securities, consumer loans, home mortgage loans, miscellaneous loan class including inter-bank loans, direct loans to government bodies and loans granted by banks to their own officers and employees. *(Kent; 1972, 326)* Likewise loans can also be classified ascommercial loan, consumer loan, mortgage loan *(Johnson et.al:1940:158)*

2.1.1.1 Classification of Loan

Total loan of a bank consists of hundreds of thousands of individual loan which have their own performance and inherit risk. To understand the overall performance of loan management has to segregate its total loan into different categories so that the focus should be made depending upon the classification of loan. Further loan has to classify as per the regulation of NRB so that the appropriate provision should be made to eliminate the risk to its stakeholders.

If we scrutinize the loan classification schedule of a commercial bank, we found the loan and advances and bills purchased are classified into two major categories which is performing loan and non-performing loan. To understand it in detail, we have to deal it separately.

A. Performing Loan

Performing loan are that loan which the principal is not past due for a period up to 3 months and restructured loans shall be included in this category. Earlier, restructured loan were not included in this category but the new directive issued by NRB has permitted the banks to treat restructured loans as performing loan, but the restructured loan should meet the all criteria stated in Unifies NRB Directives No-2.

B. Non Performing Loan

All loan and advances the principal of which are past due for a period of more than 3 months shall be included in this category. Non -performing loan is further categorizes into substandard, doubtful and loss. Substandard loan are those loan which are past due for period of more than 3 months or up to 6 months, doubtful are past due for a period of more than 6 months or up to 1 year and loss are past due for a period of more 1 year. Non- performing loans have negative impact in banks growth as well as in economic growth. In the one hand, it stops the interest earnings of bank and in other hand it causes the bank to make certain percent provision (for possible loss of principle) from the operating profit. Increasing non- performing loan has direct and negative impact on banks profitability. Therefore, the management should focus on quality loan.

C. Non Performing Assets:

Assets side of balance sheet consists of performing and non -performing assets. Performing assets are those assets which help the bank to generate regular income where as non-performing assets refer to that portion of bank's total assets which is not generating income to bank. Accumulated loss, non-banking assets and non-performing loan are some example of non-performing assets. Accumulated loss is the past loss from operation carried forward to balance sheet, which reduces the shareholder's equity. Non-performing loan is such loan, which fails to pay its interest to bank with in stipulated time and non-banking assets are those taken over assets which have been sold to set off the loan. Non-performing loan and non-banking assets have positive and direct relationship. The higher the non-performing assets, the lower will be the return to the organization. Therefore, the management always focuses to utilize the deployed assets in maximum and reduce the level of non-performing assets so that a sustainable income is generated.

2.1.1.2 Loan Loss Provision:

Loan and advances are the major sources of income of a bank and it is the major portion of its assets too. Therefore, management should always be conscious to maintain a high yield and low risky portfolio so that it regularly generates the income for the bank and reduces possible losses due to non-payment of principle.

Though bank tries to manage its portfolio but what a bank can do is to control/ direct internal factor regarding the loan disbursement decision. But the performance of loan largely depends upon external factor, which the bank cannot eliminate. There are number of factor which affects the performance of loan some of them are adverse economic situation, high competition, security problem, poor management, low morale of borrower, etc.

Loan loss provision is a provision made to reduce the possible loss due to non-payment of principle. NRB has made it mandatory to provide provision according to the classification of outstanding loan. By doing so, NRB has protected the interest of stakeholder. Loan loss provision is essential to analyze the performance of management in all respect.

According to NRB, all good loans should provide 1 per cent provision, restructured/ rescheduled loan should provide 25.0 per cent, doubtful loan should provide 50 per cent and bad loan should provide 100 per cent provision. The above said provision is a minimum one but management can provide provision in higher rate to strengthen the bank's position.

There is no uniform standard among the intellectuals and organizations for classifying the loans. However on the basis of aging, loans and advances should be classified into five categories which are described in the review of NRB directive. *(NRB Directive 2)*

i. Pass Loan
ii. Watch list
iii. Substandard loan
iv. Doubtful Loan
v. Bad Loan

The loans can be further classified as performing loans and non-performing loans. Performing loans includes pass loans and watchlist while non-performing loans includes substandard, doubtful and bad loans. Performing loans have multiple benefits while non-performing loans erodes even existing capital. Performing loans are those that repay the principal and interest to the bank from the cash flow it generates.

2.1.2 Review of NRB Directives

2.1.2.1 Classification of Loan

According to NRB directive no.2 on the basis of aging, loans and advances should be classified into five categories.

1. Pass loan: Loans and advances whose principal amount are not past due and has the due for a period up to 1 months should be included in this category.
2. Watch list: All the loans and advances that are past due for a period of 1 months to 3 months should be included in this category.
3. Substandard loan: All the loans and advances that are past due for a period of 3 months to 6 months should be included in this category.

4. Doubtful loan: All the loans and advances that are past due for a period of 6 months to 1 year should be included in this category.
5. Bad loan: All the loans and advances which are past due for a period of more than 1 year and which have least possibility of recovery in future should be included in this category.

2.1.2.2 Loan Loss Provision

Similarly, the commercial banks are required to maintain the loan loss provision based on the loan principal and their repayment status as per the directive (no.2) of NRB.

Table No 2.1: Loan classification according to NRB

LOAN CLASSIFICATION ON THE BASIS OF AGING	LOAN LOSS PROVISION REQUIRED (%)
PASS	1
WATCHLIST	5
SUBSTANDARD	25
DOUBTFUL	50
BAD/ LOSS	100

(*www.nrb.org.np*)

"Loan loss provision set aside for performing loan is defined as 'General loan loss provision' and loan loss provision set aside for NPL is defined as 'Specific loan loss provision' where the loan is extended only against the personal guarantee, a statement of assets, equivalent to the personal guarantee amount not claimed by any other, should be obtained be classified as per above and where loan fall under the category of pass, sub-standard and doubtful, in addition to the normal loan provision applicable for the category, an additional provision by 20% should also be provided. Classification of such loans and advances should be prepared separately."

The banks should control NPL otherwise it creates great problem for the bank. NPLs not only affect the profitability of the banks but also create negative image towards the depositors and stakeholders, which ultimately affect the operations of the bank. So in order to provide positive image towards the stakeholders and depositors, the banks have to maintain the loan loss provisioning as of the NRB directives for various types of loans.

"Non-performing loans could wreck banks profitability both through a loss of interest income and write off principal loan amount. It takes the subject of in entire starting from the stage of their identification till the recovery of dues in such account." *(Bidani, 2003:1)*

2.2. Review of Relate Studies

2.2.1 Review of Articles

Chopra **(1989)** in his article**,** "Role of foreign banks in Nepal", concluded that JV banks are already playing an increasingly dynamic and vital role in the economic development of the country. This will immediately increase with the time.

Shrestha **(1997)** in her article, "Lending operation of CB of Nepal and its impact on GDP" has presented with the objection to make an analysis of CBs lending to GDP of Nepal. She has set hypothesis that there has been positive impact of lending of CBs on the GDP. In research methodology she has considered GDP as the dependent variable and various sectors of lending viz. agriculture, industrial, commercial service and social sectors as independent variables. A multiple regression techniques have been applied to analyze the contribution. The multiple analyzes have shown that all the variables except service sector lending has positive impact on GDP. Thus in conclusion she has accepted the hypothesis i.e. there has been positive impact on GDP. At conclusion she has accepted the hypothesis i.e. there has been positive impact by lending of commercial in various sectors of the economy, except service sector investment."

Shrestha **(1998)** in his article, "A study on deposits and loans of CB in Nepal" has concluded that the commercial bank should try to give more loan entering new fields as far as possible; otherwise they might not be able to meet their total expense.

Karki**(2000)** in his article, "Nepalese financial sector: challenges and solutions" says the financial sector is facing the major challenge of NPL of the banking sector, which comes around 18% of the total loan but if the loan classification is made according to least international practice, it is assumed to exceed 30%. Loan demand is being met largely by non-institutional sources i.e. private lender, merchant, trader, individual and landlord at very high rate of interest which is 2/3 times higher than that of institutional source, this shows that the unorganized financial sector is playing a major role in the Nepalese economy. The liquidity position of the banking sector is rated as high as 24% but the productive sector of the economy is starved by the loan crunch. This has created a paradoxical situation in the banking sector.

Shrestha**(2016)** in his article,“Loan management of Nabil Bank Ltd. and Everest Bank Ltd : comparative study” has concluded that both bank have utilized most of the fund in form of credit and advance which is the major part of utilizing deposit for income generating purpose.

2.2.2 REVIEW OF THESES

Giri (2005) conducted a study on “A Study on Investment Policy of Nepal Investment Bank Ltd. In Comparison to Nepal SBI Bank Ltd.” With the objective of:

- To examine the liquidity, asset management and profitability position and investment policy of NIBL in comparison to Nepal SBI Bank Ltd.
- To study the growth ratios of loans and advances and investment to total deposit and net profit of NIBL in comparison to Nepal SBI bank ltd.
- To analyses relationship between deposit and investment, deposits and loan & advances, net profit and outside assets of Nepal Indosuez Bank Ltd. In comparison to Nepal SBI Bank Ltd.

The research findings of the study are as follows:

- Current ratios for both the banks are satisfactory.
- Although Cash reserve ratio is managed by both banks as per Nepal Rastra Bank directives, both banks have not paid sufficient insight towards cash management. Their cash reserves have fluctuated in a high degree.
- Nepal SBI Bank ltd. has increased investment in government securities where as Nepal Indosuez Bank has decreased.
- Nepal Indosuez Bank Ltd. has maintained both current ratio and cash reserve ratio better than Nepal SBI Bank Ltd. But its cash and bank balance,

investment in government securities and loan and advances in comparison to current assets are lower than that of Nepal SBI Bank Ltd.

- Deposit utilization of Nepal Investment Bank Ltd. is less effective than that of Nepal SBI Bank Ltd. Further Nepal Investment Bank Ltd. has invested lesser amount on government securities and shares and debenture than that of Nepal SBI Bank.
- Nepal Indosuez Bank Ltd. did a better performance in return on total assets and loan and advances and interest earning, but it paid lower interest amount to working fund.

Thapa(2006) in his thesis, "Investment Policy of the Joint Venture Banks in Nepal" had analyzed between investment policy and different variables like deposits, commission and discount, net profit, interest on loan and investment. He applied correlation, ratio analysis, t- test, and standard deviations.

He concluded that there is significant relationship between deposit and loan and advances as well as outside assets and net profit but not deposits and total investment in case of NABIL and other joint venture banks. Most of the joint venture banks have focused their banking services especially to big clients such as to purchase shares and debentures of other financial and non-financial companies.

Bhattarai,(2007) in his thesis paper "Liquidity and Investment Position of Joint Venture Commercial Bank in Nepal" had made an attempt to evaluate liquidity and investment of joint venture Banks special reference to Everest Bank limited and NABIL .He has conducted that liquidity position of NIBL is comparatively better than NABIL's. Growth rate of investment is higher in NIBL than NABIL. He further found the banks do not have constant and consistent liquidity and investment policy. There is no standard and uniform rate or ratio for maintaining liquid assets by the commercial banks. A commercial bank at its own judgment may decide to maintain an appropriate level of liquid assets. So he has recommended exploring such investment and to increase its investment on share and debenture and the bank should have laid down policy for timely review of portfolio and to maintain risk and return.

Khadka (2008) conducted a study on "A study on the investment policy of NABIL Bank Ltd. in Comparison to Other Joint venture banks of Nepal"The research findings of the study are as follows:

1 Liquidity position of NABIL bank Ltd. is comparatively worse than that of other JVBs. NABIL Bank has more portions of current assets as loan and advances but less portion as investment on government securities.

2 NABIL Bank Ltd. is comparatively less successful in on-balance sheet operation as well as off-balance sheet operations than that of other JVBs.

3 Profitability position of NABIL Bank Ltd. is comparatively not better than that of other JVBs. The mean ratio of return on loan and advances of NABIL bank Ltd. has been found slightly lower than that of other JVBs. Similarly, the mean ratio of total interest earned to total outside assets of NABIL bank Ltd. has been found slightly lower than that of other JVBs.

4 Though NABIL Bank Ltd. seems to be more successful to increase its sources of funds as well as mobilization of it by increasing loan and advances and total investment, it seems to be failure to maintain its high growth rate of profit in comparison to that of other JVBs (i.e. Nepal Grindlays Bank Ltd. and Nepal Indo Suez bank ltd.).

5 There is significant relationship between deposit and loan and advances as well as outside assets and net profit but not between total deposits and total investment in case of both NABIL bank Ltd. and other JVBs.

Shama (2009) in her thesis 'Implementation of Directives issued by Nepal Rastra Bank' with reference to the Nepal NIBL bank and Nepal Bangladesh bank limited has focused to the legal implementations of non-performing loan of commercial banks. She concluded the impact of new directives issued by NRB has a negative impact to the commercial banks. She writes the new directive compels the bank to provide additional loan loss provision for outstanding loans, which ultimately reduces the operating profits of banks. However, it strengthens the position of banks and increases the quality assets of banks.

Niva (2010) has conducted a study entitled 'A study of non-performing loan and loan loss provisioning of commercial banks' with reference to the Nabil Bank Limited, Standard Chartered Bank and Nepal Bank Limited. Her objectives are to find out the portion of no performing loan, relationship between loan loss provision and loan and advances and profitability.

She has pointed out the problems of the commercial banks as lack of smooth functioning of economy, different policies and guidelines of NRB, political instability, security problem, poor information system, over liquidity caused by the lack of good lending opportunities, increasing non-performing assets etc.

Sabenhang (2015) in her thesis ‘Credit management and its impact on profitability of joint venture bank in Nepal’ with the reference to Everest Bank Ltd, Nepal SBI Bank Ltd and Standard Chartered Bank Nepal. The research major finding are as follows:

i. Performing loans is in increasing trend which is good sign for all selected joint venture banks. But performing loans of Everest Bank is higher than SBI which is higher than Standard Chartered.

ii. Performing loan or pass loan index table it can be seen that all index are increasing but ratio of increasing SBI is much larger than other two.

iii. SBI bank able to manage its non-performing loans than other two banks. While Everest bank not able to decrease its decreased its both doubtful and loss loans but Standard Chartered Bank is not able to decreased it loss loan only.

iv. In total deposit mobilization and asset utilization aspect, Everest Bank seems stronger than other two banks thus earning more than other two banks.

v. In aspect of ROA, NSBIBL is in good position than other and on ROE also NSBIBL is in good position. Everest bank is smooth in ROA and decreasing in ROE but SCBNL has decreasing ROA and smooth ROE.

