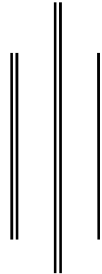


**IMPACT OF MANAGEMENT CHANGE  
(A Case of Rastriya Banijya Bank)**



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**A Thesis Submitted to:**  
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**Tribhuvan University**



***In Partial fulfillment of the requirements for the***  
**Degree of**  
**Master of Business Studies (M.B.S.)**

**Kathmandu, Nepal**  
**December, 2009**

# **RCOMMENDATION**

This is to certify that the thesis

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**IMPACT OF MANAGEMENT CHANGE  
(A Case of Rastriya Banijya Bank)**

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

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*And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment for the Degree of Masters of Business Studies (M.B.S.)*

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Member (Thesis Supervisor) .....

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# DECLARATION

I hereby declare that the work reported in the thesis entitled “**Impact of Mangement Change (A Case of Rastriya Banijya Bank)**” submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfillment of the requirement of the Degree of Master of Business Studies (M.B.S.) under the guidance and supervision of Dr. Shilu Manandhar Bajracharya of Shanker Dev Campus, Tribhuvan University.

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## **ACKNOWLEDGEMENT**

Banks are considered as the major contributor in the national economy. Sound banking systems always stand as the strong bridge between savers and investors. It is the major players of economic development of the country. It collects the scatter and small saving from various groups of savers and mobilizes that fund in the profitable project, which ultimately contributes in the country GDP.

RBB is one of the largest commercial bank of the Nepal. Currently it is operating in the financial sector reform program as a help of NRB, WB and other international organization. Management change is one of the decisions under reform program. So, this study is focused on the impact of management change in RBB. Impact of the management change is analyzed with the help of various financial tools, in order to obtain the conclusion.

This study is the result of cooperation and support of many people. First of all I would like to extend my sincere gratitude to my thesis supervisors Dr. Shilu Manandhar Bajracharya and others my teachers for their effective guidance, valuable suggestions, critical comments and continuous cooperation.

I am also gratefully indebted to all the staffs of a RBB, Shanker Dev library, central library, my family members, friends and Krishna Raj Pandey who helped me in computer works in preparation of thesis.

Finally, I hope this could be useful for further researcher, investors and other various stakeholders of the RBB. I am also sole responsible for any errors present in this study and extend warm welcome to any comments and suggestions.

Lasu Subba (Tombapo)

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## **CHAPTER-I INTRODUCTION**

### **1.10 Background of the Study**

A bank is an institution which deals with money and credit. It accepts deposits from business institutions and individuals which are mobilized into productive sectors mainly business and customer lending. At the present context, bank is not only confined to accepting deposits and disbursing loan but also engaged in different types of functions such as remittances, exchange currency, joint venture, bills etc. according to Commercial Act 2031, 'A commercial bank (CB) is a bank which deals in exchanging currencies, accepting deposits, giving loans and doing commercial transactions'.

Bank is simply known as an institution which accepts deposits and provides loan. Bank occupies quite important role in this modern business age as the financial support for the needy people like industries, companies, and for the individuals people from different sectors. Along with this bank play a vital role in the economic development of the nation and uplift the living standard of the people of the country. Bank motivates the people to save their earning and invest their savings in the productive sectors. Integrated and speedy development of the nation is possible only when competitive banking services reaches each and every corner of the people living in developing country like Nepal.

In this world the first bank to come into existence with the name of "Bank of Venice" was in Italy in 1157 A.D. "The Bank of England" was the first bank in the history of banking as the central bank established in 1694 A.D. in the United Kingdom which proved to be a big milestone for the development of banking system in the world. In the Nepalese banking history, there is the name of "Nepal Sambat" when Sankhadar alone paid all debts of the people existing in the country at that time. At the end of the 14<sup>th</sup> century the existence of money lenders as the term "Tanka Dhari" was found. In 1877A.D, Tejarath Adda was established by the government. The main purpose of this

institution was to provide credit facilities to the general public at minimum interest rate of five percent. The establishment of this institution marks the beginning of organized financial institution in Nepal.

As per the modern banking background in Nepal, the history of development of Commercial banks (CBs) is not so very long as compared to other developed countries. Nepal Bank Limited (NBL) is the first CB which was established in 1994 B.S., Nepal Rastra Bank (NRB) was established in 2013 B.S., as the central bank of Nepal. Rastriya Banijya bank (RBB) was established in 2022 B.S., as the second CB of Nepal.

At present all total of twenty five CBs are getting license, out of the total population of CBs, RBB is the sole government owned bank, commonly accredited as the 'People's Bank' in Nepal, has witnessed many ups and downs with fluctuations of economic condition of the country from more than forty two years. It has its corporate office located at Singhadurbar Plaza, Kathmandu, the bank has scattered its network at more than 113 points all over the country with approximately 3500 employees. This is the bank which is able to reach not only the urban areas of the country but also the remote areas, hilly terai and Himalayan region. As compared to other CBs and joint ventures banks (JVBs) of Nepal, NBL and RBB are the two banks which has really proved to be the bank of Nepalese people because they are able to reach, to the every corner of remote and undeveloped areas of Nepal, serve people, help to uplift the economic condition of poor people by providing loan and also make easier to get money from outside the country through remittances.

Nepal is an under developed country. About 38% of total population of Nepal is steeped in absolute poverty line. Therefore, Nepalese peoples per capita income of about \$ 270. It denotes very low per capita income. These are because of the lack of capital, proper investment, effective and trained human resources and advance and modern technology etc. With the help of proper plan and strategy development and huge amount of capital investment, the economic growth is possible and for this

purpose it is very much necessary that the commercial banks which are able to reach among poor people must have strong financial position.

In 2058 B.S. an international auditing organization 'KPMG Barents Group' submitted a report to the government with the true but bitter conclusion that the two CBs of Nepal including NBL and RBB are not in the good financial position and also the financial position is declining. The group also warned that the bank's existence would be questioned if the concerned authorities are not alert about the loan management and loan recovery.

In September 30, 2000, NRB published the notice in Britain's newspaper "The Economist" to bring foreign management, and then the bank started the functions to give management of the bank on contract basis. NRB chose the Daylight Foichu Tomonsu Company of America but the group cancelled its contract disclosing the fact that it could not perform in the environment of political instability and Maoists problems due to which the bank again had to bear heavy loss. After the disagreement with Daylight group the bank again asked proposals for private management and selected the John Alliance Group but as it also didn't come to sign on agreement paper then last but not least the bank selected the proposal of Mr. Bruce F. Henderson of America.

### **1.11 Commercial Bank in Nepal**

The history of CBs in Nepal starts from the establishment of NBL; in 1994 B.S. NBL was the bank to be in operation and prior to this, there was no such organized banking system in the country. The bank was started with a paid up capital of Rs 8, 45,000. It started its operation by accepting deposits from the public. Later on, NRB was established in 2013 B.S., which helped to make banking more systematic and dynamic during that time.

As the time passed, a need for the more CBs arose. At that time NBL just doing simple banking by collecting deposits from local public. To cater to those needs, RBB was established in 2022 B.S., in order to play a major role not only in domestic banking services but also in foreign trade. It was established under its own act, RBB Act 2022, with the establishment of RBB, a noticeable progress could be seen in the banking industry of Nepal. It brought a revolution in the banking industry. People could easily make business transactions with other countries. Both the banks have majority shares owned by government of Nepal. RBB is fully owned by the government.

Today Nepal can take legitimate pride in remarkable growth and progress in the banking industry. Nepal opened its door to the foreign investment and CBs to operate in Nepal. Consequently, Nabil Bank (Nabil) was established in 2041 under the CB Act of 2031. Slowly and slowly new banks started to establish in Nepal for doing business. At present the number of CBs in the country has reaches to twenty five including RBB and again few new CBs are going to be launched with in the very short period of future. Today the banking industry can be compared with the international standards in terms of their functioning and operations. The legitimate entry of foreign commercial banks with full fledged banking functions led to rapid growth of the banking system, accompanied by greater sophistication due to the diversity of instruments and institutions handling different modes raising funds and deployment funds.

Some of the important changes in the recent past, which have profoundly reshaped the financial landscape include;

- ) Liberalization of exchange controls.
- ) Gradual privatization of state owned enterprise
- ) Opening up of CBs and investment banking to the private sector.
- ) Establishment of large number of companies, multinational finance companies and insurance companies etc.
- ) Development of capital market and stock exchange.
- ) Auctioning of government securities.

- ) Market based rate of return.
- ) Economic growth due to remittances.
- ) Launching of different loan schemes on different sectors by various financial institutions.
- ) Other liberal banking regulations

These development present strong challenges and opportunities to CBs, especially as these are taking place faster than what the CBs have been used in terms of responding to changes.

Currently, the economy of Nepal is witnessing historic changes in its structure, both positively and negatively, and almost all sectors for the economy are facing new issues and confronting new challenges of transformation by the introduction of market economy in the country. In the milieu of deregulation, liberalization, privatization and greater integration with global economy, the CBs have shown their dynamism and still further will have to play a pivotal role to enable the economy to achieve its full potential. As the economy has changed in short period and it's changing, the performance requirements and prospects of banking industry have also undergone radical information.

### **1.12 Corporate Profile of Rastriya Banijya Bank (RBB)**

RBB is fully government owned, largest CB of Nepal. This bank was established in January 23, 1996 (Magh 10, 2022. B.S). The bank provides various banking services to large number for customers including banks, insurance companies, industries trading houses, airlines, hotels and many other sector of the economy. Since being the largest CB of the country, its services cover different banking services to the people and there by contributes to the economic development. For this purpose the banks also promoted different government programs to the people living in the remote part of the country to uplift the living standards of the below the poverty line. The bank has more than 114 branches throughout the country covering more than 56 districts.

It has the large number of agencies with the international banks located at the major international commercial centers of the world. Every one can avail the benefits from international and local banks to each and every corner of the country. There are more than 12,60,000 depositors from different parts of the country, majority of them are outside Kathmandu Valley. It serves more than 200,000 borrowers and 300,000 clients across the country. Majority of these borrowers are micro credit users who normally work in rural and semi urban areas. At present there are more than 3500 employees working in different capacities. RBB pays the highest amount as tax to the government. 25% of banking business of Nepal is carried out by RBB. (\* Marketing Dept, RBB,2063)

Table 1.1  
RBB at a Glance

Paid up Capital	1.17 Billion NRs
Number of Branches	114
Special Class Branch	1
Correspondent and Agency Banks	54
District Covered	54
Total Employees	3500
Number of Regional Offices	5
Number of Central Department	14

### 1.13 Focus of the Study

In developing countries, for the rapid development for the economy there should be proper utilization of resources. Commercial banks plays very important role in mobilizing the resources in any developing countries by developing the banking habit among the people collecting the small scattered resources in one bulk and utilizing them in further productive purposes and rendering other valuable service to the

community. Thus commercial banks are the main institutions which are meant for collection and utilization of small scattered saving of the people.

The study will focus the problems of deposits mobilization and proper utilization of RBB. This study consist the study of deposits market share of RBB in term of deposits, deposit growth in RBB deposit mix of RBB. The study deals with efficiency of RBB and economic development of the country by making a survey of deposits and credit of RBB. And how can RBB utilize the deposit to fulfill the financial need of different sectors of the economy. Our main focus of the study is whether the RBB is able to utilize the scattered resource and efficiently mobilizing them.

#### **1.14 Statement of the Problem**

RBB was established 43 years ago to boost up the Nepalese economy and to enhance the banking habit of the people. This bank was established with objective to provide the financial services to all Nepalese to promote small and medium enterprise by the easy excess of loan facilities, to finance the needs in rural areas with low income people, to capture small savings and recycle deposits to enhance productive growth of the economy and to provide banking service to the people all over the country. It wouldn't be wrong if we agreed on the point that this bank was established by the government with the target to grow and improve the economic condition of Nepalese people. Initially, the bank has started its service with around 115 work forces from 7 selected locations. The bank has witnessed several challenging turn around in the course of making journey toward being premier bank both in terms of highest deposit base and largest lending portfolio.

Though it traveled a long journey with sound objectives, the goodwill of bank decreased before six year when International Auditing Organization 'KPMG Barrent Group' submitted the report reflecting to the fact that the financial position of the bank is declining and which is very critical. The main reasons behind this situation were lack of professionalism, political interference in management, weak and inefficient

management, over staffing, lack of research and development, lack of investment in productive sectors, problem in granting loan, lack of modern banking technology etc. NRB changed the existing management at that time and gave the charge to management of Mr. Bruce F. Henderson on 2059 B.S., Magh 27 with the hope that the bank would perform well in coming days.

It has become approximately five years that bank begun to perform under the supervision of the new management team monitored by the central bank. When the NRB decided to give management on the contract basis, the employees working in the bank and employees unions were against of the decision. Now, as it has become so long period that the bank is performing on the direction of change management, it is curious for all whether the employees are co-operating with management or not? The main issue must discussed and find out is the difference between the yesterday's and today's financial position of the bank after the entry of foreign management? Whether the bank has growing rate or declining rate?

What are the necessary changes introduced by the management to increase the productivity? What is happening with the financial soundness of RBB? What was the problem behind due to which with dealing same customers other private banks make profit but RBB bear loss heavily? RBB has been working with the slogan of 'People's Bank', up to what level the management has been successful to win the heart of people? Hence, it has been felt necessary and essential to study and analyze bank's financial performance of past few years from different angles after the entry of foreign management.

It is also necessary to focus on various issues and changes happened in the bank after the new management came and Mr. Bruce F. Henderson has been appointed as chief executive officer.

### **1.15 Objective of the Study**

The main objective of this study is to evaluate the financial position of the RBB before and after the management change. However the specific objectives are:

- ) To analyze the major changes occurring after the entry of foreign management in RBB.
- ) To analyze the profitability of RBB before and after the management change.
- ) To evaluate the liquidity position of the bank before and after the management change
- ) To evaluate the financial strengths and weaknesses of the bank

### **1.16 Importance of the Study**

The result of the study is regarded to be important for the following groups and persons:

- ) Management of the bank: With the help of this study, management of RBB may able to know various drawbacks and strengths of its own. It can apply measures for the improvement of the bank's performance if there is any weakness and drawbacks and also for the stability of success and growth in good performance.
- ) Stakeholder of the bank: As this bank is fully owned government bank, government as shareholder will be able to know how the investment is fluctuating. The government is adopting the concept of privatization and liberalization, due to which government owned organizations are being privatized like Nepal Telecom. This study will be helpful or the investors if the government take the decision to privatize this single owned government CB. This research helps the government to know the real position of the bank and to act as the shareholder of the bank.

- ) Policy maker: The policy formulators of the bank may adopt new ideas with the help of the result of this study. The financial position has been analyzed through this study has the result of their past policy and decision. Hence, if necessary and not satisfied with concluded financial position, they may bring the changes in their future policies.
- ) NRB: The central bank of Nepal which is controlled and monitored by the government. Respective decision makers from the central bank would be benefited by this study during the decision making about regulation and monitoring.
- ) General Public: Being the oldest bank of the country, which contributed a lot for nation's economic development general public may be interested about the financial position of this bank. As the bank has many clients and thousands of depositors, the result of this study may provide information to conclude about bank's financial position and make aware of it to the general public.
- ) Other CBs: The vicissitudes in the financial position of this bank may be useful and guidelines for other CBs formulating their plans and policies.
- ) To the further researcher: This study will be important for further study researcher/teachers and students.
- ) Other concerned parties: The government, customers, depositors, borrowers and all other parties who want to know about the RBB may obtain some useful information with the help of the report of this study.

