A STUDY ON CREDIT MANAGEMENT AND PRACTICES OF RASTRIYA BANIJYA BANK LIMITED

By

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A Thesis Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

In partial fulfillment of the requirement for the Degree of

Master of Business Studies (M.B.S)

Kathmandu, Nepal

September, 2008

RECOMMENDATION

This is to certify that the Thesis

Submitted by:

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Entitled:

A STUDY ON CREDIT MANAGEMENT AND PRACTICES OF RASTRIYA BANIJYA BANK LIMITED

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

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VIVA-VOCE SHEET

We have conducted the viva –voce examination of the thesis presented

by

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and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for

Degree of Master of Business Studies (M.B.S.)

Viva-Voce Committee

Head, Research Department ……………………….………

Member (Thesis Supervisor) …..………………………..

Member (External Expert) …..………………………...…

DECLARATION

I hereby declare that the work reported in this thesis entitled "**A Study on Credit Management and Practices of Rastriya Banijya Bank Limited**" submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Degree of Master of Business Studies (M.B.S.) under the supervision of Associated Professor, Yamesh Man Singh of Shanker Dev Campus.

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ACKNOWLEDGEMENT

This study report entitled "**A Study on Credit Management and Practices of Rastriya Banijya Bank Limited**" has been prepared for the partial fulfillment of the requirement of the Degree of Masters of Business Studies Program of Tribhuvan University. This thesis has received a much needed assistance and cooperation from various quarters to come up in this form. Therefore, all people are duly acknowledged for the help and assistance.

I, first of all, owe a deep sense of gratitude to my thesis supervisor Associate Professor, Yamesh Man Singh, who guided and inspired me to complete this research work throughout the research period. This research would not have been completed in the absence of his invaluable guidelines, advice, inspiration and encouragement.

I would like to express my profound gratitude and sincere appreciation to the staff and management team of Rastriya Banijya Bank Limited for providing the annual reports, balance sheet and other related data, without this research study would not have been possible. I am grateful to my parents whose toil, sweat; inspirations incapacitate me to bring this study on the final completion.

Likewise, I am equally indebted to my friends Ms. Regina Shrestha, Ms. Hajindra Sapkota and Mr. Bishnu Thapa Magar for their invaluable support. Different books, articles, journals and thesis have been consulted in preparing this research. Thus I would like to thank all those authors and publishers.

Pushpa Chandra Thapa

Researcher

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ABBREVIATIONS

ABBS	:	Any Branch Banking System
ADB	:	Agriculture Development Bank
APP	:	Approximately
ATM	:	Automatic Teller Machine
B.S.	:	Bikram Sambat
BG	:	Bank Guarantee
BOD	:	Branch Operation Department
CD	:	Credit Deposit
CIB	:	Credit Information Bureau
CRR	:	Cash Reserve Ratio
CV	:	Coefficient of Variation
Dept.	:	Department
Fin.	:	Finance
FSRP	:	Financial Sector Reform Program
FY	:	Fiscal Year
GDP	:	Gross Domestics Product
Govt.	:	Government
GSD	:	General Service Department
HBL	:	Himalayan bank Limited
HRM	:	Human Resource Management
IMF	:	International Monetary Fund
Int.B. Rec	:	Inter Bank Reconciliation
IT	:	Information Technology

KBL	:	Kumari Bank Limited
KMO	:	Kathmandu Main Office
LC	:	Letter of Credit
LLP	:	Loan Loss Provision
LRDR	:	Loan Recovery and Debt Restructuring
MBL	:	Machhapuchhre Bank Limited
MBS	:	Master of Business Studies
MKT	:	Marketing
NBL	:	Nepal Bank Limited
NGO	:	Non- Government Organization
NMT	:	New Management Team
NP	:	Net Profit
NPA	:	Non-performing Assets
NPL	:	Non-performing Loan
NRB	:	Nepal Rastra Bank
O.S.	:	Outstanding
PE	:	Probable Error
PL	:	Performing Loan
Pvt.	:	Private
RBBL	:	Rastriya Banijya Bank Limited
Rs.	:	Rupees
S.D	:	Standard Deviation
S.N	:	Serial Number
SME	:	Small & Micro Enterprises
Stag.P	:	Strategic Planning