2.3 Research Gap

Previous researchers analyzed the loan management by using secondary source of information in terms of loan practices or lending practices. But actually speaking, loan portfolio management can be determined by various factors. Among of them, banking environment and management quality in terms of loan may be the strong determinant for loan management in banks. In present context, these are the heart issue in Nepalese commercial banks. The previous scholars could not submit the present facts. This study tries to define loan management by applying sense various facts and factors affecting the leading. It can be very useful or important in this area. Thus, present study may be valuable piece of research work.

CHAPTER - III

RESEARCH METHODOLOGY

Research simply means to search again and again. It is a systematic activity to achieve truth or finding solution to a problem. It is a process of a systematic and in-depth study or research of any particular topic, subject or area of investigation backed by the collection, compilation, presentation and interpretation of relevant details or data. Methodology is the research method used to test the hypothesis. So the research methodology refers to the overall research process, which a researcher conducts during his/her study. "The purpose of research is to discover answers to questions through the application of scientific procedures. The main aim of research is to find the truth which is hidden and which has not been discovered at yet." (Kothari, 1990:7)

3.1 Research Design

Research design is a plan, structure and strategy of investigation on conceived, so as to obtain answer to research questions and to control variances. (Kothari, 1993:39). Decision regarding what, where, when, how much, by what means concerning an enquiry or a research study constitute a research design. The purposed study will be carried out successfully by collection information regarding the behavior or attitude of the banks through personal interviews and written sources as well. Moreover, the study will be conducted in the light of central banks rules and regulations in the light of central banks rules and regulations that abide the commercial banks. This study follows the descriptive and analytical research design.

3.2 Population and Sample

A population in most studies consists of large group because of its large size; it is fairly difficult to collect detailed information from each member of population. Rather than collecting information from each member, a sub group is chosen which is believed to be representative of population. This sub group is called sample and the method of choosing this sub group is done by sampling. The sampling allows to researcher more time to make an intensive study of a research problem. The total commercial banks shall constitute the population of the data and six commercial banks are taken as the sample of the study.

There are 27 commercial banks operating in Nepal till this date but for the purpose of the study, all 27 CBS can't be taken because of the time and resource constraint. So, among these CBS, only two CBS are selected as a sample. The selected sample banks for analysis are as follows;

- Agricultural Development Bank Limited(ADBL)
- RastriyaBanijya Bank Limited Ltd.(RBBL)

3.3 Nature and Sources of Data

The data used in this study are secondary in nature. Published annual reports of the concerned banks are taken as basic sources of data. The data relating to financial performance are directly obtained from the concerned banks. Similarly, related books, magazines, journals, articles, reports, bulletins, data from Nepal Stock Exchange and Nepal Rastra Bank, Central Bureau of statistics, related website from internet etc. as well as other supplementary data and various economic surveys are also used. Previous related studies to the subject are also counted as source of information.

3.4 Data Collecting Procedures

Even this study is based on secondary data, adequate effort and time is given to get these essential materials, Annual reports of concerned banks, annual report of SEBON are obtained from respective offices. To some extent opinion survey or informal interview and questionnaire are conducted to obtain more information prove the reliability of the different published data. Various published data cannot be used in their original form due to poor data base. Thus for analysis purpose further these data need to be verified and simplified. Available data, information and figures are rechecked and tabulated in the analytical manner with supporting interpretations.

3.5 Tools and Techniques Employed/ Used

As mentioned above for the purpose of data analysis, various financial, accounting and statistical tools are used to make the analysis more effective, convenience, reliable and authentic. The analysis of data will be done according to the pattern of data available because of limited time and resources. Simple analytical statistical tools such as percentage, karl person's coefficient of correlation. Similarly some accounting tools such as ratio analysis and trend analysis have also been used for financial analysis.

The various tools applied in this study have been briefly presented as under.

3.5.1 Financial Tools

The measuring instrument, which can be used in financial analysis, is known as financial tools. It helps to calculate the relationship between two financial variables on ratio and percentage basis.

3.5.1.1 Ratio Analysis

Ratio analysis is a technique of analysis and interpretation of financial statement. To evaluate the performances of an organization by creating the ratios from the figure of different accounts consisting in balance sheet and income statement is known as ratio analysis. Five types of ratios have been analyzed in this study, which are related to fund mobilization of the banks. They are presented below:

A. Liquidity Ratio

Liquidity ratio measures the ability of the firm to meet its current obligations. A commercial bank must maintain its satisfactory liquidity position to meet the loan need of the community. Liquidity provides honor strength health and prosperity to an organization. It is extremely essential for an organization to meet its obligations as they become due. A firm should ensure that it has not lack of liquidity and also that it is not too much highly liquid.

i. Cash and Bank Balance to Total Deposits Ratio: - Cash and bank balance is said to be first line defense of every bank. The ratio between the cash and bank balance and total deposit measures the ability of a bank to meet the unanticipated call on all types of deposit. Higher the ratio greater will be the ability to meet the sudden demand of deposit. But every ratio is not desirable since bank has to pay interest on deposit. This also maximizes the cost of fund to the bank.

$$Cash\ and\ Bank\ Balance\ to\ Total\ Deposits\ Ratio = \frac{Cash\ and\ Bank\ Balance}{Total\ Deposits}$$

***Where**,*

Cash and bank balance is composed up of cash on hand including foreign cheques and other cash item; balance with domestic banks and aboard. Deposits include call,current, saving, fixed money at short call notice and other types of deposits.

ii. Cash and Bank Balance to Current Assets Ratio: - This ratio shows the bank's liquidity capacity on the basis of cash and bank balance that is the most liquid assets. High the ratio indicates the bank's ability to meet the daily cash requirements of their customer deposits and vice versa. But the high ratio is not preferred as the bank has to pay more interest on deposit and will increase the cost of fund. Low ratio is also very dangerous, as the bank may not be able to make the payment against the cheques presented by the customers. We have,

$$Cash\ and\ Bank\ Balance\ to\ Current\ Assets\ Ratio = \frac{Cash\ and\ Bank\ Balance}{Current\ \ Assets}$$

iii. Investment on Government Securities to Current Assets Ratio: - This ratio is used to find out the percentage of current assets invested on government securities, treasury bills and development bonds. We can find out as:

$$Inv. on\, Gvt. \sec urities\, to\, Current\ \ Asset\ Ratio = \frac{Investment\, on\, Govt.Securities}{Current\ \ Assets}$$

Where**,**

Investment on Government Securities involves treasury bills and development bonds etc.

B. Assets Management Ratio:

“A set of ratio which measure how efficiently a firm is managing its assets and whether or not the level of those assets is properly related to the level of operation. In this study this ratio is used to indicate how effectively the selected banks have arranged and invest their limited resources. The assets management ratios measure how effectively the firm is managing its assets. These ratios are designed to answer this question; does the total amount of each type of assets as reported on the balance sheet seem reasonable or not? If a firm has excessive investments in assets, then its capital cost will be unduly high and its stock price will be suffer" (Brigham, 1989:132).

i. Loan and Advances to Total Deposits Ratio: - This ratio is calculated to find out how successfully the selected banks are utilizing their collections or deposits on loan and advances for the purpose of earning profit. We have,

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

ii. Total Investment to Total Deposits Ratio: - Investment is one of the major sources of earning profit. It shows how properly firm's deposit has been invested on government securities and shares and debentures of other companies.

$$\text{Total Investment to Total Deposits Ratio} = \frac{\text{Total Investment}}{\text{Total Deposits}}$$

iii.Loan and Advances to Total Working Fund Ratio: - This ratio shows the ability of selected banks in terms of earning high profit from loan and advances. Loan and advances to working fund ratio can be calculated by dividing loan and advances amount by total working fund.

$$\text{Loan and Advances to Total Working Fund Ratio} = \frac{\text{Loan and Advance}}{\text{Total Working Fund}}$$

iv. Investment on Government Securities to Total Working Fund Ratio: - Investment on government securities to working fund ratio shows how much part of total investment is there on government securities in percentage, it is calculated for this purpose by following formula:

$$\text{Investment on Govt. Securities to TWF Ratio} = \frac{\text{Investment on Govt. Securities}}{\text{Total Working Fund}}$$

v. Investment on Shares and Debentures to Total working Fund Ratio: Investment on shares and debentures to total working fund ratio shows the investment of banks on the shares and debentures of other companies in terms of total working fund. This ratio can be obtained dividing on shares and debentures by total working fund. It is calculated as:

$$\text{Investment on Shares and debn. to TWF Ratio} = \frac{\text{Investment on Share and Debenture}}{\text{Total Working Fund}}$$

C. Profitability Ratio: - This ratio is related to profit of the banks is essential for the survival of the bank, so it is regarded as the engine that drives the banks and indicates economics progress. It calculated to measure the overall efficiency of the banks.

i. Return on Loan and Advances Ratio: - Return on loan and advances ratio shows how efficiently the banks have utilized their resources to earn good return from provided loan and advances. This ratio is computed as,

$$Return\ on\ Loan\ and\ Advances\ Ratio = \frac{Net\ \mathrm{Pr}ofit / Loss}{Loan\ and\ Advances}$$

ii. Return on Total Working Fund Ratio: - Return on total working fund ratio measures the profit earning capacity by utilizing available resources i.e. total assets. Return will be higher if the bank's working fund is well managed and efficiently utilized. Maximizing taxes, this in the legal options available will also improve the return. We have,

$$Return\ on\ Total\ Working\ Fund\ Ratio = \frac{Net\ \mathrm{Pr}ofit}{Total\ Working\ Fund}$$

iii. Total Interest Earned to Total Working Fund Ratio: - This ratio reflects the extent to which the banks are successful in mobilizing these total assets to acquire income as interest. This ratio actually reveals the earning capacity of commercial banks by mobilizing its working fund. Higher the ratio higher will be the income as interest. We have,

$$Total\ Interest\ Earned\ to\ TWF\ Ratio = \frac{Total\ Interest\ Earned}{Total\ Working\ Fund}$$

iv. Total Interest paid to Total working Fund Ratio: - This ratio measures the percentage of total interest expenses on total working fund and vice-versa. This ratio is calculated as,

$$\text{Total Interest paid to Total Working Fund Ratio} = \frac{Total\ Interest\ Paid}{Total\ Working\ Fund}$$

D. Risk Ratios: - Commonly, risk means chance or possibility of loss, uncertainty which lies in the business transaction of investment management. When a firm wants to bear risk and uncertainty, profitability and effectiveness of the firm is increased. This ratio checks the degree of risk involved in the various financial operations. For this study following risk ratios are used to analyze and interprets the financial data and investment policy.

i. Loan Risk Ratio: - Bank utilizes its collected funds in providing loan to different sectors. There is risk of default or non-repayment of loan. While making investment, bank examines the loan risk involved in the project. Generally, loan risk ratio shows proportion of non-performing assets in the total investment plus loan and advances of a bank it is computed as:

$$Loan\ Risk\ Ratio = \frac{Total\ Investment + Loan\ and\ Advances}{Total\ Assets}$$

ii. Non-Perfoming Loan to Total Loan and Advance Ratio:- This ratio determines the proportion of non-performing assets in the total loan and advance portfolio. As per NRB directives the loans falling under category of substandard, doubtful and loss are regarded as non-performing loan or assets. Higher ratio implies the bad quality of assets of banks in the form of loans and advances whereas lower ratio implies the better quality of assets in the form of loan and advances. Hence lower NPA to total loan and advance ratio is preferred.Non-Perfoming Loan to Total Loan and Advance of a bank computed as :

$$Non\text{-}Perfoming\ Loan\ to\ Total\ Loan\ and\ Advance\ Ratio = \frac{Non\ Performing\ Loan}{Total\ Loan\ and\ Advance\ Ratio}$$

E. Growth Ratio: - The growth ratio represents how well the commercial banks are maintaining their economics and financial position. Higher the ratio batter performance of the bank and vice-versa. Under this topic four types of growth ratio are studied, that are directly related to the fund mobilization of commercial banks. The following ratios are calculated by using the formula of growth rate:

i. Growth ratio of total deposits

ii. Growth ratio of total investment

iii. Growth ratio of loans and advances

iv. Growth ratio of net profit

3.5.2 Statistical Tools

Under this heading some statistical tool such as coefficient of correlation analysis between different variables, trend analysis of deposit, loan and advances, net profit and EPS are used to achieve the objective of the study.

A. Karl Pearson's Coefficient of Correlation(r)

Correlation analysis is a statistical tool use to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two sets of figures. In this study simple coefficient of correlation is used to determine the relationship of different variables. The data related to different periods are tabulated and their relationship with each other is drawn out. The value of correlation can range from -1 to +1. This tool is used for measuring the intensity or magnitude of linear relationship between two series. It measures correlation coefficient between two variables X and Y is usually denoted by "r" and can be obtained as:

$$r = \frac{n\sum XY - \sum X \sum Y}{\sqrt{\sum X^2 - (\sum X)^2}\sqrt{\sum Y^2 - (\sum Y)^2}}$$

Where,

n= number of observation in series X and Y

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

$\sum Y$= sum of observation is series Y

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

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

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

Value of 'r' lies between -1 to +1

r= +1, implies that there is a perfect positive correlation between the variables.

r= -1, implies that there is a perfect negative correlation between the variables.

r= o, means that the variables are uncorrelated.

B. Probable Error of Correlation Coefficient (PE)

Probable error of correlation coefficient tests the reliability of an observed value of correlation coefficient. It shows the extent to which correlation coefficient is dependable as it depends upon the condition of random sampling.

Probable error of correlation coefficient is denoted by PE and obtained as:

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{n}}$$

The probable error is used to test whether the calculated value of sample correlation coefficient is significant or not.

A few rules for the interpretation of the significance of correlation coefficient are as follows:

i. If r < 6 PE, then the value of r is not significant i.e. insignificant.

ii. If r > 6 PE, then r is definitely significant.

iii. In other situations, nothing can be calculated with certainty.

C. Coefficient of Determination (R^2):

The coefficient of determination is a measure of the degree of linear association or correlation between two variables one of which happens to be independent and other being dependent variable. In other words, coefficient of determination measures the percentage total variable independent variables explained by independent variables. Zero to one is the ranging measurement of this coefficient of multiple determinations. If R^2 is equal to 0.75, which indicates that total variation in the dependent variable. If the regression line is a perfect estimator R^2 will be equal to +1, when there is no correlation the value of R^2 is zero.

