CHAPTER – ONE

INTRODUCTION

1.1 Background of the Study

For proper and efficient utilization of resources, it needs proper plan and strategic development, and for plan and strategic development, huge amount of capital investment is required. For the growth and development of economy of country, industrialization plays crucial role. There are lots of examples regarding the rapid economic growth of countries because of industrialization.

Bank, a financial institution, is playing a vital role in the economic development of the country. The function of banks are not only accepting deposits and granting loans but also, includes wide range of services to the different status of society, to facilitate the growth of trade, commerce, industry and agriculture of the national economy. In the absence and insufficiency of banking and financial facilities, the growth of the economic development becomes slow. However, bank is a resource for economic development, which maintains the self-confidence of various segments of society and advances credit to the people.

A bank is an institution, which deals with money and credit. It accepts the deposits from public and mobilizes the fund to productive sectors. Bank, is, therefore known as a dealer of money. Bank is the establishment for keeping money, valuables etc. safely the money being paid out on the customer's order (be means of cheques). Similarly, a definition given in encyclopedia that 'a bank is a business organization that receives and holds deposits of funds from others and makes loans or extends credits and transfers funds by written orders of deposits.

Commercial banks are the financial institutions which deal in accepting deposits from persons and institutions, provide interest formulate capitals and grant loans against securities that help to remove the deficiency of capital. They contribute significantly in the formation, and mobilization of internal capital and development effort. They also furnish necessary working capital according to the requirements for trade, commerce, industry and even to agriculture sectors. They also perform agency function to make life easier and play an important role in credit creation. Besides, they also provide technical and administrative assistance to industries, traders and business enterprises. Therefore, they are being the means for the enlistment of society. Their main objectives are to earn reasonable profit as reward for their service by roper mobilization of idle resources collecting them from different scattered sources, in particular productive sectors. They help to reduce he probability of inflations by increasing the interest rate while economy is in boom period and reduce the interest rate so tat investors are interested for investment in case of depression period. More specifically, they collect required capital through float (issue) of different types of securities, specially shares and debentures. According to Nepal Commercial Bank Act 2031 BS, 'A commercial bank is one which exchanges money, deposits money, accepts deposits, grants loans and performs commercial banking functions and which is not a bank means for cooperation, agriculture, industries or for such specific purpose.

1.2 A Brief Profile of Rastriya Banijya Bank:

The history of organized financial institutions in Nepal began in 1937AD .after the establishment of Nepal Bank Limited (a semi government commercial bank). This bank mainly provide credit for trade and commerce .before the establishment of NRB, Nepal Bank was acting as commercial bank as well as central Bank and performs the roles and activities of central bank too. Integrated and speedy development of the country is possible only when competitive banking service reaches nooks and corners of the country .keeping this in mind, government set up Rastriya Banijya Bank (RBB) in B.S.2024.10.10as a fully government owned commercial Bank with the following objectives:-

i. Expand the monetary services all over the country, mostly in rural areas.
ii. Promote the small and medium enterprise by the easy excess of loan facilities.
iii. Provide the banking services in a wider outreach without a sole objective of making profit.
iv. Develop financial infrastructure to accelerate development activities and energize the Nepalese economy.
v. To provide the financial services to all Nepalese and capture small savings and recycle deposits to enhance productive growth of the economy.

RBB has the largest branch network in Nepal, covering 49 branches in the mountainous region, 46 in Terai region, and 19 in the Kathmandu Valley. . The Branch Operations Department is responsible for supervising the 114 branch network. The Internal Audit Department monitors the work of the branches and regional offices.

RBB is committed towards the satisfaction of its customers by providing modern banking facilities. At the same time; the Bank is equally committed to the economic growth and development of the country. The Bank aims to reach every rural and urban corner of Nepal to accommodate the requirement of the people.

1.3 Statement of the Problem

Nepal is a small country with small market. Economic condition of the country is degrading due to conflict since 2052 B.S. Overall economic sectors either manufacturing or commercial sectors have undergone heavy losses. But in recent past the economic condition of the country has revived by some margin. Despite conflict situation, the financial institutions are increasing regularly. Liquidity is maximizing day to day with the financial institutions. Hence, the banks and financial institutions are competing among themselves to advance credit to limited opportunity sectors. Due to unhealthy competition among the banks, the recovery of the banks credit has gone negative and overall performance is deteriorating. Non-performing Assets of the banks are increasing. To control such type of state, the regulatory body of the banks and financial institutions NRB has tightened up and has issued strong directives.

In this scenario, two oldest government banks have decreased their non-performing loans however some of the newly established banks such as NB bank ltd, NCC Bank, Lumbini bank ltd etc. have gone to problematic situation due to poor quality of loans and inadequate recovery efforts. Therefore it is necessary to analyze the 'Credit Management' consisting of Credit requirement of the borrower, analysis of the business and financial position of the project/business, and loan disbursement, Credit Monitoring, Credit Supervision, Loan Review, Loan Recovery, Loan Loss provision and Loan Write Off procedures of the Banks.

At once a time RBB and NBL two largest and oldest Bank of the nation has faced the very negative situation got more than 80% non- performing loan of the total NPA of the Banks and the situation has occurred of liquidation in case of private bank but after taking the NMT the position of the both banks has become improving and the NMT hope RBB would be a leading model commercial Bank with Sound financial position in Nepalese Banking system in the days to come.

It is understandable and clear that banking industry play a vital role in the progress of a nation's economy; however the performance of the banks depends to the highest degree, upon the overall political, legal economic, social and technological scenarios prevailing in the country.

It is no doubt that the role of the commercial banks is significant in the development of the country. In view of government owned Bank, Rastriya Banijya bank has played vital role in the development of the economy of the nation. Financial sector in Nepal has grown rapidly during last one and half decade. It has more competitive than before and intermediates relatively large volume of financial volume. Banking industry in particular has witnessed a major change due to rapid change in technology. Despite this the banking industry in Nepal plagued with many problems of which the growing magnitude of Non performing loans is a major one. While taking the management of RBB by NMT the non performing loans gradually decreased to below 30% as on mid July 2007.

The largest commercial bank of the nation in view of lending and deposit, network, and fully govt. owned bank and it's role in the development of the country's economy is huge. That's why the Rastriya Banijya Bank Ltd. has been selected for the study. The problems faced by the bank can be pointed out by this study by finding the answers as mentioned below questions:

- What is the status of Loan and Advances of RBB?
- What are the procedures of lending before and after NMT?
- What is the status of performing and non performing loan of RBB?
- Why did the bank suffer from high volume of loss before the NMT?
- What is the major objectives and policy of the credit management of RBB before and after NMT?

- What is the credit efficiency of RBB?
- How is the bank managing the NPA?

1.4 Objectives of the Study

The main objective of the study is to find out the credit management position of the Rastriya Banijya Bank Ltd. The specific objectives are as follows:

i. To analyze the financial performance of the RBB on the basis of liquidity, profitability and assets management.
ii. To analyze the performing and non performing loan of RBB.
iii. To analyze the impact of Loan and advances on Net Profit of RBB.
iv. To assess the credit efficiency of RBB on the basis of interest expenses to total deposit.
v. To give suitable recommendation and suggestions for improvement of present performance conditions and solution of different problems.

1.5 Significance of the Study

The study mainly fills a research gap on the study of credit management of the government owned bank i.e. Rastriya Banijya Bank .The success and prosperity of the every financial institution mainly depends upon the good lending and income from the good investment. Hence the profitability of the bank is more importance because it is the government bank which directly effect of the nation's economy.

This study would provide clear picture of the RBB before and after new management and financial position, changes in credit management and loan portfolio during the last five fiscal year. This study will also help to know the lending procedures and their settlement process of the bank. It helps to know the rules and regulation regarding the credit management. It helps to find out the method and mechanism used by the bank while appraisal their credit proposal. All the people of the nation will be benefited from this research cause all the Nepal ease people has right to know the position of the bank. Moreover, it will prove to be an important value for the entire individual interested in banking sector.

1. 6 Limitation of the Study

Although this study will try its utmost care to cover mist of the important sectors, it is still subject to the following limitations, which are as follows:

i. 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.
ii. The study is associated only to the financial performance of Rastriya Banijya Bank Ltd.
iii. In this study only selected financial and statistical tools and techniques are used.
iv. The other limitation is the lack of sufficient time and resource because the purpose of this thesis is only to fulfill the partial requirement for the Master of Business Studies (MBS) of the management faculty, Tribhuvan University.
v. The study will base on only the past five years periods since 2003/04 AD to 2007/08 AD.
vi. The study is mainly based on secondary data. Most of the bank is not interested to provide to actual report of their activities. Their may be lack of detail information required for the research. The up-to-date and complete data are very difficult to obtain due to inability of providing the required data by concerned authority.

1.7 Organization of the Study

This research has been organized in following five chapters:

Chapter I: Introduction:

The first chapter deals with introduction. This includes background of the study, statement of problem, objectives of the study, significance of the study, limitation of the study and organization of the study.

Chapter II: Review of Literature:

Second chapter deals with the review of available literature. It includes conceptual framework, review of previous studies like book, reports, article journal, previous thesis etc.

Chapter III: Research Methodology:

Third chapter incorporates the research methodology used in the study, which includes research design, nature and sources of data, population and samples, methods of data collection and analysis etc.

Chapter IV: Presentation and Analysis of Data:

The fourth chapter deals with the analysis of data collected from different sources. The collected data has been analysis using various statistical and non-statistical tools. This chapter also includes major findings of the study.

Chapter V: Summary, Conclusion and Recommendation:

The fifth chapter includes summary, conclusion and recommendations or suggestions for further improvement. Bibliography and appendixes have been included at the end of the chapter.

CHAPTER –TWO

REVIEW OF LITERATURE

The review of literature is a crucial aspect of planning of the study. In this chapter, focus has been made on the conceptual framework and the review of literature of relevant to the credit management of Commercial Banks. It is based on available literature in the field of research. For this purpose, it needs to review related literatures in this concerned area which help me to get clear ideas, opinions and other concepts. 'What other has said? What other has done? And what other have written?' these all and other related questions are reviewed which has provided useful inputs in this research work. Every possible effort has been made to grasp knowledge and information that is available from libraries, document collection center, other information managing bureaus, published –unpublished journals and reports of concerned bank.

2.1 Conceptual Framework

In Nepal, the industrial revolution took place after the establishment of Biratnagar Jute Mills in 1936 AD. Nepal Bank Limited was established in 1937 AD, for promoting banking and industrial sector. In the same year, first industrial act was formulated, which was a favorable step to promote industries and capital market in Nepal.

When studying to the origin of modern banking, we come to know that bank of Venice was established, as the first commercial bank of he world, in 1157 AD and in Nepal, Nepal Bank Limited was established, as the first commercial bank in 1994 BS. Government however had onus of stretching banking services to the nook and corner of the country and also managing financial system in a proper way. Thus, Nepal Rastra Bank (NRB) was set up on 2013.02.14 as a central Bank under Nepal Rastra Bank Act 2012 B.S. Since then; it has been functioning as the government's bank and has contributed to the growth of financial sector. Integrated and speedy development of the country is possible only when competitive banking service reaches nooks and corners of the country .keeping this in mind, government set up RASTRIYA BANIJYA BANK (RBB) in B.S.2022.10.10as a fully government owned commercial Bank.

Before 1974 (BS 2031), there was no any existence of joint venture banks in the country, there were no provisions made in the old commercial bank act, which facilitated to the establishment of joint venture banks in Nepal. The new commercial bank act 1974 has, however, made provisions to permit foreign banks to operate in the country be obtaining the approval of Nepal Rastra Bank. To accelerate economic activities towards growth, encourage proficient banking service, economic development, industrialization and growth of nation. In the early 1980's, when government permitted establishment of foreign joint venture (JVBS), three namely NABIL BANK(Nepal Arab Bank) Ltd. in 2042.03.29 , Nepal Investment Bank (Nepal Indo-Suez Bank) in 2042.12.16 and Standard Chartered Bank (Nepal Grindlays Bank Ltd.) in 2043.10.16, were established. After democratically elected government adopted the liberal and market oriented economic policy, the numbers of joint venture banks has increased dramatically. Joint venture banks are established by joining different forces and ability to achieve a common goal with each of the partners. DP Gupta has defined the joint ventures as 'a joint venture is the joining of forces between two or more enterprises for the purpose of carrying out a specific operation (industrial or commercial, investment, production or trade).'

After that, there was a gradual increase in the number of joint -venture commercial banks in Nepal. Nowadays, there are 26 commercial banks, 61 development banks, and 13 gamin bikes banks, 78 finance companies, 45 NGOs and 116 Hulak Bachat banks operating in Nepal. The open and liberal policy in the financial sector has helped in establishing many commercial banks and financial institutions in the country.

The review of textbooks and other reference materials such as: newspapers, magazines, research articles, journals and past thesis have been included in this topic. Under the credit management many subject matters are considered like the credit policy of the bank, documentation of credit processing, approval process, disbursement of the approved loan, review process, audit of the credit administration, loan classification and provision as per NRB directives etc.

Credit administration involves the creation and management of risk assets. The process of lending takes into consideration the people and system required for the evaluation and approval of loan requests, negotiation of terms, documentation, disbursement, administration of outstanding loans and workouts, knowledge of the process and awareness of its strength and weaknesses are important in setting objectives and goals for lending activities and for allocating available funds to various lending functions such as commercial, installment and mortgage portfolios (Johnson,1940:132).

Bodhi B. Bajracharya, in his article "Monetary policy and deposit mobilization in Nepal" has concluded that mobilization of the domestic saving is one of the prime objectives of the monetary policy in Nepal. And commercial banks are the most active financial intermediary for generating resources in the form of deposit of private sector and providing credit to the investors in different sectors of the economy (Bajracharya, 1991:93).

Book named "Banking Management" says that in banking sector or transaction, an unavoidable of loan management and its methodology is regarded very important. Under this management, many subject matters are considered and thought, For example, there are subject matters like the policy of loan flow, the documents of loan flow, loan administration, audit of loan, renewal of loan, the condition of loan flow, and the provision of security, the provision of the payment of capital and its interest and other such procedures. This management plays a great role in healthy competitive activities (Bhandari, 2003:170).

It is very important to be reminded that most of the bank failures in the world are due to shrinkage in the value of loan and advances. Hence, risk of non-payment of loan is known as credit risk or default risk (Dahal, 2002:114).

Portfolio management helps to minimize or manage the credit risks by spreading over the risk to various portfolios. These methods of managing credit risk is guided by the saying do not put all the eggs in a single basket (Bhandari, 2004:300).

2.1.1 Concept of Commercial Banking

Before defining the term commercial bank, let us define the meaning of bank and commercial. According to H.L. definitions of bank: "A banker or bank is a person or company carrying on the business of receiving moneys, and collecting drafts, for customers subject to the obligation of honoring cheques drawn upon them from time to time by the customers to the extent of the amount available on their customer." Sir Jhon Paget states that no one can be a banker who does not take deposits accounts, take current accounts, issue, pay cheques, crossed and uncrossed, for his customers. He further adds that if the banking business carried on by any person is subsidiary to some other business; he cannot be regarded as a banker (Shekher, 1999:4).

Commerce is the financial transactions related to selling and buying activities of goods and services. There fore commercial banks are those banks, which works from commercial viewpoint. They perform all kinds of banking functions as accepting deposits, advancing credits, credit creation, and agency functions. They provide short-term credit, medium term credits and long terms credit to trade and industry. They also operate off balance sheet functions such as issuing guarantee, bonds, letter of credit, etc.

The banks pool together the savings of the community and arrange for their productive use. The supply the financial needs of modern business by various means. Commercial banks act as an intermediately accepting deposits and providing credits to the needy area. The main source of the commercial bank is current deposit, so they give more importance to the liquidity of investment and as such they specialize in satisfying the short- term credit needs of business other than the long-term. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short-term needs of trade and industry such as working capital financing. They cannot finance in fixed assets. They grant credits in the form of cash credits and overdrafts. Apart from financing, they also render services like collection of bills and cheques, safe keeping of valuables, financial advising, etc to their customers (Vaidya, 1999:24).

Commercial banks are organized as a joint stock company system, primarily for the purpose of earning a profit, They can be either of the branch banking types as we see in most of countries, with a large network branches like in Nepal or of the unit banking type, as we see in the United States where a banks operations are confined to a single office or to a few branches within a strictly limited area (Shekher, 1999: 4).

2.1.2 Function of Commercial Banks

"The business of commercial banks is primarily is to hold deposits and make credits and investments with the object of securing profits for its shareholders. Its primary motive is profit; other consideration is secondary." the major functions of commercial banks are as follows (Sudharsanam, 1976:123).

Accepting Deposit, Advancing Credits, Agency Services, Credit Creation, Financing of Foreign Trade, Safekeeping of Valuables, Making Venture Capital Credits, Financial Advising**,** Offers Security Brokerage Services.

***Assist in Foreign Trade*:**

The bank assist the traders engaged in foreign trade of the country. He discounts the bills of exchange drawn by exporters on the foreign importers and enables the exporters to receive money in the home currency. Similarly, he also accepts the bills drawn by foreign exporters (Vaidya, 1999: 29).

Offers Investment Banking and Merchant Banking Services:

Banks today are following in 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, financing acquisitions of other companies, dealing in security underwriting, providing strategic marketing advice, and offering hedging services to protect their customers against risk from fluctuating world currency prices and changing interest rates. Further, they support the overall economic development of the country by various modes of financing.