SWOT	:	Strength Weakness Opportunities & Threats
T&D	:	Training and Development
TR	:	Trust Receipt
Tres.	:	Treasury
TT	:	Telegraphic Transfer
TU	:	Tribhuvan University
UAE	:	United Arab Emirates
VRS	:	Voluntary Retirement Service

CHAPTER- I

INTRODUCTION

1.1 Background of the Study

Nepal a Himalayan Kingdom with a total area of 147,181sq.km.and around 23.2 Millions population lies in between two large countries, China in the North and India in the South, East & West. China and India are linked geographically, culturally, economically and socially with Nepal. It is a landlocked and mountainous country. Nepal is divided into three regions on the basis of its physical and geographical feature. Himalayan region which covers 15% of area with 7.39% of total population, Hilly region which covers 68% of area with 44.5% of total population and Terai region which covers 17% of area with 44.3% of total population. Due to the internal conflict & security and physical infrastructure like transportation, education, communication, market, health, electricity as well as agricultural land, the population of Himalayan and Hilly region is in decreasing trend and Terai region is in increasing trend. Out of the total population, 86% people represents about 20 million stay in rural area and only 14% people representing about 3.2 million stay in urban area. Nepal is a developing countries contributing only 0.02% to the world GDP. The per capita income is about US $ 280.

Nepal is an agricultural country where more than 80% population depends upon agriculture. Only 20% people out of total population are engaged in industrial and other sector. The agriculture in Nepal has been a source of livelihood for majority of the people and serves as the backbone of Nepalese economy. The contribution of agriculture sector to GDP stood at 40% where as that of non agriculture sector stood at 60%. The recently conducted national living standard and consumption pattern survey 2004 revealed in its preliminary findings that the population below the poverty line in Nepal has declined to 30.84%. The survey also finds that the remittance from foreign migrant labor has been the major contributor for the improvement of the poverty level. The main occupation of the rural people is still agriculture. But the overall performance of agriculture sector has not remained strong. Likewise the agricultural sector is still not commercialized due to the geographical condition of the country and lack of essential infrastructure like road, electricity, communication facilities, market, irrigation etc.

Poverty has been the critical issue facing Nepal since long time before. Improvement of the quality of the life of the rural people has been a matter of great concern for the government. As poverty is the root causes of many problems currently faced by Nepal like population growth, environmental degradation and social anomalies, the government has been giving a very high priority to its alleviation.

The growth of GDP at constant (1994/95) price fluctuated over the past six year from the peak of 6% recorded in the FY 1999/2000 to lowest level of -4% in the FY 2001/02.The economy rebounded by 3% in FY 2002/03 and was stagnant at 3.5% in the FY 2003/04.Overall performance of the economy in the FY 2004/05 decelerated to 2.3% growth. Growth rate of GDP hardly cover the growth rate of population in Nepal (NRB, Macro Economic Indicators, 2006:10).

To development of any country, the financial sector of that country is responsible and must be strong. The financial sector is important and is a vast field, which includes banks, finance company, co-operative, insurance companies, stock exchange, foreign exchange market, mutual fund, employee provident fund etc. These institutions collect idle and scattered money from the general public and organization and finally invest in different needy enterprises that consequently help in increasing employment opportunities, reducing poverty and thereby developing the society and the nation as a whole.

Nepal has been facing the problem of accelerating the pace of economic development. Economic development of the any country depends upon the uplift meant of the people through increasing their productivity thereby raising their incomes, which ultimately help them to cross the poverty line. In this respect the role of commercial banks in the country becomes vital. The commercial banking system in Nepal is still in its infant stage as compared to other developed countries. However their important role in the economic development of the country has been fully realized and these banks are being oriented in their activities to make best suited for the overall economic development of the country.

