LOAN MANAGEMENT IN COMMERCIAL BANK
(A CASE STUDY OF RASTRIYA BANIJYA BANK LIMITED)

A THESIS

Submitted By:

TULASI MANI ADHIKARI

Roll No.: 914/063

T.U. Regd. No.:7-3-25-654-2006

Symbol No.: 5339

Nepal Commerce Campus

Minbhawan, Kathmandu

Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

In partial fulfillment of the requirement for the Degree of
Master of Business Studies (MBS)

Kathmandu, Nepal

September 2011

RECOMMENDATION

This is to certify that the Thesis

Submitted by:

TULASI MANI ADHIKARI

Entitled:

LOAN MANAGEMENT IN COMMERCIAL BANK
(A CASE STUDY OF RASTRIYA BANIJYA BANK LIMITED)

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

……..……..…	……...……	……...
Mr. Diwakar Pokhrel	**Dr. Susil Bhakta Mathema**	**Mr. Dipesh Bhatta**
(Campus Chief & Thesis Supervisor)	**(Head of Research Department)**	**(Thesis Supervisor)**

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

by

TULASI MANI ADHIKARI

Entitled:

LOAN MANAGEMENT IN COMMERCIAL BANK (A CASE STUDY OF RASTRIYA BANIJYA BANK LIMITED)

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 of the requirement for

Master Degree of Business Studies (MBS)

Viva-Voce Committee

Head, Research Department ……..……

Member (Thesis Supervisor) …..……..

Member (Thesis Supervisor) …..……..

Member (External Expert) …..……..

DECLARATION

I hereby declare that the work reported in this thesis entitled **"LOAN MANAGEMENT IN COMMERCIAL BANK (A CASE STUDY OF RASTRIYA BANIJYA BANK LIMITED)**" submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master Degree in Business Studies (MBS) under the supervision of **Mr. Diwakar Pokhrel** and **Mr. Dipesh Bhatta** of Nepal Commerce Campus.

.....

TULASI MANI ADHIKARI

Researcher

Campus Roll No.: 914/063

T.U. Regd. No.: 7-3-25-654-2006

ACKNOWLEDGEMENTS

This thesis entitled, "*Loan Management in Commercial Bank (A Case Study of Rastriya Banijya Bank Limited)*", prepared for partial fulfillment of the requirement for the Degree of Master of Business Studies, is an outcome of continuous and immeasurable cooperation and support of several hands. I would like to express my heartfelt gratitude to all for their support.

First of all, my sincere gratitude goes to my respected teacher and thesis supervisor **Mr. Dipesh Bhatta, Mr. Diwakar Pokhrel (Campus Chief) and Dr. Susil Bhakta Mathema (Head of Research Department),** under whose guidance and suggestion I got the opportunity to complete this research. I am indeed indebted to him and shall remain thankful forever in my whole life.

I would like to express my heartfelt gratitude to my respected parents and friends Mr. Tap Bahadur Bista, Mr. Dilip Baral, Mr. Sanam Maharjan and Mrs. Karuna Shrestha who spent their valuable time effort to make a great sacrifice for my higher education. Despite of them I am owed to them who gave me a regular inspiration and continuous contribution for secret success.

At last, regardless of the source, I wish to express my gratitude to those who may have contributed to this work, even through anonymously.

Tulasi Mani Adhikari

TABLE OF CONTENTS

Recommendation
Viva-Voce Sheet
Declaration
Acknowledgements
Table of Contents
List of Tables
List of Figures
Abbreviations

Page No.

CHAPTER – I: INTRODUCTION

1.1 Background of the Study 1
1.1.1 Profile of Rastriya Banijya Bank Limited 2
1.2 Statement of the Problem 3
1.3 Objective of the Study 4
1.4 Significance of the Study 5
1.5 Limitations of the Study 5
1.6 Organization of the Study 6

CHAPTER – II: REVIEW OF LITERATURE

2.1 Conceptual Framework 7
2.1.1 Concept of Loan 7
2.1.2 Types of Lending 8
2.1.3 Objectives of Lending Policy 12
2.1.4 Principle of Lending Policy 13
2.1.5 Key Characteristics of Lending Policy 15
2.1.6 Systems and Procedures of lending Policy 15
2.1.7 Credit Monitoring and Control 19
2.1.8 Managing Loan Problems 21
2.1.9 Lending Criteria 23

2.1.10 Project Appraisal 24
2.1.11 Steps of Lending Process 25
2.1.12 Need of Loan Policy in Commercial Bank 26
2.2 Review of NRB Directives relating to Loan 27
2.3 Review of Journals and Articles 30
2.4 Review of Thesis 37
2.5 Research Gap 43

CHAPTER – III: RESEARCH METHODOLOGY
3.1 Research Design 44
3.2 Population and Sample 44
3.3 Nature and Sources of Data 44
3.4 Tools Used 45
3.4.1 Financial Tools 45
3.4.2 Statistical Tools 47

CHAPTER – IV: DATA PRESENTATION AND ANALYSIS
4.1 Secondary Data Analysis 50
4.1.1 Loan Investment to Loan Outstanding 50
4.1.2 Loan Recovery to Loan Outstanding 53
4.1.3 Growth Analysis 55
4.1.3.1 Loan Investment Growth 55
4.1.3.2 Loan Outstanding Growth 58
4.1.3.3 Loan Recovery Growth 59
4.1.4 Non-Performing Loan Analysis 61
4.1.4.1 Non Performing Loan to Total Loan 62
4.1.4.2 Loan Loss Provision to Total Loan and Advances Ratio 64
4.1.5 Deposit Mobilization on Loan and Advances 66
4.1.6 Statistical Analysis 68
4.1.6.1 Correlation Analysis 68
4.1.6.1.1 Correlation Analysis between Net Profit and Loan & Advances 68