### 1.17 **Limitations of the Study**

The study will be bounded by the following limitations:

- ) Among various banks, the study has focused only on RBB. Hence the result of the study may not be applicable for other banks.
- ) The analysis is mostly based on secondary data provided by the bank. Here secondary data themselves are limiting factors or researcher based on secondary data is not far from limitation due to inherent character of these data.

- ) The study covers only a period of ten years from 1998 to 2008 and the conclusion drawn therefrom confines only to the period mentioned. Hence, it should not necessarily conclude anything for the period and after the study period.
- ) The study concentrates on financial position of the bank for said period and has been analyzed with the help of various financial aspects of the bank and does not cover all the aspects of the bank.
- ) The study has been stated with a view to submit the report for the partial fulfillment of the MBS degree. Hence, the report of the study based on the format requirement for the purpose.

### **1.9 Organization of the Study**

This study "Impact of Management Change (A Case of Rastriya Banijya Bank)" has been divided into five chapters viz. Introduction, Review of Literature, Research Methodology, Presentation and Analysis of Data and Summary, Conclusion and Recommendation.

The first chapter Introduction briefly explains about the meaning of commercial bank in Nepal. It describes the introduction of research study, which explains the focus of the study, statement of problem, objective of the study, significance of the study and limitation of the study.

The second chapter Review of Literature chapter deals with conceptual framework/Theoretical review, review of books, Journals and dissertations and Research Gap.

The third chapter Research Methodology briefly explains about the research methodology that has been used to evaluate the financial performance of the banks under consideration. This chapter consists of research design, sample and population, source of data and financial tools and techniques to measure the financial performance of RBB.

In the fourth chapter Presentation and Analysis of Data, the data required for the study has been presented analyzed and interpreted by using various tools and techniques of financial management, accounts and statistics to present the result relating to the study in a very lucid manner.

The fifth chapter Summary, Conclusion and Recommendation is the final chapter of the study, which consists of the summary of the four earlier chapters. This chapter tries to fetch out a conclusion of the study and attempts to offer various suggestion and recommendations for the improvement of the future performances of the bank.

Finally Bibliography and Appendix are presented at the end of the study.

## **CHAPTER-II**

### **REVIEW OF LITERATURE**

Review of literature means reviewing research studies of other relevant preposition in the related area of the study so that all part studies, their conclusions and deficiencies may be knows and further research can be concluded (Woolf and Pant, 1999:p35).

This chapter deals with the review of materials related with 'credit management' the more detail and descriptive manner. It provides the basis for developing a comprehensive framework. In this chapter, the emphasis is given to the review of major related literature on the credit management and its analysis. This chapter is divided into two parts, which are as follows:

#### **2.1 Conceptual Review**

##### **2.1.1 Historical development of Banking System in Nepal**

The history of banking in Nepal can be described as a component of gradual and economic spheres of the Nepalese life even the financial system in still in evolutionary phase. Though establishment of banking industry was very recent, some crude bank operation was in practice even in ancient times. In Nepalese chorine, it was recorded that the new era known as "Nepalese Sambat" was introduced by "Shankhadhar" a merchant from Kantipur in 880 A.D. after having paid all the outstanding debt of the country. This shows basic of money lending practice in ancient Nepal. In 11th century during Malla Regime there was an evidence of professional moneylenders and bankers. It is further believed that money- lending business; particularly for financing the foreign trade with Tibet became quite popular during regime of Mallas. However, in the absence of any regulatory measures the unscrupulous moneylenders were known to have changed exorbitant rate of interest and other extra dues on loans advanced.

The establishment of the "Tejarath Adda" by primer ministers "Ranoddip Singh" during the year 1877 AD was fully subscribed by government of Kathmandu valley which played vital role in the banking system, was regarded as the father of the modern banking institution. The prime task of "Tejarath Adda" was granting of loans and safeguarding of total national deposits. At that time, Indian currency was commonly used in most part of Terai. The primary task of the Tejarath Adda" was to attract the deposits in government exchequer at the beginning but later on general public was also allowed to take the loan at the same rate of interest with gold and silver ornaments as securities and collateral. Although the institution did not accept any deposits, it had played an important role in development process of banking system in Nepal.

The main defects of this institution showed that there was no further financial institution set-up and there was no effort to expand the services. Above all of the defects, this institution did not accept any deposit from the public. In the absence of saving mobilization the "Adda" faced financial problems making it impossible to charter to the credit and service need of general population thought the country. Udyog Parished (Industrial Development Board) was constituted in 1936 A.D. One year after its establishment, it formulated the "Company act" and "Nepal Bank Act" In 1937 A.D.

In the year 1994 B.S. the establishment of NBL, with the Imperial Bank of India came into existence under "Nepal Bank Act 1993 B.S." as the first commercial bank of Nepal. At that time Nepalese economy was characterized by the existence of dual currency system (Indian and Nepalese), which was effecting economic stability and development of nation. Thus, the need of establishment of the central bank required great urgency. As a result Nepal Rastra Bank was established as a central bank of country on 13th Kartik 2013 under NRB Act 2012 with the authorized capital of Rs. 10 million fully subscribed by government.

Integrated and speedy development of the country is possible only when the competitive banking services reaches nooks and corners of the country. To cope this situation, government setup Rastriya Banijya bank in 2022 B.S. as a fully government owned commercial bank. With the come up of RBB, banking services spread to both urban as well as rural area. Agriculture Development Bank was established for the promotion of agriculture sector in country. When the government adopted liberal and market oriented economic policy in the mid 80's Nepal allowed the entry of foreign banks of joint venture basis with foreign capital, technology and experience. Nepal Arab Bank Ltd. was the first joint venture bank established on 2041 B.S. under the commercial bank act 2031. With the opening of NABIL the door of opening joint venture banks was opened to the private sector.

### **2.1.2 Commercial Banks**

A commercial bank as one, which exchanges money, deposits money, accepts deposit, grants loans and performs commercial banking function. (Commercial Banks Act, 1971).

Commercial banks means a bank which operates currency exchange transactions accepts deposits, provides loan and performs dealing relating to commerce, and other then those banks, which have been specified for the cooperative, agriculture, industry of likely and other specific objectives (NRB Act 2031)

The commercial bank has peculiar economic importance and their importance is realized in the more prominent place. They have traditionally given in economic studies. They are particularly powerful lenders generally covering a wide part of the field than any other because they are in as important semi manufacture of money. (Sayers; 1975:1)

Commercial banks are authorized to receive deposits from the public and transfer it to the economic development of the country by offering loans and advances torch-needed places. Then commercial banks are the only institution that accepts demand deposits, their role is to furnish short-term funds to business, agriculture and

government, but through the year they have become veritable department store of finance.

Their function indicates substantial activity in the granting of intermediate term credit through term loan and long-term credit through leasing and the acquisition of government bonds and mortgages. Other services include acceptance of time and saving deposits and the making consumer loan.

From the resource mobilization by commercial banks not only it utilizes the resources but to some extent it solves the problem of unemployment in the country. It helps to utilize the capital in the possible way. Here the concept of capital includes not merely material capital of wealth but human capital in the form of trained and skilled workers manager and professional people. Hence, commercial banks are the institutions which help to utilize national resource i.e. financial encouraging and initiating these resources to be utilized.

Thus, commercial Banks provide opportunities for gainful employment to citizen who has limited economic capacity. Therefore, on- one hand it solves the problem of unemployment of the country and on other hand it utilizes the best possible manner for the economic development.

Commercial banks receive surplus money of people in the various forms of deposits and lend those deposits to different business houses and corporate bodies that are in need of money in different form on loans and advances. Thus, it provides a link between surplus and deficit amount of the economy. Earning profit to his shareholders is also the major aiming of the commercial banks as money other business houses.

Like many other developing countries including Nepal has been also facing the problem of accelerating the pace of economic development. In the respect the role of commercial bank in the country is crucial. The commercial banking system in Nepal is still in its infant stage. However, their important role in the economic development of the country has been fully realized and these banks are being oriented in their activities best suited for the overall economic development.

Nepal is an underdeveloped country, its industries, agriculture sector, trade and commerce and still in a state of infancy. Their development greatly depends upon the effective role of commercial banks. The insufficiency of capital for the establishment

of the industries, modernization in agriculture etc, has become a serious problem for the economic development in Nepal.

Friedman has said “A major source of development in the less developed countries lay in an importuned financial system” so the improvement of financial system is possible only on the improvement in the operation commercial banks. Therefore the future of the country is greatly determined by the active role player by the commercial banks.

### **2.1.2.1 Functions of Commercial Banks**

The bank encourage the habit of saving among the people and enable small saving which otherwise would have been scattered ineffectively, to be accumulated into large funds and thus made available for investments of various kinds. In this way, they promote economic development through capital formulation. By encouraging savings and investment, the banks increase the productivity of the resources of the country and thus contribute to general prosperity and welfare by promoting economic development.

In the law of banking, a deposit is a sum of money or other personal property left by the depositor with a bank and available to him in accordance with the terms of deposit agreement, the deposit may be general or special, depending on the agreement between the depositor and the bank, it is general if not otherwise agreed. (The encyclopedia American volumes, 1984: p748).

In the underdeveloped countries, not only is the capital stock extremely small but, as pointed out above, the current rate of the capital formulation is also very low. The development of an economy in fact depends upon the development of financial institutions to a substantial extent. The mission of such financial institution is significant not only in mobilizing saving but also in making investments for the different poverty, raising employment opportunities and minimizing disparity in the income wealth and opportunities between richer and poorer sectors of the society. The main functions of the commercial banks are as follows.

1. Accepting Deposit: It accepts deposits made by individual and institutional customers under following accounts and may also pay interest on the deposits besides providing security under existing regulation;
  - i. Current Accounts
  - ii. Saving Accounts
  - iii. Fixed deposit Accounts
  
2. Advancing loans: The second major function of the commercial bank is to accept deposit from the public. The commercial bank not only protects it but also provides the depositors with a convenient method for transferring funds through the use of cheques. It accepts deposits from every class and from every source and in all cases without exception. It undertakes to repay the money, either in part or in full, in legal tender money. Deposits are of various types – demand deposits, saving deposits and fixed deposits.
  
3. Agency service: Under this fall these functions:
  - i. Foreign exchange
  - ii. Serving as an agent on behalf of its client
  - iii. Issuing L.C.
  - iv. Circulating notes, bank draft, travelers cheque etc
  - v. Purchase and sale of different types of securities and remittance of fund
  - vi. Under writing of securities
  - vii. Collection of payment of cheques, bills promissory notes, coupons, dividends and other instruments
  - viii. Acting as executors
  - ix. Discounting of bills
  - x. Providing safeguard to valuable of credits by keeping in safe custody etc
  
4. Credit creation: Credit creation is one of the most important functions of the commercial banks. In order to earn profits, they accept deposits and advance loans by keeping small amount of cash in reserve for day to day transactions.

When a bank advances a loan, it opens an account to draw money by cheque according to his needs, by granting a loan, the bank creates credit or deposit.

5. Facilities for the financing of foreign Trade: The other primary function of commercial bank is making arrangement for the amount of foreign exchange needed by business organization to pay in the foreign county. Bank provides more satisfactory guarantee to an individual or firms brought the issuance of a commercial letter of credit drafts telegraphic transfer (T.T) and accepting traveler's letter of credit or traveler's cheques.
6. Safekeeping of valuables: The safekeeping of valuables is one of the oldest services provided by commercial banks. The protection of valuable falls into two areas or a department of bank. Safe deposit boxes and safekeeping. Safe deposit boxes are made available to customer on a rental basis that may be useful provides a place for securities, bonds, insurance policies and personal items of valuable only to the owner. In other hand, safekeeping differs from safe deposits box services in that the bank has custody of the valuables and acts as an agent for the customer.
7. Making venture capital loans: Increasingly, banks have become active financing the start up costs of new companies, particularly in high- tech industries, Because of the added risk involved in such loans, this is generally through a venture capital firm that is a subsidiary of a bank holding company, and other investor are often brought in to share the risk.
8. Financial Advising: The customers have long asked bankers for financial advice. Particularly when it comes to the use of credit and the saving or investing of fund. Many banks offer a firm helping financial planning to consulting to business managers and checking on the credit standing of firms.
9. Offers security Brokerage Services: In today's financial market place many banks are striving to become true "Financial super market" offering sufficiently wide array of financial services to permit customers to meet all of their financial needs at one location. This is one of the reasons many banks began to market security brokerage services offering customers and opportunity to buy

stocks, bonds and other securities without having to go to security dealer or broker.

10. Offers Investment Banking and market banking services: Banks today are following the footsteps of leading financial institutions all over the globe in offering investment banking and merchant banking services to corporations. These services include identifying possible merger targets, financial acquisitions of other companies, dealing in security understanding, providing strategic marketing, advice and offering hedging services to protect their customer against risk from fluctuating world currency prices and changing interest rates (Vaidya: 1999:27).

The role of the banks in economic development is to remove the deficiency of capital by stimulating saving and investment. A sound banking system mobilizes the small and scattered saving of people and makes them available for investment in productive enterprises. The opening of commercial banks records the economy pulse of the economy. The size and composition of their transaction mirror the economy happening in the country.

#### **2.1.2.2 Role of RBB in National Economy**

Commercial banks are the engine of modern financial system. The role of these banks is significant not only in mobilizing saving but also in making investment for the development of different sectors of the economy. Their role is prominent in reducing poverty and increasing employment opportunities in the country. Commercial banks are therefore called modern vehicle for the economic development.

The development of commercial bank is considered as the basis for measuring the level of economic development of nation. It has widely accepted that the country in which the banking system is developed the level of development is better. So the development of banking system has become synonymous with the development of a country.

The history of the development of financial institutions in Nepal is more than 70 years. The financial system of Nepal consists of a central bank and insurance companies are also operating in the market. There are 27 'A' level Banks, 59 'B' level

of Bank 79 'C' level financial company and 12 'D' level "Laghu Bitta Development Bank".

RBB and NBL are two largest domestic commercial banks operating in the country. These banks are providing substantial contribution to the development of Nepalese economy. Among these two banks RBB is the only one commercial bank established in 1965 with full ownership of government under the special character called "RBB Act 2021".

Regarding the need of RBB, the third plan has started that "... NBL alone cannot meet the financial requirements of commerce, trade and industry. A new bank RBB has been established in public sector.. It will develop banking facilities in areas, which are presently not served by Nepal Bank Ltd. And operate as an agent of NRB. This will relieve NRB in some of its present functions and enable it to concentrate its efforts in improving the monetary system of the country". RBB has established its banking image with its services in the heart of Nepalese people. General people normally seek to reach RBB for their simple to complex business. In terms of banking business RBB holds 19% banking sector deposits of the country. In the loan and investment holds 24% of the country's banking sector loan and investment portfolio. Regarding the services it has offered, there are at present more than 1100,000 depositors from different parts of the country, majority of them are outside Kathmandu valley. The other side of survives it has offered is the credit facilities provide to small land less rural poor to big corporate. There are more than 20000 borrowers across the country. In numbers the majority of these borrowers are micro credit users who normally work in rural and semi-urban areas.