2.1.3 Banking Risk

Normally, Banks confront different kinds of risks, which are categorized as follows:

- **Credit Risk**: Credit risk arises whenever another party enters into an obligation to make payment or deliver value to the bank. This type of risk is mostly associated with the lending.
- **Liquidity Risk**: It is arises when bank itself fail to meet its obligation. The bank required to make payments to the different parties at different times, when they fall due to other parties, which is the liquidity risk.

- **Yield Risk**: It is the risk that bank’s assets may generate less income than expense generated by its liabilities.
- **Operational Risk**: The risk is failure in the banks procedures or controls, whether from external or internal causes or as a result of error or fraud with in the institution is the operational risk.
- **Market Risk**: The risk of loss resulting from movements in the market price of financial instruments in which the bank has a position is the market risk. Such instrument’s include bonds, equities, foreign –exchange and associated derivative products.
- **Management Risk**: The risk that shareholders, directors or senior management be unfit for their respective positions or dishonest.

2.1.4 Credit

2.1.4.1 Concept of Credit

A credit is one of the most important factors in commercial banks. It is a profit determinant factor. If the credit is well managed, profit will be higher automatically. That's why, every commercial bank should consider in credit management properly through which they can easily meet their objectives and to maximize the profitability. The Present study was aimed to find out the credit practices adopted by selected Nepalese commercial bank during the study period. Credit can be defined as a sum of money granted to a certain person, organization or institution with an expectation to get back after a certain period of time along with agreed rate of interest.

Credit is defined as "Sum of the money lent by a bank, etc" (Oxford Advanced learners dictionary, 1992:279). Credit and advances is an important item on the asset side of the balance sheet of a commercial bank. "Bank earns interest on credits and advances, which is one of the major sources of income for banks. Bank must have to prepare credit portfolio otherwise it will not only add bad debts but also affect profitability adversely"(Varshney, 1994: 6).

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

Banks generally grants credit on four ways (Chhabra, and Taneja, 1991:4).

- Overdraft
- Cash Credit
- Direct Credit
- Discounting of Bills

RBB's Credit:-

- More than 140000 loan Accounts
- 17 % of total Credit of the Country
- Single Largest lender
- majority working capital corporate loan-67%

RBB Credit Strength

- High liquidity
- Vast Geographical Reach
- Old & Trustworthy Bank
- Preferred by govt. /Semi Govt. Bodies.
- 20% Deposit of the country
- Annual Deposit Growth of 5 %
- Selective lending and satisfactory good credit growth
- Sovereign Tag

2.1.4.2 Types of Credit

Overdraft:

An Overdraft facility means ability to withdraw money more than what is in the account .The customer may be sanctioned on the basis of certain norms, a certain limit within which ,he can withdraw his current account within a stipulated period. Balance of overdraft account may fluctuate. It is increased by withdrawals by the customer makes payment into the account. It is the facility granted for meeting working capital requirement of the borrower i.e. to fulfill borrower's short term needs.

Hypothecation Loan:

The Bank finance against hypothecation of current assets (Stocks and Account receivables) to meet short-term cash requirement in the form of revolving hypothecation loans for tenures up to 365 days.

Cash Credit:

A cash credit is that type of lending granted by the banks which is operated in a same way as an overdraft account. Under the cash credit system, credit limits of the borrower are fixed and within the limit the borrower is allowed to draw at any time during the validity .It are generally given to traders, industrialists, farmers for meeting their working capital requirement.

Term Credit:

It refers to money lent in lump sum to the borrowers. It is principal form of medium term debt financing having maturities of 1 to 8 years. Barely and Myers urge that bank credits with maturities exceeding 1 years are called term credits. The firm agrees to pay interest based on the bank's prime rate and to repay principal in the regular installments. Special patterns of principal payments over time can be negotiated to meet the firm's special needs (Richard, 1996:80).

It is granted for starting or expanding the new project industry, or any other venture requiring fixed assets investment .It is also meet the borrower’s long term fixed assets requirement.

***Loans against government bonds*:**

Short term loans of up to one year are provided against security of government bonds.

Loan against RBB fixed deposit:

Confessional short term loans provided against security of fixed deposits with RBB.

***Priority or Deprived sector Credit*:**

Commercial banks are required to extend advances to the priority and deprived sector.12 % of the total Credit must be towards priority sector including deprived sector. Rs 2 million for agriculture cum service sector and Rs2.5 million for single borrowers are limit sanctioned to priority sector. Institutional support to' Agriculture Development bank' and 'Rural Development Bank' are also considered under this category. Deprived sector lending includes:

- Advances to Poor/downtrodden/weak/ deprived people up to Rs 30000 in generating income or employment.
- Institutional Credit to Rural Development Bank
- Credits to NGOS those are permitted to carryout banking transactions for lending up to Rs 30000.

RBB offers loans to priority/deprived sectors to fulfill its mission of Sustainable Development. The bank strives to balance their current and long-term financial goals with the economic, environmental and social needs of future generations. The bank believes priority/deprived sector finance is a very powerful tool that can be used effectively to address poverty, empower the socially marginalized poor and strengthen the social fabric.

Margin Lending against shares:

The bank has been provided the loan against shares at attractive interest rates if the shares are list of approved securities. This scheme guarantees instant liquidity against the securities.

Hire Purchase Financing (Installment Credit):

Hire-purchase credits are characterized by periodic repayment of principal and interest over the maturity of the credit. Hirer agrees to take the goods on hire at a stated rental including their repayment of principal as well as interest with an option to purchase. A recent survey of commercial banks indicates those banks are planning to offer installment credits on a variable rate basis. It can be secured and unsecured as well as direct and indirect installment credit.

Non Funded Facilities:

The bank can issue letters of credit or can give a guarantee on behalf of the customer to the suppliers, Government Departments for the procurement of goods and services on credit.

- Letter of Credit (Sight/Usance)
- Bid Bond

- Performance Bond
- Financial Guarantee
- Advance Payment Guarantee

***Housing Loan**:*

Financial institutions also extend housing credit to their customers. It is of different types such as: residential building, commercial complex, construction of warehouse etc. It is given to those who have regular income or can earn revenue from housing project itself.

At RBB, the bank has launched the housing loan as per retail loan policy2060 All the Financial institution are attractive in housing which is financed for the construction or Using a home purpose that financed is a long-term financial commitment. RBB Home Loan is a simple way to use customer's savings smartly, by letting to decide how much interest to pay.

Structure of the repayment is made by EMI (Equated Monthly Investments) over a period of 5 to 15 years as per repayment capacity of the borrower. The bank offer loans of up to Rs. 50 lacs.

Auto Loan:

If any one looking for a brand new car for private use, s/he or their company, it does make good business sense to consider a car loan. The bank provides the Car loan scheme as structured over 5 -15 years at flexible EMI (Equated Monthly Installments).

Education Loan:

Education is the most important investment one makes in life. Higher studies and specialization in certain fields call for additional financial support from time to time. RBB Education Loans can help to study a head either abroad or in Nepal.

Loan against gold silver:

The bank has understood the borrower's financial needs during festivals, marriages, personal contingencies and other social commitments. Loans against gold/silver have just met that requirement by offering fast credit for up to 1 year. e.g. Foreign Employment Loan: the bank has also offered flexible loans for financing the cost to take up the dream job abroad.

Project Credit:

Project Credit is granted to the customers as per project viability. The borrowers have to invest certain proportion to the project from their equity and the rest will be financed as project credit. "Construction Credits are short -term credits made to developers for the purpose of completing proposed projects. Maturities on construction Credits range from 12 months to as long as 4 to 5 years, depending on the size of the specific project" (Johnoson, 1940:242).

The basic principle involved in disbursement policy is to advance funds corresponding to the completion stage of the project. Hence, what percent of the credit will be disbursed at which stage of completion must be spelled in disbursement policy? Term credit working capital credit needed for project fall under it.

Consortium Credit:

No single financial institution grant credit to the project due to single borrower limit or other reason and two or more such institutions may consent to grant credit facility to the project of which is baptized as consortium credit. It reduces the risk of project among them. Financiers bank equal (or likely) charge on the projects' assets.

Credit Cards and Revolving Lines of Credit:

Banks are increasingly utilizing charge cards and revolving lines of credit to make unsecured consumer Credit. Revolving credit line lowers the cost of making credit since operating and processing cost are reduced. Due to standardization, centralized department processes revolving credits resulting reduction on administrative cost. Continued borrowing arrangement enhances cost advantages. Once the credit line is established, the customer can borrow and repay according to his needs and the bank can provide the fund to the customer at lower cost.

Charge cards and credit lines tied to demand deposit accounts are the two most common revolving credit agreements. It can be further divided into credit cards, automatic overdrafts lines and large credit lines.

Off- Balance Sheet Transaction:

In fact, bank guarantee and letter of credit refer to off Balance sheet transactions of financial institution. It is also known as contingent liability. Contingent liability pinpoints the liability, which may or may not arise during the happening of certain event. Footnotes are kept as reference to them instead of recording in the books of accounts. It is non-funded based remunerative facilities but more risky than the funded until adequate collateral are taken. Lets its two varieties be described separately.

2.1.5 Objectives of the Sound Credit Policy:

The purposes of a written credit policy are:

- To assure compliance by lending personnel with the bank's policies and objectives regarding the portfolio of credits and
- To provide personnel with a framework of standards within which they can operate.

2.1.6 Lending Criteria:

While screening a credit application 5-cs to be first considered supported by documents.

Character:

Character is the analysis of the applicant as to his ability to meet the obligations put forth by the lending institution. For this analysis, generally the following documents are needed.

- Memorandum and Articles of Association
- Registration Certification
- Tax registration certificate (Renewed)
- Resolution to borrow
- Authorization-person authorizing to deal with the bank
- Reference of other lenders with whom the applicant has dealt in the past bank A/C statement of the customer.

Capacity

It describes customer's ability to pay. It is measured by applicants' past performance records and followed by physical observation. For this an interview with applicant's customers/suppliers will further clarify the situation. Documents relating to this area:

- Certified balance sheet and profit and loss account for at least past 3 years
- Reference or other lenders with whom the applicant has dealt in the past or bank A/C.

Capital:

This indicates applicant's capacity to inject his own money. By capacity analysis, it can be concluded that whether borrower is truing to play with lender's money only or is also injecting his own fund to the project. For capital analysis financial statements, like certified balance sheet, profit and loss account is the only tools.

Collateral:

Collateral is the security proposed by the borrower. Collateral may be of either nature movable or immovable. Movable collateral comprises right from stock, inventories to plying vehicles. In case of immovable it may be land with or without building or fixtures, plant machineries attached to it.

Conditions:

Once the funding company is satisfied with the character, capacity, capital, and collateral then a credit agreement (sanction letter) is issued in favor of the borrower stating conditions of the credit to which borrower's acceptance is accepted.

2.1.7 Project Appraisal:

Before providing credit to the customer, bank makes analysis of project from various aspects and angles. It will help the bank to see whether project is really suitable to invest. The purpose of project appraisal is to achieve the guarantee of reasonable return from the project. Project appraisal answers the following questions:

- Is the project technically sound;
- Will the project provide a reasonable return;
- Is the project in line with the overall economic objectives of the country?

Generally, the project appraisal involves the investigation from the following aspects: (Gautam, 2004:258

- Financial aspect
- Economic aspect
- Management/Organizational aspect
- Legal aspect

Directives Issued by NRB for the Commercial Bank: (related to credit aspect only):

Credit Classifications and Provisioning:

With a view to improve the quality of assets of commercial bank ,NRB has directed commercial bank to classify their outstanding loan and advances ,investment and other assets into four categories. NRB has directed commercial banks to maintain certain reserves for loans so classified. The existing loan loss provisioning is as under mentioned.

Classification	**Provision**
2. Pass Credit	1%
2. Sub standard Credit	25%
3. Doubtful Credit	50%
4. Bad Credit	100%

Those credits that have not crossed the time schedule of repayment and are within 3 months delay of maturity date fall under the classification topic 'pass credit'. It is also known as performing credit. Sub standard credit are those credit which are already crossed the repayment time schedule and are within 3-6 months delay of maturity date. Likewise, within 6-12 months delay from the time to be recovered are classified as doubtful credit. Those credits, which are not recovered yet after 1 year from maturity date, are known as bad credit All the above 3 types of credits are classified as non-performing credit also.

The credit loss provision for performing credit is termed as general credit loss provision whereas the credit loss provision for non-performing credit is termed as specific credit loss provision.

Auditor has to correctly rate the credit and ensure that accurate credit loss provision has been made. The auditor should examine whether the bank has obtained complete documentation so that banks interest is secured. In addition audit is made to inspect compliance of terms and conditions laid down. Credit audit is required to check whether credit given is within authority, drawing power, etc. Credit audit helps the bank to know quality of its credit, its weaknesses and strengths. This, in turn, helps the bank to adopt corrective measures where weaknesses have been pointed out and to focus further on strengths. General guidelines whether to reject or renew the credit can be establish with the help of credit audit.

Limit of Credit and Advances in a Particular Sector:

- Fund based Credit and advances can be issued up to 25% (upper limit) of core capital to a single customer, firm, company and a group of related customer.
- Non-fund based (off-balance items) can be issued up to 50% of core capital to a single customer, firm, company and group of related customer.

Note: The core capital includes {paid up capital share premium+non-redeemable preference share general fund accumulated profit (loss) -goodwill (if any included)}

Group of related customer:

- If a company takes 25% or more share of another company.
- Member of board of directors of company shareholders of private limited company and such members and shareholder with others in a single house, even if husband, wife, son, daughter, daughter in law, unmarried daughter, adopted son, adopted unmarried daughter, father, mother, stepmother and brothers & sisters whom be should look after. And the above members personally or combined take 25% or more share of another company.
- Firm, company and members as a related group.
- Members of board of directors, shareholders and other relatives as stated in serial number 'b' takes less than 25% of board of directors of the company solely or combined but have control on the other company by the following ways:
- Being president of board of directors of the company
- Being executive directors of the company.

- Nominating more than 25% of members of board of directors of the company.
- If cross guarantee is given by one company to another company.

2.1.8 Principle of Credit Policy of The Commercial Bank

Good credit policy is essential to carry out the business of lending more effectively. Some policies are as follows:

Principle of Safety: Banks should look the fact that is there any unproductive or speculative venture or dishonest behavior of the borrower.

Principle of Liquidity: Liquidity refers to pay on hands on cash when it in ceded without having to sell long-term assets at loss in unfavorable market. (American Institute of Banking "Principle of Bank Operation"(USA: 1972) 149. A banker has to ensure that money will come in as on demand or as per agreed terms of repayment.

Principle of Security: It acts as cushion to grant advances and credits. Adequate values of collaterals ensure the recovery of credit correctly at the right time. Accepted security should be readily marketable, handy and free from encumbrance.

Principle of Purpose of Credit; Generally, credit request for productive sector only be accepted rejecting credit request for speculation, social functions, pleasures trips, ceremonies and repayment of prior credit as they are unproductive.

Principle of Profitability; Profitability denotes the value created by the use of resource is more than the total of the input resources. Bank should provide to such project that can provide optimum amount of return. For such purpose, bank should take a little bit risk by providing credit to venturous project.

Principle of Spread: Portfolio of advances is to be spread not only among many borrowers of same industry by across the industries in order to minimize the risk of lending keeping" Do not put your all eggs in the same basket" in mind.

Principle of National Interest: In lending and granting advances, interest of nation should not be distorted (if undermined). Priority and deprived sector of economy and other alarming sector should be given proper emphasis while extending advances.

2.2 Review of Related Studies

In an article published in 'Souvenir' of Rastriya Banijya Bank Ltd., (Garg: 2008:56), titled "Principles of Lending and Credit Culture at RBB" has mentioned that the lending combines the science of obtaining and analyzing the facts of a loan request and the art of making judgments about that information, the feasibility of the business, and the credibility of the borrower.

The lender should make sure that he understands the various risks which affect it and wherever possible takes steps to manage the risks. First and foremost these include the major obvious risks such as the term and magnitude of the loan and what changes could affect the borrower's ability to repay the loan.

In view of Garg, lending primarily based on the Charisma, stature, reputation, market image of the borrower. All of us believe in something called –looks are deceptive, don't judge book by its cover, ever take anything at its face value etc. In the article he focused that the credit culture of RBB for the last several years is based on:

- Name Lending
- Collateral based Lending
- Limit based lending
- Universal Lending
- One time lending
- Attitude lending

In the article Garg has concluded that the successful banks have developed an internal credit culture that guides their banking operations .A bank's credit culture is the unique combination of policies, practices, experience and management attitudes that defines the lending environment and determines the lending behavior acceptable to the bank.

Shrestha (2008) in her article "Lending operations of commercial banks of Nepal and its impact on GDP" presented the objectives to make an analysis of contribution of commercial banks' lending to the Gross Domestic Product (GDP) of Nepal. She has set a hypothesis that there has been a positive impact of lending of commercial banks to the GDP. In research methodology, she has considered GDP as the dependent variable and various sectors of lending viz. agriculture, industrial, commercial, service, general and social sectors as independent variables. A multiple regression technique has been applied to analyze the contribution.

The multiple analyses have shown that all the variables except service sector lending have positive impact on GDP. Thus in conclusion, she has accepted the hypothesis, i.e. there has been positive impact on GDP by the lending of commercial banks in various sectors of economy, except service sector investment."

Ghimire (2004) in his article titled "Credit Sector Reform and NRB" has tried to highlight the effects of change or amendment in NRB directives regarding loan classification and loan loss provisioning. "Although the circumstances leading to financial problem or crisis in many Nepali banks differ in many respects, what is common acres most of the banks is the increased size of non performing assets (NPAs), to resolve the problem of the losses or likely losses of this nature facing the industry NRB has, as the central bank, amended several old directives and issued many new circulars in the recent years.