1.1.1 Credit Management

Credit creation or lending is the main business of every commercial bank. In the field of banking transaction, the term credit is referred to the loan. Credit is defined as the amount of money lent by the creditor (Bank) to the borrower (Customers) either on the basis of security or without security. The main function of commercial banks is granting of credit. Credit is regarded as the income generating source especially in commercial banks. It is also known as the heart of commercial banks in the sense that, it occupies the large volume of transaction; it covers the main part of investment; it is the main factor and source for creating profitability. The credit affects the overall economy of the country. In today's context, it also affects on national economy to some extent. If the bank provides credit facility to individual person, it will help for growth of individual status. Similarly, it provides to trader & industry, the government will get tax from them and help to increase national economy. It is proved from very beginning that credit is the shareholder's wealth maximization derivative. However, other factors can also affect profitability and wealth maximization but the most effective factor is regarded as credit. The credit is the most challenging job because it is backbone of commercial banks. Without good and proper management of credit, the bank couldn't survive in the competition for longtime. Thus, effective management of credit should seriously be considered. Management is the system, which helps to complete the every job effectively and systematically. The credit management is also the system, which helps to manage credit effectively. In other words, credit management refers management of credit exposures arising from loans, corporate bonds and credit derivatives. Credit exposures are the main source of investment in commercial banks and return on such investment is supposed to be main source of income. Thus credit management is defined as the function of analyze credit risks, supply credit to customer as prescribed by the NRB directives, regular follow up, regular monitoring and recovery the loan after maturity period.

Credit management strongly recommends analyzing and managing the credit risk. Credit risk is defined as the possibility that a borrower will fail to meet its obligations in accordance with the agreed terms. Credit risk is not restricted to lending activities only but includes off balance sheet and inters bank exposures. It is the most dominant risk present in the banking industry and profitability of the bank is more dependent on the proper management of credit risk. The goal of the credit risk management is to maximize a bank's risk adjusted rate of return by maintaining the credit risk exposure within the acceptable parameters.

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

1.1.2 Commercial Banks and the Economy

Bank is a financial institution, which is established by law, who collects the fund from several ways and disburses the loan for needy bodies. In other words Bank plays an intermediaries role between the savers and users. They supply the financial needs of modern business by various means. They collect the deposits from the public individual as well as institutions on the condition that they are repayable on demand. Their business is confined to financing the short term needs of trade and industry such as working capital. They grant loans in the form of cash credit and overdrafts. Apart from that financing they also render service like collection of the bills and cheque, safe keeping of valuable ornaments, financial advising to their customers (Vaidya,2001:38).

In every country of the world and more so far for developing countries like Nepal, fast economic development is one of the most important aspects of the development activities. However, it is obvious that unless the development of the most important sectors like agriculture, industry, trade and commerce are achieved, overall economic development is impossible. For overall development, the regular supply of financial resources is a prerequisite. Finance as fuel for providing energy to move the vehicle of economic development and financial institution naturally serve as reservoir for supplying and controlling the stream of that fuel i.e. commercial banks and finance companies which are the financial institutions play the vital role for the development of agriculture, industry, trade, commerce and overall economic development of the country. The main objectives of the commercial banks are to mobilize the idle resources in productive uses though collecting them from scattered and various sources. Its role in economic development is thus immense in order to bring out greater mobility of resources to meet the ever increasing needs of finance for the various economic activities in the country.

Nepal has started the process of financial reform and economic liberalization since the late 1980s. As a part of overall liberalization, the government has implemented several policy reforms in the financial sector. The board thrust of financial sector reforms are: to allow market forces to play a greater role in the financial system to enhance private sector participation in the development process of the financial system; to develop a capital market; and to increase competition and thereby efficiency of the sector.