D. Regression

The regression is the estimation of unknown values or prediction of one variable from known values of other variables and regression analysis is a mathematical measure of an average relationship between two or more variables in terms of the original units of the data. The known value which is used for prediction is called independent variables and the unknown value is to be estimated by known value is called dependent variables. It is calculated by following formula.

Mathematically

$Y = a + bx$

Where,

Y= value of dependent variable

a= y intercept

b= slope of regression line

x= value of independent variable

E. Least Square Linear Trend

Trend analysis is a very useful and commonly applied tool to forecast the future event in quantitative term on the basis of the tendencies in the dependent variable in the past period. Straight line trend implies that irrespective of the seasonal, cyclic and irregular fluctuation the trend value increases or decreases by absolute amount per unit of time. The linear trend values form a series in arithmetic progression.

Mathematically

$Y = a+bx$

Where, Y= value of dependent variable

a= y intercept

b= slope of trend line

x= value of independent variable i.e. time

Normal equation fitting above are

$\sum Y= Na+ b\sum X$

$\sum XY = a\sum X+b\sum X^2$

Since $\sum X=0$

$a= \sum Y/N$

$b=\sum XY/\sum X^2$

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

Data presentation is the interpretation of the study. Data analysis summarizes the collected data and its interpretation presents the major findings of the study. Analysis is not complete without interpretation and interpretation cannot proceed without analysis. In this course of analysis, data gathered from. The data have been analyzed by using financial and statistical tools. The results of the computation have also been summarized in appropriated tables. The samples of computation of each model have been included in annexes. This chapter includes presentation of data and analysis of that data to reach at a conclusion.

4.1 Financial Analysis

Ratio Analysis

Ratio is the relationship between two figures. Ratios are comparison points for companies. They evaluate stocks within an industry. Likewise, they measure a company today against its historical numbers. In most cases, it is also important to understand the variables driving ratios as management has the flexibility to, at times, alter its strategy to make its stock and company ratios more attractive. Generally, ratios are typically not used in isolation but rather in combination with other ratios. They provide two important facts about the management: the return on investment and the soundness of the company's financial position. A single ratio will not depict a true picture of the unit. Hence a combination of ratios must be analyzed to drive a true picture. Ratio analysis has been already discussed in previous chapter. Here, different ratios of ADBL and RBBL will be calculated, analyzed and interpreted.

4.1.1 Assets Management Ratio

Assets management ratio measures the efficiency of the bank and finance company to manage its assets in profitable and satisfactory manner. A commercial bank must manage its assets properly to earn high profit. Under this chapter following ratio are studied:

(A) Loan and Advances to Total Deposits Ratio

The ratio measures the extent to which the banks are successful to mobilize their total deposits on loan and advances.This ratio is also called credit- deposit ratio (C D ratio).

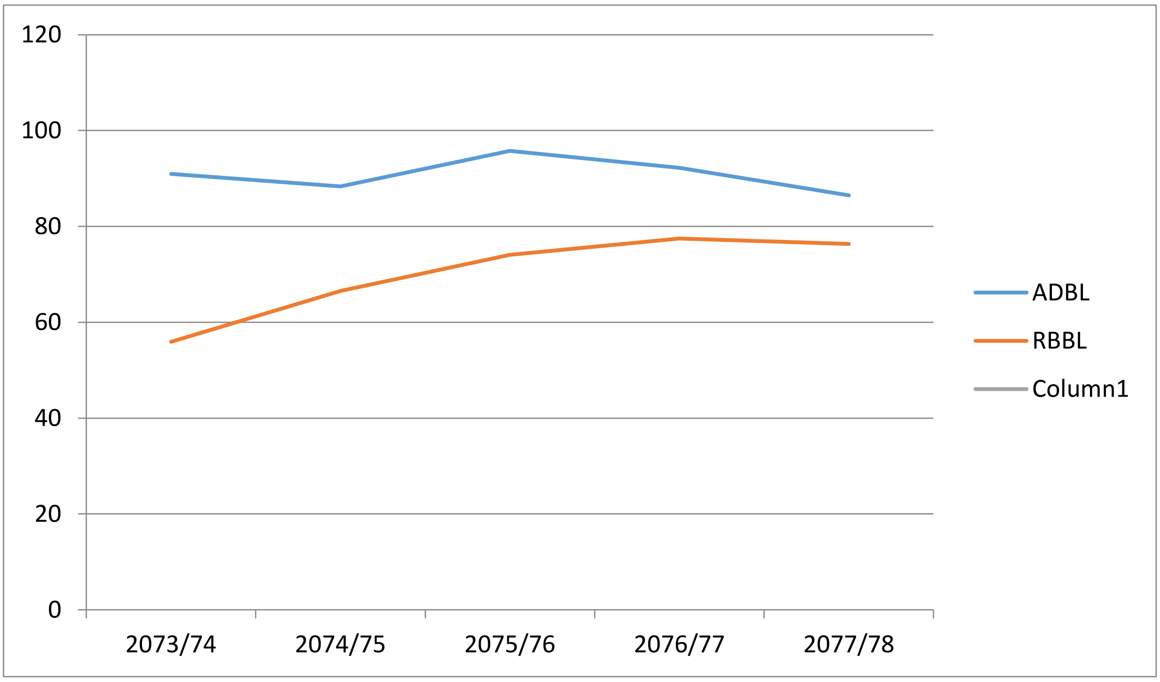
Table: 4.1

Loan and Advances to Total Deposits Ratio

Year	Ratio (%)	
	ADBL	RBBL
2073/74	90.96	55.93
2074/75	88.37	66.52
2075/76	95.77	74.04
2076/77	92.20	77.49
2077/78	86.48	76.35
Mean	**90.76**	**70.07**

(Source:- Appendix -4)

Figure: 4.1



A high ratio of loan and advances indicates better mobilization of collected deposits and vice versa. But it should be noted that too high ratio might not be better from liquidity point of view. The Table 4.1 table shows that these two Banks have mobilized their collected deposits in variable trend. In average ADBL has mobilized 90.76% of its collected deposit in loan and advances that is greater that of RBBL (70.07).

(B) Total Investment to Total Deposits Ratio

This ratio measures the extent to which the banks are able to mobilize their deposit on investment in various securities. A high ratio indicates the success in mobilizing deposit in securities and vice versa.

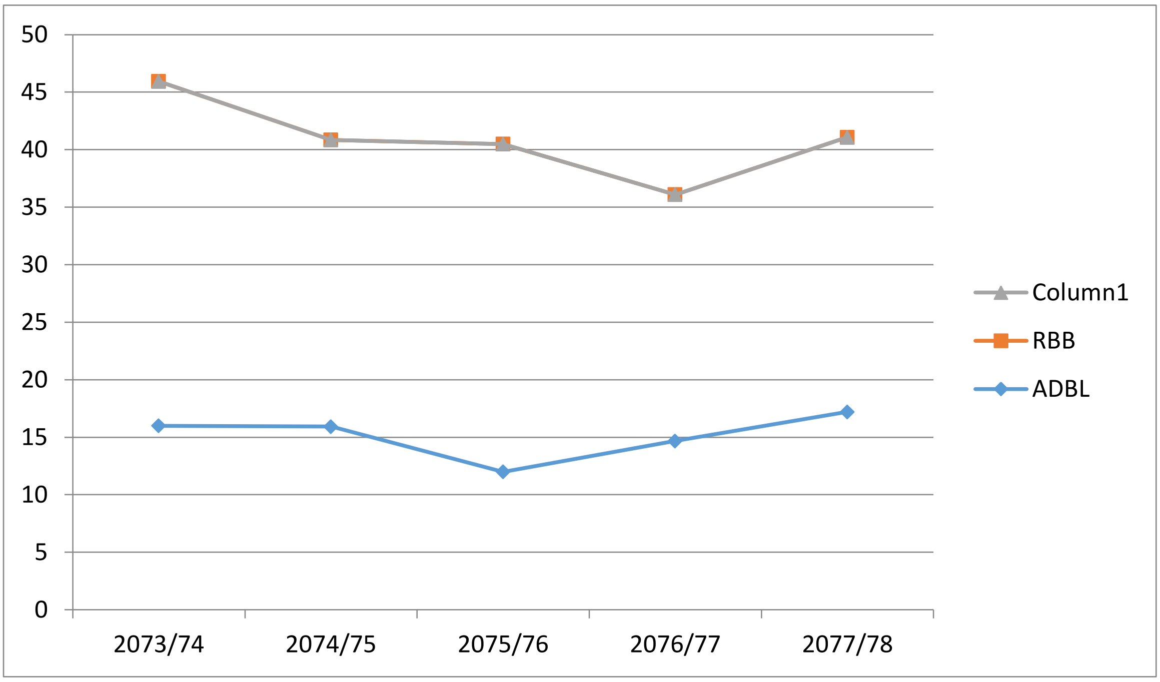
Table: 4.2

Total Investment to Total Deposits Ratio

Year	Ratio (%)	
	ADBL	**RBBL**
2073/74	16.00	29.94
2074/75	15.93	24.92
2075/76	11.99	28.49
2076/77	14.68	21.42
2077/78	17.21	23.88
Mean	**15.16**	**25.73**

(Source:- Appendix -5)

Figure: 4.2



From the table & figure 4.2, it is observed that the investment to total deposit ratio of RBBL is greater than ADBL in all over the fiscal year 73/74 to 77/78 whereas of both banks are in fluctuating trend. The mean of the ratio of ADBL and RBBL are 15.16% and 25.73% respectively so RBBL has higher ratio. It signifies RBBL has successfully allocated its deposit in investment portfolio in comparison with ADBL.

(C) Loan and Advances to Total Working Fund Ratio

This ratio reflects the extent to which the commercial banks are success in mobilizing their assets on loan and advances for the purpose of income generation. A high ratio indicates better mobilization of fund on loan and advances and vice versa.

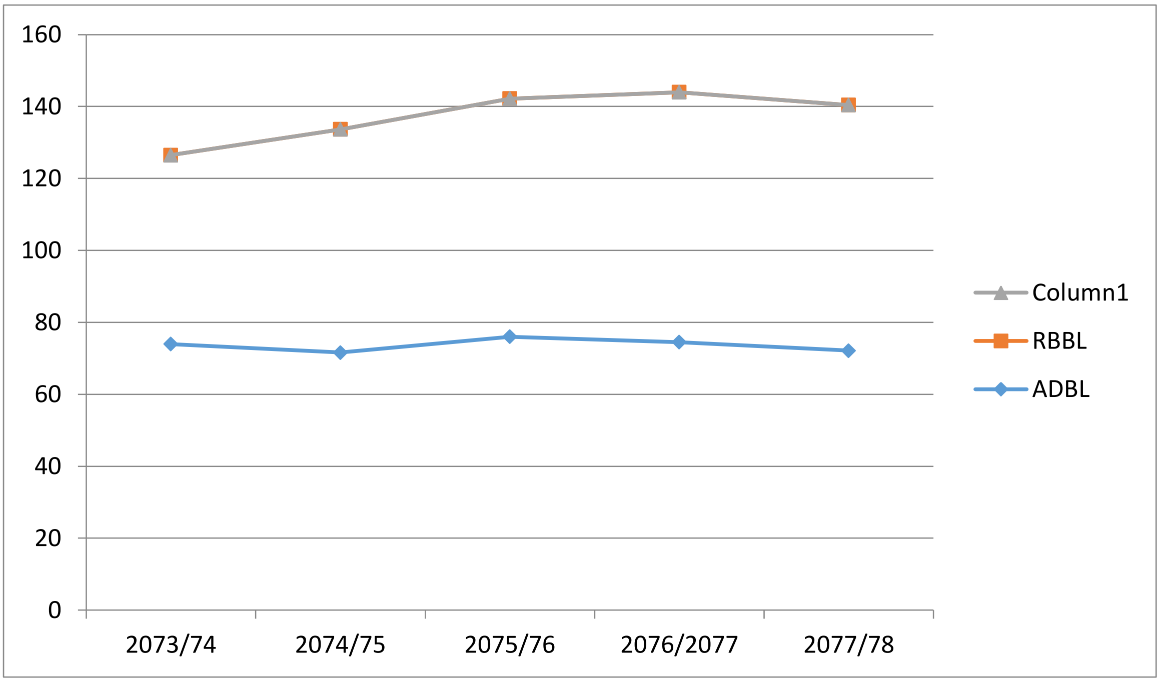
Table: 4.3

Loan and Advances to Total Working Fund Ratio

Year	Ratio (%)	
	ADBL	RBBL
2073/74	73.97	52.50
2074/75	71.60	62.04
2075/76	76.02	66.18
2076/77	74.48	69.48
2077/78	72.16	68.25
Mean	**73.65**	**63.69**

(Source: Appendix-6)

Figure: 4.3



Above table and figure 4.3 shows that loan and advances to total working fund ratio of ADBL almost stable in trend lies between 70% and 80% all over the research period whereas ratio of RBBL is in increasing trend in nature. While observing their ratios;

ADBL is better mobilizing of fund as loan and advances and it seems quite successful in generating higher ratio in 2073/74 to 2077/78 over the research period. The mean of ADBL and RBBLare 73.12% and 63.69% respectively. So ADBL has higher ratio than that of RBBL. It reveals that in total assets, ADBL has high proportion of loan and advances.

(D) Investment on Government Securities to Total Working Fund Ratio

The main purpose of this ratio is to examine that portion of banks and finance total working fund that has been invested into different government securities. Government securities have always been an ideal example of risk free security. Investment in government bonds makes a well-diversified portfolio for the investor. It mitigates the risk of the overall portfolio since government bonds are risk-free investments. The yield or interest earned on government bonds is relatively lower than other financial options. This ratio is calculated by dividing investment on government securities by total working fund.