As opined by him, since majority of the loans of most of the commercial banks of the country at present falls under substandard, doubtful and even loss categories, loan loss provisioning now compared to previous arrangement would be dramatically higher. The new classification and provisioning norms are very lent able as they help to strengthen banks financially. He has also stated that tightening provisioning requirements on NPL is to ensure that banks remain liquid even during economic downturns. In the conclusions he has mentioned that in the recent years NRB has worked for management and reform of the credit of the financial institution more seriously and NRB has adopted reforms aimed not just at dealing with problem banks but also at strengthening banking supervision to reduce the likelihood of future crisis, "All prudential directives of NRB in connection of credit sector reform have been made revised on after April 2002. To adapt to such changes there can be some difficulties and for a better and harmonized reform NRB should continue to be supportive, proactive and also participative to take opinions of bankers for a change in regulation/policy taking place in the future."

Dali (2006) on “A study on Credit risk management of commercial banks in Nepal” has found out the analysis that standard chartered bank has higher risk index, probability of book value insolvency is less than one percentage, latest non banking asset is nil and total credit management is good and reasonable where as Himalayan bank has higher risk index its probability of book valued insolvency is less than one percentage and non banking assets are 0.1465%.Everest Bank has also higher risk index, Probability of book value insolvency is more than one percentage and its non banking assets are 0.4659 where as NABIL bank has higher risk index and probability of book value insolvency is less than one percentage, the latest non banking assets are nil.

The objective of the thesis is to find out the status of the loan portfolio management of commercial banks and to evaluate problem and weakness in credit risk management .He has shown perfectly the relationship of loan and loan loss provision and how they affect the credit systems.

Shrestha, M. (2006) on “Credit Management with Special Reference to Nepal SBI Bank Limited” has found out the analysis that loan and advances and investment to total deposit ratio of SBI bank is high and it indicates good performance of lending for a bank and it ahs high amount of loan loss provision and high volume of non performing loans which is not sign of efficient credit management. The bank is recommended to adopt innovative approach to marketing.

She concludes that bank should give loans with out collateral by following new trends which now today’s bank are following .overall the bank performance is quite good and satisfactory. There is proper control mechanism like delegation of authority, follow up visits ad books of accounts inspection of the client which results good performance of bank. Her main objectives are to find out the analysis the effectiveness of credit policy of bank, to measure the performances in quality, efficiency ad contribution of profitability and liquidity position of banks and she said bank is good in credit position.

2.3 Review of Thesis

This dissertation has been written after studying various books journals article website and previous thesis. I here comprise the some previous thesis review, which are mainly concerned about financial performance and fund mobilization policy, lending practices and investment policy, credit management and loan management of commercial bank.

Paudel, P. (2001) in his Thesis "A study on lending practices of joint venture commercial banks with reference to Nepal Bangaladesh Bank Ltd. (NBBL) and Himalayan Bank Ltd. (HBL)" has made comparative study of these two banks in different lending aspects and strategies.

In his findings, the liquidity position of NBBL is comparatively better than HBL. The liquidity ratio of HBL is more stable and consistent then NBBL that indicates the stable policy of HBL, NBBL is found slightly better to be maintaining between assets and liabilities. NBBL has high lone and advances to total assets ratio, loan and advances to total deposit ratio, but HBL has high investment to total loans and advances and investment and total investment to total deposit ratio. He has concluded that NBBL is able to manage its assets to complete in this competitive banking business than HBL. As per his findings its liquidity position of NBBL is better and hence HBL is recommended to its liquidity position. He has suggested both bank to strictly follow the NRB directives, which will help them to reduce credit risk arising from borrower's defaulter, lake of proper credit appraisal, defaulter by blacklisted borrowers and professional defaulter. Loan lass provision of both banks is in fluctuating trend. So both banks are suggested to adopt sound credit collection policy which wills helps to decrease loan loss provision.

The main objective of his Thesis lending practices of joint venture commercial banks with reference to NBBL and HBL is investment criteria and sector, loan distribution and advance practice of joint venture bank. The limitation of the thesis was base on secondary data given by responded, five year's data and non ending year's data.

Ojha, L P. (2002) in his dissertation about "lending practices" has written that the commercial banks have to expand their credit in the area if rural economy so as to compromise between the liquidity and credit need such economy. This helps in minimizing the idle find in business and at the same time contribute to the national economy. The banks should also increase the volume of credit in the sector of agriculture as the ratio of contribution made by the banks in this priority is decreasing.

Research has found out that following the normal guidance of Nepal Rastra Bank and acting upon reduces many on the credit risk arising from borrower's defaulter, lack of proper credit appraisal, defaulter by blacklisted borrowers, and professional defaulter. The over confidence of commercial banks regarding credit appraisal efficiency and negligence taking information from Credit information bureau has caused many of the bad debts in these banks. He thinks that these banks have to follow the directives of NRB strictly and be more cautious and realistic while granting loans and advances.

The high volume of liquidity reveals that a degree of lending strength has been prevailing in all of the commercial banks. The lack of reliable lending opportunities and fear of losing the principal in rural sector has been keeping these banks less oriented towards the lending function. Hence, the government should take appropriate action to initiate these banks to attract to flow credit in rural economy. Posing the compulsions by directives does not create long-term healthy lending practices unless the commercial banks are not self-motivated to flow credit in this sector.

Joshi, S. (2003) In "A Comparative Study on Financial Performance of Standard Chartered Bank Nepal Limited and Everest Bank Ltd" states that the mean current ratio of EBL is slightly higher than that of the SCBNL and the variability of ratio of EBL is more consistence than SCBNL in comparison. The mean ratio of cash and bank balance to total deposit of SCBNL is lower in comparison to EBL. SCBNL has better liquidity position than EBL because of the high volume of liquidity indicated the inability of the bank to mobilize its current assets. Moreover SCBNL's ratios are homogeneous than EBL. The mean ratio of case and bank balance to current assets of SEBNL is lower in comparison to EBL. Similarly, SCBNL's ratios of the study period are more consistent than EBL. The mean ratio of loan and advances to total deposit of EBL is higher than SCBNL. It can be said that EBL used to provoked grater loan and advance in comparison to its total deposit than SCBNL. Likewise, SCBNL's ratio seems to be variable than EBL. The mean ratio of investment on government securities to total working fund of SCBNL is higher than EBL.

Consequently, it has consistency in maintaining the ratio than EBL. The mean ratio of return on loan and advances of SCBNL has found to be significantly grater than EBL with more consistency than that of EBL. The mean ratio of credit risk of SCBNL is lower than that of EBL's ratio are more consistent that of SEBNL. Growth ratio of deposit is more consistent than that of SCBNL is lower i.e. 19.28% in comparison to EBL i.e. 76.46%.

The main statement of the problem of his research is the investment decision is the major tool of financial institution. There are many finance companies and commercial banks operating in Nepal. The fast growth of such organizations has made pro-rata increment of in collecting deposits and their investment. They collected adequate amount from the mass, however they could not find or locate new investment sectors required to mobilizes their fund on the changing context of Nepal. Many banks or companies succumbed to liquidation although they had sustainable investment capacity. The increasing rate of liquidation has caused a downward trend in investment sectors. It has ensured bad impact on interest rate to the depositors, lower market value of shares etc. for the assessment of such adverse impact, this study has shown to contrast and analyses the investment policy of joint venture banks. Joint venture banks viz. standard chartered bank Napal ltd and Everest banks limited. The main objectives are compare investment policy of concern banks, find out the empirical relationship among total investment deposit, deposit utilization loan and advance, net profit and outside asset and compare of SCBNL and EBL.

Regmi, P. (2004) in the study Entitled "Credit Management of Commercial Banks with Reference to Nepal Bangaladesh Bank and Bank of Katmandu" states that commercial banks are those banks, which works 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 help to minimize or manage the credit risks and spreading over the risks to various portfolio. Banks earn interest on credit and advances which is one of the major source of income for banks. On average 5 year of research period, cash and bank balance to total deposits of ratio of NB bank & 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 asset guarantee credit is increasing period by period. After assets guarantee bank has provided credit based on bills guarantee credit is 3421.3milliins (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 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 and 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 objectives of this research are to analyze the functions, objectives, activities, credits and advances procedure and recovery status of the NB bank and BOK.

Shrestha, S. (2005) in has dissertation "Credit management with special reference to Nepal SBI Bank ltd" illustrates that lending is one of the most important parts of function of a commercial bank and composition of loan and advances directly affects the performance and profitability of the bank. There is intense competition in banking business with limited market and less investment opportunities available. Every bank is facing the problem of default loan and there is always possibility of a certain portion of the loan and advances, profitability deposits position of Nepal SBI bank Limited is analyzed and its contribution in total profitability has been measured.

The main statement of the problem of his study is the credit management is the essence of commercial banking. Consequently, the formulation and implementation of sound Credit policies are among the most important responsibilities of bank directors and management. Will-conceived credit policies and credit careful credit practice are essential if a bank is to perform its credit creating effectively and minimize the risk inherent in any extension of credit-credit management effects on the company's profitability and liquidity so it is one of the crucial decisions for the commercial banks. Measuring the credit performance in quality, efficiency and contribution of profitability, liquidity position and its effect on credit performance and measure the growth rate and propensity of growth based on trend analysis are the main objective of his dissertation.

Gurung, A.K. (2006) explored in his research "Lending policy and recovery management of Standard Chartered Bank Nepal ltd and NABIL Bank Limited" has found out that the deposit collection by the banks shows that increasing but in a fluctuating trend. The trend analysis of deposit collection the increase in deposit collection in the forthcoming years will continues. Out of different types of deposit collection account, higher account has been collected in saving deposit account. Out of the total deposit collection, SCBNL has disbursed 36% of average as a loan and NABIL has disbursed 52% of its deposit collection as a loan disbursement to deposit collection ratio of commercial banks, it is around 60%. Thus, this ratio is quite low incasing of sample bank especially of SCBNL. It is further proved by the calculation of correlation coefficient, which is 0.75 and 0.23 of SCBNL and NABIL respectively.

In order to analyze the recovery management of these banks, their loan loss provision and NPL were analyzed. While looking at the loan loss provision of SCBNL it is in decreasing trend from 2002. The correlation coefficient of loan loss provision and loan disbursement of SCBNL is in decreasing trend. While looking at the future trend of loan loss provision its shows the increasing trend in case of SCBNL and the trend of lone loss provision is decreasing every year in case of NABIL, which is provide by the trend analysis. The correlation of loan loss provision and loan disbursement of NABIL is negative.

The main statement of his problem is there many banks are mushrooming although banks are not interested to expand their branch in remote rural area. There are difficulty and length formality of procedure for long term and medium term as well as short-term loan, Low deposit habit of Nepalese people and lack of strong act of lending and bad debt. The main objectives of the dissertation are loan and advance providing procedure of bank, landing and investment sector of bank, recovery condition of both SCBNL and NABIL bank.

Misra, S. (2007) entitled her Thesis "Credit management of Everest Bank Limited" illustrate that liquidity position, cash reserve ratio shoes the more liquidity position. Cash and bank balance to interest sensitive ratio shows the bank is able to maintain good financial condition. Cash and bank balance to current asset ratio shows that the bank's sound ability to meet the daily cash requirement of their customers deposit. That is why liquidity position of the bank is the better.

In the aspect of profitability position, interest income to interest ratio shows the more profitable salivation. In addition, total income to total expenses ratio shows the overall predominance of the bank is satisfactory operating income. Return on loan advances are showing position that is more profitable on of the EBL. Analysis of the assets management ratio, loan advances to total assets ratio shows the better performance but loan and advances to total deposit position in minimum than the averages. Whereas investment in loan and advances is safely and not taking more risk. That's why assets management position of the bank shows better performance in the latest year.

After analyzing the lending efficiency of the bank, the loan loss provision to loan advances indicator shows the better performance in the latest year. The interest expenses to total deposit ratios shows the improving efficiency of the bank. EBL. Bank has sufficient liquidity. It shows that bank has got investment sectors to utilize their liquid money.

This is recommend that Cash and bank balance of EBL bank is high. Bank efficiency should be increased to satisfy the demand of depositor at level of cash and bank balance does not provide return to the bank. Therefore some percentage of the cash and bank balance should be invested in profitable sectors. Bank should open their branches in the remote area with the objective to provide the banking services and minimum deposit amounts should be reduced. The main objective of this study is to evaluate the credit management of Everest Bank limited. Besides, there may be other objectives as well like to examine the impact of deposit in liquidity, loan management procedure, asset management and lending efficiency of the Everest Bank Limited.

Limbu, R. (2008) in his dissertation "Credit Management of NABIL Bank Limited" highlighted that aggregate performance and condition of NABIL bank. In the aspect of liquidity position cash and bank balance reserve ratio shows the more liquidity position. Cash and bank balance to total deposit has fluctuating trend in 5 years study period. Cash and bank balance to current deposit is also fluctuating. The average mean of cash and bank balance to interest sensitive ratio is able to maintain good financial condition.

In the aspect of assets management ratio, assets management position of the bank shows better performance in the recent years. Non-performing assets to total assets ratio is decreasing trend. The bank is able to obtain higher lending opportunity during the study period. Therefore, credit management is in good position of the bank. In leverage ratio, Debt to equity ratio is in an increasing trend. High total debt to total assets ratio posses' the higher financial risk and vice-versa. It represents good condition of Total assets to net worth ratio. In the aspect of profitability position, total net profit to gross income, the total interest income to total income ratio of bank is in increasing trend. The study shows the little high earning capacity of NABIL through loan and advances. Earning per share and The price earning ratio of NABIL is in increasing trend. These mean that the better profitability in the coming last years. It represents high expectation of company in market and high demand of share. Loan loss provision to total loan and advances ratio and None-performing loan to total loan and advance ratio of NABIL is in decreasing trend. The ratio is continuously decreasing this indicates that bank increasing performance. Thus, credit management is in a good position.

The main objective of the research study are to evaluate various financial ratio of the NABIL Bank, To analyze the portfolio lending of selected sector of banks, To determine the impact of deposit in liquidity and its effect on lending practices and To offer suitable suggestions based on finding of this study.

In the statistical tools analysis, average mean, correlation analysis and trend analysis have been calculated. Correlation coefficient between total credit and total assets has high degree of positive correlation. Correlation coefficient between total deposit and loan & advances has high degree of positive correlation it is concluded that increasing total deposit will have positive impact towards loan & advances.

2.4 Research Gap

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make this study meaningful and purposeful. There are various researches conduct on lending practice, credit policy, financial performance and credit management of various commercial banks. Some of the researches have done the financial performance, credit policy between two or three different commercial bank. In order to perform those analysis researchers have used various ratio analysis. Actually, credit management is determined by various factors. In this research various ratio are systematically analyzed and generalized. Past Researchers are not properly analyzed about lending and its impact on the profitability. Here in this research all ratios are categorized according to their area and nature.

In this study of credit management of Rastriya Banijya Bank limited is measuring by various ratios, trend analysis and various statistical tools as well and financial tools are used for analyzing survey data. Since the researcher have used data only five fiscal year but all data are current and fact. Clearly these are the issue in Nepalese commercial bank the previous scholar could not the present facts. Thesis of Sunita Misara, (2007) "Credit Management of Everest Bank Limited" has not use correlation, probable error and trend analysis. Ram Limbu (2008) "Credit Management of NABIL Bank Limited" has done using all financial as well as statistical tools. This study tries to define credit management by applying and analyzing various financial tools like liquidity ratio, leverage ratio, profitability ratio and lending efficiency ratio as well as different statistical tools like coefficient of correlation and trend analysis. Probably this will be the appropriate research in the area of credit management of Bank and financial institutions.

CHAPTER-THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research is common parlance refers to a search for knowledge. The Webster International Dictionary gives a very inclusive definition of research as "a careful critical inquiry or examination in seeking facts and principles; diligent investigation in order to ascertain something. (Saravanavel, 1990: 1)

Research Methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it we study the various steps that are generally adopted by a researcher, studying his research problem among with the logic behind them. This chapter looks into the research design, nature and sources of data, data collection procedure and tools & technique of analysis.

Research methodology helps us to find out accuracy, validity and suitability. The justification on the present study cannot be obtained without help of proper research methodology. For the purpose of achieving the objectives of study the applied methodology are used. The research methodology used in the present study is briefly mentioned below.

3.2 Research Design

A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. Descriptive and exploratory research designs have been used to this study.

3.3 Sources of Data

The researcher uses two type sources of data collection.

a) Primary Data and

b) Secondary Data

The primary data are those which are collected a fresh and for the first time and thus happen to be original in character. The secondary data, on the other hand are those, which have already been collected by some one else and already, been passed through the statistical process (Kothari, 1990:115)

In some cases primary data are also taken as personal interview, face to face and telephone interview but the study is mainly based on secondary data. So, the major sources of secondary data for this study are as follows:

a) Annual reports of the banks
b) Published and unpublished bulletins, reports of the banks
c) Published and unpublished bulletins, reports of the Nepal Stock Exchange
d) Previous studies and reports
e) Unpublished official records
f) "Banking and Financial Statistics" report of Nepal Rastra Bank Magazines
g) Journals and other publish and unpublished related documents and reports for Central Library T. U., Shanker Dev Campus Library, Nepal Rastra Bank Library
h) Various Internet Websites
i) Other published materials

3.4 Data Collection Procedure:

As the study will also be based on primary data, information will be collected developing a scheduled questionnaire and distributing these to employees of the banks and clients. Question of open end (i.e. yes or no) will be included in questionnaire. Besides this, junior employees and clients are also being observed and responses have been drawn from them about relevant questionnaires.