Following a number of reforms in the financial sector over the past two and half decades, the banking sector has become autonomous to a great extent. As results many new joint venture banks and financial companies have been established. Progress has been made to enhance the role of market forces and to create competition in the banking sector. Thus, Nepal has entered in a new era of banking business. Consequently, by the end of mid-July2007 altogether 208 bank and non bank financial institutions licensed by NRB are in operation. Out of them, 23 are in "A" class commercial banks 38 in "B" class development banks, 74 in "C" class finance companies, 12 in "D" class micro-credit development banks, 17 in saving and credit co-operatives, and 47 in NGOs. Besides, 2,350 saving and credit co-operatives in the micro finance area are registered with the Department of co-operatives. After the liberalization, the financial sector has been kept more open and liberal to private sector. As a result of this out of 23 commercial banks, 20 are in the private sector including 5 private sector banks have also in foreign stake

Table 1.1

Number of Commercial Banks and Their Branches

Rs.In'000'

Name Of Banks	Est. Year	Branches	Deposit	Loan & Invest
Nepal Bank Ltd.	1937	98	39977105	15943006
Rastriya Banijya Bank	1966	114	54330282	25297231
Nabil Bank Ltd.	1994	27	26814271	19973730
Nepal Investment Bank Ltd.	1986*	17	29243476	22175607
SCBNL	1987	11	27066713	12093864
Himalayan Bank Ltd.	1993	17	30044148	20725014
Nepal SBI Bank Ltd.	1994	17	12852084	11795239
NB Bank Ltd.	1994	16	10215383	6076525
Everest Bank Ltd.	1994	24	22315087	16968859
Bank of Kathmandu	1995	16	13499348	11833645
NCC Bank Ltd.	1996	16	6313295	5274223
Lumbini Bank Ltd.	2000	13	5657420	5502758
NIC Bank Ltd.	1998	12	10867947	10499758
Machhapuchhere Bank Ltd.	1998	15	9327303	8008051
Kumari Bank Ltd.	2001	10	11452182	11221419
Laxmi Bank Ltd.	2002	11	8987764	8363576
Siddhartha Bank Ltd.	2002	7	8275554	8029926
Agriculture Development Bank	1968	234	32614732	28070912
Global Bank Ltd.	2007	4	4397920	3931000
Citizen Bank Ltd.	2007	5	4341567	4046388
Prime Bank Ltd.	2007	2	2547150	2815689
Sunrise Bank Ltd.	2007	2	1518855	1046469
Bank Of Asia	2007	3	3394715	900367
Total			*376054301*	*260593255*

[Source: "Quarterly financial highlight made by (NRB) as at Second Quarter (14/01/2008) of the Fiscal Year 2064/2065

1.1.3 Banking in Nepal

Nepal with an agrarian economy needs a strong base of the financial infrastructure to mobilize resources and accelerate the development process.

The Nepalese financial system consist organized or formal and un-organized or in-formal sectors. The in-formal sector comprises all the borrowing and lending transactions among individuals and lending firm that are not registered with the government as a financial institution. As an in-formal sector local money lenders (Sahu-Mahajans) have significant influence in money lending in rural areas of the country. The formal or organized financial sector consists of central bank, commercial banks, development banks, financial companies and non banking financial institutions like, employee provident fund, national insurance company, Nepal stock exchange, citizen investment trust etc. Although modern banking in Nepal started with the establishment of Nepal Bank Limited in 1937, the evolution of banking has a long history in Nepal.

- As in other countries, goldsmith, landlords and money lenders were the ancient Bankers of Nepal. The money lender and landlords used to give loan to the needy public out of their own treasury.
- ‘Manaka’ coin was circulated in Nepal as early as sixth century (Bhandari, 2003:6).
- Gunakama Dev (7th century), king of Kathmandu, had borrowed money to rebuild Kathmandu city (Bhandari, 2003:6).
- Shankhadhar (9th Century), a merchant had started the new year “*Nepal Sambat*” after freeing all the people all the people of Kathmandu from the debt (Singh,2062:10).
- Jayasthaeti Malla (11th Century), the king then of Kantipur, introduced various measures to codify the law related to lending and borrowing. He classified the people according to their occupation. One of them called “Takadhari” was engaged in money lending (Bhandari, 2003:6).
- Tejarath Adda was established in 1933 BS by the Prime Minister Ranoddip. Singh to provide loan especially to government service holder as well as people in low interest rate at 5% against of gold, silver and other valuable ornaments. It was the first institutional Banking in Nepal.