Table: 4.4

Investment on Govt. Securities to Total Working Fund Ratio

Year	Ratio (%)	
	ADBL	RBBL
2073/74	5.87	27.07
2074/75	4.73	22.67
2075/76	6.28	24.14
2076/77	10.75	17.99
2077/78	13.45	16.93
Mean	8.22	21.76

(Source: Appendix -7)

Figure: 4.4

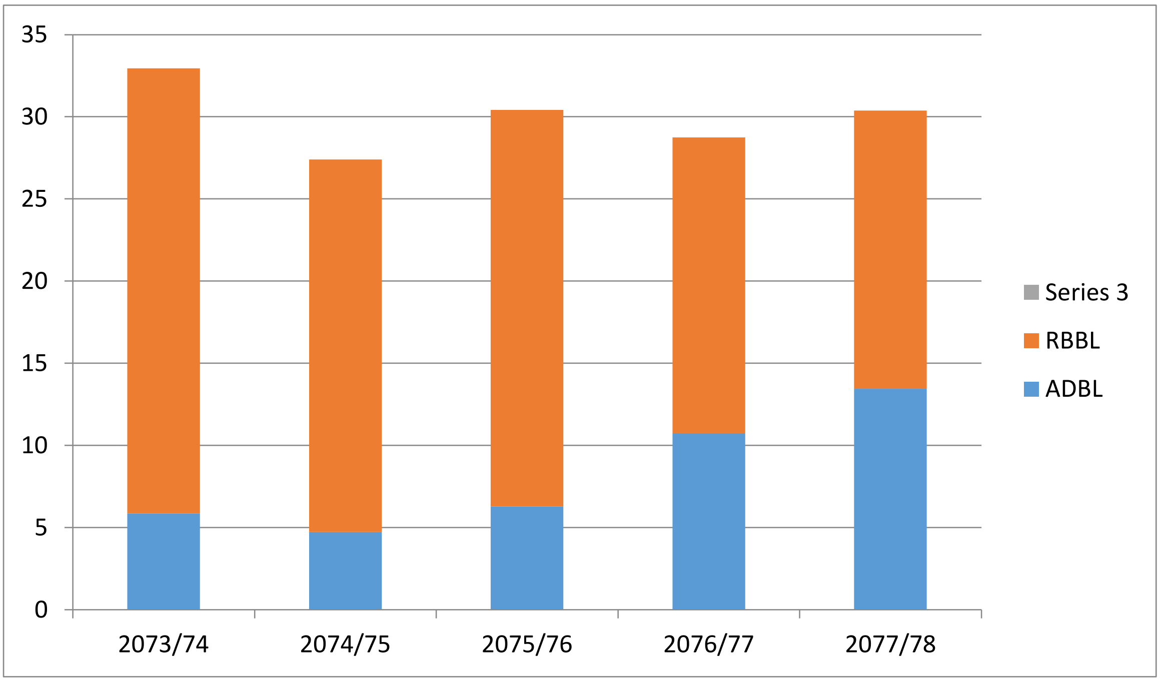


Table and figure 4.4 shows that the investment on government treasury bills to total working fund of RBBL has decreasing trend whereas ADBL has increasing in trend. The highest ratio of ADBL is 13.45% and RBBL is 27.07% in 2076/77 and 2072/73 respectively. And lowest ratio of ADBL and RBBL are 4.73% and 16.93% in 2073/74 and 2077/78respectively.

From the table 4.4 we notice that mean ratio of ADBL and RBBL is 8.22% and 21.76% respectively. RBBL has higher mean ratios. It means RBBL has invested more money in risk free assets out of its total assets than that of ADBL.

(E) Investment on Shares and Debentures to Total Working Fund Ratio

The main purpose of this ratio is to examine that portion of commercial banks and finance's total working fund that has been invested into share and debentures. A company's capital is divided into small equal units of a finite number. Each unit is known as a share. In simple terms, a share is a percentage of ownership in a company or a financial asset.This ratio is calculated by dividing investment on share and debenture by total working fund.

Table: 4.5

Investment on Shares and Debentures to Total Working Fund Ratio

Year	Ratio (%)	
	ADBL	RBBL
2073/74	0.14	0.14
2074/75	0.29	0.17
2075/76	0.32	0.22
2076/77	0.29	0.30
2077/78	0.39	0.28
Mean	**0.28**	**0.22**

(Source: Appendix -8)

Figure: 4.5

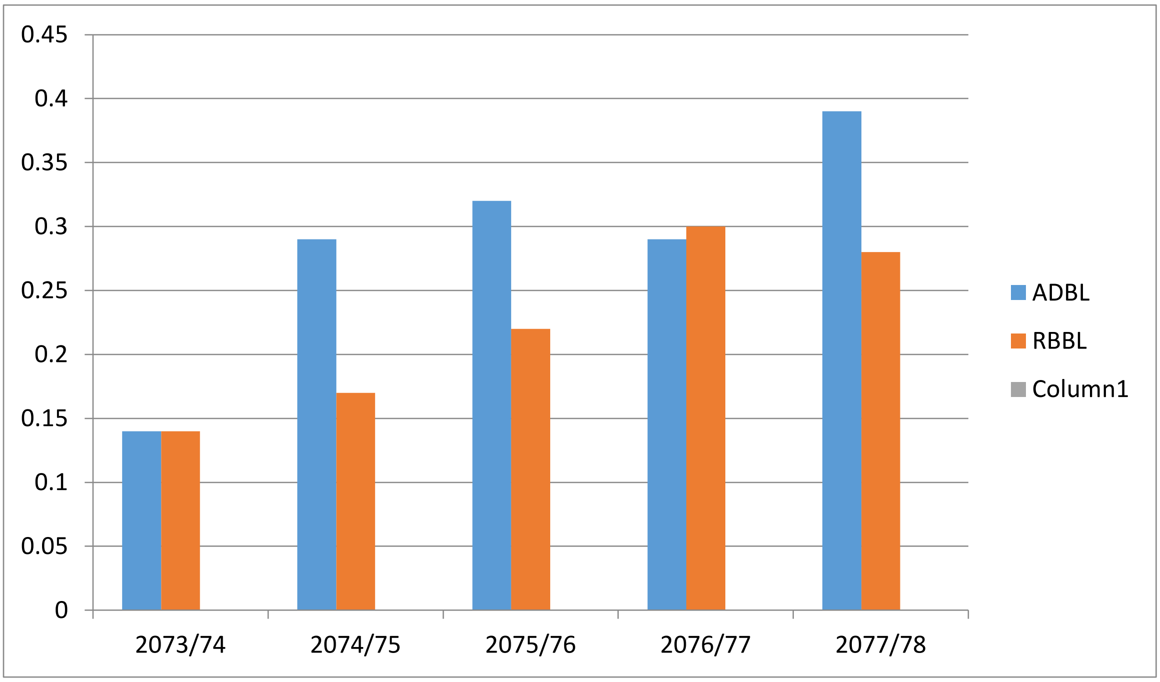


Table and figure 4.5 show that the investment on share and debenture to total working fund of ADBL and RBBL are in fluctuating trend in all over the research period. The highest ratio of ADBL is 0.39% in 2077/78 and RBBL is 0.30% in 2076/77 And the lowest ratio of ADBL and RBBL both is 0.14% in 2073/74.

From the table 4.5 we notice that mean ratio of ADBL and RBBL is 0.28% and 0.22% respectively. ADBL has higher ratio, it means ADBL has invested more money in risky assets out of its total assets than that of RBBL.

4.1.2 Profitability Ratios

(A) Return on Loan and Advances Ratio

Return on loan and advances ratio measures the earning capacity of a commercial bank on its deposit mobilized on loan and advances higher the ratio greater will be the return and vice versa.

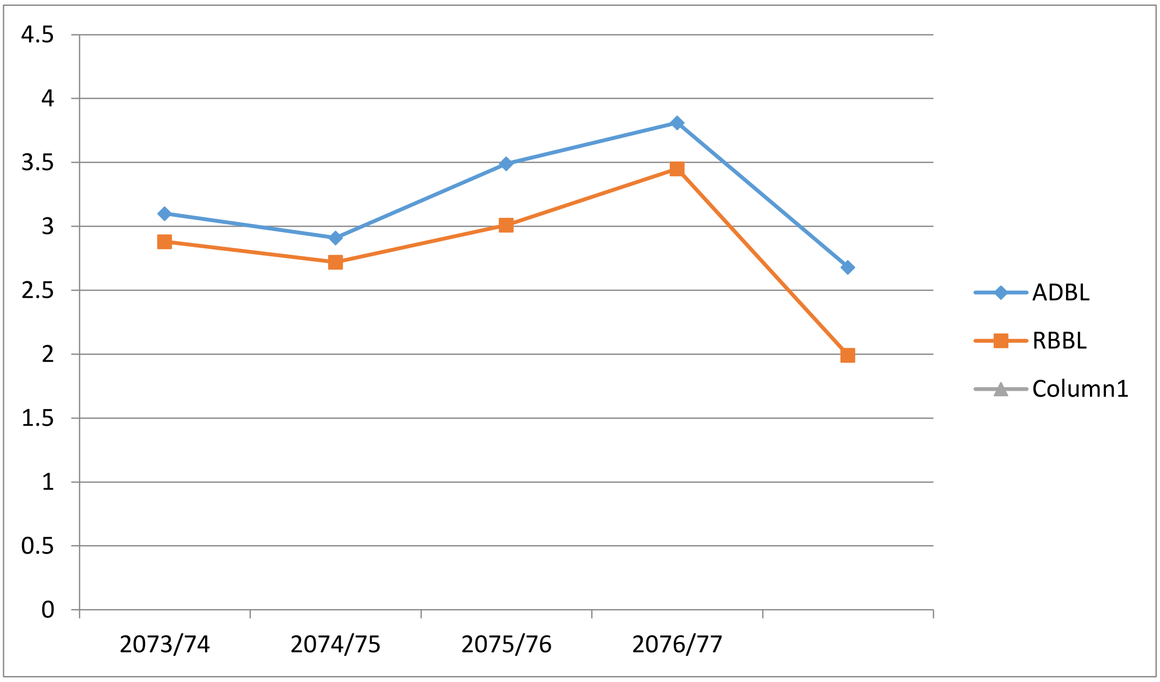
Table: 4.6

Return on Loan and Advances Ratio

Year	**Ratio (%)**	
	ADBL	**RBBL**
2073/74	3.10	2.88
2074/75	2.91	2.72
2075/76	3.49	3.01
2076/77	3.81	3.45
2077/78	2.68	1.99
Mean	**3.20**	**2.81**

(Source: Appendix-9)

Figure: 4.6



Above table and figure 4.6 shows that return on loan and advances ratio of RBBL and ADBL bothtrendis same in nature. From fiscal year 2073/734both are in decreasing after that point both are increasing up to Fiscal Year 2076/77 then after decrease. The highest ratio of ADBL and RBBL both are 3.85% and 3.45% respectively in the year 2076/77 and lowest ratio 2.73% and 1.99% respectively in year 2077/78. The mean ratio is ADBL and RBBL is 3.22% and 2.81% respectively.

From the table we notice that ADBL has slightly higher mean ratio than RBBL. So it seems successful by generating higher ratio. It can be concluded that ADBL has better utilized the loan and advance for the profit generation in comparison with RBBL.

(B) Return on Total Working Fund Ratio

Return on total working fund ratio measures the earning capacity of a commercial bank on its deposit mobilized on total working fund, higher the ratio greater will be the return and vice versa.

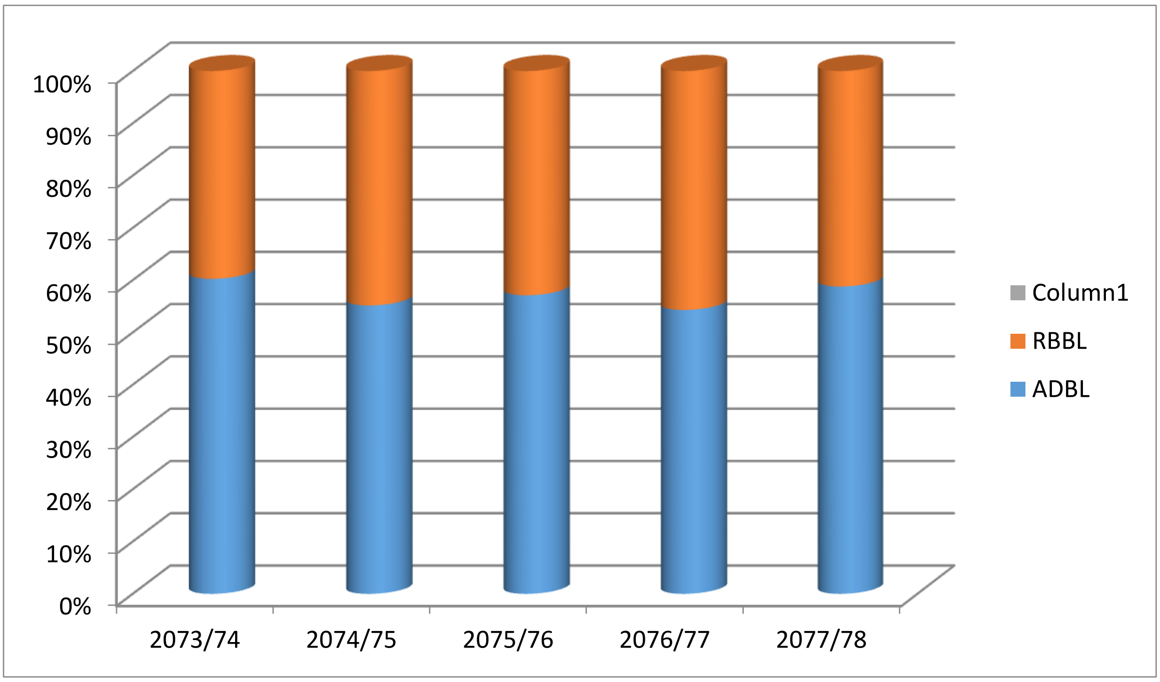
Table: 4.7

Return on Total Working Fund Ratio

Year	Ratio (%)	
	ADBL	RBBL
2073/74	2.29	1.51
2074/75	2.08	1.69
2075/76	2.65	1.99
2076/77	2.84	2.39
2077/78	1.94	1.36
Mean	**2.36**	**1.79**

(*Source: Appendix-10)*

Figure: 4.7



From the table 4.7, we notice that ROA of RBBL and ADBL is in increasing trend after fiscal year 2073/74 whereas both is decrease at year2077/78.ADBL seems successful in managing and utilizing the available assets in order to generate revenue since its ROA ratio is higher than that of ADBL (i.e. 2.36%>1.79%) of total assets in an average.

C.Total Interest Earned to Total Working Fund Ratio

This ratio actually reveals the earning capacity of commercial banks by mobilizing its working fund. Higher the ratio higher will be the income as interest.