3.5 Population and Sample

26 commercial banks are operating in Nepal. Out of these Rastriya Banijya Bank Ltd. has been selected as sample for the present study. Similarly, financial statements of the Bank for 5 years from 2003/04 to 2007/08 have been taken as sample for the study.

3.6 Methods of Data Analysis

To make the study more specific and reliable, the researcher uses two types of tool for analysis,

a) Financial Tools
b) Statistical Tools

3.6.1 Financial Tools

For the sake of analysis, various financial tools were used. The basic tools used were ratio analysis. Beside it income and expenditure analysis and cash flow analysis have been used.

3.6.2 Ratio Analysis:

Ratio analysis is a powerful and the most widely used tool of financial analysis. A ratio defined as "The indicated quotient of two mathematical expression" and as "The relationship between two or more things (Webster's New Collection Dictionary, 1975: 958).

A ratio is a figure or a percentage representing the comparison of one-dollar amount with some other dollar amount as a base .Ratio analysis is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. In financial analysis a ratio is used as an index or yardstick for evaluating the financial position and performance of a firm. Ratio helps to summarize the large quantities of financial data and to make qualitative judgment about the firm's financial performance (Pandey, 1979: 97).

A large number of ratios can be generated from the components of profit and loss account and balance sheet. They are sound reasons for selecting different kinds of ratios for different types of situations. For this study, ratios are categorized into the following major headings:

3.6.3 Liquidity Ratio

Liquidity refers to the ability of a firm to meet its short- term or current obligations as and when they fall due for payment. So liquidity ratios are used to measure the ability of a firm to meet its short-term obligations and from them the present cash solvency as well as ability to remain solvent in the event of adversities of the same can be examined (Van Horne, 1999: 693).

Inadequate liquidity can lead to unexpected cash short falls that must be covered at inordinate costs, thus reducing profitability. In the worst case, inadequate liquidity can lead to the liquidity insolvency of the institution. On the other hand, excessive liquidity can lead to low asset yields and contribute to poor earnings performance (Scott, 1992:140).

To find -out the ability of banks to meet their short-term obligations, which are likely to mature in the short period, these ratios are calculated. The following ratios are developed under the liquidity ratios to identify the liquidity position.

3.6.4 Activity/Efficiency Ratio:

It is also known as turn over or efficiency ratio or assets management ratio; measures how efficiently the firm employs the assets. Turn over means the number of times and assets flow through a firm's operations and into sales (Kulkarni, 1994:138).

Greater rate of turnover or conversion indicates more efficiency of a firm in managing and utilizing its assets, being other things equal. Various ratios are examined under this heading.

- Loan Loss Provision to Total Loans and Advances Ratio
- Non Performing Loans to Total Loans and Advances Ratio
- Interest Income to Total Income Ratio
- Interest Expenses to Total Deposit Ratio
- Interest suspense to total Interest from Total Loans and Advances Ratio
- Interest income to Interest Expenses Ratio

3.6.5 Analysis of Growth Ratio:

In order to find out the relative growth of different portfolio, growth analysis is done. Growth ratios are directly related to fund mobilization, investment and loan & advances management of the bank. It represents how well the bank is maintaining its economic position.

To examine and analyze the following Growth ratios are calculated under this study.

- .Growth ratio of Total Deposits
- Growth ratio of Total loan and Advances
- Growth ratio of net profit

i) Different firms in the industry although apparently comparable in respect to size; age location; product mix and technology may not be really comparable if they are following different accounting methods.

ii) Financial statements record past transactions. They are, thus an index of what happened in the past. They do not show the current position of the business. Evidently ratio analysis is also primarily concerned with analyzing the past, which may or may not be relevant today. It is thus a sort of 'POST-MORTEM' analysis rather than a guide for decision-making.

iii) In the context of persistent price level changes, intra firm trends analysis losses much of its operational significance.

iv) The differences in the definitions of items in the balance sheet and the income statement make the interpretation of ratios difficult.

v) Some times ratio analysis may suffer from what is known as fallacy of misplaced concreteness (Singh, 1993: 101).

Although, various limitations of ratio analysis and doubt may arise about the valid measure of the financial performance but they are used widely to measure the financial performance of the bank.

3.6.6 Statistical Tools Used:

For supporting the study, Statistical tool such as Mean, Standard deviation, Coefficient of Variation, Correlation, trend analysis, hypothesis and diagrammatic cum pictorial tools have been used under it.

Arithmetic Mean (Average):

Average is statistical constants which enables us to comprehend in a single effort the significance of the whole. It represents the entire data by a single value. It provides the gist and gives the bird's eye view of the huge mass of unwieldy numerical data. It is calculated as:

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

Where:

$\bar{X}$	=	Arithmetic mean
N	=	Number of observations
X	=	Sum of observations

Standard Deviation (S.D.):

The standard deviation is the square root of mean squared deviations from the Arithmetic mean and is denoted by S.D. or σ. It is used as absolute measure of Dispersion or variability. It is calculated:

$$\sigma = \sqrt{\frac{\phi\varepsilon^{2}}{N} - \left(\frac{\phi\varepsilon}{N}\right)^{2}}$$

Where,

σ	=	Standard Deviation
$\frac{\phi\varepsilon^{2}}{N}$	=	Sum of Squares of Observation
$\left(\frac{\phi\varepsilon}{N}\right)^{2}$	=	Sum of Squares of Mean

Coefficient of Variation (C.V.):

The Co-efficient of variation (C.V.) is the relative measure based on the standard deviation and is defined as the ratio of the standard deviation to the mean expressed in percent. It is independent of units. Hence it is a suitable measure for comparing variability of two series with same or different units. A series with smaller C.V is said to be less variable or more consistent or more homogeneous or more uniform or more stable than the others and vice versa. It is calculated as:

C.V. $= \frac{\sigma}{X}$ **Error! Bookmark not defined.**

Where,

$\overline{X}$ = Mean

σ = Standard Deviation

C.V. = Coefficient of Variation

Correlation Coefficient (r):

Correlation may be defined as his degree of linear relationship existing between two or more variables. These variables are said to be correlated when the change in the value of one results change in another variable. Correlation is of three types. They are Simple, Partial and Multiple correlations. Correlation may be positive, negative or zero. Correlation can be classified as linear on non- linear. Here we study simple correlation only." In simple correlation the effect of others is not excluded rather these are taken as constant considering them to have no serious effect on the dependent variable. It is calculated as:

r_{x1x2} =

Whereas,

r_{x1x2} = Correlation between X_1 and X_2

$N\Sigma X_1X_2$ = Product of No. of observation and Sum of product of $X_1$and $X_2\Sigma$

$X_1\Sigma X_2$ = Product of Sum of $X_1$and sum of X_2

. **v. Coefficient of Determination (r^2)**

It explains the variation percent derived in dependent variable due to the any one specified variable; it denotes the fact that the independent variable is good predictor of the behavior of the dependent variable. It is square of correlation coefficient.

vi. Time Series:-

When a series of data pertaining to series of containing periods should be studied if characteristics and its future direction is best estimated by the time series. Time series analysis a series of data keeping in mind the various short term and long term fluctuations.

Rastriya Banijya Bank ltd. established in year 2022. The data of the last year i.e.from 2003/04 to 2007/08 has been used to measuring the trend analysis. The least square method to trend analysis has been used to measure the trend behavior of the bank .The method is widely used in practices. The straight line trend of a series of data is represented by the following formula.

$Y = u + bx$

Where,

Y is used to distinguish the trend value from actual value of 'y', 'a' is the intercept of the computed trend figure of the y variable.

When x=u

b represents the slope of the trend line of the amount of change in y variable that is associated with a change of one it of x variable .Time x variable in time series analysis represents times.

While analyzing the time series the propensity of growth and growth rate have examined based on the value of trend value of least square method. The growth rate has been measured from 2003to 2008 to reveal the real status of the study period.

CHAPTER-FOUR

PRESENTATION AND ANALYSIS OF DATA

Presentation and analysis of data is very important stage of research study. Its main purpose is to change the unprocessed data into understandable form. It is the process of organizing the data by tabulating and then placing that data in presentable form by using various tables, figures and sources.

Credit management is one of the most important factors that have been developed to facilitate effective performance of bank management. Credit management is the formal expression of the commercial banks goals and objectives stated in financial term for specific future period of time. Credit is the very basic indicator for determining profit.

The main purpose of the objective is to assess the credit management in selected commercial banks. Present chapter will discuss the various aspects of credit management and their actual accomplishment. Actually, credit management is a fundamental managerial tool, which is applied in commercial banks. For this respect, it will analyze the data by using various financial and statistical tools to meet the stated objectives of the study. It also compares the data between selected banks. Besides, it also presents the various funding generated from data analysis.

4.1 Financial Condition of Rastriya Banijya Bank Ltd.

Financial analysis assists in identifying the major strengths and weaknesses firm. It indicates whether a company has enough cash to meet its obligations ability to utilize properly their available resources. Financial analysis can also used to assess the company's liability as an ongoing enterprise and determine whether a satisfactory return is being earned for the risks return. The necessary to find out the comparative financial condition of the banks in terms of credit practices necessary to find out the comparative credit practices of the bank.

For research purpose, financial condition of the bank in terms of credit practices, credit efficiency has analyzed the credit position of the RBB.

4.2 Credit Management in Rastriya Banijya Bank

The primary function of the banks today is to produce and sell financial services demanded by the public. One of the most vital of those services is granting loans, particularly loans used to support business investment and consumer spending in the community. Banks are expected to support their communities with an adequate supply of credit for all legitimate business and consumer financial needs and to price that credit reasonably in line with competitively determined interest rates. The loan portfolio of any bank is heavily influenced by regulation, because the quality a banks loan portfolio has more to do with risk and safety than any other aspect of the banking business. Credit management shows the lending policies and practices adopted by the bank during the study period. It measures the ability of the organization in terms of credit practices by using historical data.

4.2.1 Analysis of Total Loans and Advances with PL and NPL of the Bank

The main use of fund of the bank is to make loan and advances, which produces main sources of the income in the form of interest.

Table 4.1

Total loans and Advances with PL and NPL of the Bank

Rs. In Million

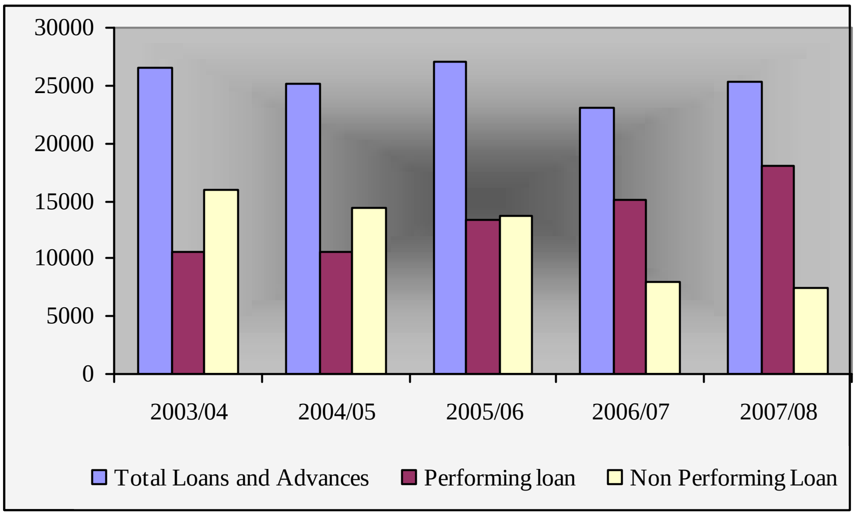
Fiscal Year	Total Loans and Advances	Performing loan	Non Performing Loan	NPA in %
2003/04	26608	10604	16004	60.15
2004/05	25106	10635	14471	57.64
2005/06	27001	13312	13689	50.70
2006/07	23103	15055	8048	34.84
2007/08	25394	17989	7405	29.16
Mean	25444.4	13519	11923.4	46.10
SD	1531.03	3130.40	3927.26	14.27
CV	6.02	23.16	34.97	30.96

Source: Annual Reports of the Bank and Excel Work Sheet

The total loan and advances of RBB as of FY 2007/08 is Rs.25394 million and it was Rs.26608, 25106, 27001and 23103 million in FY 2003/04 to 2006/07 respectively. Out of the total loan and advances of the bank, the performing loan was Rs. 10,604, 10,635, 13,312, 15,055 and 17,989 million in FY 2003/04 to 2007/08 respectively. The non performing loan of the bank is in a decreasing trend. It is tuned to Rs.16004; 14471; 13689, 8048; 7405 million in the FY 2003/04 to 2007/08 respectively. The data reveals that the level of NPL in comparison to international standard of the bank is very high but the NMT has succeeded to decrease it to 29.16% from 60.15% in short period of took over of the Mgmt of the bank .The NPL in the bank was 29.16 % and performing loan was 70.84 % as of FY 2007/08 end, which may not be healthy, however seems to be good on the overall progress of the bank since 2003/04. The SD of NPL is highest i.e. 3927.26% among all the categories which means there is high risk in Non Performing Loans. Among the coefficient of variation the CV of Non Performing Loan is highly variated. After The data has been presented in the following table.

Figurer 4.1

Loans and Advances with PL and NPL



From the above diagram, it is revealed that the bank's total loan and advances is in fluctuation by short amount but the pass loan of the bank is in increasing trends and the Non performing loan is in decreasing trends. It reflects that the loan recovery efforts of the bank has been very effective and also improve the loan administration capabilities in the bank. Due to the various efforts, the level of NPL has been decreased to 29.16% but it is not the acceptable level. Efforts to date succeeded only to reduce the NPL to some extent but it is still not sufficient to maintain the sound health of the system to the desired level. It reflects that the financial discipline and the level of NPLs of the bank are improving.

Banking sector is seriously affected by the non-performing loan. Rastriya Banijya bank is not far from this above fact. If non-performing loan increases, the overall banking business will be affected. So provision amount will increase and profit will decrease. So, it is suggested that the bank, to be sincere while granting loan and to do effective follow up for recovery of the loan.

4.2.2 Analysis of Loan and Advances to Current Assets Ratio

Loans and advances is the major component in total assets, which indicates the ability of banks to canalize its current assets in the form of loan and advance to earn high return. If sufficient loan and advances cannot be granted, it should be pay interest on those utilized current assets funds and may lose earnings. So commercial banks provide loan and advances in appropriate level to find out portion of current assets, which is granted as loan and advances.

Table 4.2

Loan and advances to Current Assets Ratio

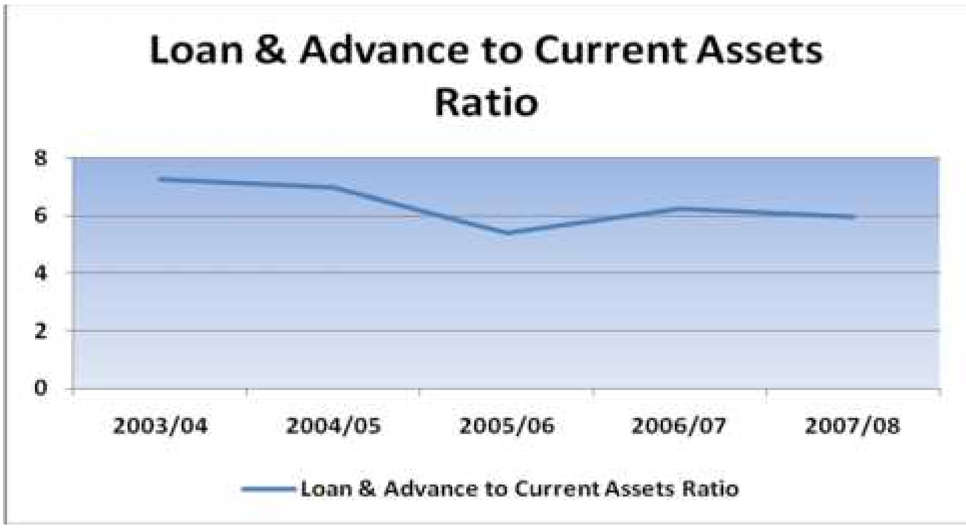
Bank/F.Y	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**Mean**	**SD**	**CV**
RBB	7.25	6.98	5.40	6.25	5.95	6.37	0.675	10.59

Source: Annual Report of the Bank

Table 4.2 shows the loan and advances to current assets of the bank over the study period. Loans and advances to current assets ratio of RBB was the highest in the fiscal year 2003/04 and lowest in the fiscal year 2005/06. It has fluctuating trend of the ratio and mean ratio is 6.37. The bank was able to maintain mean ratio in first two year during the study period.

Figure No. 4.2

Loan and Advance to Current Assets Ratio



It can be concluded that the higher mean ratio indicates the good short term lending performance. The SD of the Loan and advances to current assets ratio is 0.675 so that it can be considered that there is low risk. The Loan and advances to current assets is variated highly as the CV is 10.59. Here the bank should focus to increase loan and advances to current assets ratio to increase short term lending performance.

4.2.3 Analysis of Interest Income to Loans and Advances

Interest income to loan and advances is one of the major sources of income for a commercial bank. The high volume of interest income is indicator of good performance of lending activities.