- The main purpose of setting up of “Tejarath Adda” was to provide credit facility to general public but it didn’t accept the deposits from public. It was a great difficult to the people who want to deposit their money. Then Nepal Bank Limited established on Kartik 30, 1994 BS. (1937) as a semi government owned the first commercial bank in Nepal with an authorized capital of Rs. ten millions. The government has acquired 51 percent share holding out of the total capital. Before the establishment of Nepal Bank Limited, there were hardly any sources other than the unorganized money market to meet the financial needs of the Nepalese people.
- Nepal Bank Limited paid more attention to generate profit but it couldn’t help to develop banking system in Nepal. Besides Nepalese economy faced various difficulties associated with an unstable exchange rate and problem created by dual currency system. Therefore an urgent necessity was felt to establishment a central bank dedicated to develop banking and finance, to promote trade and industry, to maintain exchange rate stability and to good mange the circulation of national currency. Nepal Rastra Bank, the central bank of Nepal was established on Baisakh 14, 2013(1956) with process of planed economic development in the country. The objectives of establishment of central bank was to issue Nepalese notes, circulate the Nepalese currency throughout the country, maintain stability in money exchange rate, mobilize capital for development and for the stimulation of trade and industries and develop banking system in Nepal. During the initial years of establishment Nepal Rastra Bank was engaged in elimination of dual currency system and monetizing the economy (Dahal, Bhuvan and Sarita 2056:17).
- Nepal Industrial Development Corporation (NIDC): A fully state owned Industrial Development Centre established in 1957, was named Nepal Industrial Development Corporation in 1959. The main objective of the institution is to provide long term funds for the industrial sector. It

provides technical and financial assistance to industrial unit in the private sector.

- Integrated and speedy development of the country is possible only when competitive banking service and facility reaches every nook and corner of the country. Then, as per the Commercial Bank Act 2021, Rastriya Banijya Bank was established on Magh10, 2022 (1966) as a fully state owned bank to boost up the Nepalese economy and to enhance the banking habit of the people. It started with an authorized capital of Rs. ten millions.
- Agriculture Development bank was established on Magh, 7, 2024 (1968) in order to mobilize financial resource to meet the credit requirement of the agriculture sector. Apart from advancing loans to individuals and cooperatives the bank has been allowed to take up some functions of the commercial banks since 1984.
- Rural Development Banks have been established in five development regions of the country with the objective of uplifting the sauce economic condition of the rural poor through group based lending operation. Eastern Rural Development Bank and Far Western Rural Development Bank were established in 1993, Western Rural Development Bank and Mid Western Rural Development Bank were established in 1995 and Mid Rural Development Bank was established in 1996.
-

  In the beginning of the 1980s there were only two commercial bank and development banks in the country. After the induction of economic liberalization policy, particularly the financial sector liberalization, that impetus in the establishment of new joint venture as well as private sector bank rapidly. Nepal Arab Bank Ltd. was the first joint venture bank established in 1984, with the share holding of 50 percent by Union Bank of the Middle East, 20 percent share holding of the government of Nepal, Nepalese financial institutions and the rest 30 percent shares were floated among Nepalese citizen. Nepal Indosuez Bank Ltd. (1985)

and Nepal Grind lays Bank Ltd. (1987) were the second and third joint venture banks in Nepal. Now the numbers of joint venture and private sector commercial banks have reached to 21.

Table 1.2

Financial Institutions in Nepal

S.N.	Type of Financial Institutions	In Mid July 2007
1	Commercial Banks	20
2	Development Banks	38
3	Finance Companies	44
4	Micro Credit Development Banks	12
5	Saving and Credit Cooperatives	17
6	NGOs (limited Banking activities)	47
	Total	208

Source: "Banking and Financial Statistics" (NRB), Mid July 2007

1.2 Establishment of Rastriya Banijya Bank Limited

The history of organized bank in Nepal started in 1937 AD after the establishment of Nepal Bank Limited (a semi government commercial bank). After the establishment of Nepal Bank Limited, Nepal Rastra Bank, as the central bank of the country was established in 1956 AD. Before the establishment of Nepal Rastra Bank, the Nepal Bank Limited acted as commercial bank as well as central bank and performed the roles and activities of central bank too.