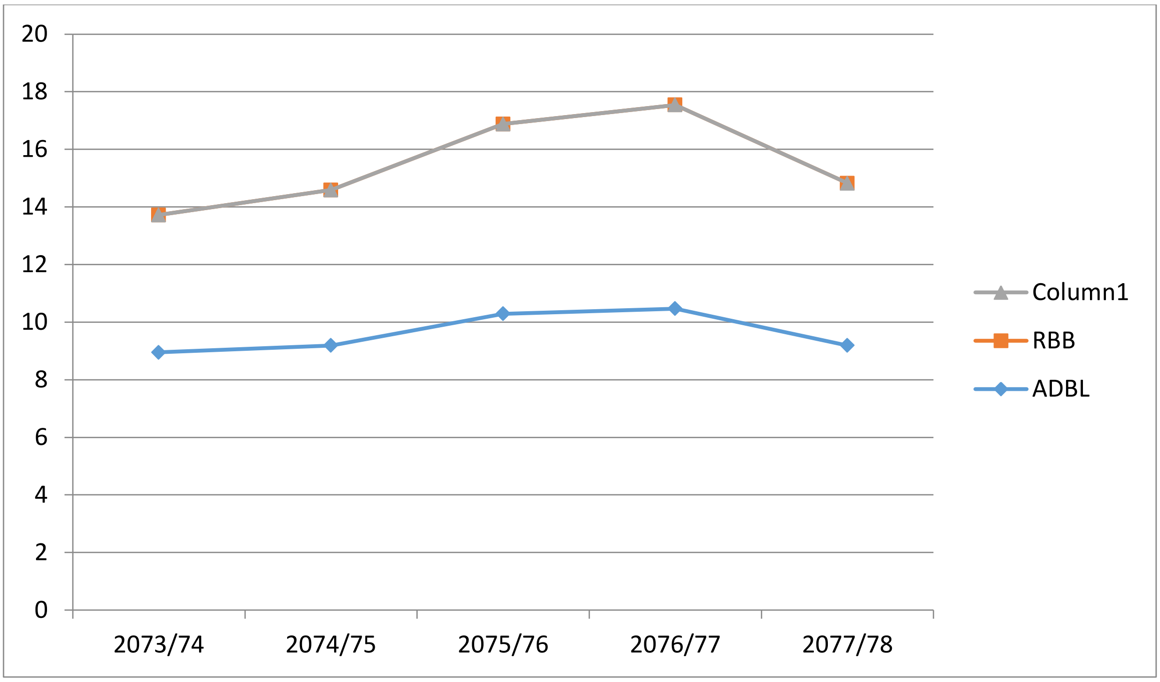
Table: 4.8

Total Interest Earned to Total Working Fund Ratio

Year	**Ratio (%)**	
	ADBL	**RBBL**
2073/74	8.95	4.77
2074/75	9.19	5.40
2075/76	10.29	6.59
2076/77	10.47	7.07
2077/78	9.19	5.63
Mean	**9.62**	**5.89**

(Source: Appendix -11)

Figure: 4.8



Above table and figure 4.8 shows that both banks have increasing trend of Total Interest Earned to Total Working Fund ratio in parallel upto Fiscal Year 2076/77 then Total Interest Earned to Total Working Fund ratio is diminished. However, ADBL seems more conscious about managing its assets in order to earn more interest ratio because it has higher ratio in each year and average ratio is also higher. ADBL has 9.62% average ratio whereas RBBL shows 5.89% average ratio. The mean ratio of ADBL is more than that of RBBL. In comparison, ADBL seems effective in earning interest to some extent although it has lower earning of interest income but it must break the decreasing trend in coming year.

(D) Total Interest paid to Total Working Fund Ratio

This ratio actually reveals the paying capacity of commercial banks by mobilizing its working fund. Higher the ratio higher will be the paying capacity of interest.

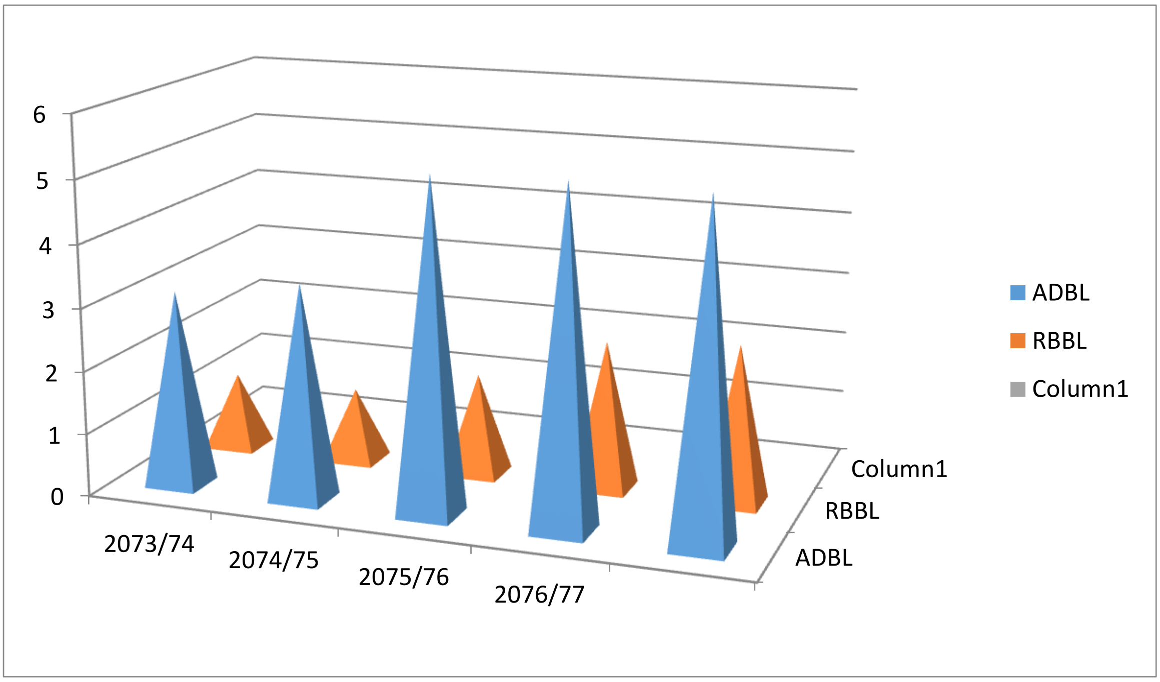
Table: 4.9

Total Interest Paid to Total Working Fund Ratio

Year	Ratio (%)	
	ADBL	RBBL
2073/74	3.12	1.20
2074/75	3.43	1.16
2075/76	5.27	1.62
2076/77	5.32	2.36
2077/78	5.29	2.52
Mean	4.49	1.77

(Source: Appendix -12)

Figure: 4.9



Above table and figure 4.9 shows that both Banks have fluctuating trend of ratio. Due to the higher means ratio of ADBL, it seems less conscious about borrowing cheaper fund.

4.1.3 Measurement of Risk

For this study, following risk ratios are used to analyze and interpret the financial data and investment policy.

A. Loan Risk Ratio

In general, loan risk ratio shows the proportion of non-performing assets in the total investment plus loan and advances of a bank.

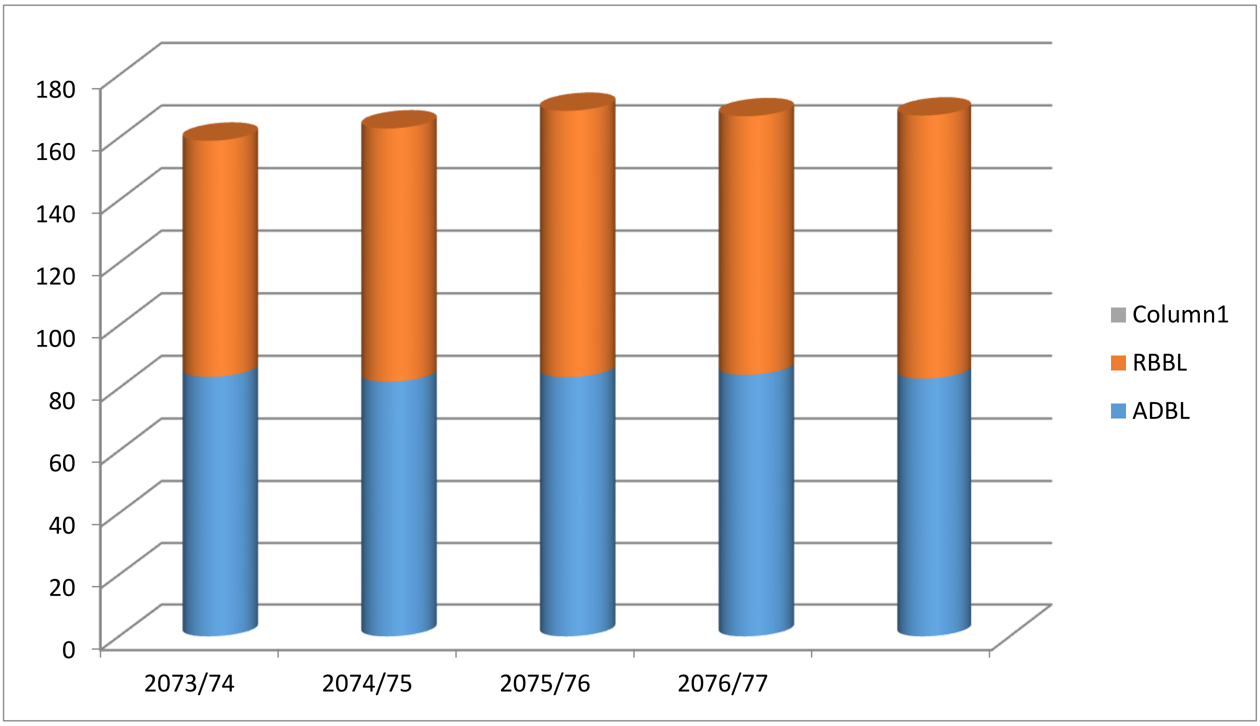
Table: 4.10

Loan Risk Ratio

Year	**Ratio (%)**	
	ADBL	**RBBL**
2073/74	83.62	75.43
2074/75	82.06	80.92
2075/76	83.52	85.07
2076/77	84.26	82.61
2077/78	83.04	84.04
Mean	**83.30**	**81.62**

(Source: Appendix-13)

Figure: 4.10



Above table 4.10 shows that ADBL and RBBL have the loan risk ratio in fluctuating trend. ADBL has highest and lowest ratio of 84.26% and 81.32% in the year 2076/77 and 2073/74 respectively. And RBBL has the highest and lowest ratio of 85.07% and 75.43% in the year 2075/756and 2074/75 respectively. The mean ratio of ADBL is higher than that of RBBL (i.e.82.67% › 80.20%).

B. Non-Performing Loans to Total Loan and Advances Ratio

NRB has directed all the commercial banks to create loan loss provision againstthe doubtful and bad debts. This ratio helps in minimizing the non- performing assets and helps to control the Credit. The net NPA to loans (advances) ratio is used as a measure of the overall quality of the bank's loan book. An NPA are those assets for which interest is overdue for more than 90 days (or 3 months). Higher ratio reflects rising bad quality of loans.

Table: 4.11

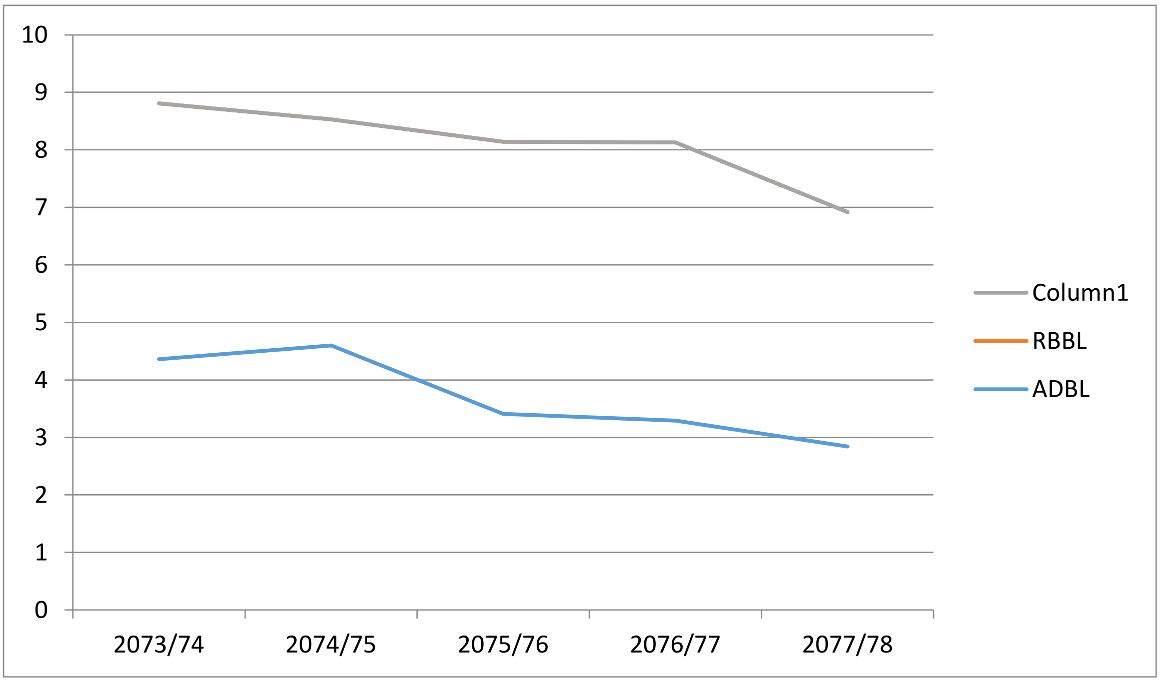
Non- Performing Loans to Total Loan and Advance Ratio

Year	Ratio (%)	
	ADBL	**RBBL**
2073/74	4.36	4.45
2074/75	4.60	3.93
2075/76	3.41	4.73
2076/77	3.29	4.84
2077/78	2.84	4.08
Mean	**3.70**	**4.40**

(Source: Appendix-24)

s

Figure: 4.11



The table 4.11 and figure 4.11 depict that the non-performing loan to total loan over the fives year study period. The ratio of ADBL ranges the highest of 4.60% and the lowest is 2.89% in F/Y 2073/74 and 2076/77 respectively. Likewise, the ratio RBBL ranges highest of 4.84 and the lowest is 3.93 in F/Y 2075/76 and 2073/74 respectively. The mean non-performing loan to total loan of ADBL and RBBL are 3.72 % and 4.40% respectively. ADBL has the lowest non-performing loan to total loan and advances thus, ADBL performing good or maintaining their non-performing loan perfectly than RBBL.