The next of its service is the branch network spread all over the country. The bank has 114 branches in 63 districts these branches provide all kinds of banking facilities to the rural and semi – urban people that has encouraged saving habits.

Creating employments for educated and semi-educated people are another important contribution to the country. The bank has provided jobs for more than 6000 people. Some of them had received pensions of gratuity as special security, which is one of

the duties of the state. At present there are 4000 people working in different capacities.

The bank is also playing a pioneer role in development and training of banking manpower in the country. During the initial period of establishment of joint venture banks in the country, some of the manpower was recruited either from RBB or NBL.

In many districts the bank also acts as an agent of the central bank providing all kinds of services to HMG and also operates exchange counters and maintains treasury of Nepalese and India countries. At present 47 branches are involved in undertaking HMG transactions. All these transactions are done for providing services to the people. This is the reason that most of those branches are making losses.

Nepalese commercial banks have been involved in rural finance for more than 25 years under the priority sector credit program. This program was started in 1974 with the objectives of providing credit to the rural sector and finance small, scale enterprises in the area of agriculture, cottage industries and services sectors. Nepal Rastra Bank made it mandatory for all commercial banks to invest at least 12% in priority sector including at least 3% and in deprive sector. Under this program RBB started development banking as the core field activities of many rural branches. The bank has made a substantial contribution in setting – up different institutions, for furthering the economic development of the country. Bank has promoted these institutions by injecting equity capital or by representation in management. Examples of such institutions are Nepal Oil Corporation, Nepal Investment Bank Ltd, Nepal Housing and Finance Ltd, Gramin Development Bank in all 5 development Regions, Nepal Industrial and Commercial bank, National Life and General Insurance Company, Neco Insurance Company, Nepal Merchant Banking and Finance Ltd. Etc.

### **2.1.2.3 Major Objectives and Activities of RBB**

The main objectives of the bank are to provide banking services to the people and contribute in the economic development of the country. The bank's major activities include collection of deposit, investments on Government securities and company

equities, lending to commercial as well as productive section, foreign currency handling, remittances, merchant banking, correspondent banking etc.

The bank has the largest deposit base comprising of more than 1.2 million depositors. The depositors are common people, institutions, private organizations, business houses, and non-profit organizations, social organizations, Industries, Finance Companies, co-operatives societies etc. The bank has more than 300 thousand clients who have used the bank's resources for their business and development activities, they vary from big business houses to public sector enterprises, medium and small scale industries to farmers and individuals.

- ) Production credit for Rural women (PCRW)
- ) Banking with the poor for the deprived people
- ) Micro credit
- ) Loan to unemployed graduates.
- ) Minis Microbus / clean tempo credit program for environment protection etc.

## **2.2 Review of Related Studies**

Various writers and researchers have conducted various studies on various aspects of RBB. The conclusion of some of them has been given below which help in Summaries of related thesis work.

Adhikari (1994) study on, "A comparative analysis of investment structure of RBB and NBL," researcher found the liquidity diversification and profitability of Nepal Bank Ltd as indicated by him is fixed deposit of customers. He also finds high degree of correlation between deposit and investment of NBL. In the process of study he has found the bank following traditional and limited banking activities. Finally, he has suggested the bank to replace the traditional methods of carrying out activities with scientific ones and to expand the scope of its activities.

The study conducted by Shrestha (2000-02) entitled, “comparative analysis of financial performance of the selected commercial bank”. The main objective of Mr. Shrestha was to compare financial performance of selected commercial bank of Nepal micro level. So, with the help of descriptive can analysis research design the study was completed and executive summary of the study is listed below.

- ) The operating profit of SCBNL was found to be in highest position throughout the reviewed period, followed by NABIL in second position.
- ) NBBL has highest return on shareholder’s fund, followed by SCBNC.
- ) NABIL has the highest shareholders fund, followed by SCBNL.

Thapa (2005) in titled, 'SWOT analysis of Nepal investment Bank Ltd'. All the above studies were focused on the comparison of the financial position of the RBB with other commercial Banks or financial analysis and SWOT analysis of RBB only or other aspects of the RBB. But, this study is quite different from other studies. It has taken a single bank, i.e. the NIBL and for the purpose of study, it has been tried to comparatively analyze the financial position of the Bank for three different periods separately by dividing a period of nine years into three equal parts of three years each. The main gap of the above studies was to compare the financial position of the bank only an annual basis or to compare the banks performance between two subsequent years. But this study focuses on the comparison of financial position of the bank between three years periods.

Upreti (2001) states that profitability in term of return on shareholders equity ratio of NGBL is found lower in F.Y, 1994/95 (3671%). Similarly, the ratio of HBL is found within the range from 38.68 % (in 1995/96) to 23.13% (in 1998/99). The yearly average of NGBL (i.e. 31.52) is higher than yearly average (i.e.30.152) of HBL. It can be concluded that both the banks have been able to earn profit on shareholder’s equity but not satisfactory level. NGBL is more success to generate more return on its shareholder’s funds than that of HBL, although there is no significant different between the averages of these ratio of the two banks. Return on total assets ratio of NGBL is found within the range between 2.95 % (in 1995/96), (2.30%) and

(in1994/95) where the same ratio of HBL is found within the range from 2.48 % (in 1995/96) to 1.48% (in 1998/99). The yearly ratio of HBL is generally decreasing over the study period. Moreover, the yearly average of NHBL (2.64) is found higher than the yearly average of HBL along with its yearly average ratio is also higher than composite average of the banks. It can be concluded that return on total assets ratio in cash of NGBL is found better performance by utilizing overall resources but the generated profit is found lower for the overall resources in both the joint venture banks.

The main statement of the problem of his research is the Himalayan bank Ltd. and Nepal bank operating in Nepal. In comparison to their JVB's these bank have achieved a desirable success in terms of market share and profit due to their service excellence, consumer satisfaction, highly skilled management and staff and worldwide network of branch. Although, Himalayan Bank Limited and Nepal Grindlays Bank have able to perform better than other local banks and financial companies within a short span of time, they have been facing competition with each other. These banks do not have strong financial position in respect to net profit to capital employed ratio, capital adequacy and earning per share. The contribution of these banks in rural areas is very unsatisfactory. To know the solution of these problems, the competitive financial analysis of these two banks will be much more helpful.

The main objectives of his research are:

1. To study the present financial position of the two joint –venture banks.
2. To do the comparative study about the financial performance of these banks with regarded to their profitability, liquidity, efficiency and capital structure position.
3. To provide recommended and to give decisive and pragmatic suggestion on the basis of findings to improve the financial performance of the Nepal Grindlays bank Ltd. and Himalayan bank Ltd.

For the purpose of analysis and interpretation various financial and statistical tools have been used as per need. Different tools have been applied to analyze the data.

The main limitation of his research is

1. The study is associated only to the financial performance of HBL and NGBL.
2. This study deals with specific tools such as ratio analysis, mean, CV, etc.
3. The figures as available in the published account of HBL and NGBL have been assumed to be correct.

Kapadi (2002) states that most of the capital structure ratios show that the capital structure of both the banks is highly leveraged. Total debt to equity ratio of both the banks reveals that the claims of the outsider exceeds more than that of the owner's over the bank asset. However NABIL bank seems to be more leveraged than SCBNL. Total debt to total assets ratio of both the banks has always been over 88, which indicates the excessively geared capital structure. Comparatively NABIL bank has used a little more debt financial than SCBNL. Long term debt to total assets ratio of NABIL bank is seems to be greater as per mean which shows more use of long-term debt by NABIL bank than by SCBNL. Long term debt to net worth ratio of both the banks is following the fluctuating trend. The mean proportion of outsiders fund and owners fund employed in the total capitalization of NABIL bank is higher than that of SCBNL. This implies that it is following an aggressive strategy of higher risk higher return policy. The net fixed asset to net worth ratio of NABIL bank is higher than that of SCBNL as per mean ratio. But the investment of owners' equity in fixed assets for both the banks are minimum as is commonly seen in various financial institutions.

The main statement of the problem of his research is NABIL bank and SCBNL have been operating well from their very establishment. Their experience on international banking, prompt and computerized services professional altitude are the factor for their rapid progress. They have been gaining weakness and inefficiency of domestic commercial banks. These banks have succeeded to capture a remarkable market share of Nepalese banking sector in a relatively short period of time. This fluctuation in different aspects of both the sample banks can be traced out by analyzing their financial performance. Therefore, the researcher of this thesis will seek the answers to the following questions relating to both of these banks.

1. How for NABIL and SCBNL and utilized deposits.
2. How these banks have been managing their position relating to the liquidity assets capital structure and others?
3. What are the operational results to their profit ability?

The main objectives of his research are:

1. To examine the trend of deposits and loan and advances of NABIL bank and SCBNL.
2. To study the liquidity profitability capital structure activity and capital adequacy position of NABIL bank and SCBNL.
3. To suggest and recommend some measures by evaluating and finding financial performance of NABIL bank SCBNL on the basis of finding.

The study of this thesis is the descriptive analytical method. The core objective of this thesis is to analyze the financial performance of NABIL bank and SCBNL this includes the examining of liquidity capital structure and activity and profitability ratios of the ratio joint venture sample banks.

The main limitations of his research are:

1. This study examines only financial performance of NABIL bank and SCBNL.
2. This study is based on the published financial statements of commercial banks among with other related Journals, Newspaper, Magazine, Bulletins etc. Which are also not sufficient for completion of the study?
3. There are fifteen commercial and joint venture banks. Due to time and resources constraint the study is only confined to NABIL banks and SCBNL.

Bista (2002) found that the study has been undertaken to examine and evaluate the financial performance of NABIL bank limited. The researcher has used the financial tools to make this study more effective and informative. This study has collected ten years data from 1991/1992 to 2000/2001 of the NABIL bank limited. The analysis shows that the deposits of the bank have increased during the years 1999/00 and 2000/01. The rate of increase was comparatively low for the year 1996/97. Total loans

and advances have been increasing at an average rate of 24% each year, highest of 51% in year and lowest of 7% in year 1996/97. Total investment of the bank has been increasing over the years, which is mainly due to the bank's strategy of safe lending and because of increase in customer's deposits and limited opportunities for prudent lending.

The main statements of the problem of his research is financial management aspect is considered to be the vital and integral part of overall management of any enterprises, ensuring financial strength through adequate cash flows, liquidity and better utilization of assets. Commercial joint venture banks set up in Nepal seem to need greater funds in terms of financing to the expansion of their assets because of growing number of new establishment of joint venture banks in the country. These banks deal with other people's deposits, most of which are payable on demand. There is no doubt that the survival of the existing commercial banks and other financial institution depend upon how they manage their assets and liabilities to maximize their profits with the minimum exposure of assets to risks, and are guided by there important conflicting criteria of solvency, liquidity and profitability. Therefore, the financial management is the main indicator of the success or failure of any business firm. Financial condition of the business firm should be sound be sound from the point of view of shareholders, debenture holders' financial institutions and nation as a whole.

The main objectives of his research are:

1. To analyze liquidity, leverage, activity profitability and ownership ratios of the bank.
2. To study the income and expenditure statements of the bank.
3. To analyze the bankruptcy score of the bank for the period of fiscal years from 1996/97 to 2000/01
4. To provide suggestions and recommendation based on the findings of the analysis.

The main limitations of his research are:

1. The study has been carried out based on the published financial documents such as balance sheets, profit and loss accounts; related published documents have their own limitations.
2. The study has been focused on the financial performing of NABIL bank limited with helps of financial tools. Similarly, bankruptcy score has been analyzed for the period of recent five year solely based on the Altman statistical model of bankruptcy score.
3. The conclusion drawn up from this study may or may not be applicable to other commercial banks in Nepal.

Parajuli (2003) states that concept of financial reform emerged since 1980s with economic liberalization. Nepal Government and NRB published the economic and monetary policy to support such reform. As the result of these policies various jointed venture bank established in the private sector. Under the structural adjustment program of the IME the financial sector was further liberalized in 1987. The focus of NRB was placed on indirect monetary control. The agricultural development bank of Nepal and Nepal industrial development corporation were allowed to issue debentures to increase their financial resources. NRB strengthened its regulation and supervision of banking and financial institution and the commercial banks were granted virtually freedom to fix their interest rates on deposit in July 1989 except for the priority sector credit. The credit information Bureau was established in 1989. NRB started to control the financial institutions with strengthening to supervision and monitoring system. It has also pointed out the need of having deposit taking institutions act which it's on umbrella act of all deposit taking institution. Some of the main elements of financial sector reform strategy published by NG in December 2000 such as restructuring the government owned banks strengthening the commercial banks regulation accounting and auditing system improving the regulation and supervision on non banking deposit institutions.

The main statement of the problem of the study is government owned banks are in critical condition they are unable to recover the credit. Financial sector reform

programs are not being able to achieve the expected target. Performance on the credit is poor in the government banks. Amount of non - performing assets is increasing. Generally, it is accepted If bank maintain low ratio, bank may not able to make the payment of against cheque that disadvantage sector in the economy such as the farmer and the small business have been neglected by the banking industry. In other words such sectors in the economy are not receiving the financial supports as commercial banks hesitate to be involved in these sectors where they do not see adequate profit.

The main objectives of his research are:

1. To assess whether all the commercial banks allow follow the similar procedures while granting loans.
2. To find out the relevancy of the financial sectors reform program.
3. To measure the comparative output of credit management in joint venture bank and government.
4. To examine the level of the non-performing loan investments that exists within the banking industry
5. To provide suggestions for the future betterment of credit management system in the commercial banks.

The tools applied are financial tools like liquidity ratios, assets management ratios, activity ratios, loan and advances portfolio, profitability ratio and statistical tools like arithmetic mean, standard deviation and trend analysis.

The main limitations of his research are:

1. Main source of the data collection is from the banks publications which may not be always reliable because they may publish the reports according to their profit policy and market situation .And the personal interviews and interactions may not be factual.
2. There are some difficulties to get the sufficient information as banks hesitate to provide data easily. In the course of data collection, NBL could provide the data of three financial years only.

Regmi (2004) states that commercial banks are those banks, which work from commercial view point. They perform all kinds of banking functions such as,

accepting deposits, advancing credits, credit creation and management of credit and advances. Portfolio management helps to minimize or manage the credit risks and spreading over the risks to various portfolios. Banks earn interest on credit and advances which is one of the major source of income for banks. On average 5 years of research period, cash and bank balance to total deposits of ratio of NB bank and BOK is 12.75% and 14.12% respectively. Likewise NB bank and cash and bank balance 1.584 times of current deposits and BOK has cash and bank balance 1.14 times of current assets. NB bank: most of the credit and advances almost 70% is provided an assets guarantee. The assets guarantee credit is increasing period by period. After assets guarantee bank has provided credit based on bills guarantee credit is 3421.3millions (76.1% of total credit) and in the last period it is 3347.99millions (58.2%of total credit).