As Nepal adopted planned development program in the mid-fifties, the nation felt dearth of financial resources. Existing banking, with only one commercial bank, was not sufficient to meet the growing needs of the country. Therefore the government felt a strong need of another commercial bank and Rastriya Banijya Bank was established under the special charter "Rastriya Banijya Bank Act,2021"on January 25,1966 as only one fully government owned commercial bank with the following objectives.

- Facilitating banking service as well as promoting the business, commerce,

- Industry and other economic activities.
- Expand monetary services all over the country.
- Provide banking services in a wider outreach with out a sole objective of making profit.
- Develop financial infrastructure to accelerate development activities and energize the Nepalese economy.

Before the establishment of Rastriya Banijya Bank, one commercial bank “Nepal Bank Limited” in the country was in operation. But the financial needs of the country and banking habits of the people gradually grew. Therefore it was proved that the only Nepal Bank Limited wasn’t sufficient to cope with fast changing economic environment of the country. So in order to remove the difficulties and to render adequate banking facilities to the people, the Nepalese government established “Rastriya Banijya Bank” in 1966 (Magh 10, 2022) under the Rastriya Banijya Bank Act 2021. Now it was running under the Company Act 2053.

It is the only one state owned and largest commercial bank of Nepal. The late king Mahendra Bir Bikram Shah Dev inaugurated this bank. It had started with an authorized capital of Rs.10 millions and paid up capital of Rs.2.5 millions. As at the month of Asadh 2064 BS, this bank’s authorized capital was Rs.1557.6 million and paid up capital is Rs.1172.3 million. The bank started its operation with 208 employees and 7 branches office in 7 district of the country. At present the bank is operating with 3,140 employees and a total of 119 outlets consisting 114 branches, 4 regional offices and 1 head office in 63 districts.

As the Non Performing Assets (NPA) of both banks i.e. RBB and NBL are more than 50 percent. Therefore for progress in financial sector and management of NPA, with the loan help from World Bank and donation from International Monetary Fund (IMF), NRB has initiated Financial Sector Technical Assistance Project to meet the following objectives.

- Restructuring of NBL and RBB
- Capacity Building of Financial Sector
- Re-engineering of NRB

Since the past performance of the bank was considered un satisfactory, the government of Nepal with a high priority for restructuring of the bank as the second most important component of the comprehensive financial sector program, the management of RBB was assigned to a team of professionals headed by Mr. Bruce F. Henderson on 16th January 2003(2nd Magh 2059). Now the new management team of RBB has been heading by Mr. Janardan Achrya Chief Executive Officer of the bank.

The NMT of RBB has been contracted in order to fulfill the following activities of the bank.

- Increase in profitability and productivity of the Bank
- Identify the NPA and recover the maximum in past dues principal and interest.
- Eliminate un-necessary expenditures by establishing effective budgetary.
- Rightsizing the staffs of RBB by offering attractive retirement package.
- Establish new credit standard to ensure that no additional NPA's are made.
- Computerize as large a percentage of the bank.
- Develop a strong internal audit capability.
- Develop bank staffs to be banking professionals.
- Engage in productive lending to benefit the economy.
- Earn the respect of the banking community.

(Source: Souvenir 40th Anniversary of RBB; 2061)

After the NMT take over the management of RBB on January 16, 2003, it has been gradually restructuring bank by recruiting qualified staffs, introducing new technologies and computerization in the bank. The New Management Team has completed 5 years and has achieved encouraging positive growth during the period. The bank has succeeded to generate a net profit of NPR 1040 million in the F.Y.2060/061,Rs.1323 million in the F.Y. 2061/062, Rs.1591 in the F.Y.2062/063 and Rs.1697 million in the F.Y.2063/064. Likewise, the NMT has achieved restructuring of the bank from 212 to 114 branches, staff right-sized to 3,140 from 5,527, NPA reduction from 70% to 27.64% and 80 percent branches have been computerized.