4.1.4 Liquidity Ratio:

Liquidity refers to the ability of a firm to meet its short- term or current obligations. So liquidity ratios are used to measure the ability of a firm to meet its short-term obligations. Inadequate liquidity can lead to unexpected cash short falls that must be covered at excessive costs reducing profitability. In the worst case, inadequate liquidity can lead to the liquidity insolvency of the institution. To find -out the ability of the bank to meet their short-term obligations, which are likely to mature in the short period, the following ratios are developed under the liquidity ratios to identify the liquidity position.

A.Cash and Bank Balance to Total Deposits Ratio

This ratio measures the bank's ability of withdrawal of fund immediately by their depositors. A higher ratio represents a greater ability to cover their deposits and vice-versa. The large ratio shows the idle cash and bank balance in banks while small ratio shows the utilization of deposit from banking perspective.

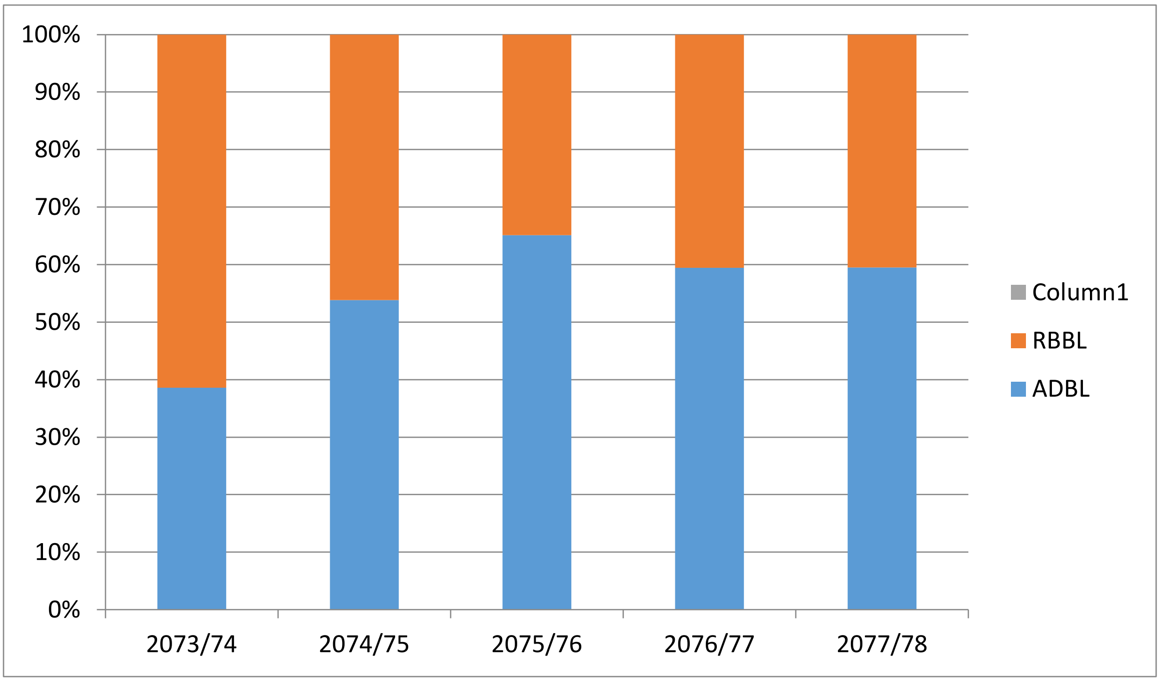
Table: 4.12

Cash and Bank Balance to Total Deposits Ratio

Year	**Ratio (%)**	
	ADBL	**RBBL**
2073/74	12.37	19.66
2074/75	15.64	13.41
2075/76	18.58	9.95
2076/77	16.21	11.07
2077/78	18.15	12.34
Mean	**16.19**	**13.29**

(Source: Appendix-1)

Figure: 4.12



From the analysis of Table 4.12, cash and bank balance to total deposits ratio of both Banks are fluctuating. The higher ratio of ADBL and RBBL are 18.72% and 19.66% in the year 2074/75 and 2073/74 respectively. The average ratio of ADBL is higher than that of RBBL (i.e. 15.61% > 14.41%). It signifies that ADBL has sound liquid fund to make immediate payment to the depositors but RBBL has excess liquidity rather than that of ADBL because of poor investment opportunities.

B. Cash and Bank Balance to Current Assets Ratio

This ratio reflects the proportion of cash and bank balance out of total current assets.

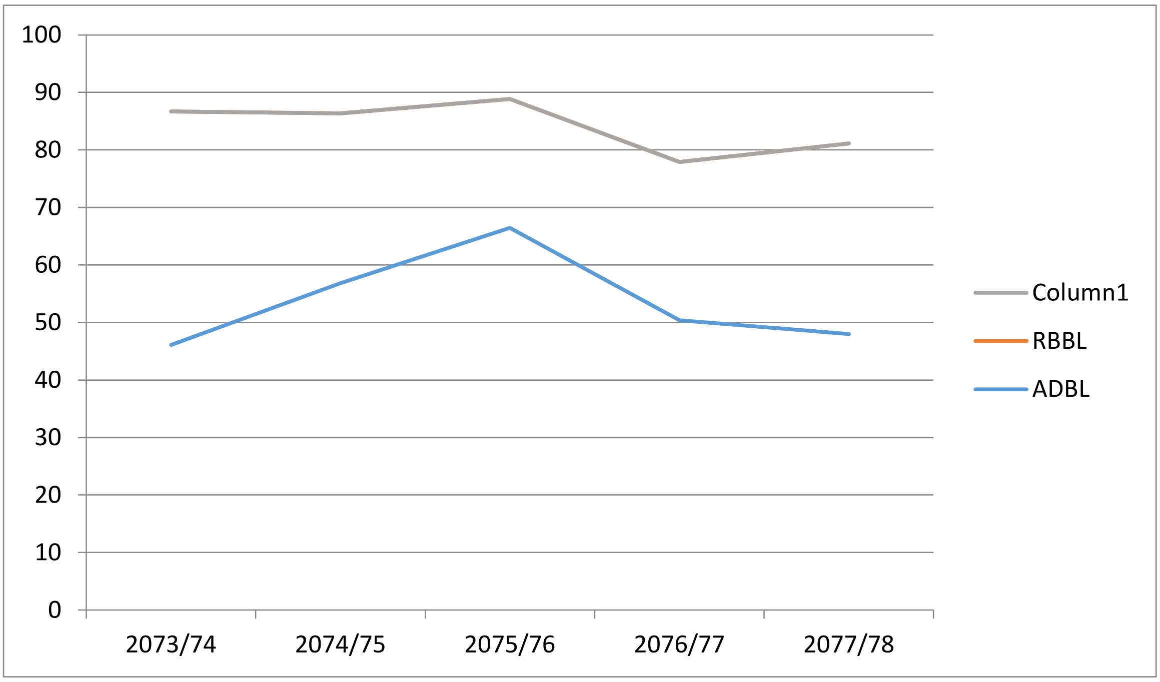
Table: 4.13

Cash and Bank Balance to Current Assets Ratio

Year	Ratio (%)	
	ADBL	RBBL
2073/74	46.10	40.60
2074/75	56.82	29.53
2075/76	66.44	22.40
2076/77	50.41	27.47
2077/78	48.00	33.10
Mean	**53.55**	**30.62**

(Source: Appendix -2

Figure No. 4.13



Above table and figure 4.13, shows that the cash and bank balance to current assets ratio of ADBL is increasing at beginning decreased at the end whether RBBL is in fluctuating trend all over the period. The highest ratio of ADBL is 66.44% and lowest ratio is 41.03% in 2073/74. The mean ratio is 52.16%. Similarly, the highest ratio of RBBL is 40.60% in 2073/74 and lowest ratio is 22.40% in 2074/75. The mean ratio of RBBL is 30.96%. While observing the data, we notice that ADBL has higher mean ratio, it means ADBL has sound liquid assets than that of RBBL.

C. Investment on Government Securities to Current Assets Ratio

Government Securities can be easily sold in the market or they can be converted into cash. The main purpose of this ratio is to examine that portion of commercial banks current assets that has been invested into different government securities. This ratio is calculated by dividing investment on government securities by current assets.

Table: 4.14

Investment on Government Securities to Current Assets Ratio

Year	Ratio (%)	
	ADBL	RBBL
2073/74	26.92	42.97
2074/75	21.22	53.52
2075/76	28.29	60.78
2076/77	41.40	49.80
2077/78	42.61	50.81
Mean	**32.09**	**51.58**

(Source: Appendix-3)

Figure: 4.14

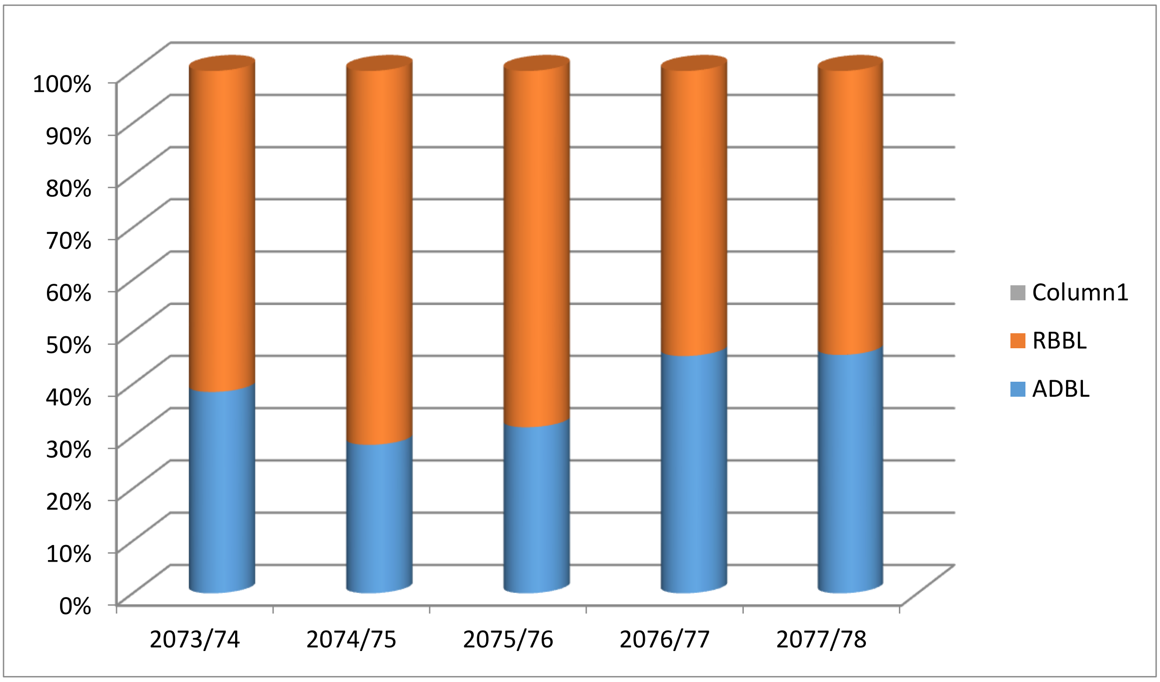


Table and figure 4.14 shows that the investment on government treasury bills to current assets of both bank are in fluctuating trend. The highest ratio of ADBL is 41.4% and RBBL is 60.78% in 2076/77 and 2075/76 respectively. And the lowest ratio of ADBL and RBBL are 21.22% and 42.97% in fiscal year 2074/75 and 2073/74 respectively.

From the table we notice that mean ratio of ADBL and RBBL is 31.06% and 17.84% respectively. RBBL has higher mean ratio and it means RBBL has invested more money in risk free assets than that of ADBL. In another word, ADBL has emphases on more loans and advances and other short term investment than investment in government securities.

4.1.5 Growth Ratio

Growth ratio denotes that how well the banks are preserving their economic or financial position. To calculate, check and analyze the expansion and growth of the selected bank the following ratios are calculated:

A. Growth Ratio of Total Deposits

To measure such growth percentage and analysis the following formula are used:

$$\text{Growth Percentage} = \frac{\text{Ending Value - Beginning Values}}{\text{Beginning Value}} \times 100$$

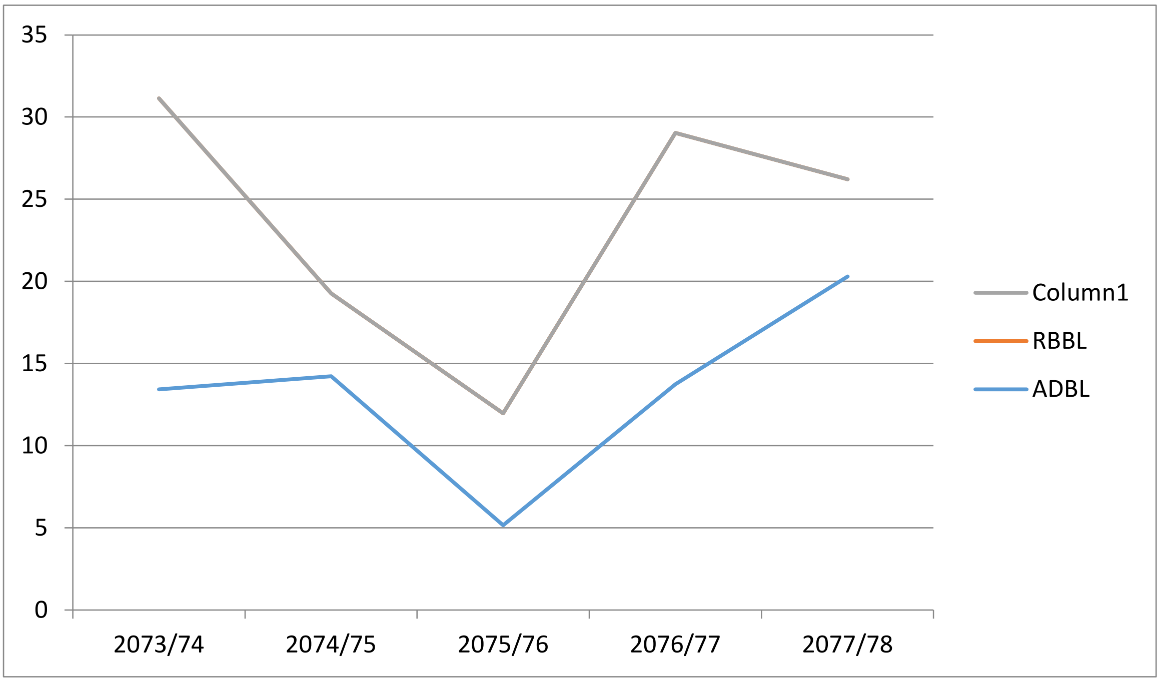
Table: 4.15

Growth Ratio of Total Deposits (in %)

Banks	**Year and Growth Ratio**					**Average Growth Rate (%)**
	2073/74	**2074/75**	**2075/76**	**2076/77**	**2077/78**	
ADBL	13.44	14.22	5.16	13.75	20.29	13.37
RBBL	17.70	5.04	6.82	15.29	5.92	10.15

(Source: Appendix-14)

Figure: 4.15



Above table 4.15 shows that ADBL has fluctuating trend and RBBL has also fluctuating trend of total deposits. The average growth rate ratio of ADBL and RBBL are 12.61% and 12.44% respectively. The growth ratio of ADBL seems to be higher than that of RBBL.