The main statement of the problem of his research is the Nepal is a small country with small market. Economic condition of the country is degrading. Nepal being an agriculture country needs more investment in this sector. Nevertheless, commercial banks are rather concerned in industrial and foreign projects. As a result, the credit extended to this sector is unsatisfactory. Besides, they are not even fulfilling the NRB's, regulation of 12% investment of their total loans to priority sectors like agriculture, cottage and small industries and services. Similarly, the banks are not following the diversification principle i.e. they are not considering the investment portfolio position. A good portfolio theory indicates diversification of invest able funds to reduce risks. Hence, the principle "do not put all the eggs in basket" really does not apply in context of Nepalese commercial banks. As a result, many banks today could not recover their loan because, in the past, a major portion of their investment were made in garment, carpets and hotel sectors that now come to the brick of extinction.

The main objectives of his research are:

1. To analyze the functions, objectives, procedure and activities of the NB bank and BOK.
2. To analyze the credits and advances provided by the two banks.

3. To analyze the recovery status of the credit disbursed.

The financial and statistical tools are used like; coefficient of correlation, standard deviation, arithmetic mean etc.

The main limitations of his research are:

1. This research study largely depends on published documents such as balance sheet, profit and loss account statements, which are circulated at the close of the financial year.
2. In this study only selected financial and statistical tools and techniques are used.
3. The study has taken only Bangladesh Bank and Bank of Kathmandu Limited as sample. The finding drawn or may or may not be applicable to other various JVBS in Nepal.

Karki (2004) found that the development of any country largely depend upon its economic development capital formation is the prerequisite in setting the overall pace of the economic development of a country. Well-organized financial system contributes to the process of capital formation by converting scattered saving into meaningful capital investment in order to aid industry, trade, commerce and agriculture for the economic development of the nation. The financial institution play dominant role in the process of economic development. Banks are indispensable elements in these systems. Commercial banks furnish necessary capital needed for trade and commerce for mobilizing the dispersed saving of the individuals and institutions. They provide the bank source of the money supply as well as the primary means of facilitating the flow of credit. Apart from these, the basic objectives of JVBS in Nepal are:

1. To welcome foreign investment in the country in the form of JVBS capital.  
To develop the capital market in the country with the expectation, that these JVBS invest in the shares of other companies.

2. To mobilize the idle resources for income generating purposes in a most effective way.
3. To develop the Nepalese banking sector in order to make it proficient with the help of sharing technical foreign service agreement and ultimately expertise the Nepalese personnel to make them capable of operating these banks efficiently.

The main statement of the problem of his research is various financial institutions have been established to assist the process of economic development of Nepal. Delivering efficient services to the common people by enhancing efficiency of the commercial banks and improving their management style pose a challenge to the banks and financial institutions. The existing condition of the liquidity of the banking and financial institutions needs to be reduced through an appropriate investment policies. Equally important is the challenge to minimizing their intermediation cost. In order to help realize the goal of poverty alleviation, access to increased flow of credit and investment in the economic activities of direct benefit to the maximum number of low-income people through micro and medium sizes loan needs serious attention in the days to come. It is also necessary to identify the activities that ensure quick return of investment. Thus, the present study seems to explore the efficiency and weakness of NABIL and SCBNL.

The main objectives of his research are:

1. To compare analyze the liquidity, profit ability, capital structure, capital adequacy leverage ness and operation of NABIL and SCBNL.
2. To perform trend analyses of these selected banks and make a projection of these for next five years.
3. To analyze the relationship between DPS and EPS if NABIL and SCBNL.
4. To evaluate the soundness of profitability and operating efficiency of NABIL comparing with that of SCBNL.
5. To make suggestions of the improvement of financial performance of NABIL and SCBNL for the future.

In this study, various financial accounting and statistical tools have been used to achieve the objective of the study. The analysis of data will be done according to the pattern of data available. Due to limited time resources, simple analytical tool such as the methods of least square is used in this study. Likewise, some financial tools such as ratio analysis and trend analysis have also been used for financial analysis.

The main limitations of his research are:

1. This research paper is prepared, especially in fulfillment of degree course for MBA. Since the collection of data through primary sources requires on the spot visit, consuming a lot of time and money not affordable by a student all the relevant data and information collected and consolidated from the based on the published financial document like balance sheet, profit and loss account and other related journals, the authenticity of which has not been questioned. Other information has been taken from the company's executive officials.
2. Limited resources and time at the disposal of his research did not allow a much more extensive analysis of the subjective in question.

Basnet (2005), states that financial analysis involves the method of calculating and interpreting financial ratio in order to assess the firm's performance and status. The following are the main findings from the financial ratio. The current ratio measures only total rupees worth of current assets and total rupees worth of current liabilities i.e., it indicates the availability of for current liabilities. A ratio that is grater than one means that the firms has more current asset than current claims against them. The calculation found that the average current ratio of SBI (1.05 times) is greater than that of NBB (0.98times). The table shows that the ratio is in fluctuating trend of SBI and decreasing trend of NBB. The highest ratio for SBI is 31.41% and lowest is 18.45% and lowest ratio is 8.47%. Calculation of loan and advances to total deposit exhibits that the ratio is fluctuating for SBI. It was lowest in fiscal year 2000/2001 whereas the ratio was in increasing trend up to fiscal year 2001/2002 for NBB but it is decreased in 2002/2003.

The main statement of the problem of his research is the main problem area of the study is to find out the financial performance of these two banks comparatively. Whose financial performance is better? Are they able to meet the obligation? Do they manage and utilize its assets satisfactorily. Are they maintaining sufficient liquidity position? Do they have sound operational result in relation to their profitability? Do the financial ratios vary widely from year after year in the banks? Therefore, focus of the present study is on the financial performance of the joint venture banks in Nepal comparing the performance of SBI bank and NBBL. The comparative studies between various joint venture banks.

The main objectives of his research are:

1. To highlight the review of previous studies.
2. To study the financial position of both the banks.
3. To study the financial performance of these two banks.
4. To offer a package of suggestion to improve the financial performance.

Financial performance is analyzed with two important tools. The first most important tools are the financial tools, which includes ratio analysis and other is a statistical tools which is bankruptcy score.

The main limitations of his research are:

1. This study based on the secondary data available.
2. The study is done only based on the published annual report.
3. Only limited financial tools are used for analysis, so this study may not sufficient.

Shrestha (2006) found that NB bank has sufficient liquidity. It shows that bank has not got investment sectors to utilize their liquid money. Now, in Nepal many banks and other financial institution are functioning to collect deposits and invest money somewhere in the invest able sectors. Therefore, miniaturization has been increased since liberalization policy taken by the government. Heavy remittance has also helps to increase the amount of deposits in bank. On the other hand, due to political crisis, economic sectors have been fully damaged. Most of the projects have been withdrawn due to security problem. Therefore, bank has maximum liquidity due to lack of safety

investments sectors. NB bank has utilized most funds in the form of credit and advances. More than 75% of total deposits of the bank have been forwarded to customers as a credit and advances. Therefore, it is the major part of utilizing deposits and income generating sectors. If the bank has high deposits, bank can provide money to its customers as credit and advances. Therefore, there is highly positive correlation between total deposits and credit and advances of NB bank is 0.978 times. Therefore, bank is providing different schemes to attract good customers. After attracting deposits from the customers, bank has issued the deposits to the needy area to make profit for the bank.

The main statement of the problem of his research is the commercial banks in Nepal have been facing various challenges and problems. Some of them arising due to the economic condition of the country and arising due to lack of policy clarity of government and many of them arising due to default borrowers. After liberalization of economy, banking sector has growth and various opportunities have emerged. However, the financial institutions do not seem to be performing well. Liquidity is high with the financial institutions. Hence, the banks and financial institutions are competing among themselves to advance credit to limited sectors available. Banks and financial institutions are investing in house loan, hire purchase loan for safety purpose. Due to lack of good lending opportunities, banks appear to be facing problems of excess liquidity. Nowadays, Banks have increasing amount of deposits in fixed and saving accounts but have decreasing trend in lending behaviors. Therefore, this has caused major problems to the commercial banks. Due to competition among banks the interest rate for loan is in a decreasing trend.

The main objectives of his research are:

1. To analyze the functions, objectives procedure and activities of the NB bank.
2. To analyze the lending practices and resources utilizations of NB bank.
3. To determine the impact of growth in deposit on liquidity and lending practices.

The main limitations of his research are:

1. The study mainly concentrates only on those factors related with credit practices.
2. This research study largely depends on published documents such as balance sheet, profit and loss account, which are circulated at the close of the financial year.
3. In this study, only selected financial and statistical tools and techniques are used.

Gautam (2006) states, many joint venture banks are operating in Nepal as commercial and merchant banks. The growth is still going on as so many new banks are coming into existence after this study. Therefore, JVB's are operating with higher technology and new efficient methods in banking sector. However, this study has been undertaking only three JVB's viz. SCBNL and NBBL to examine and evaluation the financial data. Besides latest financial statement of six, year from 1999 to 2004 have been conferred for the purpose of the study. All JVB's has used high percentage purpose of the study. All JVB's have used high percentage of total debt in raising the assets. The higher ratio constitutes that the outsider's claim in total assets of the bank is owner's claim. The on an average, NBBL bank constitutes 16.27 times of D/E ratio, which should be reduce as quickly as possible. The financial risk of the banks NBBL average degree of finance leverage constitutes 3.73 times which indicates the higher degree of financial risks 3.73 times which indicates the higher degree of financial risks. The average ROE of JVB's: SCBL and NBBL area 37.36% and 21.75% respectively.

The main statement of the problem of his research is the capital structure which refers to the proportion of different types of securities issued by the firm like common shares, long-term debt, preference share capital, and debenture and retains earnings. Effective capital structure is a key to successful banking. Capital structure to the firms affects profitability position and cost of capital. Therefore, every firm has to maintain its capital structure effectively. We know that major portion of the capital comprises

of owners fund and creditors fund. The owners expects dividend and appreciation in the share price whereas creditors expect interest and return of the fund at the mentioned time. So, the capital structure of the firm is important factor in determining the success of the firms. The firm is successful if it can optimize its capital structure strikes a balance between the risk and return thus maximizes the price of the stock.

The main objectives of his research are:

1. To study the existing capital structure of financial position of selected joint venture commercial banks and to analyze its impact on the profitability.
2. To access the debt servicing of the joint venture commercial bank.
3. To examine the correlation and the signification of their relationship between different ratios related to capital structure.
4. To provide suggestions and recommendations for the optimal capital structure of the joint venture commercial bank.
5. To obtained the objectives, some financial, statistical and accounting tools.

The main limitations of his research are:

1. Only secondary data will be analyzed to interpret result emerging from decision, so the result depends on the reliability of secondary data.
2. There are many factors that are including in capital structure of bank; however only those factors related with comparative capital structure will be considered in this study.

### **Research Gap**

This study on 'Impact of Management Change (A Case of Rastriya Banijaya Bank)' tries to fulfill the following previous research gap:

- ) A lot of study has been conducted to find out the impacts of various issues of the different banks but very few studies have been constructed on in-depth analysis of a specific bank.

- ) Being the RBB focused issue, present study has presented all the basis information relating with the management changes. So study is furnishing the impacts reflected on respective financial year during the period of before and after management change.
- ) This study covers the five years period, which is the standard level for comparing the financial statement of the company.
- ) This study result also may provide the effectiveness of the Financial Sectors Reforms Program for RBB.

Therefore study is really fruitful to all of the interested persons, entities to know about the cost and effectiveness of managerial change and to bridge the gap of such type of lacking information.

## **CHAPTER – III**

### **RESEARCH METHODOLOGY**

#### **3.1. Introduction**

Research methodology can be defined as systemic process that is adopted by the research in studying problems with certain objective. Research is careful investigation or enquiry especially through research for new facts in any branch knowledge is research. “The research is knowledge through objective and systematic method of finding solution to a problem in research” (Kothari, 1989: 2). The main purpose of this chapter is to focus on different research method and conditions, which are used while conducting this study.

#### **3.2 Research Design**

A research design is the specification of methods and procedures for acquiring the information needed. It is the overall operation pattern of framework, of the project that stipulates what information is to be collected from which sources by what procedure. It is a good design, it will ensure that the information obtained is referent to the research questions and that was collected by objectives and economical procedures. (Green and Donald; 2003: 32)

“Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance”. The plan is the over all Scheme or program of research. (Joshi, 2006: 13).

Research design is the arrangement of condition for collection and analysis of data to achieve the objective of this study descriptive and analytical research design has been used. This study is based on primary as well as secondary data. Some sample statistical methods such as correlation analysis and trend line have been applied to example the fact of data.

### **3.3 Populations and Sample**

There are all together 27 commercial banks operating in Nepal. RBB is one of the governments owned leading bank of Nepal which was established in 10 Magh 2022. Out of total available data (1975 to 2008), we have collected the relevant data form 1998 to 2008 because management was changed during the year of 2003. So, selected periods are five year before management change and five year after management change which are useful to draw the comparative conclusion about the management change.

### **3.4 Data Collection Method**

Mainly the study conducted on the basis of secondary data. The data relating to the financial performance i.e. profit and loss account and Balance Sheet are directly obtained from the RBB. The data are based on the information provided by the officers of concerned department of RBB. Supplementary data and information are collected from number of institution like Shanker Dev Campus Library, library of Tribhuban University, and Documentation section of T.U. Library, RBB central office etc. Some primary data are also collected through the questionnaire and personal interview of related staff and department chief person. Various issued and official records are obtained through personal appointment.

According to the needs and objectives of the study, collected data are tabulated into various forms and formats. Similarly, some primary data have also been taken to make the study more effective and meaningful. Formal and informal talks to the concern pear of the department of the bank were also helpful to obtain the additional information of the related problem. Similarly, various data and information are collected from the economic journals, periodicals, bulletins, magazines and other published reports and documents from various sources.

### 3.5 Data Analysis Tools

Different kinds of accounting and statistical tools are available to meet the purpose of the study. These tools may be from very simple average to highly sophisticated ones. The analysis of data will be done according to pattern of data available.

Under this heading status of deposit, before and after management change are analyzed. To make the comparative study meaningful we have taken total ten year data then, period is further divided in to two groups having five each. Characteristics are shown by one groups represents before management change status and vice versa. Mainly following calculation are done under the following heading:

#### **Comparative Study of Deposit**

Under this heading status of deposit, before and after management change are analyzed

#### **) Deposit Growth Analysis**

Year wise movements of deposit are analyzed under this heading. Mainly following tool is used to calculate,

$$\text{Increase / Decrease} \times \frac{\text{Deposit}(t+1) - \text{Deposit}(t)}{\text{Deposit}(t)}$$

Where, Deposit (t+1) = Deposit at the end of the year or (t+ 1 year)

Deposit (t) = Beginning Balance of Deposit (t year)

#### **) Deposit Mix Analysis**

We can get various types of deposit in the market, mainly fixed deposit, saving deposit, call deposit, current deposit. As their names are difference, effect of such account is also different. To find out the effect we have used following tool.

$$\text{Weight} \times \frac{\text{Deposit}(p)}{\text{Total Deposit}}$$

Where, Deposit (p)= Volume of product wise deposit

Depositors are resource savers or resource suppliers to banks so here we have analyzed the movement of depositors during the sampled period of RBB. To find out the movement of depositors we have used following tool.

$$\text{Movement } X \frac{\text{Depositors}(t \Gamma 1) Z \text{Depositors}(t)}{\text{Depositors}(t)}$$

Where, Depositors (t+1) = no. of depositors on t<sup>th</sup> plus one year

Depositors (t) = depositors during the t<sup>th</sup> year.