Table 4.3

Interest income to Loan and Advances

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	SD	CV
RBB	0.125	0.905	0.082	0.092	0.105	0.102	0.355	3.52

Source: Annual Report of the Bank

Figure No. 4.3

Interest Income to Total Loan and Advance Ratio

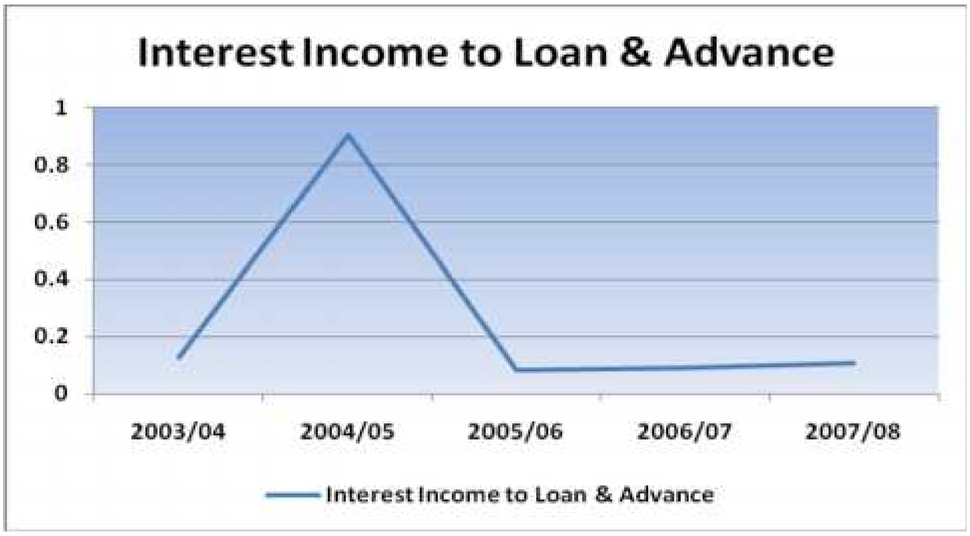


Table 4.3 shows the ratio of interest income to loan and advances of the bank over the study period. Interest income to the total loan and advances ratio of RBB ranges highest of 0.905 and lowest of 0.082 in the fiscal year 2004/05 and 2005/06 respectively. The mean Interest income to loan and advances of RBB is 0.102, The Standard deviation is 0.355 and the coefficient of variation is 3.52%.

4.2.4 Analysis of Total Loans of Deposit Ratio

Loan and advances (Credit) and deposit are the major functions of the commercial banks. The relation between these functions shows the efficiency, ability and idle resources of the commercial banks. Credit Deposit (CD) ratio shows the effective utilization of the collected resources from the public for the profit generating purpose. Higher ratio reflects higher efficiency of bank to utilize the collected resources and vice- versa.

Table 4.4

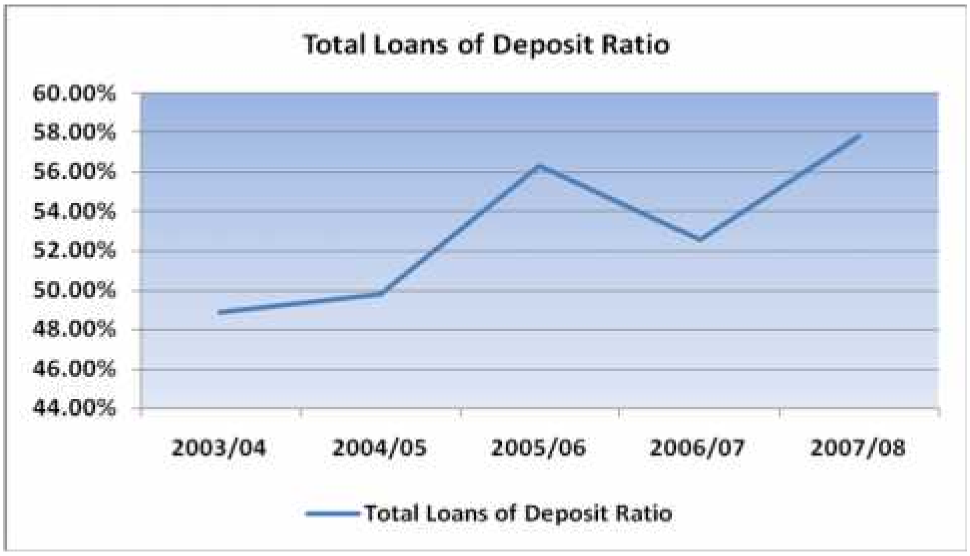
Total Loans of Deposit Ratio

Bank/FY	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	SD	CV
RBB	48.9%	49.8%	56.3%	54.6%	57.8%	54.3%	0.039	0.0745

Source: Annual Report of the Bank

Figure No. 4.4

Total Loans of Deposit Ratio



The above table and figure 4.4 shows that how much the bank is successful in mobilizing the collected resources i.e. deposits collected from public in terms of loan and advances for the 5 years of this research period. The table shows that the bank has the highest CD ratio of 57.8% in the FY 2007/08 and the lowest ratio of 48.9% in the FY 2003/04 which reveals that the bank is able to utilize the maximum collected resources in FY 2007/08 and minimum in 2003/04 in loan and advance. The mean ratio over the study period is 54.3%. For mean point of view, the Bank has maintained more than 50% loan and advances to total deposit. In this way, it shows that the bank seems to be strong to mobilize its total deposit as loan and advances. However higher ratio does not mean it is always better from the point of liquidity. Other banks are capable to use more than 50% of deposit on loan and advances. If maintained this, it help make consistency on the profitability of the banks.

From the above ratio, we find that the bank has huge idle fund collected from the public in which the bank has to pay interest regularly and also has to bear other costs. Thus, it requires to be increased in investments with safely and proper ways as per NRB directives and earn more profit in order to strengthen the bank internally to compete with other commercial banks.

4.2.5 Analysis of Loan and Advance to Total Assets Ratio

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

We have,

$$= \frac{\textit{Loan and advances}}{\textit{Total assets}}$$

Total assets are the sum of total assets. It is composed up of current assets, fixed assets, miscellaneous assets, investment, loans for development banks etc.

Table 4.5

Loans and advances to Total Assets Ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	SD	CV
RBB	0.482	0.56	0.49	0.58	0.69	0.57	0.0840	0.14

Source: Annual Report of the Bank

Figure 4.5

Loans and Advance to Total Assets Ratio

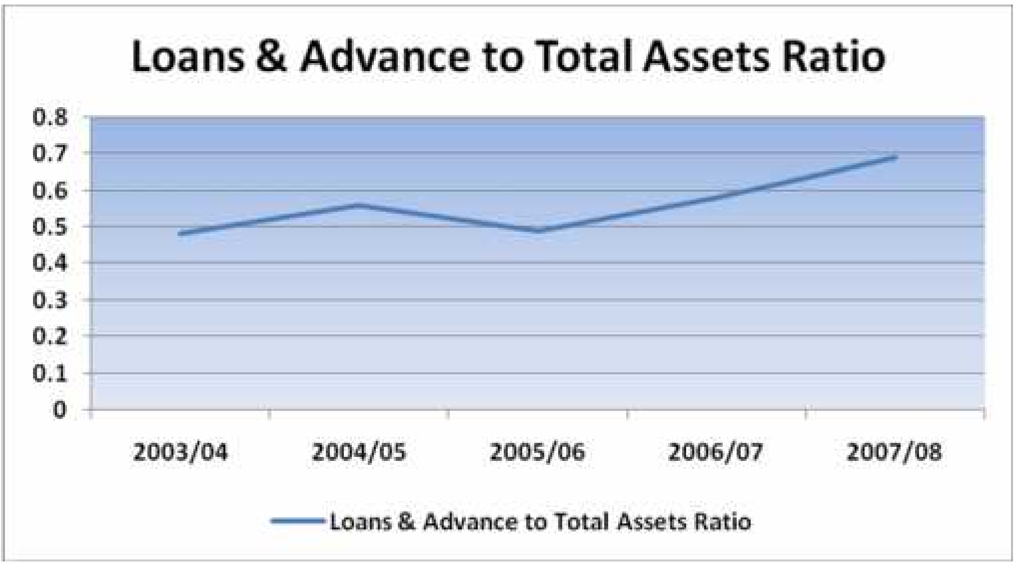


Table 4.5 and Figure 4.5 shows that the ratio of loans and advance to total assets in five years of the RBB. Ratio of the RBB is highest in the fiscal year 2007/08 and lowest in the fiscal year 2003/04. From the mean point of view, it can be said that RBB should focus to increase loan and advances to total assess ratio to increase lending performance. It can be concluded that the higher mean ratio indicates the good lending performance. As the standard deviation and CV both are low the Loan and advance to total Assets is less variated.

4.2.6 Liquidity Ratio

A liquidity ratio measures the ability of the firm to meet the current obligations. Liquidity ratios are used to judge a firm's ability to meet short- term obligations. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community liquidity provided honor strength health and prosperity to an organization.

In this section raw form of data which are collected from various sources, are changed into an understanding presentation using financial as well as statistical tools. This chapter is the heart of my study. This chapter will be of great relevance for my study, as all the finding, conclusion and recommendations are going to be delivered from the calculation dome in this section. The analysis of data consists of organizing, tabulating and performing financial as well as statistical analysis.

Table 4.6

Liquidity Ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	SD	CV
RBB	9 %	17 %	13 %	11 %	11 %	12%	0.030	0.25

Source: Annual Report of the Bank

Figure 4.6

Liquidity Ratio

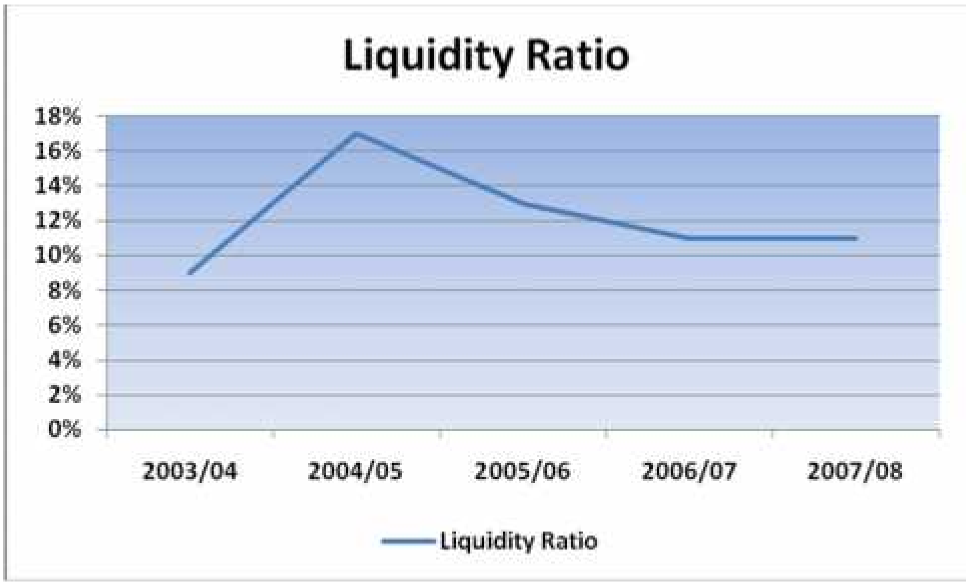


Table 4.6 shows that the liquidity ratio of the bank during the study period of five years. Liquidity Ratio of the bank is highest in the fiscal year 2004/05 and it has maintained the 11% as per NRB policies after the FY 2005/06. The SD of Liquidity ratio is very minimal i.e. 0.030% where as CV is 0.25.

4.2.7 Loans Loss Provision to Total Loan and Advances Ratio

The provision for loan loss reflects the increasing probability of non-performing loan. Increase in loan loss provision decreases in profit result to decrease in dividends. But its positive impact is that strengthens the financial conditions of banks by controlling the credit risk and reduces the risks related to deposits.

The low ratio indicates the good quality of assets in total volume of loan and advances. High ratio indicates move risky assets in total volume of loan and advances.

Table 4.7

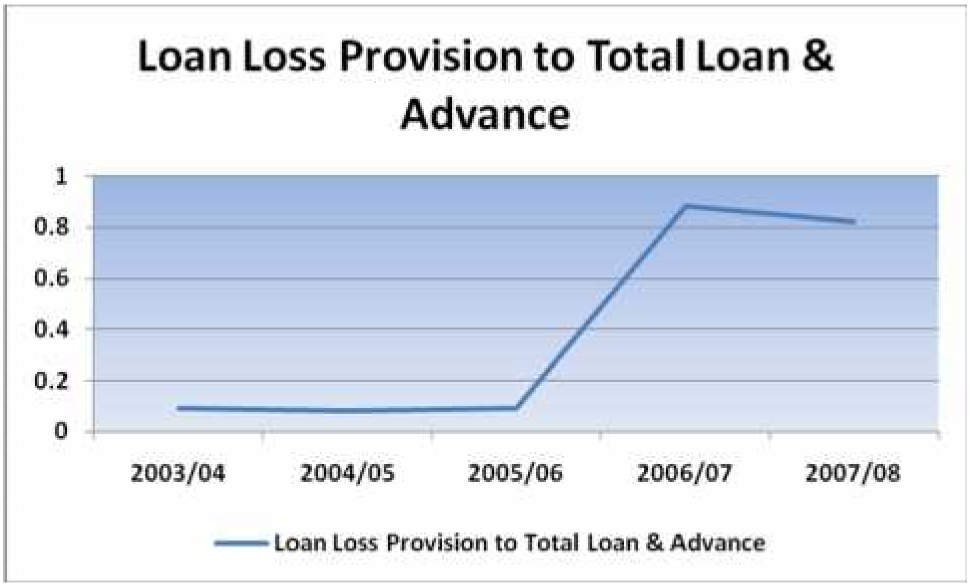
Loan loss provision to total loan and advances

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	SD	CV
RBB	0.092	0.0825	0.0950	0.880	0.820	0.393	0.41	105%

Source: *Annual Report of the Bank*

Figure 4.7

Loan loss provision to total loan and advances



Above table 4.7 shows the loan loss provision to total loan and advances of selected over the study period. Ratio of the RBB has highest ratio of 0.0950 in the fiscal year 2005/06 and lowest 0.820 in the fiscal year 2007/08. Increase ratio indicates the increased volume of non-performing loans and vice versa. The SD of LLP to Total Loan and Advance is 0.416 which can be considered as pretty low. The bank's Loan loss provision to total loan an advance ratio is in decreasing trend increasing in Loan loss provision means increasing in NPA loan and decreasing means decreasing in NPA and increasing in good loan.

Table 4.8

Non Performing loans to Total Loans and Advances Ratio

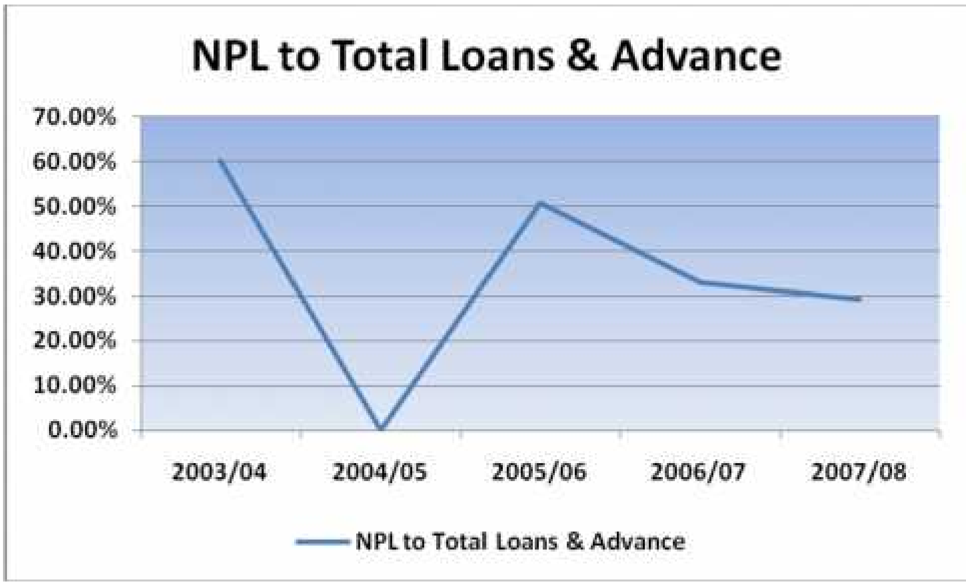
Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	SD	CV
RBB	60.15%	57.6 4%	50.70%	34.84 %	29.16 %	37.57%	0.14	0.372

Source: *Annual Report of the Bank*

The above table 4.8 shows the non performing loans to total loans and advances ratio. The non performing loan of RBB is in decreasing trend throughout the study period. The percentage of non performing loan in the initial year of the study period i.e. 2003/04 was 60.15% which decreased to 57.64% in 2004/05 then after the ratio decreased to 50.70%, 34.80% and 29.16 % respectively. From the table its clear that the non performing loan is decreasing these days. It means that the management of RBB is being strong.

Figure 4.8

NPL to Total Loans & Advances



Above figure 4.8 shows the Non performing loan to total loan and advances of the bank over the study period. The NPA of the RBB has highest of 60.15% in the fiscal year 2003/04 and gradually decreasing in trends too. In the FY 2007/08 the bank has brought the NPA to 29.16%. The SD of NPL to total loan and advances is 0.14% which can be considered as low while the CV is 0.372 which can be considered as less variated.

4.3 Credit Efficiency of the Bank

It measures the effectiveness or activity of the company through establishing the relationship between the various assets and credit of that respective organization.