B. Growth Ratio of Loan and Advances

To measure such growth percentage and analysis the following formula are used:

$$\text{Growth Percentage} = \frac{\text{Ending Value - Beginning Values}}{\text{Beginning Value}} \times 100$$

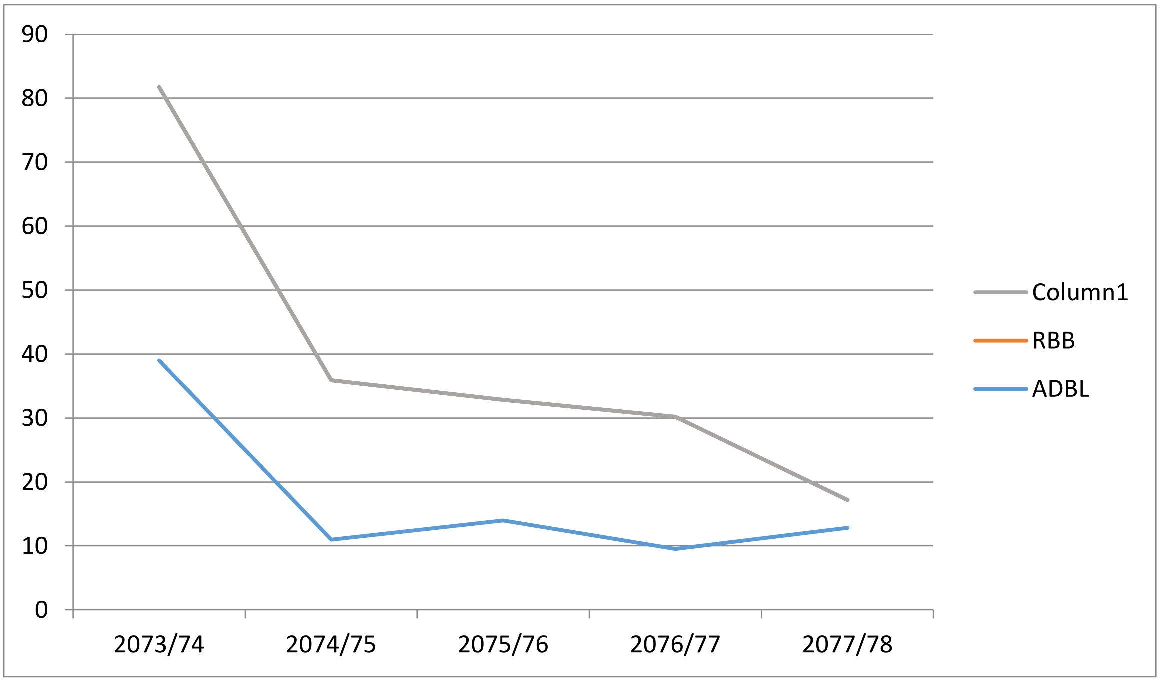
Table: 4.16

Growth Ratio of Loan and Advances (in %)

Banks	Year and Growth Ratio					Average Growth Rate (%)
	2073/74	2074/75	2075/76	2076/77	2077/78	
ADBL	39.00	10.97	13.96	9.52	12.82	17.25
RBBL	42.74	24.92	18.89	20.67	4.37	22.32

Source: Appendix-15)

Figure: 4.16



The above analysis shows that RBBL has higher growth rate than that of ADBL (i.e. 22.32% > 17.25%). RBBL has decreasing in trend and ADBL has fluctuating trend of growth in rate of loans and advances. Highest growth rate of both ADBL and RBBL is 39% and 42.74% respectively in FY 2073/74.RBBL ratio of growth line is downward sloping which indicates growth rate of loan and advance is diminishing.

B. Growth Ratio of Total Investment

To measure such growth percentage and analysis the following formula are used:

$$\text{Growth Percentage} = \frac{\text{Ending Value} - \text{Beginning Values}}{\text{Beginning Value}} \times 100$$

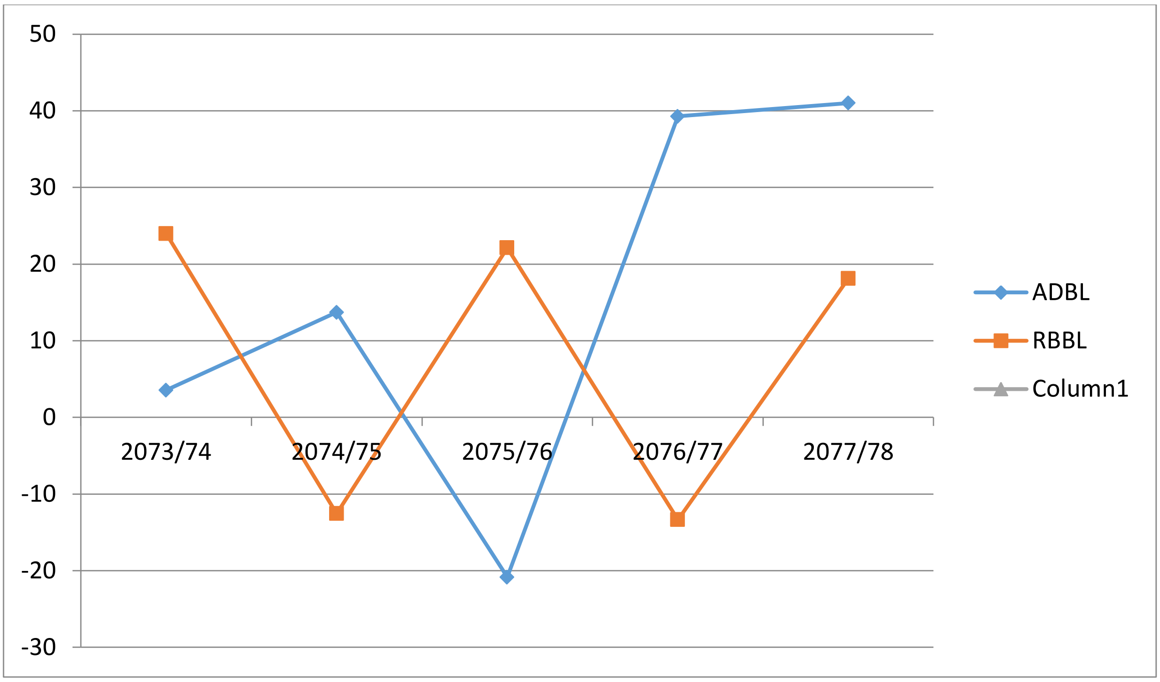
Table: 4.17

Growth Ratio of Total Investment

Banks	Year and Growth Ratio					Average Growth Rate (%)
	2073/74	2074/75	2075/76	2076/77	2077/78	
ADBL	3.56	13.71	-20.85	39.27	41.00	15.34
RBBL	23.96	-12.55	22.12	-13.34	18.11	7.66

(Source: Appendix -16)

Figure: 4.17



The growth rate of total investment of ADBL seems to be higher than that of RBBL i.e. 7.40% > 6.04%. ADBL and RBBL both have fluctuating trend of growth ratio of investment.

D.Growth Ratio of Net Profit

To measure such growth percentage and analysis the following formula are used:

$$\text{Growth Percentage} = \frac{\text{Ending Value} - \text{Beginning Values}}{\text{Beginning Value}} \times 100$$

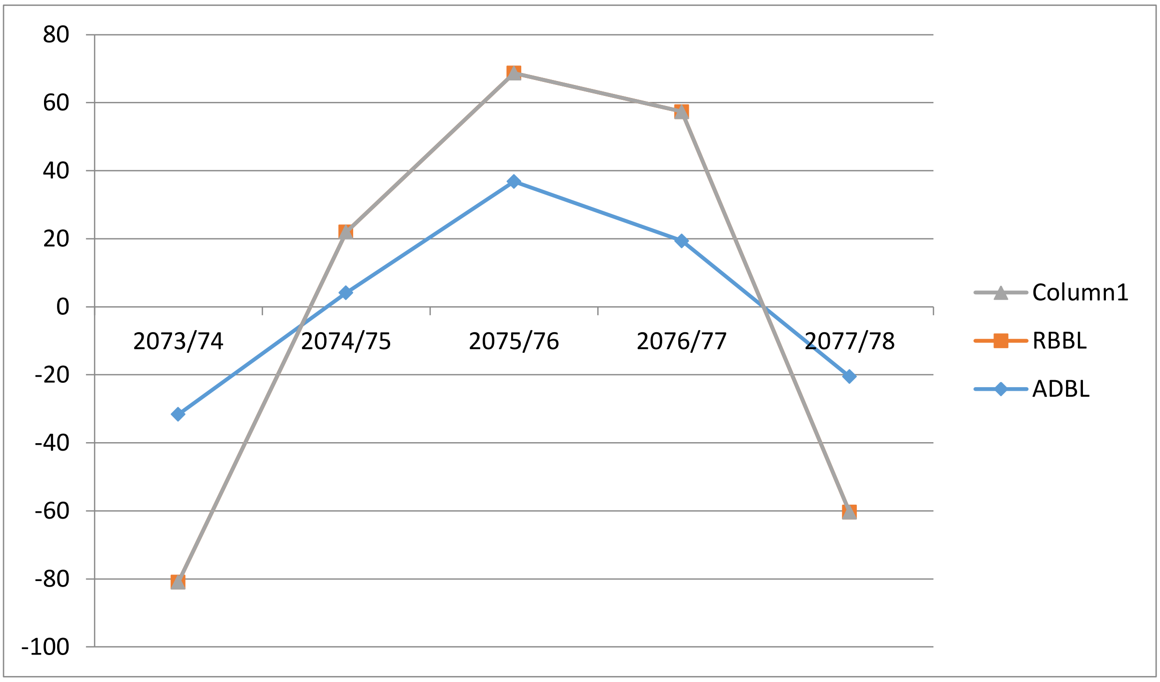
Table: 4.18

Growth Ratio of Net Profit

BANK	Year and Growth Ratio					Average Growth Rate (%)
	2073/74	2074/75	2075/76	2076/77	2077/78	
ADBL	-31.61	4.10	36.84	19.40	-20.52	1.64
RBBL	-49.28	17.88	31.84	37.98	-39.86	-0.29

(Source: Appendix-17)

Figure: 4.18



From table 4.18 we can conclude that ADBL has growth rate of 1.64% and RBBL has the growth rate of -0.29%. It seems that ADBL has higher growth rate than that of RBBL. Both banks followed a fluctuating trend on the growth ratio of net profit.

4.2 Statistical Analysis

4.2.1. Coefficient of Correlation

A. Correlation between Total Deposits and Total Investment

The following table describes the relationship between total deposits and total investment of ADBL and RBBL of five years study period. In this case, total deposits are independent variables say (X) and total investment is dependent variable say (Y).

Table: 4.19

Correlation between Total Deposits and Total Investment

Name of Bank	Base of Evaluation				Result
	R	R^2	P.E.	6 x P.E.	
ADBL	0.8988	0.8078	0.0579	0.3474	Significant
RBBL	0.3582	0.1283	0.1773	1.0638	Insignificant

(Source: Appendix-18)

The Table 4.19 shows that coefficient of correlation between deposits and investment of ADBL(r) is 0.8988 i.e. high degree of positive correlation between these two variables. And the value of coefficient of determination (R^2) is also 0.8078 which means 80.78% of investment decision depend upon deposit and only 19.22% investment is depend upon other variables. Similarly, probable error is 0.0579 and 6 x P. E. is 0.3474 which shows that R^2 is greater than 6 x P. E. Therefore, it reveals that relationship between deposits and investment is significant i.e. correlation is certain.

Likewise, in case of RBBL, coefficient of correlation between investment and deposit (r) is 0.3582 that means there is a positive correlation between two variables. The value of coefficient of determination (R^2) is 0.1283 which means only 12.83% of investment decision depends upon deposit and rest 87.17% investment is depend upon other variables. Similarly, probable error is 0.1773 and 6 x P. E. is 1.0638 which shows that R^2 is less than 6 x P. E. Therefore, it reveals that relationship between deposit and investment is insignificant i.e. correlation is uncertain.

B) Correlation between Total Deposits and Loans and Advances

The following table describes the relationship between total deposits and loan and advances of ADBL and RBBL with comparatively under five-year period. In this case, total deposits are independent variable say (X) and loan and advances is dependent variable say (Y).

Table: 4.20

Correlation between Total Deposits and Loans and Advances

Name of Bank	**Base of Evaluation**				Result
	r	**R^2**	**P.E.**	**6 x P.E.**	
ADBL	0.9784	0.9572	0.0129	0.0774	Significant
RBBL	0.9371	0.8781	0. 0357	0.2142	Significant

(Source: Appendix-19)

From the Table 4.20 we can find that the coefficient of correlation between deposits and loan and advances of ADBL and RBBL are 0.9784 and 0.9371 respectively. This shows the positive relationship between these two variables i.e. loan and advances and deposits of both banks. By considering coefficient of determination (R^2), the value of R^2 is 0.9571 in case of ADBL and 0.8781 in case of RBBL.