### **Comparative Study of Credit**

Mainly credit of the banks consists various types of purpose like as agricultures, mines, productions, constructions, metal productions, machinery and electrical tools, transportation, equipment, production and fittings, transportation, communications, public services, wholesale and retail (trade) finance, insurance, fixed assets, service industries, consumable loan, local government, educational, vehicles professional, personal etc.. To find out the real movement of purpose wise credit and pattern of credit over the sampled year, we have used following tools.

### **) Credit Growth Analysis**

Year wise movements of credit are analyzed under this heading. Mainly following tool is used to calculate,

$$\text{Increase / Decrease } X \frac{\text{Credit}(t \Gamma 1) Z \text{Credit}(t)}{\text{Credit}(t)}$$

Where, Deposit (t+1) = Credit at the end of the year or (t+ 1 year)

Deposit (t) = Beginning Balance of Credit (t year)

## ) **Propose wise Credit Mix Analysis**

Weights of each and every proposed credit are analyzed by using following tool.

$$\text{Weight} \times \frac{\text{Credit (p)}}{\text{TotalCredit}}$$

Where, Deposit (p)= Volume of propose wise Credit

## ) **Analysis of Non Performing**

Under this heading information of effective credit mobilization is trying to disclosure. Being the main source of income of the bank credit is the most to evaluated effective. For the same proposed we have done following activities. Information about the performing loan is collected for the bank which consists pass and restructured loan, similarly non performing loan related information are collected and then following tool is used to find out the ration.

$$\text{NPA} \times \frac{\text{NonPerformingLoan}}{\text{TotalLoan}}$$

Where, NPA= non performing asset/loan

Total Loan = non performing loan+ performing loan

## **Interest Income and Expenses Analysis**

Deposit is the gateway of banking and Loan and advance (credit) is gateway of revenue for the bank. During the deposit collection period bank adds the source of cost and during the mobilization of loan bank adds the source of income. Under this heading we have calculated following.

Interest Expenses to Deposit ratio

$$\text{InterestExpenses to DepositRatio} \times \frac{\text{InterestExpenses}}{\text{Deposit}}$$

Interest Income to Loan and Advance (Credit) ratio

$$\text{Interest Income} \div \text{Credit Ratio} \times \frac{\text{Interest Income}}{\text{Credit}}$$

### **Analysis of Profit**

Profit is the final outcomes of performance of any banks and financial institutions. For the betterment and survival each and every banks should earn sufficient profit. So, here we have analyzed the trend of profit of the bank by using following tool.

$$\text{Increase / Decrease} \times \frac{\text{Profit}(t+1) \div \text{Profit}(t)}{\text{Profit}(t)}$$

Where, Profit (t+1) = Profit of t+ 1 year

Profit (t) = Profit of t year

### **Analysis of Liquidity**

Deposit is the gateway of banking sector to render all services to the clients and credit is gateway of income of the bank which determines the sustainability of the banks. So, proper trade off should be made between these two variables, to get the information about RBB is said variables we have calculated a credit to deposit ratio (C/D Ratio) as follows,

$$C / D \_ \text{Ratio} \times \frac{\text{Total Loan \& Advances (Credit)}}{\text{Total Deposit}}$$

Where, total loan and Advance covers all types of credit that are rendered through the banks and total deposit covers all types of deposit (all types of deposit of foreign currencies plus all types of local currencies deposits).

### **Analysis of Expansion**

Trend of decentralization is increasing day by day; each and every banks are trying to expand the services to the targeted group. In the same context we have tried to find

out the impact of management change on branch expansion and staffing. To draw the valid conclusion we have used following tools.

**) Status of Branch Expansion/ Retrenchment**

$$\text{Increase / Decrease} \times \frac{\text{Branch (t + 1)} - \text{Branch (t)}}{\text{Branch (t)}}$$

Where, Branch (t+) = Total Branch of t+ 1 year

Branch (t)= Total Branch of t year

**) Status of Staffing**

$$\text{Increase / Decrease} \times \frac{\text{Staff (t + 1)} - \text{Staff (t)}}{\text{Staff (t)}}$$

Where, Staffs (t+) = Total Staffs of t+ 1 year

Staffs (t)= Total Staffs of t year

**) Trends of Staff Mobilization per Branch**

$$\text{StaffingRatioPerBranch} \times \frac{\text{TotalStaffs(t)}}{\text{TotalBranch(t)}}$$

Where, Total Staffs (t)= Total no of staffs of t year, Total Branch (t) = total no. of branch of t year

## CHAPTER IV

### DATA ANALYSIS AND PRESENTATION

This chapter deals with the presentation, analysis and interpretation of relevant data of sampled CBs in order to fulfill the objectives of this study. To obtain best result, the data have been analyzed according to the research methodology as mentioned in third chapter. The purpose of this chapter is to introduce the mechanics of data analysis and interpretation. With the help of this analysis, efforts have been made to highlight comparative credit management status of selected CBs. For analysis, different types of analytical methods and tools such as financial ratio analysis are used to draw the conclusion of the study. Similarly analyzed results are graphically represented for the visibility and simplicity of conclusion.

#### 4.3 Comparative Study of Deposit

Under this heading status of deposit, before and after management change are analyzed:

##### ) Deposit Growth Analysis

Year wise movements of deposit are analyzed under this heading. Mainly following tool is used to calculate,

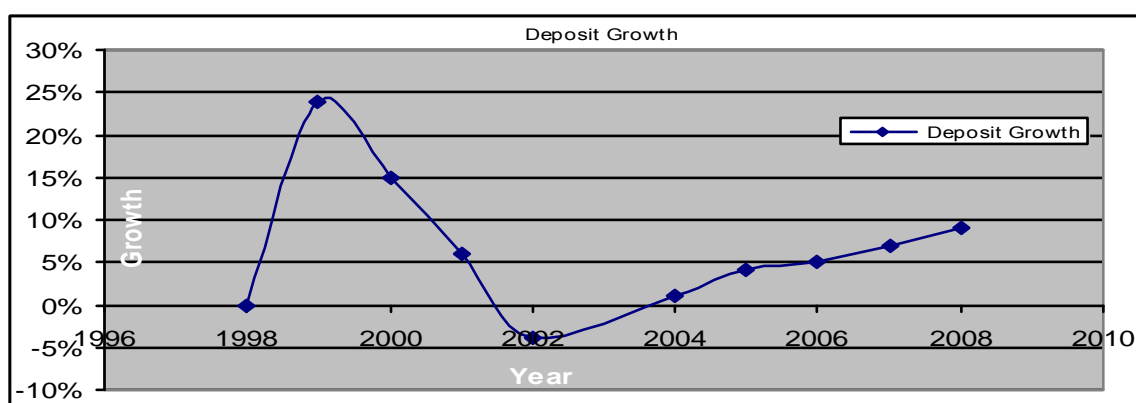
Table 4.1  
Deposit Growth Analysis

After Management Change					Before Management Change					
Year	2008	2007	2006	2005	2004	2002	2001	2000	1999	1998
Deposit Growth	9%	7%	5%	4%	1%	-4%	6%	15%	24%	0%

From Annex-1

Figure 4.1

## Presentation of Deposit Growth



Looking at the table, we can find the trend of deposit is in declining form. Before the management change, trend of deposit was in a steeply declining trend but after the management change, the trend of deposit is slowly moving upwards. In aggregate we can say that the impact of management change is positive for RBB.

### Deposit Mix Analysis

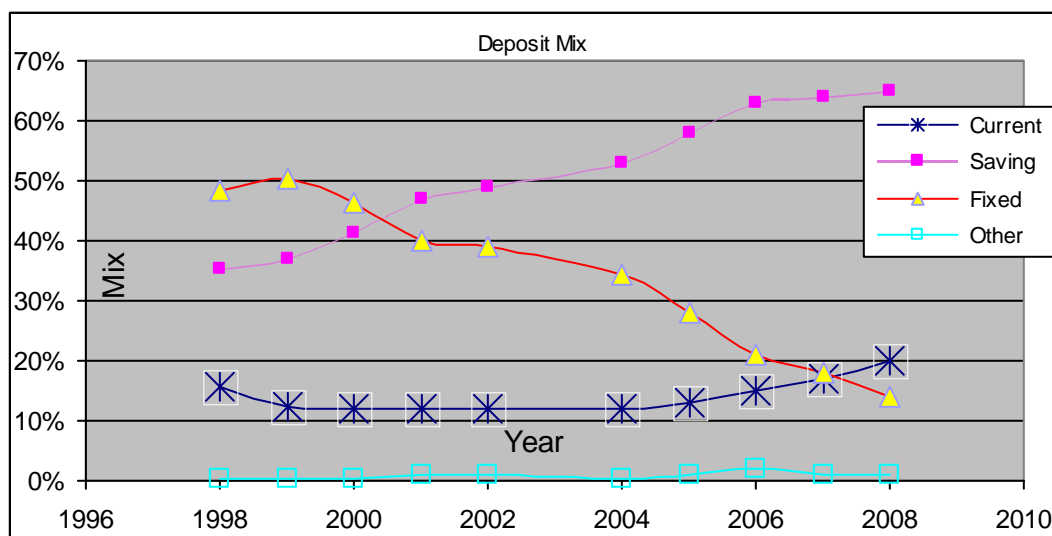
We can get various types of deposit in the market, mainly fixed deposit, saving deposit, call deposit, current deposit. As their names are difference, effect of such account is also different.

Table No 4.2  
Deposit Mix Analysis

Year	After Management Change					Before Management Change				
	2008	2007	2006	2005	2004	2002	2001	2000	1999	1998
<i>Current</i>	20%	17%	15%	13%	12.0%	12%	12%	12.0%	12.5%	15.6%
<i>Saving</i>	65%	64%	63%	58%	53.0%	49%	47%	41.5%	37.0%	35.4%
<i>Fixed</i>	14%	18%	21%	28%	34.5%	39%	40%	46.2%	50.3%	48.5%
<i>Other</i>	1%	1%	2%	1%	0.5%	1%	1%	0.2%	0.3%	0.4%

Form Annex-1

Figure 4.2  
Presentation of Deposit Mix



In above graph, we have tried to present over all deposit schemes in compile form. In the period of before management change, volume of fixed deposit used play vital role in the portfolio of deposit for RBB. But the scenarios have been changed yet because now a days saving deposit is playing vital role in total mix of deposit. Now a day volume of current account is more than fixed deposit which is the clear clue to say that, now a day RBB is discouraging the fixed deposit and encouraging other types of deposit to diversify the risk of liquidity. Being the non interest bearing account, current deposit play vital role to lower the cost of deposit, similarly focusing on the volume of saving account is a good strategy to diversify the potential risk of liquidity. Generally saving account have a small volume of deposit than fixed deposit. So, encouraging saving account is also supportive to diversify the focus of the bank to ward the small savers rather than corporate deposit.

### ) Depositors Trend Analysis

Depositors are resource savers or resource suppliers to banks so here we have analyzed the movement of depositors during the sampled period of RBB.

Table No. 4.3

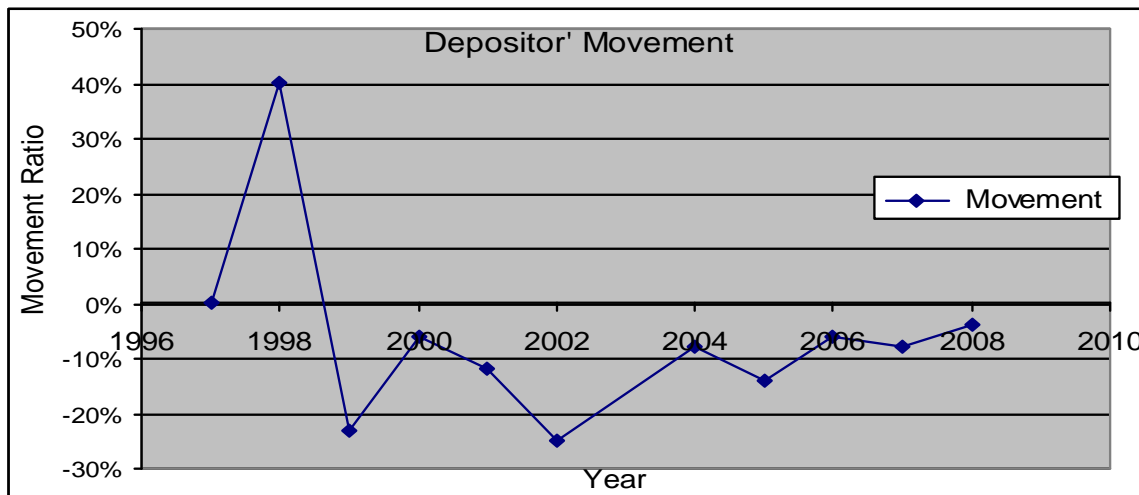
Depositors Trend Analysis

Year	After Management Change				
	2008	2007	2006	2005	2004
<b>No. of Depositors</b>	<b>123,352</b>	<b>128,524</b>	<b>140,314</b>	<b>149,056</b>	<b>173,637</b>
<i>Movement</i>	-4%	-8%	-6%	-14%	-8%
Before Management Change					
<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>
<b>189,176</b>	<b>252,926</b>	<b>287,699</b>	<b>305,555</b>	<b>398,164</b>	<b>283,996</b>
-25%	-12%	-6%	-23%	40%	0%

From Annex-1

Figure No.4.3

Presentation of Depositors Trend



No. of depositors for the RBB is declining significantly because the line of the above is downward sloping. Movements before the period of 2000 were high fluctuating (+40% to -30%) but than after fluctuation of depositors seems less volatile however, depositor's movement is negative till the date it can be because of high competition in the banking sector. RBB is concentrating on loyal depositors. Cutting rate of depositors may not be linked with the management change of the bank, because till the date around 25 CBs are operating over the market which would cause to lower the trend of deposit on the existing depositors because of higher interest on their captioned deposit.