4.1.6.1.2 Correlation Analysis between Loan & Advances and Total Deposit 69
4.1.6.1.3 Correlation Analysis between Loan & Advances and Total Investment 70
4.1.6.1.4 Correlation Analysis between Non Performing Loan and Loan and Advances 70
4.1.6.2 Regression Analysis 71
4.1.6.2.1 Regression Analysis of Net Profit on Loan & Advances 71
4.1.6.2.2 Regression Analysis of Loan & Advances on Total Deposit 72
4.1.6.2.3 Regression Analysis of Loan & Advances on Total Investment 72
4.1.6.2.4 Regression Analysis of Non Performing Loan on Loan and Advances 73
4.1.6.3 Trend Analysis 73
4.1.6.3.1 Trend Analysis of Loan and Advances 73
4.1.6.3.2 Trend Analysis of Total Deposit 75
4.1.6.3.3 Trend Analysis of Total Investment 76
4.1.6.3.4 Trend Analysis of Non Performing Loan 78
4.1.6.3.5 Trend Analysis of Net Profit after Tax 79
4.2 Primary Data Analysis 81
4.2.1 Loan Management Efficiency 81
4.2.2 Loan Floatation Basis 83
4.2.3 Harassment in Paper Document 84
4.2.4 Satisfaction in Mortgage Value 85
4.2.5 Involvement in Valuation 87
4.2.6 Time to Disburse Loan 88
4.2.7 Degree of Effect of NPA on Banking Industry 89
4.2.8 Best Time to Follow up after Due date 91
4.2.9 Most Influencing Factor in Loan Disbursement 92
4.2.10 Suggestions for Effective Loan Management 94
4.3 Major Findings of the Study 95

CHAPTER – V: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary 98

5.2 Conclusion 99

5.3 Recommendations 101

BIBLIOGRAPHY

APPENDICES

LIST OF TABLES

No.	Particulars	Page No.
4.1	Loan Investment to Loan Outstanding	51
4.2	Loan Recovery to Loan Outstanding	53
4.3	Loan Investment Growth	56
4.4	Loan Outstanding Growth	58
4.5	Loan Recovery Growth	60
4.6	Non Performing Loan to Total Loan	62
4.7	Loan Loss Provision to Total Loan and Advances Ratio	64
4.8	Loan and Advances to Total Deposit	66
4.9	Correlation Analysis between Net profit & Loan & Adv.	68
4.10	Correlation Analysis between Loan & Advances and Total Deposit	69
4.11	Correlation Analysis between Loan & Advances and Total Investment	70
4.12	Correlation Analysis between Non Performing Loan and Loan & Advances	70
4.13	Regression Analysis between Net profit and Loan & Advances	71
4.14	Regression Analysis between Loan & Advances on Total Deposit	72
4.15	Regression Analysis between Loan & Advances on Total Investment	72
4.16	Regression Analysis between Non Performing Loan and Loan & Advances	73
4.17	Trend Analysis of Loan and Advances	74
4.18	Trend Analysis of Total Deposit	75
4.19	Trend Analysis of Total Investment	77
4.20	Trend Analysis of Non Performing Loan	78
4.21	Trend Analysis of Non Profit after Tax	80
4.22	Efficiency in Loan Management	82
4.23	Loan Floatation Basis	83
4.24	Harassment in Paper Document	84

4.25	Satisfaction in Mortgage Value	86
4.26	Involvement in Valuation	87
4.27	Time to Disburse Loan	88
4.28	Degree of Effect of NPA on Banking Industry	90
4.29	Best Time to Follow up after Due date	91
4.30	Most Influencing Factor in Loan Disbursement	93
4.31	Suggestions for Effective Loan Management	94

LIST OF FIGURES

No.	Particulars	Page No.
4.1	Loan Investment to Loan Outstanding	53
4.2	Loan Recovery to Loan Outstanding	55
4.3	Loan Investment Growth	57
4.4	Loan Outstanding Growth	59
4.5	Loan Recovery Growth	61
4.6	Non Performing Loan to Total Loan	63
4.7	Loan Loss Provision to Total Loan and Advances Ratio	65
4.8	Loan and Advances to Total Deposit	68
4.9	Trend Analysis of Loan and Advances	75
4.10	Trend Analysis of Total Deposit	76
4.11	Trend Analysis of Total Investment	78
4.12	Trend Analysis of Non Performing Loan	79
4.13	Trend Analysis of Net Profit after Tax	81
4.14	Efficiency in Loan Management	82
4.15	Loan Floatation Basis	84
4.16	Harassment in Paper Document	85
4.17	Satisfaction in Mortgage Value	86
4.18	Involvement in Valuation	88
4.19	Time to Disburse Loan	89
4.20	Degree of Effect of NPA on Banking Industry	91
4.21	Best Time to Follow up after Due date	92

ABBREVIATIONS

C.V.	:	Coefficient of Variation
FY	:	Fiscal Year
LA	:	Loan and Advances
LI	:	Loan Investment
LLP	:	Loan Loss Provision
LO	:	Loan Outstanding
LR	:	Loan Recovery
NPAT	:	Net Profit after Tax
NPL	:	Non Performing Loan
P.E.	:	Probable Error
r	:	Coefficient of Correlation
r^2	:	Coefficient of Determination
RBB	:	Rastriya Banijya Bank
S.D.	:	Standard Deviation
TD	:	Total Deposit
TI	:	Total Investment
TL	:	Total Loan