Now the bank has emerged as the largest commercial bank of the country in terms of deposit (App. Rs. 54,33,02,82 thousands) and loan portfolio (App.Rs.25,29,72,31 thousands) with most extensive banking network of over 114 branches serving app.1.2 million deposit costumers and about 300,000 borrowers. The bank was established 43 years ago as wholly state owned to boost up the Nepalese economy and to enhance the banking habit of the people. It is obvious to every one that there is no business and industrial sector, where there is no participation of the bank. Likewise, in each and every body's mind, the bank has left the message that "RBB is our own Bank" so that the bank is considered as the catalyst to accelerate the economic engine. The bank has introduced different products to meet the growing demands of the society. The bank has chosen the "customer first" approach and customer's satisfaction has become the bank's motto. Now the bank is capable to satisfy its valued customers through mechanized services.

Table 1.3

Brief Glimpses on Bank's Progress

(Rs. In Million)

S.N.	Particulars	BS.2022	BS. 2064
1	Authorized Capital	10	1557.6
2	Paid up Capital	2.5	1172.3
3	No of Branches	7	114
4	Regional Offices	-	
5	No of Employees	208	3140
6	District Access	7	63
7	Deposit	3.9	54330
8	Loan & Advances	2.6	25297

(Source: Upahar, 2060 and Souvenir 43th Anniversary of RBB, 2064)

The organization structure of Rastriya Banijya Bank Limited is as follows:

BOARD OF DIRECTORS

Dr.Bholanath Chalise
Chairman

Dr.Vinod K. Shrestha
Member

Mahesh K.Karki
Member

Tulsi Pd.Uprety
Member

Dr.Dandapani Poudel
Member

Member of Management Committee

Janardan Achrya
Chief Executive Officer

Dhurba Pra.Bhandari
Chief Finance officer

Ombindu L.Raj Bhandari
IT/MIS Manager

Deputy General Manager
Krishna Prasad Sharma

Ashish Garg
Chief Credit Officer

HRM Dept	**Credit Dept**	**LRDR Dept**	**T& D Dept**	**Legal Dept.**	**Fin. Dept**	**Tres. Dept**	**Stag.p Dept**	**MKT Dept**	**BOD Dept**	**GSD Dept**	**Audit Dept**	**IT Dept**	**Int.Ba Rec**

Biratnagar Regional

28 Branches

Birgunj Regional

Pokhara Regional

19 Branches

29 Branches

Nepalgunj Regional

24 Branches

14 branches

1.2.1 Products and Services of RBBL

RBBL provides a variety of banking services. As an important and largest commercial bank of Nepal, it provides different types of loan and other banking facilities for the industrial and commercial development. At the same time, this bank is serving in rural areas providing different banking services. The main products and services of RBB are as follows.

1.2.1.1 Deposit Service

RBB accepts deposits of individual and organization on interest and without interest. The bank provides these services through the current deposit, saving deposit, call deposit, and fixed deposit services. The RBB accepts deposits from common people, pensioner, saving institution and public & private organization. The bank also handles government deposit and as an agent of NRB and Nepal Government.

1.2.1.2 Corporate Lending Products

RBB provides corporate lending products to its customers offering the following services.

(A) Funded Facilities

The bank provides funding loan to meet the growing demand of the society through the facilities as follows:

Overdraft Loan/Hypothecation	Loans against government bonds
Loan against RBB fixed deposit	Pledge Loan
Priority/Deprived Sector Loans	Trust Receipt Loan
Term Loan	Packing Credit (Export) Loan:
Margin Lending against shares	Hire Purchase Loans
Loan against First Class BG	Consortium Lending

(B) 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.

1.2.1.3 Retail Banking

RBB has introduced different retail banking products to meet the growing demand of the country's people. The retail products are as follows.

Housing Loan (Construction/ Renovation/ Finishing/ Maintenance/ Purchase/ Land Purchase etc):

Home Furnishing and Decoration Loan:	Education Loan:
Vehicle Loan (Private/Business use):	School Bus Loan:
Mortgage Loan (Personal Loan):	Professional Loan:
Term loan/Overdraft Loan for Schools:	Loan against gold silver:

1.2.1.4 SMS Banking

RBB has started SMS Banking service. Now your bank balance is at your finger tips. This service is available from 27 branches located at Kathmandu, Pokhara and Bharatpur.