J **Analysis of Volume of Deposit and No. of Depositors**

Table No. 4.4

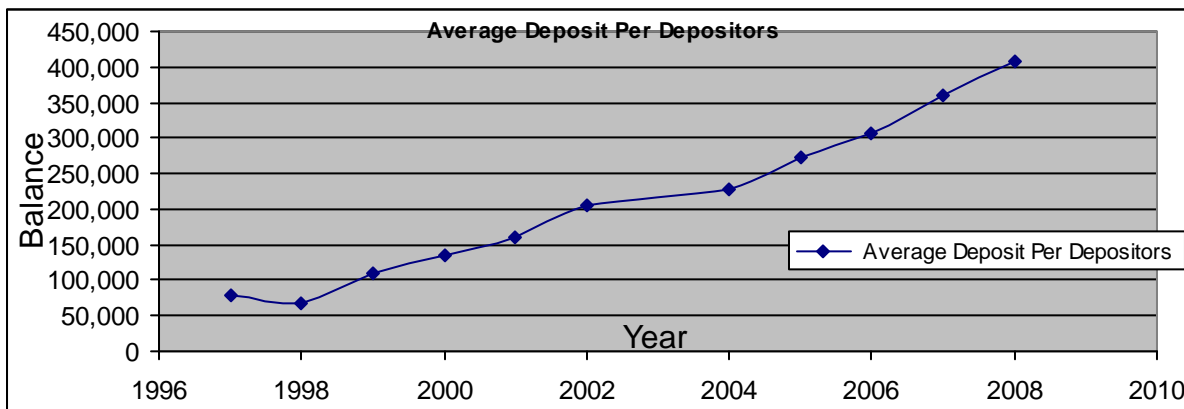
Analysis of Volume of Deposit and No. of Depositors

Year	After Management Change				
	2008	2007	2006	2005	2004
<b>Deposit</b>	<b>50,346</b>	<b>46,195</b>	<b>43,016</b>	<b>40,867</b>	<b>39,402</b>
<b>No. of Depositors</b>	<b>123,352</b>	<b>128,524</b>	<b>140,314</b>	<b>149,056</b>	<b>173,637</b>
<b>Average Deposit Per Depositors</b>	<b>408,149</b>	<b>359,427</b>	<b>306,570</b>	<b>274,172</b>	<b>226,922</b>
Year	Before Management Change				
	2002	2001	2000	1999	1998
<b>Deposit</b>	<b>38,993</b>	<b>40,774</b>	<b>38,576</b>	<b>33,439</b>	<b>26,979</b>
<b>No. of Depositors</b>	<b>189,176</b>	<b>252,926</b>	<b>287,699</b>	<b>305,555</b>	<b>398,164</b>
<b>Average Deposit Per Depositors</b>	<b>206,120</b>	<b>161,209</b>	<b>134,085</b>	<b>109,437</b>	<b>67,759</b>

From Annex-1

Figure 4.4

Presentation of Volume of Deposit and No. of Depositors



Although no. of depositors is cutting off but the average balance per depositors is increasing significantly. So, now we can say that RBB is focusing the loyal clients and trying to maintain smooth relationship with them rather than other low valued clients.

#### 4.4 Comparative Study of Credit

Mainly credit of the banks consists various types of purpose like as agricultures, mines, productions, constructions, metal productions, machinery and electrical tools, transportation, equipment, production and fittings, transportation, communications, public services, wholesale and retail (trade) finance, insurance, fixed assets, service industries, consumable loan, local government, educational, vehicles professional, personal etc.. To find out the real movement of purpose wise credit and pattern of credit over the sampled year, we have used following tools.

#### ) Credit Growth Analysis

Year wise movements of credit are analyzed under this heading. We have shown the real growth of credit during the sampled period of RBB below.

Table No.4.5

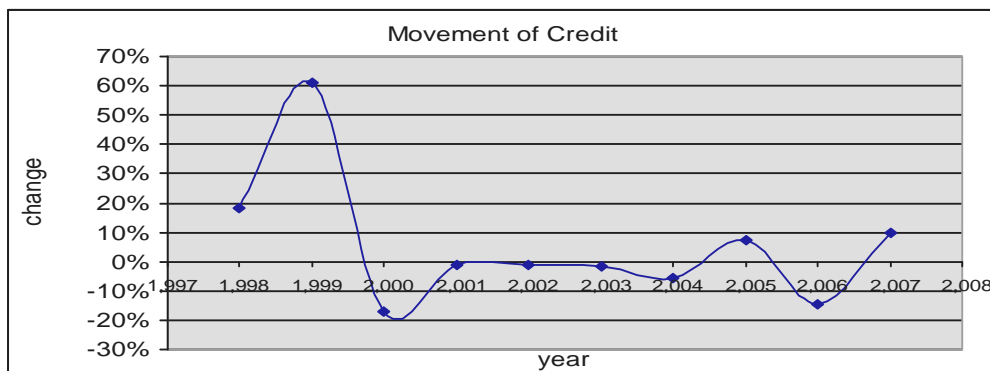
Credit movement Analysis

Year	After Management Change					Before Management Change					
	2008	2007	2006	2005	2004	2002	2001	2000	1999	1998	1997
Movement of Credit	10%	-14%	8%	-6%	-2%	-1%	-1%	-17%	61%	18%	0%

From Anex-1

Figure 4.5

Presentation of Movement of Credit



Movements of credit are very fluctuating before the period of 2000 but than after credit is in moreover same line till the period of 2003. After the period of 2003 credit

movement is in high volatile nature. But the volatility of the credit after the period of 2002 is less enough to prior movement. So, RBB is trying to render the good credit facility to the creditworthy clients.

### ) Propose wise Credit Mix Analysis

Weights of each and every proposed credit are analyzed and represented below.

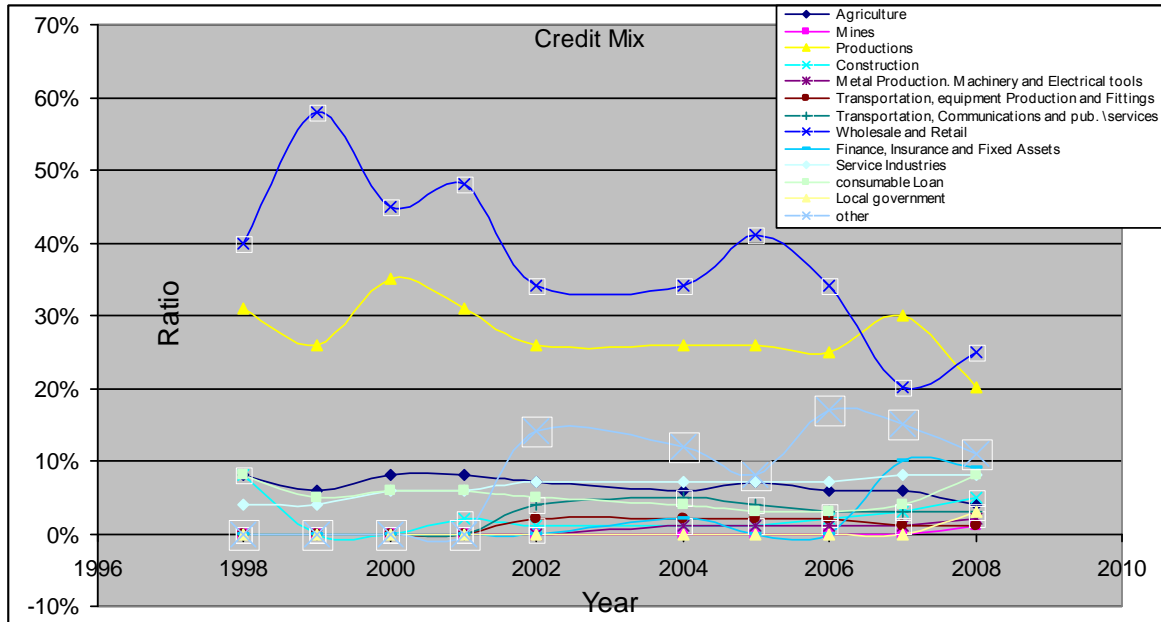
Table 4.6  
Credit Mix Analysis

Year	After Management Change					Before Management Change				
	2008	2007	2006	2005	2004	2002	2001	2000	1999	1998
<i>Agriculture</i>	4%	6%	6%	7%	6%	7%	8%	8%	6%	8%
<i>mines</i>	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%
<i>Productions</i>	20%	30%	25%	26%	26%	26%	31%	35%	26%	31%
<i>Construction</i>	5%	3%	2%	1%	1%	1%	2%	0%	0%	8%
<i>Metal Production, Machinery and Electrical tools</i>	2%	1%	1%	1%	1%	0%	0%	0%	0%	0%
<i>Transportation, equipment Production and Fittings</i>	1%	1%	2%	2%	2%	2%	0%	0%	0%	0%
<i>Transportation, Communications and pub. lservices</i>	3%	3%	3%	4%	5%	4%	0%	0%	0%	0%
<i>Wholesale and Retail</i>	25%	20%	34%	41%	34%	34%	48%	45%	58%	40%
<i>Finance, Insurance and Fixed Assets</i>	9%	10%	0%	0%	2%	0%	0%	0%	0%	0%
<i>Service Industries</i>	8%	8%	7%	7%	7%	7%	6%	6%	4%	4%
<i>consumable Loan</i>	8%	4%	3%	3%	4%	5%	6%	6%	5%	8%
<i>Local government</i>	3%	0%	0%	0%	0%	0%	0%	0%	0%	0%
<i>other</i>	11%	15%	17%	8%	12%	14%	0%	0%	0%	0%

From Anex-1

Figure No. 4.6

Presentation of credit mix by purpose



We have taken all credit related topic of RBB during the sampled period, where we can see mobilization of production credit was high enough during the period of 1998 than after it is in declining trend. After management it seem approximately stable but the after the period of 2006 it is declining trend. In aggregate credit of production purpose have declined significantly. Similarly second highest credit was mobilized for wholesale and retail, which was in pick during the period of 1999 than after it was in declining period but after the management change it seems some what upward sloping till the year of 2004 than after it is declining slightly. During the period of 2006 credit for production have exceed than wholesale and retail purpose credit after than period of 2006 again whole sale and credit is in upward sloping whereas production credit is in declining trend. In short RBB is mainly focusing it's credit in the topic of wholesale/retail and production credit. Besides these two main heading RBB is focusing the credit related to service after the management change. Other related purpose credits are also in positive trend. So, RBB is trying to diversify the credit portfolio in different heading after the management change.

## ) Borrowers Analysis

Borrowers are the main source of income for the bank and main source of risk for the bank. Herewith we have analyzed movements of borrowers of RBB before and after the management change.

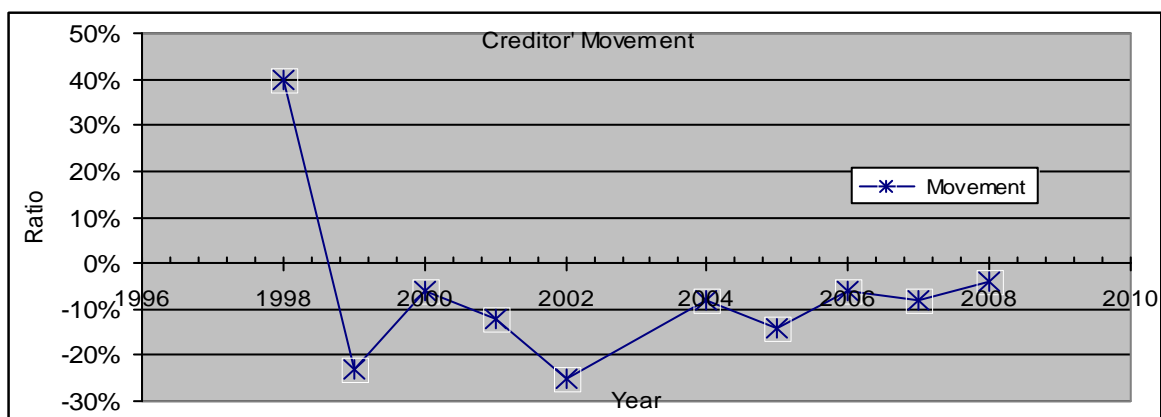
Table No. 4.7  
Borrowers Analysis

Year	After Management Change				
	2008	2007	2006	2005	2004
Total Credit	25,395,000,000	23,103,000,000	27,001,000,000	25,106,000,000	26,608,000,000
No. Borrower (no.)	123,352.00	128,524.00	140,314.00	149,056.00	173,637.00
Credit per Borrowers (full Fig)	205,874.25	179,756.31	192,432.69	168,433.34	153,239.23
Movement	-4%	-8%	-6%	-14%	-8%
Year	Before Management Change				
	2002	2001	2000	1999	1998
Total Credit	27,037,000,000	27,375,000,000	27,700,000,000	33,438,000,000	20,780,000,000
No. Borrower (no.)	189,176.00	252,926.00	287,699.00	305,555.00	398,164.00
Credit per Borrowers (full Fig)	142,919.82	108,233.24	96,281.18	109,433.65	52,189.55
Movement	-25%	-12%	-6%	-23%	40%

From Annex-1

Figure 4.7

### Presentation of Borrowers movement



Looking at the movement of borrower's movement, we can find that total no. borrower's is in decreasing trend where as average credit per borrowers is in increasing trend which is the indicator of good credit mobilization, because RBB is trying to mobilize in selective creditor clients only. After the period of new

management change trend of borrower's is in upward sloping. It means RBB has improved the base of credit mobilization, than past.

### ) Analysis of Non Performing Loan

Under this heading information of effective credit mobilization is trying to disclosure. Being the main source of income of the bank credit is the most to evaluated effective. For the same proposed we have done following activities.

Information about the performing loan is collected for the bank which consists pass and restructured loan, similarly non performing loan related information are collected and then following tool is used to find out the ratio.

Table No.4.8

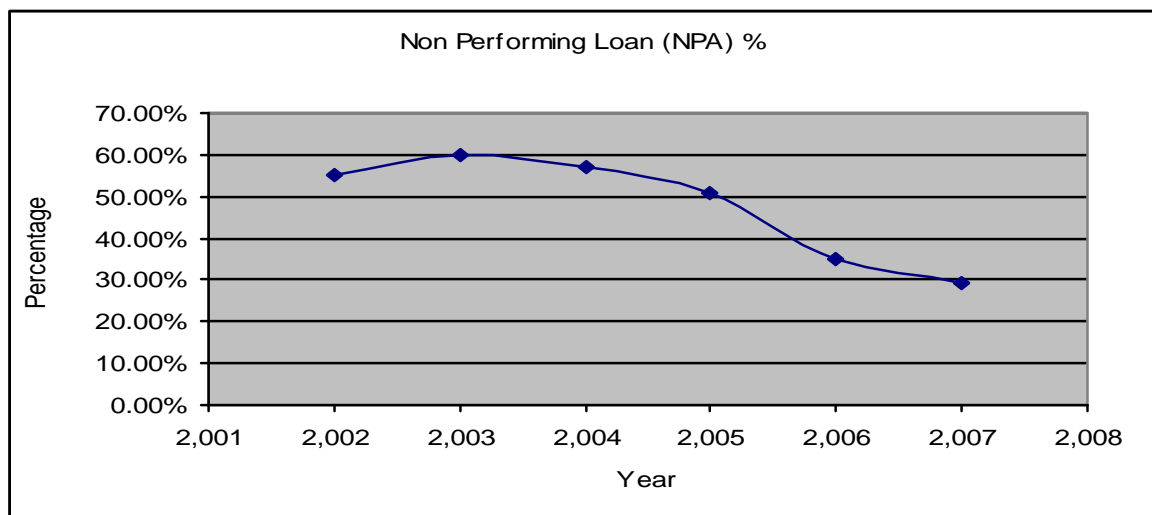
Analysis of Non Performing Loan

Year	2008	2007	2006	2005	2004	2002
Non Performing Loan (NPA) %	29.16%	34.84%	50.70%	57.17%	60.15%	55.07%

From Annex-1

Figure No. 4.8

Presentation of Non Performing Loan



Since we have not provided the sufficient date of prior management change so, we have presented the data of 2002 to 2007 only. Looking at the trend RBB is lowering

its NPA year by year, which is the good indicator for the sustainable existence / profit of the bank.