4.3.1 Interest Expenses to Total Deposit Ratio

This ratio measures the percentage of total interest paid against total deposit. A high ratio indicates higher interest expenses on total deposit. Commercial Banks are dependent upon its ability to generate cheaper fund has moves the probability of generating loans and advances and vice versa.

Table 4.9

Interest Expenses to Total Deposit Ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	SD	CV
RBB	0.026	0.021	0.022	0.023	0.027	0.024	0.0025	10.41

Source: Annual Report of the Bank

Above table 4.9 shows the cost of deposit of bank over the study period. Ratio of RBB is highest in the fiscal year 2007/08 and lowest in the fiscal year 2005/06 .Its average ratio is 0.024. The SD is 0.0025 and the CV is 10.41. Increase ratio indicates the increased cost of deposit. Here RBB is able to collect the cheaper deposit.

4.3.2 Interest and Expenses to Total Expense Ratio

This ratio measures the percentage of interest paid against total expenses. The high ratio indicates the low operational expenses and vice versa. The ratio indicates the costly sources of funds.

Table 4.10

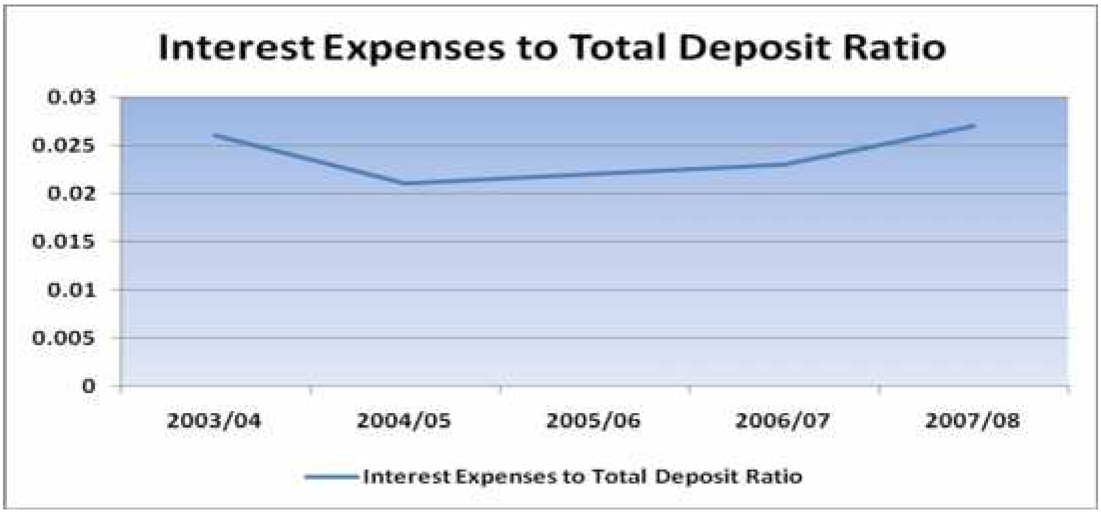
Interest expenses to total expenses ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	SD	CV
RBB	0.382	0.325	0.375	0.336	0.346	0.353	0.024	6.79

Source: *Annual Report of the Bank*

Figure 4.9

Interest Expenses to Total Deposit Ratio



Above table 4.10 shows the interest expenses to total expense ratio of the RBB over the study period. The bank has highest ratio in the fiscal year 2003/04 and lowest in the fiscal year 2004/05. Average ratio of RBB is 0.351. It shows that the cost of deposit is decreasing as decrease in the interest expenses to total expenses ratio decrease. The interest expenses to total expenses ratio is in fluctuating trend. The fluctuating trend of interest paid to total expenses ratio shows that the deposit of RBB is also in fluctuating trend.

4.3.3 Non-Interest Bearing Deposits to Total Deposit Ratio

This ratio measures the volume of non-interest bearing deposits to total deposit. The volume of interest expenses in total expenses represents a large portion of the total expenses. How efficiently the deposits were managed affectively in the total volume of expenses. The higher ratio is favorable but in practices, interest bearing deposits always plays a significant role in the mix of deposit liability.

Table 4.11

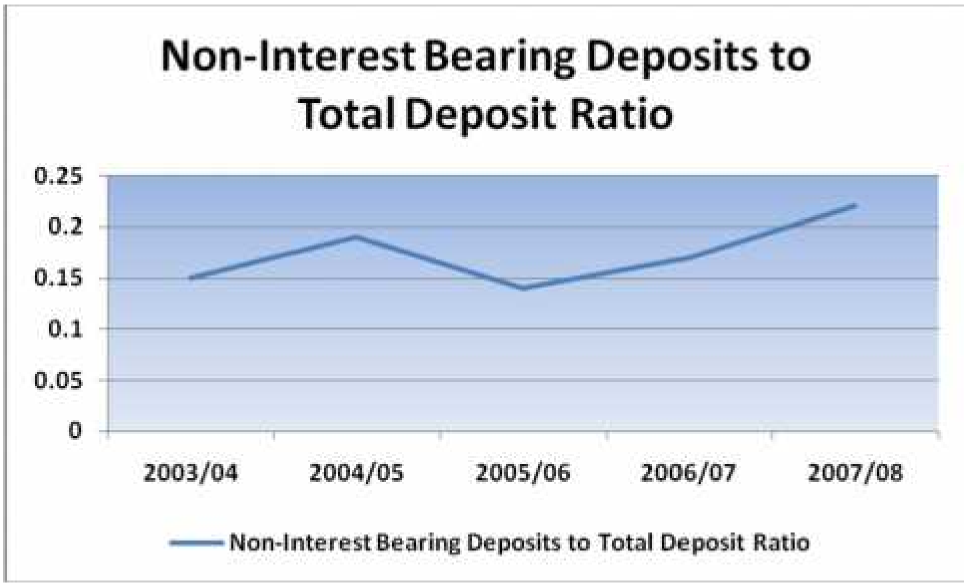
Non-Interest Bearing Deposits to Total Deposit Ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	SD	CV
RBB	0.15	0.19	0.14	0.17	0.22	0.17	0.032	18.8

Source: *Annual Report of the Bank*

Figure 4.10

Non-Interest Bearing Deposits to Total Deposit Ratio



Above table 4.11 shows non- interest bearing deposits to total deposit ratio of the bank over the study period. Ratio of RBB is highest in the fiscal year 2007/08 and lowest in the fiscal year 2005/06. Average ratio of the bank is 0.17 and SD is 0.032 and CV is 18.8. This major portion of non-interest bearing deposit consists of current deposits and this deposit is particularly maintained by business enterprises and the govt. organizations.

4.3.4 Interest Income to Total Income Ratio

This ratio measures the volume of interest income in total income. The high ratio indicates the high contribution made by lending and investment whereas low ratio indicates low contribution made by lending and investment and high contribution by other fee based activities in total income.

Table 4.12

Interest income to total income ratio

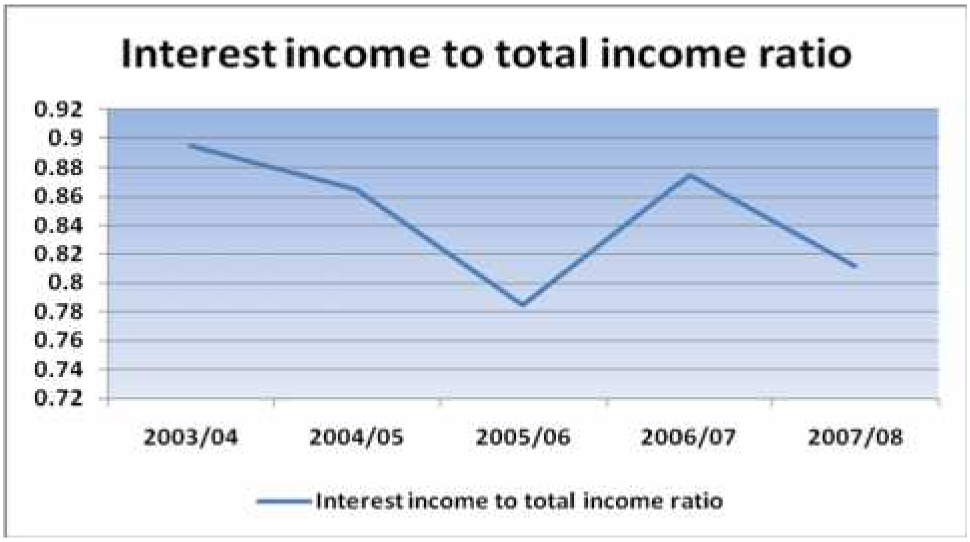
Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	SD	CV
RBB	0.895	0.865	0.785	0.875	0.812	0.846	0.046	5.4

Source: *Annual Report of the Bank*

Table 4.12 shows the interest income to total income ratio of the bank over the study period. The bank has the highest ratio in the fiscal year 2003/04 and the lowest in the fiscal year 2004/05. Average ratio of the bank is 0.846 and SD is 0.046 and CV is 5.4.

Figure 4.11

Interest income to total income ratio



From Average point of view, it can be said that the bank has high interest income to total income. This shows that in total income of the bank, interest income contributes 84.6%. Higher ratio indicates greater dependency on fund-based activities.

4.3.5 Interest Suspense to Interest from Loans and Advances Ratio

Interest suspense means the interest due but not collected. This ratio measures the composition of due but uncollected interest in the total interest income from loan and advances. The high degree of this ratio indicates the low interest turnover and low degree of this ratio indicates high interest turnover. This ratio also helps to analyze the capacity of the bank in collecting the repayments of the loans and advances.

Table 4.13

Interest Suspense to Interest Income from Loans and Advances Ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	SD	CV
RBB	0.36	0.34	0.37	0.31	0.27	0.331	0.040	14.08

Source: *Annual Report of the Bank*

Figure No. 4.12

Interest Suspense to Interest Income from Loans and Advances Ratio

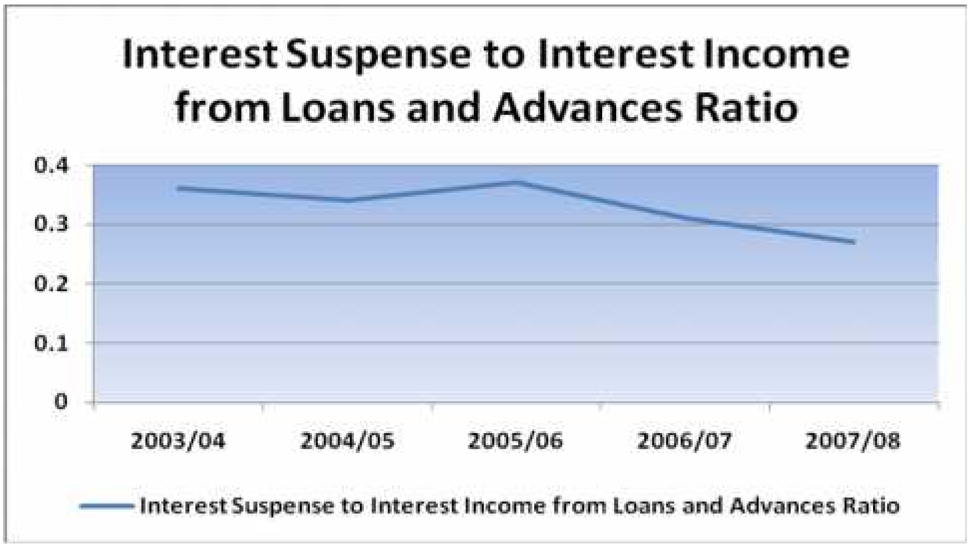


Table 4.13 shows the interest suspense to total income from loans and advances ratio of the bank over the study period is observed as 0.36,0.34,.0.37,0.31,0.27 respectively .It was found the highest ratio in the fiscal year 2005/06 and lowest in the fiscal year 2007/08. Average ratio of the bank is 0.331 and it has in decreasing trend, SD is 0.04 and CV is 14.08.

4.3.6 Analysis of Growth Ratio

Growth ratio reflects how well the commercial banks are maintaining their economic and financial position. Higher growth rate shows better performance of the banks and vice versa. Under this topic growth of some factors are studied, which are directly related to the deposit mobilization of commercial banks. In this unit the first year of the study (2003/04) is considered as the base year for calculating the growth rate at first, than after the preceding year is considered as the base year for this purpose.

Table 4.14

Growth Ratio of Total Deposits

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	SD	CV
RBB	1.85	1.72	5.26	7.39	9.25	5.09	3.33	65.42

Source: Annual Report of the Bank

Figure 4.13

Growth Ratio of Total Deposits

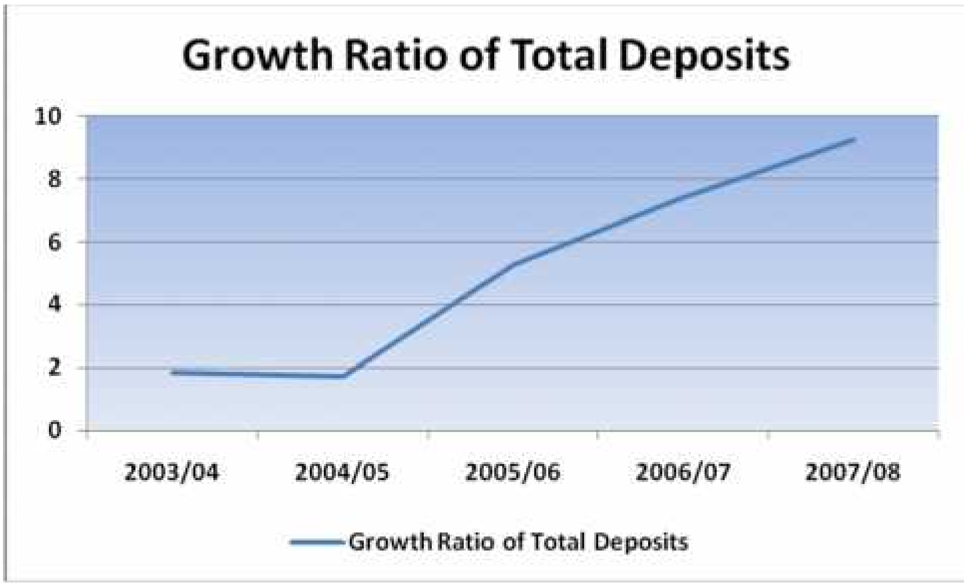


Table 4.14 shows the growth ratio of the total deposits of the bank over the study period is observed as increased by 1.85%, 1.72%, 5.26%, 7.39% and 9.25% in the FY 2003/04, 2004/05, 2005/06, 2006/07 and 2007/08 respectively .It was found the highest ratio in the fiscal year 2007/08 and lowest in the fiscal year 2003/04.The above trends shows that

every year the deposit of the bank is in increasing trends. The CV is 65.42 which mean that the total deposit is highly variated.

Table 4.15

Growth Ratio of Total Loan and Advances

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	SD	CV
RBB	-2 %	-6 %	8%	-14%	7%	-1	0.09	-9

Source: Annual Report of the Bank

Figure 4.14

Growth Ratio of Total Loan and Advances

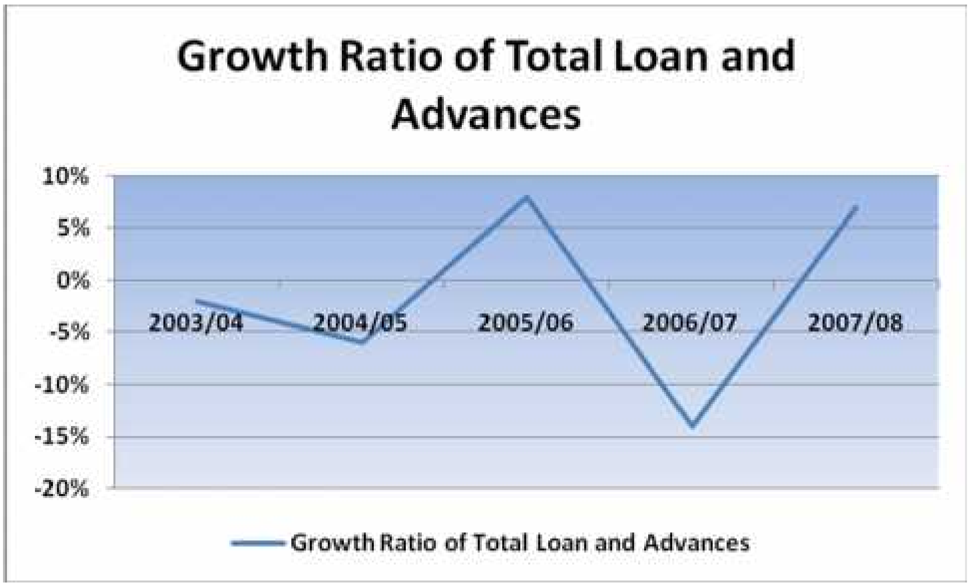


Table 4.15 shows the growth ratio of the total Loans and Advances of the bank over the study period is observed as changed by -2%,-6%,8% ,-14% and 7% in the FY 2003/04,2004/05,2005/06,2006/07 and 2007/08 respectively .It was found the highest ratio in the fiscal year 2005/06 and decreased by 14% in the fiscal year 2006/07 .The Non Performing loan and Advances of the bank is aggressively recovered and the new loan is slowly disbursed hence the loan and advances of the bank is seeing in decreasing trends rather than increasing . As the CV is -9 the total loans and advance is negatively variated.