The value of R^2 of ADBL is 0.9572, which means only 95.72% of loan and advances decision is determined by deposit and rest 4.28% loan and advances depend upon other variables. The value of R^2 of RBBL is 0.8781, which means that 87.81% of loan and advances is determined by deposit and only 12.19% loan and advances depend upon other variables.

In view of the probable error of ADBL and RBBL, the value of R^2 of ADBL is greater than 6 times P.E. (i.e. 0.9572>0.0774) which indicates there is significant relationship between deposits and loan and advances. Similarly value of R^2 of RBBL is greater than the 6 times of P.E.(i.e. 0.8781>0.2142) significant relationship between deposit and loan and advances.

4.2.2 Impact of Total Deposit on Loan and Advances

The following table describes the impact of total deposit on loan and advances of ADBL and RBBL bank of five years period. In this case total deposits are independent variables (X) and loan and advances is dependent variables (Y) and slope of regression line is denoted by b which measures the change in y (loan and advances) per unit change in X (total deposit). It is calculated by following formula.

$$Y = a + bx$$

Where,

Y = dependent variable (loan and advances)

X = independent variable (total deposit)

a = y-intercept

b= slope of the regression line

Table: 4.21

Impact of Total Deposits on Loans and Advances

Name of Bank	Base of Evaluation	
	a	b
ADBL	11.47	0.80
RBBL	-92.73	1.25

(Source: Appendix-20)

The table 4.21 shows that impact of total deposit on loan and advances of ADBL and RBBL bank are positive because the value of b (slope of regression line) is positive of both banks ADBL and RBBL i.e. 0.80 and 1.25 respectively. It describes that if total deposit is increased by 1, then loan and advances is increased by 0.80 of ADBL bank and if total deposit is increased by 1, then loan and advances is increased by 1.25 of RBBL bank.

4.3 Major Findings of the Study

- In average ADBL has mobilized 90.76% of its collected deposit in loan and advances that is greater than that 70.07% of RBBL.
- The mean ratio of the total investment to total deposit ADBL and RBBL are 15.16% and 25.73% respectively so RBBL has higher ratio. It signifies RBBL has successfully allocated its deposit in investment portfolio in comparison with ADBL.
- RBBL has invested more portions of current assets on government securities than ADBL according to average study i.e. 21.76 > 8.22%. Mean ratio of investment on share and debenture on working fund of ADBL and RBBL are 0.28% and 0.22% respectively. The mean of ADBL is greater than RBBL. It means ADBL has invested more money in risky assets out of its total assets than that of RBBL.
- ADBL has higher mean ratio of return on loan and advances. So it seems successful by generating higher ratio. It can be concluded that ADBL has

better utilized the loan and advance for the profit generation in comparison with RBBL.

- ADBL seems more conscious about managing its assets in order to earn more interest ratio because average ratio is higher i.e. ADBL has 9.62% average ratio whereas RBBL shows 5.89% average ratio. The mean ratio of ADBL is more than that of RBBL. In comparison, ADBL seems effective in earning interest to some extent although it has lower earning of interest income but it must break the decreasing trend in coming year.
- In case of loan risk ratio, ADBL has the more risk than RBBL. The average credit risk ratio of ADBL and RBBL bank are 83.30% and 81.62% respectively.
- ADBL has the lowest non-performing loan to total loan and advances than RBBL i.e.3.72 %<4.40% it means according to NPL RBBL is higher in risk than ADBL.
- The average growth rate of net profit of ADBL is better in comparison to RBBL. RBBL has the growth rate of -0.29% and ADBL has 1.64%.
- The above analysis shows that RBBL has higher growth rate of loan and advances than that of ADBL (i.e. 22.32% >17.25%).
- RBBL seems weak in increasing total investment in comparison to ADBL. The growth rate of ADBL is 15.34% but RBBL is 7.66%.
- ADBL has the higher degree of correlation coefficient between deposit and investment than RBBL. It states that ADBL is in better position in the mobilization of deposits as investment in comparison to RBBL. There is significant relationship between correlation of coefficient of deposit and investment of both RBBL and ADBL.
- There is positive relation between deposit and loan and advances of both ADBL and RBBL.There is significant relationship between correlation of coefficient of deposit and loan and advances of both RBBL and ADBL.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

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

5.1 Summary

The development and expansion of financial institution is essential for economic growth of the country. CBs are such financial institutions which collect funds from depositors and mobilize its fund as loan and advances according to the need of client.A term loan plays a vital role in the economy. Better management of the loan is essential to make high return for every CBs.CBs want to maximize return and minimize loan risk. Loan management strongly recommends analyzing and managing the loan risk. When borrower will fail to meet its obligation in accordance with the agreed terms and conditions, then loan risk problem is arises. So, to minimize such risk, all CBs should have to establish and use standards in making loan decisions. Loans are risky assets though a bank invests most of its resources in granting loan and advances. The loan provided by CBs in different sector contributes to the society and whole economy, because loan function is the demand of economy but sometimes loan becomes dangerous tool if it is not properly managed and controlled. Too much and too little loan is harmful. Too much loan leads to inflation which causes direct and immediate damage to loaners and customers and too little loan lead to deflation which brings down the level of output, employment and income. So, the directives stipulated by NRB for CBs become essential to manage loan in proper way and playing great role of the comparative analysis of loan management of CBs.

The researcher has identified the research problem of two Cs. The objectives which are determined on the basis of research problem. In order to carry out this study secondary sources of data have been used. The analysis is performed with the help of financial and statistical tools. The presentation and analysis of data providers the clear picture in terms of financial strength and weakness of these Cs. The analysis is associated with comparison and interpretation. Various financial ratios of two commercial banks are analyzed such as liquidity ratio, assets management ratio, activity ratio, profitability ratio and growth ratio. Under statistical analysis, some relevant statistical tools such as trend analysis, coefficient of correlation analysis and probable error are used. This study helps to analyze the portfolio behavior of lending and measuring the ratio of loan and advances made in different sector. It is also helpful to analyze the loan contribution on total profitability.

The data which are used in this study, obtained from the annual reports of concerned commercial banks, SEBON, NRB and different journals and newspaper. The present study has been undertaken to examine and evaluate the financial performance of two Cs .The financial statements of five years i.e. 2072/73-2076/77 has been examined for the purpose of the study. The analysis and interpretation of data has been done by applying the wide variety of methodology as stated in Chapter Three.

The collected information is presented analyzed and conclusion is drawn from the study.

Chapter one is concerned with the introduction of the whole study. It explained about the concentration of the study objectives and organization of the study which provides guideline for entire study. Chapter Two is for the review as well as the review of related previous studies is conducted. Chapter Three specifies the guidelines, tools and research design to achieve the objectives of the study.

In Chapter Four, the analysis of data, some statistical and financial tools are used. This chapter contains analysis and evaluation of data. The relevant finding drawn on the basis of analysis and interpretation of provided data. In average ADBL has mobilized 90.76% of its collected deposit in loan and advances that is greater than that of RBBL. The mean ratio of the total investment to total deposit ADBL and RBBL are 15.16% and 25.73% respectively so RBBL has higher ratio. It signifies RBBL has successfully allocated its deposit in investment portfolio in comparison with ADBL. RBBL has invested more portions of current assets on government securities than ADBL according to average study i.e. 21.76% > 8.22%. Mean ratio of investment on share and debenture on working fund of ADBL and RBBL are 0.28 % and 0.22% respectively.ADBL has higher mean ratio of return on loan and advances. So it seems successful by generating higher ratio. It can be concluded that ADBL has better utilized the loan and advance for the profit generation in comparison with RBBL. Loan and advances to total assets ratio of both ADBL and RBBL is in fluctuating trend while observing their ratios; RBBL is better mobilizing of fund as loan and advances.

ADBL seems more conscious about managing its assets in order to earn more interest ratio because average ratio is higher. ADBL has 9.62% average ratio whereas RBBL shows 5.89% average ratio. The mean ratio of ADBL is more than that of RBBL. ADBL and RBBL both have fluctuating trend of interest paid to working fund ratio. In case of loan risk ratio, ADBL has the more risk than RBBL. The average credit risk ratio of ADBL and RBBL bank are 83.30% and 81.62% respectively. The average study of cash and bank balance to total deposit of RBBL and ADBL are 13.29% and 16.19% respectively and cash and bank balance to current assets ratio of RBBL and ADBL are 30.62% and 53.55% respectively.The average growth rate of net profit of ADBL is better in comparison to RBBL. RBBL has the average growth rate over research period is -0.29% and ADBL has 1.64%. The growth ratio on deposit of ADBL seems to be higher than that of RBBL. The growth ratio of ADBL and RBBL are 13.37% and 10.15% respectively. RBBL has higher growth rate of loan and advances than that of ADBL (i.e. 22.32% >15.34%). The growth rate of total investment of RBBL and ADBL are 7.66% and 12.89% respectively. There is insignificant relationship between correlation of coefficient of deposit and investment of RBBL but significant relationship of ADBL. There is significant relationship between correlation coefficient of deposits and loan and advances of RBBL and ADBL. There is positive relation between deposit and loan and advances of both RBBL and ADBL bank because the value of b (slope of regression line) is positive i.e. 1.25 and 0.80 respectively. It describes that if total deposit is increased by 1, the loan and advance is increased by 1.25 of RBBL and 0.80 of ADBL bank.

In chapter Five, main findings are concluded as the conclusion of the study. Based on the analysis and conclusion of the study some recommendations are made in this chapter.

5.2 Conclusion

- In view of assets management side of two companies, it can be concluded that ADBL is in good position in mobilizing the collected deposits as loan and advances. ADBL has successfully allocated its deposit in investment portfolio in comparison with RBBL. ADBL has invested more money in risky assets out of its total assets than that of RBBL has invested more money in risk free assets out of its total assets than that of ADBL. In another word RBBL has emphases on more govt. securities rather than investment on share and debenture.

- From the analysis of the liquidity position of ADBL and RBBL, liquidity position of ADBL is higher than RBBL. It shows the higher position regarding the meeting of demand of its customer on their deposit at any time than RBBL but ADBL has excess liquidity rather than that of RBBL because of poor investment opportunities. ADBL has taken more risk to meet the daily requirement of its customer's deposit than RBBL as it has lower cash and bank balance to current ratio. RBBL has made enough investment in government securities than ADBL. In another word RBBL has emphases on more loans and advances and other short term investment than investment in govt. securities.
- From the viewpoint of profitability, ADBL has higher mean ratio of return on loan and advances. So it seems successful by generating higher ratio. It can be concluded that ADBL has better utilized the loan and advance for the profit generation in comparison with RBBL. RBBL seems successful in managing and utilizing the available assets in order to generate revenue since its ROA ratio is higher than that of ADBL. ADBL seems effective in earning interest to some extent although it has lower earning of interest Due to the higher ratio in each year and average too of ADBL, it seems less conscious about borrowing cheaper fund. In case of loan risk ratio, ADBL has the more risk than RBBL.
- From the growth ratio of total deposits, it can be concluded that ADBL has more collection capacity than RBBL. Growth rate of RBBL on loan and advances is better in comparison to ADBL. Growth rate of total investment of ADBL seems good than RBBL. ADBL has better position than that of RBBL with respect to growth rate of net profit.
- There is insignificant relationship between correlation of coefficient of deposit and investment of RBBL but significant relationship of ADBL . There is significant relationship between correlation coefficient of deposits and loan and advances of both the bank RBBL and ADBL.

5.3 Recommendations

- Both banks should be careful in increasing profit of the bank to maintain the confidence of shareholders, depositors and all its customers. ADBL profitability position is better than that of RBBL. So, RBBL is strongly recommended to utilize risky assets and shareholders fund to gain high amount of profit.
- From the analysis, ADBL has not invested more funds in government securities in comparison to RBBL. The bank has higher cash and bank balance than RBBL. Therefore, it is recommended to invest in government securities instead of keeping idle and is not considered good from profitability point of view. Investment on those securities issued by government is free of risk, highly liquid and highly saleable in the marketplace.
- The recovery of the loan is most challenging job for banks. Increasing in non-performing assets leads to failure of commercial bank in recovery of loan. Therefore it has been recommended that ADBL and RBBL should follow liberal lending policy when sanction of loan and advances have been done with adequate guarantee and should implement sound collection policy with proper identification of loan worthiness of customers, continual follow up and legal procedure if required.
- The ratio of cash and bank balance to total deposits and current assets of ADBL is higher than RBBL. It means RBBL should increase its liquidity position on the other hand RBBL has higher idle cash and bank balance. It may decrease over all profit of bank. So RBBL is recommended to activate its idle cash and bank balance in productive sector.
- Banks are suggested not to be surrounded and limited within the interest and status of big clients like multinational companies, manufacturer and exporter. Banks have to preserve the banking and saving habits of the low-income people of the kingdom. Because the main source of the collecting deposits of commercial banks are from public sector. It is also recommended to collect more funds as deposits through different schemes from different level of public, through assortment of deposit schemes and facilities like housing schemes, education loan, vehicle loan, and deposit for housewife etc.

- RBBL is recommended to increase their investment on shares and debentures on different sectors to earn more interest and dividend income to increase its net profit.
- Both banks have earned more income from interest income which is not good for long term view. So both have to increase their revenue through other banking activity for long-term survival and to avoid bad debt risk.
- RBBL has successfully allocated its deposit in investment portfolio in comparison with ADBL. So ADBL should successfully allocate its deposit in invest portfolio.
- NRB has given directives to financial institution to invest their certain percentage of investment in deprive and priority sector. Both companies have earned profit from profitable and private sector. So, they are recommended to strictly follow up the directives issued by NRB and should make investment on public utilities sector like health, sanitation, education, drinking water, agriculture etc.
- Corporate Social Responsibility should be maintained very seriously because it has responsibility to change the environment around it services.

Action Research:

1. ADBL working significantly with respect to collection of deposits and disbursement of loans and advances, Investment, returns on investment, managing assets in systematic manner, and maintain lowest NPA with effective and dedicated contribution of the board of management and ADBL employees.

2. The above findings are clearly reflected, efforts should be made to overcome those above listed problems presently facing by RBBL.

3. The RBBL should increase deposit collection percentage as presently recorded. For this RBBL must put their efforts to increase the deposit collection to do the better business to increase financial viability.

4. The board members should take appropriate decision with respect to disbursement of various productive loans and should adopt systematic strategies for loans recovery with announcement of some advantages for borrowed members.

The above are the action research points to overcome presently problems facing by the RBBL.

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