### 4.3 Interest Income and Expenses Analysis

Deposit is the gateway of banking and Loan and advance (credit) is gateway of revenue for the bank. During the deposit collection period bank adds the source of cost and during the mobilization of loan bank adds the source of income. Under this heading we have calculated following.

#### ) Interest Expenses to Deposit Ratio

Interest expenses can be defined as the main source of bank's expenses and cost of resource. So hereunder we have presented the cost of deposit during the period of sampled period.

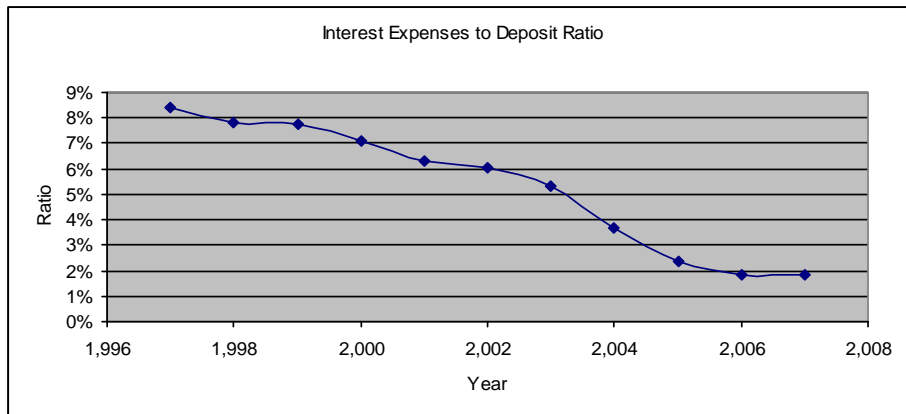
Table No. 4.9  
Interest Expenses to Deposit Ratio

Year	After Management Change					Before Management Change					
	2008	2007	2006	2005	2004	2,002	2,001	2,000	1,999	1,998	1,997
Interest Expenses	939	850	1,005	1,495	2,108	2,347	2,571	2,728	2,598	2,112	1,865
Deposit	50,346	46,195	43,016	40,867	39,402	38,993	40,774	38,576	33,439	26,979	22,098
Ratio	2%	2%	2%	4%	5%	6%	6%	7%	8%	8%	8%

From Annex-2

Figure No.4.9

Presentation of relationship between interest expenses and deposit



Looking at the above table, RBB is able to reduce cost of deposit significantly after the management change. During the period prior than management change cost of deposit was between 9% to 6% but after the new management formation it has been reduced up to 2% which is huge achievement for the RBB. In the past there was not extensive competition in banking sector but at present we can see a throat cut competition especially in the concern of deposit but RBB is getting cheaper deposit which is a big point to appreciate the new management. Reduction of cost of deposit is significant because RBB has discouraged the volume of fixed deposit, promoted saving deposit and current deposits.

### ) Interest Income to Loan and Advance (Credit) Ratio

Interest income is known as the main source of income if loan become successful other wise mobilized credit itself is the cause to lower the profit. So, interest income analysis plays a significant role for the study, that's why we have calculated interest income of RBB as follow.

Table 4.10

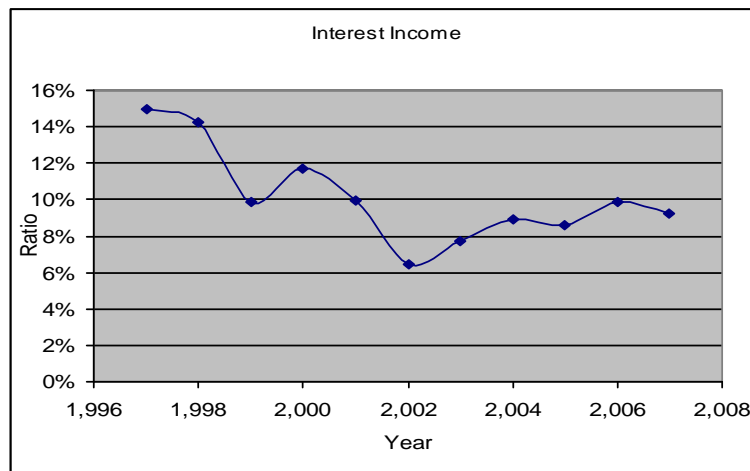
Interest Income to Loan and Advance

Year	After management Change				
	2008	2007	2006	2005	2004
Interest Income	2,355	2,283	2,329	2,236	2,051
Loan and Advances	25395	23103	27001	25106	26608
Ratio	9%	10%	9%	9%	8%
Year	Before management Change				
	2,002	2,001	2,000	1,999	1,998
Interest Income	1,745	2,734	3,250	3,306	2,963
Loan and Advances	27037	27375	27700	33438	20780
Ratio	6%	10%	12%	10%	14%

From Annex-3

Figure 4.10

Presentation of Interest income



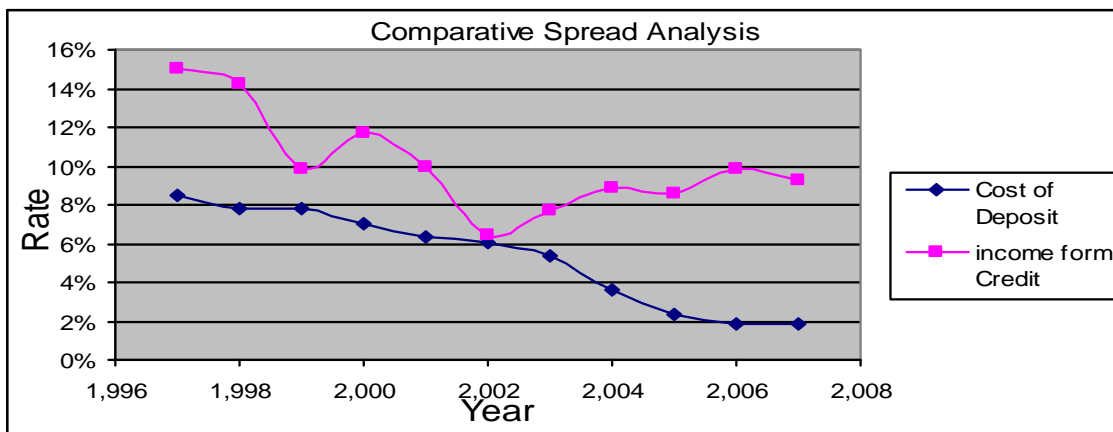
Trend of interest income was high enough prior than management change but after the management change scenarios is in have been declining. Splitting these two trends we get tow figure first one is declining trend and second one is in increasing trend. After the management change trend is going up ward which is the best indicator to prove the positive efforts of new management. In above analysis we have concluded that RBB is trying to lower the cost of deposit by discouraging the volume of fixed deposit and encouraging saving deposit, in this section RBB is

trying to higher the interest income. In aggregate we can be concluded that efforts of new management are good enough for the sustainability of RBB.

## ) Comparative Interest Spread Analysis

Spread is mainly defined as the difference between interest income and interest expenses. In this study we have tried to disclose the spread related information in the following graph.

Figure 4.11  
Comparative Spread Analysis



Looking at the above graph, we can find that prior the management change interest income and interest expenses used to move together so, there was not significant gap between interest income and interest expenses. After the management change movement of these two variables is inversed so the gap between these two variables is widening significantly which is also a good indicator to prove the effectiveness of new management.

### 4.4 Analysis of Profit

Profit is the final outcomes of performance of any banks and financial institutions. For the betterment and survival each and every banks should earn sufficient profit. So, here we have analyzed the trend of profit of the bank as follow.

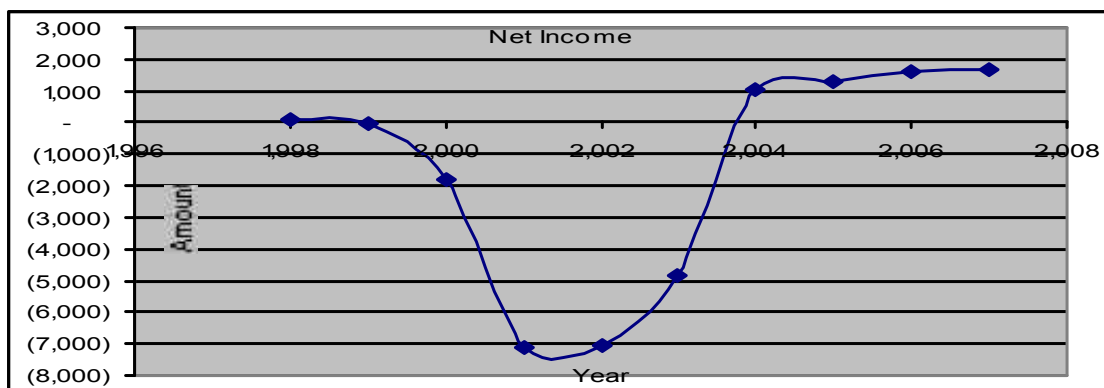
Table No. 4.11  
Analysis of profit

Amount in Million

Year	After Management change				
	2008	2007	2006	2005	2004
Net Income	1,682	1,592	1,323	1,040	-4,840
Year	Before Management Change				
	2,002	2,001	2,000	1,999	1,998
Net Income	-7,068	-7,084	-1,791	-3	77

From Annex-4

Figure 4.12  
Presentation of Profit



In above analysis we have concluded higher interest income and higher volume of deposit and loan too prior the management change but looking at the profit trend for the period of management, we can say poor performance because huge loss. After the new management arrival RBB has boosted. RBB has garnered profit during the first year effort of new management, after the year of 2004 RBB is regularly earning profit. So, RBB has positive and significant impact of new management change in the concern of net profit which is also the indicator of sustainability of RBB.

### Analysis of Liquidity

Deposit is the gateway of banking sector to render all services to the clients and credit is gateway of income of the bank which determines the sustainability of the banks. So, proper trade off should be made between these two variables, to get the information about RBB in said variables we have calculated a credit to deposit ratio (C/D Ratio) of RBB for the sampled period as follows,

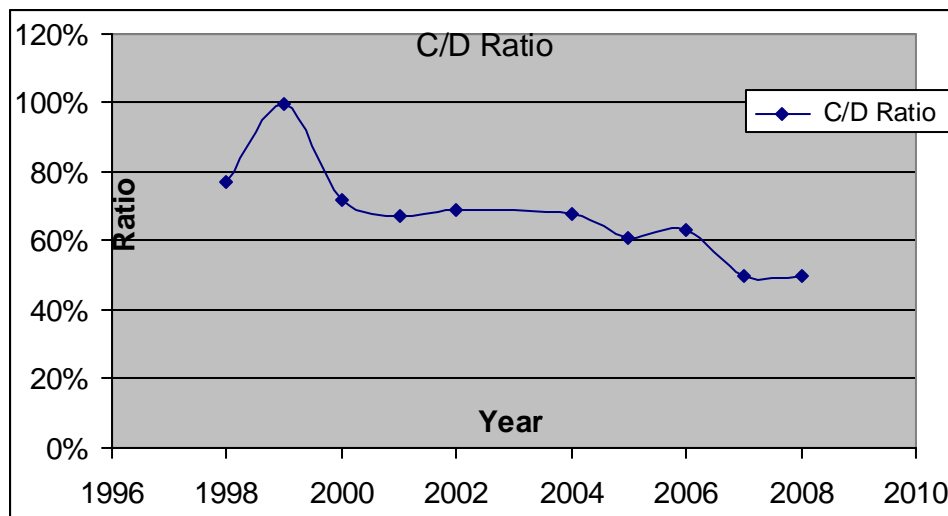
Table No. 4.12  
Analysis of Liquidity

Amount in Million

Year	After Management Change				
	2008	2007	2006	2005	2004
Deposit	50,346	46,195	43,016	40,867	39,402
Total Credit	25,395	23,103	27,001	25,106	26,608
C/D Ratio	50%	50%	63%	61%	68%
Year	Before Management Change				
	2002	2001	2000	1999	1998
Deposit	38,993	40,774	38,576	33,439	26,979
Total Credit	27,037	27,375	27,700	33,438	20,780
C/D Ratio	69%	67%	72%	100%	77%

From Annex-5

Figure 4.13  
Presentation of Liquidity



As the NRB has made the provision to maintain 5% cash reserve ratio, so the total liquidity is shrunken up 95%. Out of the available liquidity any banks and financial institution render the credit to their clients. Looking at the trend of RBB, position of liquidity seems tight prior management change but scenario of relation between credit rendered and deposit mobilized is in the favor of new management because RBB is in very comfortable position of liquidity.

#### 4.5 Analysis of Expansion

Trend of decentralization is increasing day by day; each and every banks are trying to expand the services to the targeted group. In the same context we have tried to find out the impact of management change on branch expansion and staffing. To draw the valid conclusion we have used following tools.

#### ) Status of Branch Expansion/ Retrenchment

Table No. 4.13

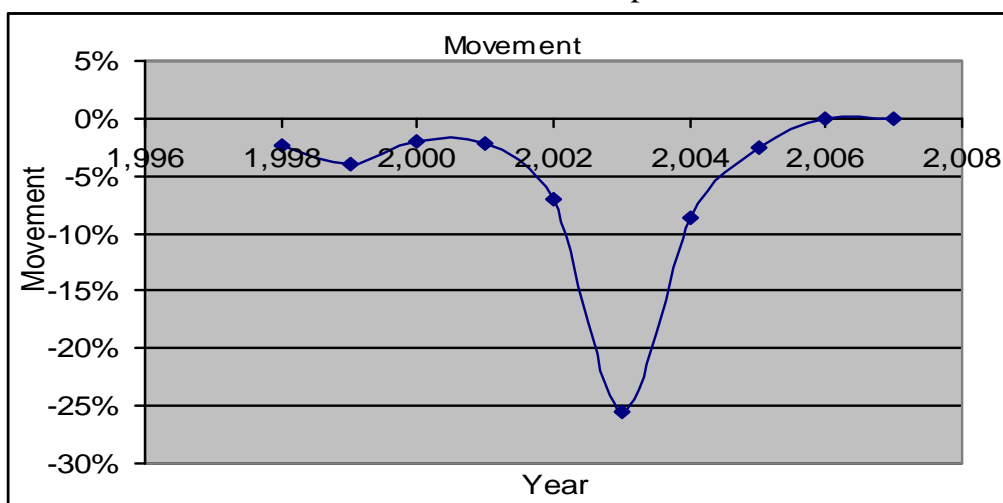
Branch Expansion/Retrenchment

Year	After Management change					Before Management Change					
	2008	2007	2006	2005	2004	2,002	2,001	2,000	1,999	1,998	1,997
No. Branches	114	114	114	117	128	172	185	189	193	201	206
Movement	0%	0%	-3%	-9%	-26%	-7%	-2%	-2%	-4%	-2%	0%

From Annex-6

Figure No. 4.14

Presentation of Status of Branch expansion/retrenchment



Looking at the scenario of branch expansion status of RBB, we find it in the declining form. Prior the management 206 branches were in operation but the no. of branch had declined to 172, when new management took the responsibility. Main cause of retrenchment of branches during this period was the issue of security. As we know whole country had badly suffered from domestic violence. After the execution of new management the scenarios is in still declining trend, but after the period of 2006 branch withdrawal is quite lower than the prior period. New management has

retrenched the branch by 25% during the first year of management, which is the highest ratio. So, in aggregate new management seems against the branch expansion.