Table 4.16

Growth Ratio of Net Profit

Bank/F.Y	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**Mean**	**SD**	**CV**
RBB	121.49%	78.52 %	27.22%	20.33%	5.65%	50.64	0.48	0.94

Source: Annual Report of the Bank

Table 4.16 shows the growth ratio of Net Profit of the bank over the study period is observed as changed by 121.49% 78.52%, 27.22%, 20.33% and 5.65% in the FY 2003/04, to 2007/08 respectively .It was found the highest ratio in the fiscal year 2003/04 and lowest in the fiscal year 2007/08. As the CV is just 0.94, it indicates that the Net Profit is in consistent order over the study period.

4.4 Relationship between Loan and Advance and Net Profit

Effective loans directly affect net profit volume of the organization. It is regarded as the most important profit indicator. It helps to increase the net profit volume of the company whereas weak level of loans is the signal of lower level of profit. Thus, it is logical to review the relation of loans and net profit.

For the research proposes, net profit and loans during study period (5 yrs) are averaged to get profit and loans variable. After getting profit and loans variable, then data are analyzed using person's correlation coefficient. The following table presents the correlation coefficient of the profit and loans during study period.

Table- 4.17

Relationship between loan and advance and net profit of RBB

Bank	**Base of Evaluation**				**Remarks**
	r	R^2	P.E	6 x P.E	
RBB	-0.45	0.2025	0.142	0.0287	Insignificant

The table 4.17 presents the correlation coefficient between loans and net profit during study period. The calculated Person's Correlation Coefficient was found -0.450, which shows negative degree of correlation. It indicates that loans and net profit were found highly related with each other. That means, increasing loans helps to increase the net profit whereas decrease in loans decreases in net profit. Coefficient of determination was found to be 0.2025 which indicates that 20.25% of total change in profit has been determined by the loans. Loans have high influence on net profit of the RBB. Effective loans management helps to increase and stable the net profit of the RBB. No exception is found in case of RBB. Thus, it is logical to review the impact of various components of credit in net profit of the RBB.

4.5 Relationship between NPL and Total Loans and Advances

Effective non-performing loans directly affect the volume of the loans of the Bank. It is regarded as the most important indicator of bank's performance for survival. It helps to increase the risky in loans management of the bank whereas level of non-performing loans is signal of the poor performance of the loan management. Thus, it is logical to review the valuation of non-performing loans and loans management.

For the research purpose, the non-performing loan and loan management during study period (5 years) are averaged to get non-performing loans and loans variables. After getting non-performing loans and total loans, then data are analyzed using Person's correlation coefficient. The following table presents the correlation coefficient of the non-performing loan and loans management during the study period.

Table 4.18

Relationship between loan and non-performing loans in RBB:-Correlation Matrix

Bank	Base of Evaluation				Remarks
	r	R^2	P.E	6 x P.E	
RBB	0.663	0.44	0.142	0.0624	Insignificant

The table 4.18 presents the correlation coefficient between non-performing loan and loans during study period. The calculated Person's correlation coefficient was found 0.663, shows positive correlation. It indicates that non-performing loans and loans were positively correlated with each other. That means, increasing on performance in loans management. Coefficient of determination was found 0.44 which indicates that 44.00 % of total change in loans management has been positively determined by non-performing loans.

Loan management has been positively influenced by non-performing loans. Effective loans management helps to decrease the non-performing loans. No exception is found incase of RBB. Thus it is logical to review the impact of various components of working in loans management.

4.6 Impact of Loan and Advances on Net Profit

Loans have high implication for determining net profit. Effective loans directly affect the net profit of the banks. It means that the net profit of the banks is largely depended by the loans management. Thus, it is more significance to know the impact of loans in net profit.

To find out the result the five yes data (study period) of net profit, loans are averaged to get a variable of net profit and loans. Thereafter, simple regression analysis is used for computation. The following table presents the regression analysis of the independent variable loans on dependent variables net profit of the RB Bank.

Table 4.19

Regression Analysis on loan and advance and net profit in RBB

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.450(a)	0.203	-0.063	2891.26

Regression equation of Net Profit (Y) on Loan and advances (X) is given by

Regression equation	**Constant (a)**	**Coefficient (b)**
$\hat{Y} = a + bx$	**21148.664**	**-0.825**

Table 4.19 shows the dependency of Net profit on loans. The calculated R was found 0.450 indicates that there is moderate relationship dependent variable profit on independent variable loans. After considering the error term, the adjusted R square value

was found -0.063 which indicates that 6.3% of the total variation in the dependent variable net profit has been explained by the independent variable loans. Thus, it can be concluded that loans is a strong determinant of net profit. Therefore management loans should seriously be taken to achieve the goal of the RB Bank.

The value of b is found to be -0.825, which means that, on average, 1 rupee change in total loan would result in 0.825paisa change in the Net profit of RBB. Given the Net profit of the RBB for coming years, we can use the above Equation to estimate what the loan of the RBB would likely to be in the coming years.

4.7 Trend Analysis Least Square Method

Trend analysis is a statistical tool, which will highlight the previous trend of the financial performance and helps in forecasting the future financial results of the bank. Trend analysis shows the trend of loan and advances of the bank for nine years. Loan and advances shows a bank's efficiency in performance of efficient utilization of the same indicates its success and profitability.

4.8 Trend of Performing Loans of Rastriya Banijya Bank Limited

Computation of straight line trend analysis of Performing loans and advances of Rastriya Banijya Bank Limited.

4.9 Trend of Performing Loans of Rastriya Banijya Bank Limited

In this section, the trend of performing loan of RBB is presented. Performing Loan is an asset is classified as performing assets if the borrower pays dues in the form of principal and interest for a period of 180 days.

Table 4.20

Trend of Performing Loans of Rastriya Banijya Bank Limited

Rs. In Million

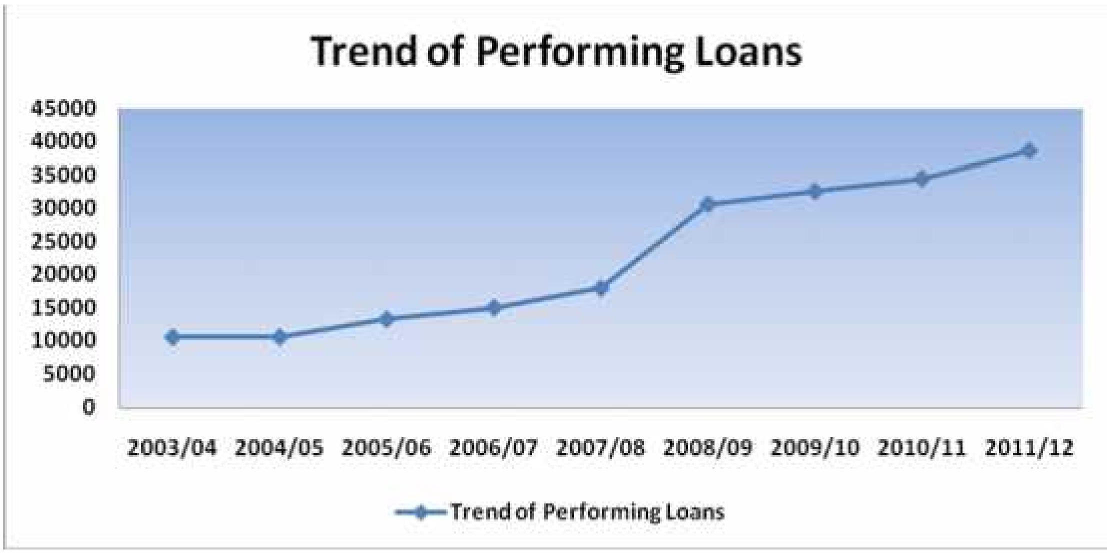
F.Y.	03/04	04/05	05/06	06/07	07/08	08/09	09/010	10/011	11/012
Loan and Adv	10604	10635	13312	15055	17989	30690	32609	34528	36447

Source: Annex

In the above table no. 4.20, the trend of performing loan of RBB is seen in an increasing trend. The amount of performing loan on the base year i.e. 2003/04 is 10604 million and it has been increased to 17989 million on the last year of the study period. And the amount is projected as 36447 million on the last year of projection i.e. 2011/012.

Figure 4.15

Trend of Performing Loans of Rastriya Banijya Bank Limited



The above figure 4.15 shows the trend line of performing loans during the period 2003/04 to 2011/012. The trend line of performing loan during the study period is increasing in a slower pace whereas the trend of projected performing loan during the period 2007/08 to 2011/012 is increasing rapidly. It shows that the performing loan will increase more after the study period.

4.10 Trend of Net Profit of the Rastriya Banijya Bank Limited

In this section of the study the trend of net profit for the study period and projected period is presented in both tabular form and diagrammatically.

.

Table 4.21

Trend of Net Profit of the Rastriya Banijya Bank Limited

Rs. In Million

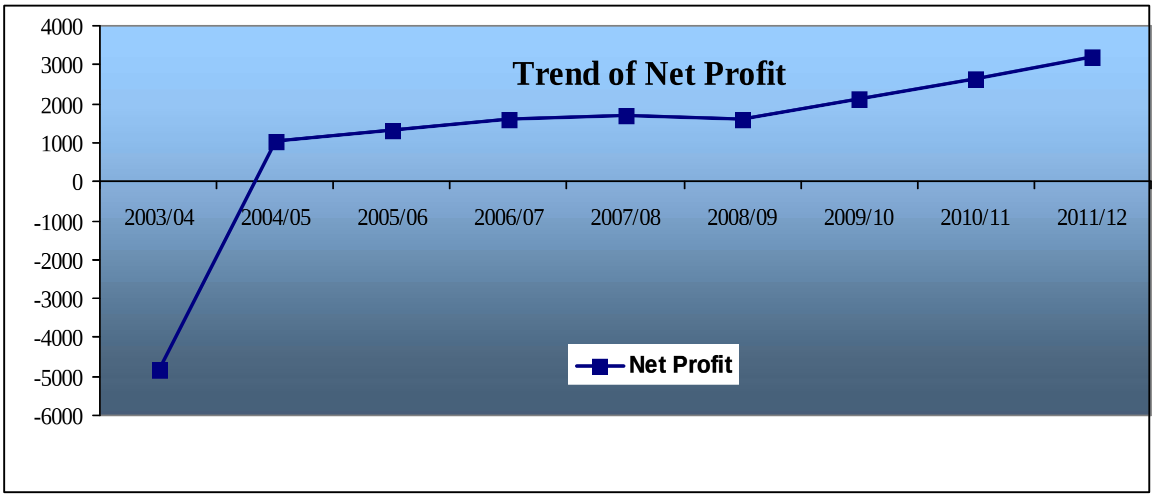
FY	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Net Profit	-4840	1040	1323	1592	1682	1598	2125	2652	3179

Source: Annex

The above table presents the actual profit of RBB up to FY 2007/08 and the projected net profit up to fiscal year 2011/012. From the table it can be concluded that the net profit of RBB was negative by 4840 million in 2003/04. Then after in FY 2004/05 the net profit became positive and is always positive during the study period. The net profit is in fluctuating trend. The profit amount is 1592 million Rs. in 2006/07. The trend of net profit is in increasing trend thereafter. The projected profit in 2011/012 is 3179 million rupees.

Figure 4.16

Trend of Net Profit of the Rastriya Banijya Bank Limited



In the above diagram the trend of Net profit of RBB for the study period throughout 2003/04 to 2007/08 is presented. In the same way the projected trend of net profit from FY 2008/09 to 2011/12 is shown. The Net profit of RBB is negative in FY 2003/04 whereas the same has started to increase positively from the FY 2004/05. The trend line of net profit for the last years seems to be positive.

4.11 Major Findings of the Study:

Major findings of the study are as follows:

1. During the study period, the bank registered a significant increase in deposits, loans and advances and profitability. As compared of the total deposits in the FY 2007/08 was Rs.50464 million which is 9% more than last FY 2006/07.The growth % of the deposits during the study period was 1.85, 1.72, 5.26, 7.39 and 9.25 % respectively. The growth rate of the loan and advances of the bank was -2%, -6%, 8%, -14% and 7 % was observed during the study period.

2. The net profit of the bank over the study period was observed in decreasing trends .The growth rate of the net profit is increased by 121.49%, 78.50%, 27.22%, 20.33% and 5.65 % over the study period. The bank was in loss and shown in very critical situation before taking the NMT. After took over the NMT the bank was turned into profit oriented bank. The NPL of the bank was reached to more than 60 % before the NMT. After restructuring the bank is succeeded to turn into positive earning than loss and reducing the NPA to the below 30 % during the study period and the data shows that the NPA of the bank is in reducing trends.

3. The average interest income to loan and advances of the bank is 0.105, seeing the scenario of the commercial bank it is satisfactory level of the income.

4. Average loan and advances to total assets of the bank during the study period is observed 0.57 and it can be concluded that the ratio is above 50% indicates the good lending performance. Here the bank should focus to increase loan and advances to total asset ratio to increase lending performance. From the mean point of view, it can be concluded that the higher mean ratio indicates the good short term lending performance.

5. Increased ratio indicates the increased volume of non-performing loans and vice versa. Loan loss provision of RBB is decreasing trend, so the decreasing loan loss ratio indicates efficient credit policy and gradual increment on the performance of the bank.

6. Correlation Coefficient between the loan and advances to net profit of the bank is -0.450. It indicates high degree of positive relation between loan and net profit. Loans have high influence on net profit of the bank. Effective loans management directly affects to net profit of the bank.

7. Correlation coefficient between non-performing loan and loans of RBB is 0.663; it indicates that non-performing loans and loans were positively related with each other. Coefficient of determination was found 0.44 which indicates that 44% of total change in loans management has been negatively determined by non-performing loans. Loan management has been negatively influenced by non-performing loans. But it is improving in lending procedures of the bank seems will be good hereafter of the study period.

8. Coefficient of determination of the bank is 0.2025 which indicates that 20.25% of the total variation in the dependent variable net profit has been explained by the independent variable loans. Thus, it can be concluded that loans is a strong determinant of net profit. Therefore management should take seriously to loan **to achieve** the objective of the Bank.

CHAPTER –FIVE

SUMMERY CONCLUSION AND RECOMMENDATIONS

5.1 Summery

Nepal being an underdeveloped country, its industries, agriculture sector, trade and commerce are still in a state of infancy. Development of any nation would be daydream until and unless an adequate amount of capital is invested and mobilized in productive sectors like industries trade and business of every nook and corners of the country. In fact, the development of economy of the world is result of substantial investment in such productive sector in order to boost up the economy and the social life of any country, it is extremely essential to have a mechanism through which small amount of saving can be collected and transferred into efficient uses. Thus the commercial banks have most important role to accelerate economic growth of a nation as well as improve the living standard of the people.

The main objective of the study is to analyze and evaluate the insight of the present status of the existing credit management of the Rastriya Banijya Bank ltd. To analyze this, secondary data has been used for an average period of 5 years from FY 2003/04 to 2007/08.

To evaluate the credit management of Rastriya Banijya bank is selected under the study and five year financial statements of bank has been used for the study. The study has been divided into five chapters which include introduction, review of literature, research methodology, data presentation and analysis and summary, conclusion and recommendation. This study mainly based in secondary data, with include published annual report and other publication of banks. Other related information was gathered from the concerned banks, Nepal Rasta Bank, Nepal Stock Exchange, Securities Board of Nepal, different websites. The data have been analyzed by using financial and statistical tools like ratio analysis, correlation coefficient, regression analysis trend analysis etc.

The study shows that over the period, average loan and advances ratio of RBB and is 0.521. The bank is capable to use more than 50% of deposit on loan and advances. If maintained this, it help make consistency on the profitability of the bank. Banking sector is seriously affected by the non-performing loan. RBB is not far from this above fact. If non-performing loan increases, the overall banking business will be affected. So provision amount will increase and profit will decrease. So, it is suggested that the study are to be sincere while granting loan and to do effective follow up for recovery of the loan. Average loan and advances to total assets of RBB is 0.57. It can be concluded that the higher mean ratio indicates the good lending performance.

The capital fund of the bank is still in negative balance. This is particularly the result of the poor performance of the bank. Due to the various causes like no. of service oriented branches than profit oriented, over non performing staffing, lack of operational systems, lack of regulatory and supervisory by the central regulate body etc. the bank has suffered with high NPLs. The bank suffers from an unclear role and responsibilities of managerial bodies, boards, stakeholders. Corporate governance is very weak in Nepal .A weak operational system ,poor administrative and financial records management, poor accounting system ,lack of transparency, absence of the code of conduct for employees, managerial bodies, Board members, stakeholders and corruption are the some characteristics prevalent in the bank an other financial sectors.

The study is mainly focused to the credit aspects of the bank. RBB also control risk in the lending function by setting up policies and procedures for processing each loan request. A written loan policy that describes what types of loans and loan terms best protect the bank's soundness and also helps to meet the needs of the customers the bank serves.

5.2 Conclusion

As per the strength and weaknesses of credit administration of the RBB, there are less strength and more points regarding weaknesses. The bank has pretty huge amount of non performing assets in the past couple of years. The huge amount of non performing assets indicates that there are more weaknesses in the employees and management of the RBB regarding credit management.

To improve the bank by restructuring the management was handed to over to the foreign consultants as NMT with the total cost of Rs.4.69 billion including consultant's fee of Rs.428.7 million and voluntary retirement cost of Rs. 4.27 billion.

During the study period, the bank registered a significant increase in deposits, loans and advances and profitability. As compared of the total deposits in the FY 2007/08 was Rs.50464 million which is 9% more than last FY 2006/07.The growth % of the deposits during the study period was 1.85, 1.72, 5.26, 7.39 and 9.25 % respectively. The growth rate of the loan and advances of the bank was -2%, -6%, 8%, -14% and 7 % was observed during the study period.