## ) Status of Staffing

Staffs are the sensitive factor for any type of service related industry. Being a component of service industry any banks and financial institutions (BFIs) should try to make a proper mix of staff with the organization structure and try to retain them. We have tried to find out the movement of staffs in the operation of RBB prior and after the management as follow.

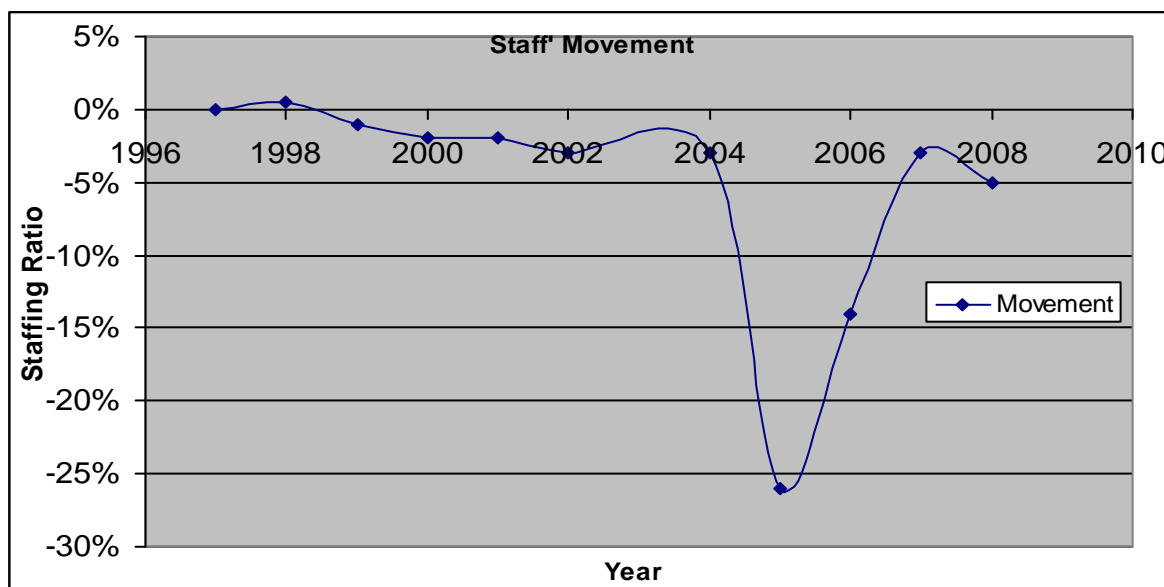
Table No. 4.14  
Analysis of Staffing

	After Management Change					Before Management Change					
Year	2008	2007	2006	2005	2004	2002	2001	2000	1999	1998	1997
<b>No. of Staffs</b>	3,140	3,301	3,417	3,996	5,402	5,583	5,743	5,834	5,982	6,018	5,989
Movement	-5%	-3%	-14%	-26%	-3%	-3%	-2%	-2%	-1%	0.5%	0%

From Annex-7

Figure No. 4.15

Presentation of Status of Staffing



During the execution period of existing management RBB had approximately 6000 staffs but till the date RBB has 3140 staffs in operation. So, we can say that RBB has fired the staffs significantly. The rate of firing is high enough during the year of 2004. In previous analysis, we came to know that RBB has condensed the branch during the period of 2003. Now, what we can say on the one hand new management is against the expansion of branch and cutting the over staffed mechanism of RBB to get the effective result, which is reflected by the net profit of RBB during the of after management change.

) Trends of Staff Mobilization per Branch

Table 4.15

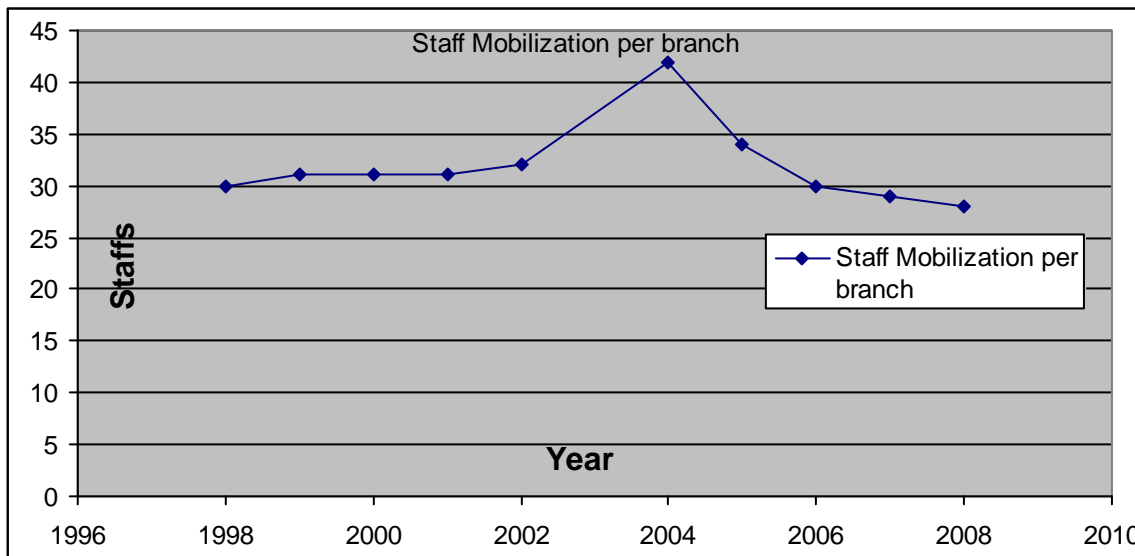
Analysis of Staff Mobilization per branch

Year	After management change				
	2008	2007	2006	2005	2004
<b>No. of Staffs</b>	3,140	3,301	3,417	3,996	5,402
<b>No. Branches</b>	114	114	114	117	128
Staff Mobilization per branch	28	29	30	34	42
Year	Before management change				
	2002	2001	2000	1999	1998
<b>No. of Staffs</b>	5,583	5,743	5,834	5,982	6,018
<b>No. Branches</b>	172	185	189	193	201
Staff Mobilization per branch	32	31	31	31	30

From Annex-8

Figure 4.16

Presentation of trend of staff mobilization



Prior the management around 30 staffs used to operate a branch on an average but at present staff mobilization per branch is only 28. Looking at the graph, we find no. of staff mobilization was in pick or high enough during the period of 2003 but after that point rate of staff mobilization in the concern of branch is declining significantly. So, what we can say is new management of RBB is trying to cutting the over staffing rate on the one hand and trying to fully mobilize the existing staffs. In both hand RBB is in the direction of prosperity.

### Major Findings

- ) After the management change, the trend of deposit growth is in slowly up sloping. However it has declined than past.
- ) At the present days saving deposit is playing vital role in total deposit mix. However weight of fixed deposit used to be higher prior than management change. Now a day volume of current account is more than fixed deposit. Being the non interest bearing account, current deposit play vital role to lower the cost of deposit, similarly focusing on the volume of saving account is a good strategy to diversify the potential risk of liquidity. So, encouraging saving account is also supportive to diversify the focus of the bank to ward the small savers rather than corporate deposit.

- ) No. of depositors for the RBB is declining significantly.
- ) Although no. of depositors is cutting off but the average balance per depositors is increasing significantly.
- ) RBB is trying to render the good credit facility to the creditworthy clients after the management change.
- ) RBB is trying to diversify the credit portfolio in different heading after the management change which was high dependent on credit of production and retail/wholesale.
- ) After the period of new management change trend of borrower's is in upward sloping. It means RBB has improved the base of credit mobilization, than past.
- ) RBB is lowering its NPA year by year after the execution of new management.
- ) RBB is able to reduce cost of deposit significantly after the management change.
- ) Interest Income is in increasing trend. However it is declined significantly.
- ) RBB has positive and significant impact of new management change in the concern of net profit.
- ) Relation between credit rendered and deposit mobilized is in the favor of new management because RBB is in very comfortable position of liquidity.
- ) New management seems against the branch expansion.
- ) RBB has fired the staffs significantly after the new management execution.
- ) Per branch staff mobilization status of RBB has declined slowly after the management change.

## **CHAPTER-V**

### **SUMMARY, CONCLUSION and RECOMMENDATION**

#### **Summary and Conclusion**

Being the introduction chapter first chapter is covering following points in shorts. A bank is an institution which deals with money and credit. It accepts deposits form business institutions and individuals which are mobilized into productive sector, mainly business and customer lending. At the present context, bank is not only confined to accepting deposits and disbursing loan but also engaged in different types of functions such as remittances, exchange currency, joint venture, bills etc. CB is a bank which deals in exchanging currencies, accepting deposits, giving loans and doing commercial transactions. In this world the first bank to come into existence with the name of "Bank of Venice" was in Italy in 1157 A.D. "The Bank of England" was the first bank in the history of banking.

In the Nepalese banking history, there is the name of "Nepal Sambat" when Sankhadar alone paid all debts of the people existing in the country at that time. At the end of the 14<sup>th</sup> century the existence of money lenders as the term "Tanka Dhari" was found. In 1877A.D, Tejarath Adda was established by the government. The main purpose of this institution was to provide credit facilities to the general public at minimum interest rate of five percent. Nepal. Rastriya Banijya bank (RBB) was established in 2022 B.S., as the second CB of Nepal.. It has its corporate office located at Singhadurbar Plaza, Kathmandu, the bank has scattered its network at more than 113 points all over the country with approximately 3500 employees.

In 2058 B.S. an international auditing organization 'KPMG Barents Group' submitted a report to the government with the true but bitter conclusion that the two CBs of Nepal including NBL and RBB are not in the good financial position and also the financial position is declining.

After the disagreement on management handover with Daylight group the bank again asked proposals for private management and selected the John Alliance Group but as it also didn't come to sign on agreement paper then last but not least the bank selected the proposal of Mr. Bruce F. Henderson of America on the date of 2059 B.S., Magh 27. It is necessary to focus on various issues and changes happened in the bank after the new management came and Mr. Bruce F. Henderson has been appointed as chief executive officer.

Mainly study is concerned to fulfill the objectives of major changes that have happened within the RBB, issues of profitability, Liquidity position and financial weakness and strengths.

Study can be supportive to know about the RBB to all respective interested groups. All data are taken from the secondary sources so accuracy of data depends on its publisher. We have taken 10 years data only before and after the period, result of study may not be fully applicable. We have taken RBB as sample so result of this study may not be applicable to other management changed BFIs. The main focus of the study is whether the RBB is able to utilize the scattered resource and efficiently mobilizing them.

The fifth chapter is the final chapter of the study, which consists of the summary of the four earlier chapters. This chapter tries to fetch out a conclusion of the study and attempts to offer various suggestions and recommendations for the improvement of the future performances of the three banks under review. Entire study has been divided into five major headings like as introduction, literature review, methodology, data presentation & summary/conclusion and recommendations. Finally bibliography and appendix are represented at the end of the study.

Review of literature deals with reviewing research studies of other relevant studies in related areas. So, that all, their conclusions and deficiencies may be known and further research can be concluded. This chapter deals with the review of materials related

with 'credit management' the more detail and descriptive manner. It provides the basis for developing a comprehensive framework. In this chapter, the emphasis is given to the review of major related literature on the credit management and its analysis. This chapter is divided into two parts, these sub headings are conceptual review and review form other articles/books/research works/studies. Conceptual review is dealt with the over all review of banking sector in Nepal, legal framework, performance, etc.

Chapter third is research methodology which can be defined as systemic process that is adopted by the research in studying problems with certain objectives. So in this chapter we have adopted various financial tools to draw the meaningful conclusion form the study.

Chapter four is dealt with the presentation, analysis and interpretation of relevant sampled data of RBB in order to fulfill the objectives of this study. This section have further categorized in to various subheadings to draw the mean heading wise conclusion. Finally we reached in following conclusions.

After the management change, the trend of deposit growth is in slowly up sloping. However it has declined than past.

At the present days saving deposit is playing vital role in total deposit mix. However weight of fixed deposit used to be higher prior than management change. Now a day volume of current account is more than fixed deposit. Being the non interest bearing account, current deposit play vital role to lower the cost of deposit, similarly focusing on the volume of saving account is a good strategy to diversify the potential risk of liquidity. So, encouraging saving account is also supportive to diversify the focus of the bank to ward the small savers rather than corporate deposit.

No. of depositors for the RBB is declining significantly. Although no. of depositors is cutting off but the average balance per depositors is increasing significantly. RBB is trying to render the good credit facility to the creditworthy clients after the management change. RBB is trying to diversify the credit portfolio in different

heading after the management change which was high depended on credit of production and retail/wholesale.

After the period of new management change trend of borrower's is in upward sloping. It means RBB has improved the base of credit mobilization, than past. RBB is lowering its NPA year by year after the execution of new management. RBB is able to reduce cost of deposit significantly after the management change. Interest Income is in increasing trend. However it is declined significantly. RBB has positive and significant impact of new management change in the concern of net profit. Relation between credit rendered and deposit mobilized is in the favor of new management because RBB is in very comfortable position of liquidity.

New management seems against the branch expansion. RBB has fired the staffs significantly after the new management execution. Per branch staff mobilization status of RBB has declined slowly after the management change.

## **5.2 Recommendations**

Comparative performance of RBB is effective enough; it has garnered a significant amount of profit where as RBB used sink in the significant loss in the past. Decreasing dependency on fixed typed deposit and increasing dependency on saving and current saving are the indicators of high income. Similarly decreasing trend of deposit and increasing trend of interest income from the loan and advances are also good for the financial health of RBB. Although RBB is in good trend we have seen some few points that can be lead the RBB in to poor performance they are,

- ) Decreasing trend of interest expenses may not be good forever. At present 27 commercial banks and a lot of other BFIs are operating in Nepalese. Being the limited resources, now days BFIs are quoting high rate to deposit. If RBB keep itself silent in such issue, their may be big problem ahead in the concern of deposit. So, such issues should be addressed in future.

- ) RBB has cutting its borrowers than past which may not be supportive to garner profit, however bad loan may lead to loss.
  
- ) Although staffs and branch retrenchment is positive for the profitability of organization but such activities generally convey the bad information to society. So, such issues should be addressed in future. Now days banking industry is in the trend of decentralization so RBB must make fit for mass decentralization to win more public trust.

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