Average loan and advances to total assets of the bank during the study period is observed 0.57 and it can be concluded that the ratio is above 50% indicates the good lending performance. Here the bank should focus to increase loan and advances to total asset ratio to increase lending performance. Average ratio of RBB is 5.44. From the mean point of view, it can be concluded that the higher mean ratio indicates the good short term lending performance

Besides these the bank has rating the borrower's risk in the SME loan and corporate loan and the bank has used to credit scoring to the retail loan for finding the borrower's creditworthy and the position of the borrower.

The net profit of the bank over the study period was observed in decreasing trends .The growth rate of the net profit is increased in year 2003/04 and in decreasing trends there after during the study period. The bank was in loss and shown in very critical situation before taking the NMT. After the took over the NMT the bank was turned into profit oriented bank. The NPL of the bank was reached to more than 60 % before the NMT. After restructuring the bank is succeeded to turn into positive earning than loss and reducing the NPA to the below 30 % during the study period and the data shows that the NPA of the bank is in reducing trends.

Correlation coefficient between non-performing loan and loans of RBB is 0.663; it indicates that non-performing loans and loans were positively correlated with each other.

Coefficient of determination was found 0.44 which indicates that 44% of total change in loans management has been negatively determined by non-performing loans. Loan management has been negatively influenced by non-performing loans. But it is improving in lending procedures of the bank seems will be good hereafter of the study period.

On average of 5 years of research period only 54.30% of total deposit of the bank is utilized in credit and advance. But due to the various reasons, banks have not been able to fully utilize the collected funds in proper way. Thus, there is a gap between the deposits and loan and advances .As a result there is pilling up of the deposits with RBB which do not bring any return to the bank and has to bear high cost in idle liquidity.

Most of the RBB, s Branches are established in rural areas than urban areas. It covers 64 districts out of 75 districts in the country .This bank is a sole government owned commercial bank and has been established with service motive and social welfare rather than profit motive. This bank has large number of branches and most of them are established in rural areas of the nation. So, this bank has a vital role in uplifting the economic activities of poor rural people by providing them with micro credit facilities thereby increasing their living standard which ultimately helps the country to reduce the poverty.

5.3 Recommendations

The findings of the study reflect both positive and negative results with respect to the financial performance of the bank. Based on the overall presentation and analysis of the data, some recommendations have given for the improvement of the existing scenario of the credit management of the RBB.

- The bank should try to increase the loan and advances to deposit; High ratio shows the capability of bank on mobilizing its total deposit as loan and advances. After removing the policy of maintaining average interest rate spread below 5% RBB can take more benefit than other private banks to increase its loan and advances in the cheapest rate to mobilize the bank’s idle fund.

- Banking sector is seriously affected by the non-performing loans. All banks are not far from this above fact. If non-performing loan increases, the overall banking business will be affected Banks should sincere while granting loan and to do effective follow up fro recovery of non- performing loan. Still the bank RBB has near about 30% of NPL so the bank should have decreased to minimum level of the standard for its survival.
- Banks should be more exercise in credit creation and maintaining the effective, competitive interest rate for the loan and advances. This helps them to maintain more competitive in the growing banking industry of the country.
- Banks could do better by offering modern banking facilities and new product for the development of banking industry.
- Provision on Bad loan should be maintained as per the directives of Nepal Rastra bank.
- Banks should regularly follow the credit customer and their business to confirm that whether the customers have utilized their credit for the same purpose committed at the time of taking credit from the bank. Most of the branches of RBB have not serious for review the loan in the time frame. So the respective department should aware and take the action to the branches for timely Review of the every loan and advances. It helps to control the downgrade of the loan and advances. Review of the loan and frequent contact with borrowers also minimize the chance of misuse of the loan.
- Borrowers do not pay the bank loan in due date is the major problem of the bank. Since the bank is not the charitable institution to donate funds to the borrowers ,it should improve in the recovery of loan by restructuring and rescheduling the loan and reinvesting the resource which will generate the income of borrower and ultimately increases in paying capacity of the bank loan .For this the manager and the loan staff of the branches should be provided with adequate training so that they could identify right borrowers ,right project and ensure correct project appraisal so

that on one hand the borrower will be benefited and on the other hand ,the borrowers will be able to repay back their loan to the bank.

- On average of 5 years of research period only 54.30% of total deposits of the bank is utilized in loan and advances. The bank could not fully utilize the deposit. This idle liquidity with the bank will not return anything but the bank has to bear high cost on it. So, the bank should manage to utilize the deposit at optimum level by investing them in proper and safe way in the secured sectors so that no additional new NPA will be added and the recovery can be done continuously for the long term development of the bank.

- The bank should be focus for non funded facility for it's less risky business with for good income.

- The bank should introduce various kind of welfare program of its staffs so that it will motivate them to increase their efficiency in their performance in the recovery of the loans and increase in the profitability of the bank as well as decreasing in NPA of the bank. Thus the bank should provide various training facilities, job satisfaction and motivation to its staffs in order to increase their efficiencies, skills, confidence and effectiveness.
- For effective loan recovery of the priority sector it is needed to advertise from corner to corner of the nation about the facilities of rebate in interest if the overdue loan amount is paid within the specified time and interest waiver facility for those who settle the loans.

- The foreign remittance inflow which is a major source of Nepalese consumer in these is gradually increased day by hence the bank should make banking mechanism to collect the money through RBB for worldwide and it helps to hold the market own self and can do it by it's high network in the nation.

- The bank should be taken the prompt corrective action for strengthening its business capacity.

- The bank has been changed to modern banking from traditional ledger banking however it should be injected new blood to cope the changes of the bank.

- The bank has been implementing various policies like Credit policies, IT policies, LRDR policies, Audit Policies, etc. for making the regulatory and supervisory process effective. In this regard the audit report and other information submitted by the external auditors should be taken corrective action as soon as possible which helps to correct the action in favor of the bank.

- To achieve its mission, the bank has needed to be market responsive. Supporting delivery of this mission is a set of priorities for the coming year :
  - Making services better reflect the needs of the people
  - Customer demand and grievance management
  - Raising the profile of the bank and creating new brand positioning

For the achievement of target goals and objectives of the commercial banks, they should be focused their liquidity position, deposit, loan and advances and their lending procedures and market competitors for their healthy survival in the market. From above study, analysis and observation with facts we must conclude with a reasonable realistic solution of the Rastriya Banijya Bank in terms of credit management. Some of important and valuable suggestion for strength of the bank, its establishment, sustainable growth; the bank should follow the above recommendation and its all policies which is already in use of the bank. Commercial banks have to channelize fund by gradually shifting priorities from consumer loan to the productive sector to help for capital formation in the country. Like wise RBB is also aggressive in consumer lending .It has observed Rs.500 billion consumer credit during the study period showed that the bank give more priority in consumer credit. The bank has to improve their quality of services and monitoring and follow-up to the all loans.

BIBLIOGRAPHY

Books

American Institute of Banking. (1972). ***Principle of Bank Operation.*** **USA: AIB.**

Baidhya, S. (1997). ***Banking Management*. Kathmandu: Monitor Nepal**

Bajracharya, B. C. (1998). ***Basic Statistics*. Kathmandu: M.K. Publishers and Distributors.**

Bhandari, D.R. (2003). ***Banking and Insurance Management*. Kathmandu: Ayush Prakashan.**

Bhattarai, S. (2063) **"*Something is Rotten with the State of Commercial Banking in Nepal" Souvenir Vol. No.43,* Rastriya Banijya Bank Ltd. Kathmandu.**

Blexy, J.B. (1987). ***Banking Management*. New Delhi: Sujeet Publication.**

Dahal & Kumar. (1999). ***A Handbook to Banking.*** **Kathmandu: Time Graphics Printers**

Garg .Ashish. (2063).***Principle of Lending and Credit Culture at RBB.*** **Souvenir Vol. No.42, Rastriya Banijya Bank Ltd. Kathmandu.**

Johnson, E. (1985). ***Commercial Bank Management.*** **New York: The Dryden Press.**

Khubchandani, B. S. (2000). ***Practice and Law of Banking*. New Delhi: Macmillan India Ltd.**

Kothari, C. R. (1990). ***Research Methodology: Method and Techniques.*** **New Delhi: Wiley Eastern Limited.**

Pant, Y. P. (1970). ***Problem in Fiscal and Monetary Policy.*** **Kathmandu: Sahayogi Prakashan**

Parker J. S. (1973). *Teach Your Self Book Banking*. London: St. Poul Publication

Peter, S.R.(1999).*Commercial Bank Management*. *Singapore*. McGraw-Hill

Radhaswami & Vasudevan. (1987). *A Textbook of Banking*. New Delhi: S. Chand & Co. Pvt. Ltd.

Singh,S.P.and Singh,S.(1983). *Financial Analysis for Credit Management in Banks*. New Delhi: Vikas Publishing House Ltd.

Vaidya, S. (1999). ***Banking Management*. Kathmandu: Monitor Nepal.**

Wolff, H. K. and Pant, P. R. (2002). ***A Hand Book for Social Science Research and Thesis Writing.*** **Kathmandu: Buddha Academic Enterprises**.

Journals and Articles

Nepal Rastara Bank. *(2063/064), **Macro-Economic Indicators of Nepal.*** **Kathmandu.**

Nepal Rastra Bank. *(2058 to 2063)* ***NRB Directive,*** **Kathmandu**.

Nepal Rastra Bank. *(2062).* ***Banks and Financial Institutions Act.*** **Kathmandu.**

Nepal Rastra Bank. *(2063/064*) ***Banking and Financial Statistics,*. Kathmandu.**

Rastriya Banijya Bank Limited. *(2058/059/ to 2063/064)**. Annual Reports***. **Kathmandu.**

Rastriya Banijya Bank Limited. *(2063 & 2064)* ***Souvenir*. Kathmandu.**

Rastriya Banijya Bank Limited**.** *(2064)* ***Statistical Bulletin.*** **Kathmandu.**

Shrestha, R. (2064) in her article **"*Lending Operations of Commercial Banks of Nepal and its Impact on GDP" Souvenir Vol. No.42,*** **Rastriya Banijya Bank Ltd. Kathmandu.**

Thesis

Aryal, K.N (2003). ***An Evaluation of Credit Investment and Recovery of Financial Public Enterprises in Nepal a Case Study of ADB/N*.** An Unpublished Master's Degree Thesis, Submitted to Shanker Dev Campus, Tribhuvan University.

Chand, G. B (1988). ***Credit Disbursement and Repayment of Agriculture Development Bank Nepal.*** An Unpublished Master's Degree Thesis, Submitted to Shanker Dev Campus, Tribhuvan University.

Gurung, A.K. (2006) ***"Lending policy and recovery management of Standard Chartered Bank Nepal ltd and NABIL Bank Limited***" An Unpublished Master's Degree Thesis, Submitted to Shanker Dev Campus, Tribhuvan University

Joshi, S. (2003) "***A Comparative Study on Financial Performance of Standard Chartered Bank Nepal Limited and Everest Bank Ltd"*** An Unpublished Master's Degree Thesis, Submitted to Shanker Dev Campus, Tribhuvan University

Joshi, R. (1999). ***Lending policy of Commercial Banks in Nepal***. Unpublished Master's Thesis, Submitted to Shanker Dev Campus, Tribhuvan University.

Misra, S. (2007) etitled her Thesis "***Credit management of Everest Bank Limited*.** An Unpublished Master's Degree Thesis, Submitted to Shanker Dev Campus, Tribhuvan University.

Limbu, R. (2008) "***Credit Management of NABIL Bank Limited.*** An Unpublished Master's Degree Thesis, Submitted to Shanker Dev Campus, Tribhuvan University.

ojha, L. P. (2002) ***"lending practices"*** An Unpublished Master's Degree Thesis, submitted to Central Department of Management, Tribhuvan University.

Paudel, P.(2001) ***"A study on lending practices of joint venture commercial banks with reference to Nepal Bangaladesh Bank Ltd. (NBBL) and Himalayan Bank Ltd. (HBL)"*** An Unpublished Master's Degree Thesis, Submitted to Shanker Dev Campus, Tribhuvan University

Regmi, P. (2004) "***Credit Management of Commercial Banks with Reference to Nepal Bangaladesh Bank and Bank of Katmandu"*** An Unpublished Master's Degree Thesis, submitted to Central Department of Management, Tribhuvan University.

Shrestha, M. (2006) .***Credit Management With Special Reference to Nepal SBI Bank Ltd.*** An Unpublished Master's Degree Thesis, submitted to Shanker Dev Campus, Tribhuvan University.

Shrestha, S. (2005*)* ***"Credit management with special reference to Nepal SBI Bank ltd"*** An Unpublished Master's Degree Thesis, Submitted to Shanker Dev Campus, Tribhuvan University

Websites

www.nrb.org.np

www.edunepal.com

www.onlinethesis.com

www.rbb.com.np

(Rs. In Million)					
Particulars	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Liabilities					
Share Capital	1172	1172	1172	1172	1172
Reserve Funds	-23568	-22610	-21372	-19891	-18385
Borrowings	162	80	4218	4358	2241
Deposit	39402	40867	43016	46195	47500
Bills Payable	16	24	40	41	40
Other Liabilities	25988	25523	29748	17135	12497
Total Liabilities	43172	45056	56822	49010	47911
Assets					
Cash Balance	1019	1007	1622	1202	1511
Balance with Banks	2717	6012	3931	4027	4640
Money at call & S.N.	740	100	0	0	20
Investments	4623	3117	8416	11627	12716
Loan & Advance (Net)	10604	10635	13312	15055	17989
Principle	26608	25106	27001	23103	25394
Less : Provision	16004	14471	13689	8048	7405
Fixed Assets	479	392	393	627	693
Other Assets	**21915**	**23597**	29029	16865	9741
Total Assets	**43172**	**45056**	56822	49010	47911

Annex-I

Balance Sheet of Rastriya Banijaya Bank Limited

Annex-II

Profit & Loss Account of Rastriya Banijya Bank Limited

(Rs. In Million)

Particulars	2003/04	2004/05	2005/06	2006/07	2007/08
Interest Income	2051	2236	2329	2283	2355
Interest Expenses	2108	1495	1005	850	939
Net Interest Income	1416	1433	1324	741	-57
Fees Commission & Discount	210	310	288	289	345
Other operating Income	85	1056	835	110	283
Foreign Exchange Gain/Loss	3	16	14	74	15
Total Operating Income	241	2123	2461	1906	2059
Staff Expenses	3249	906	811	745	821
Other Operating Expenses	245	230	234	289	342
Operating Profit Before Provision	-3253	987	1416	872	896
Provision for Possible Losses	1594	11	137	663	315
Operating Profit	-4847	976	1279	209	581
Non Operating Income/Expenses	7	147	44	27	29
Write Back of Provision For Possible Losses	0	0	0	1516	1210
Profit from Regular Activities	-4840	1123	1323	1752	1820
Extra Ordinary Income /Expenses	0	0	0	-33	-4
Profit before Bonus & Taxes	-4840	1123	1323	1719	1816
Provision For Staff Bonus	0	83	0	127	134
Provision For Tax	0	0	0	0	0
Net Profit/ (Loss)	-4840	1040	1323	1592	1682

Annex-III

Correlations(Total loan and advs and net profit)

		VAR00001	VAR00002
VAR00001	Pearson Correlation	1.000	-.450
	Sig. (2-tailed)	.	.447
	N	5	5
VAR00002	Pearson Correlation	-.450	1.000
	Sig. (2-tailed)	.447	.
	N	5	5

Correlations(Total loan and non performing loan)

		VAR00001	VAR00002
VAR00001	Pearson Correlation	1.000	.663
	Sig. (2-tailed)	.	.223
	N	5	5
VAR00002	Pearson Correlation	.663	1.000
	Sig. (2-tailed)	.223	.
	N	5	5

Regression

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	VAR00001[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: VAR00002

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.450[a]	.203	-.063	2893.2602

a. Predictors: (Constant), VAR00001

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regressio	6381211.	1	6381211.	.762	.44
	Residual	2511286	3	8370954.		
	Total	3149407	4			

a. Predictors: (Constant), VAR00001

b. Dependent Variable: VAR00002

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Erro	Beta		
1	(Constant	21148.66	24074.72		.878	.44
	VAR0000	-.825	.945	-.450	-.873	.44

a. Dependent Variable: VAR00002

Annex-IV

Trend of Performing Loans of Rastriya Banijya Bank Limited

Computation of straight line trend analysis of Performing loans and advances of Rastriya Banijya Bank Limited.

Now, Regression equation Y = a + b X (Note: a=19176, b= 1919,)

Loan and advances on the 6^{th} year

Y = 19176+1919*6

= 30690

Loan and advances for 7^{th} year

Y = 19176+1919*7

= 32609

Loan and advances for 8^{th} year

Y = 19176+1919*8

= 34528

Loan and advances for 9^{th} year

Y = 19176+1919*9

= 36447

Trend of Net Profit of the Rastriya Banijya Bank Limited

Computation of straight line trend analysis of Trend of Net Profit of Rastriya Banijya Bank Limited.

Now, Regression equation Y = a + b X (Note: a=159.40, b=5272.80, X=X-3,)

Net Profit for the 6^{th} year

Y = 159.40+5272.80*3

= 15977.80

Net Profit for the 7^{th} year

Y = 159.40+5272.80*4

= 21250.60

Net Profit for the 8th year

Y = 159.40+5272.80*5

= 26523.40

Net Profit for the 9th year

Y = 159.40+5272.80*6

= 31796.20