1.2.1.5 RBB ATM / Debit Card Service

RBB is visa associate member bank. Bank has launched Debit card services for all the branches with in Kathmandu valley. Very soon, this service will be provided to the other branches out of Kathmandu valley.

Bank has also installed two ATM's, one at Teku branch Kathmandu, and other at Central office and Singhadurbar. Bank is processing to install more ATM's mainly at New Road, Maharajgunj, New Banwsor, Thamel, Jorpati and Pokhara.

RBB is issuing three category of Visa Debit card:

- **Visa Domestic**
  Valid in Nepal and India only
- **Visa International**
  Valid worldwide
- **Visa Travel Quota**
  Valid worldwide issued against Travelers cheque

1.2.1.6 Any Branch Banking System (ABBS)

RBB has started Any Branch Banking service which is available at the following branches:

Bishal Bazar (Main Branch office), Baneshwor , Bhotahity, Balaju, Kalanki, Thapathali Teku, Thamel, Maitidevi, Lalitpur, Pulchowk, Gaushala, Maharajgunj, Singhdurbar, Naxal, Tribhuwan Int'l Airport, Prithvichok, Mahendrapool and Amarsingchok.

Very soon, bank is extending ABBS services to the other branches outside the Kathmandu valley

1.2.1.7 RBB Remit Online

RBB has started online web based remittance system, where by Nepalese citizens working at Qatar and UAE can send money to Nepal instantly. Payments can be collected from the sixty branch offices of the Bank.
RBB has made association with the following foreign agencies for direct Remittance through RBB Remit:

City Exchange Company (WLL): Wall Street Exchange Centre (LLC):
UAE Exchange Centre (LLC): Alukas Exchange Centre (Joy Alukkas Group):

Apart from RBB Remit, RBB provided online foreign remittance through the following international services:

Swift (RBBA NPKA):	Western Union Money Transfer:
Instant Cash Global Money Transfer:	Xpress Money Transfer:
Eazy Remit:	International Money Express:

1.2.1.8 Money Transmission & Other Services

- Internal and external remittance services through draft, Telegraphic Transfer, Mail Transfer, Fax Transfer etc
- Foreign Exchange Transaction
- Purchase, sell and accept government securities
- Collecting and discounting bills

1.2.1.9 Developmental Activities

As a government bank RBB has launched different developmental activities under the Priority Sector Credit Program. Under this program RBB provides credit facilities to the weaker section of the society in agriculture production, cottage industries and service sector.

Major actives of this program are:

- Intensive Banking Program
- Banking with the Poor for deprived people
- Production Credit for Rural Women
- Micro Credit for Women
- Unemployed Graduates Program

1.3 Statement of the Problem

The prime concern of every nation of the world is economic development. Many developing countries are facing several problems in the process of economic development. Nepal is not exception to this condition. For the economic development of every country, the financial sector of that country should be addressed and must be strong. The financial sector is a vast field which comprises of commercial banks, finance companies, development banks, saving co-operatives, insurance companies, stock exchange, mutual fund, employee provident fund etc.

During the last two and half decades, the number of financial institutions has grown significantly. In the beginning of the 1980s there were only two commercial bank and development banks in the country. After the induction of economic liberalization policy, particularly the financial sector liberalization, that impetus in the establishment of new bank and non bank financial institutions. Consequently, by the end of 2007 AD altogether 208 bank and non bank financial institutions licensed by NRB were in operation. Out of them, 23 are in "A" class commercial banks.

RBB was established in 43 years ago, as only one fully government owned commercial bank to boost up the Nepalese economy and to enhance the banking habit of the people. The bank established at that time when NBL as commercial bank was operating in Nepalese financial sector. But now there is cut throat competition in Nepalese financial sector. In this present situation, it is very hard to smoothly run and to sustain every commercial bank in Nepal. The RBB was established and operated for the profit as well as service. Success is not matter of chance. Profit doesn’t happen easily. It is to be planned and well managed. Credit management is an important tool for generating reasonable profit.

But most major banking problem has been caused by weak credit management. Bank should have a keen awareness of the need to identify measure, monitor and control credit as well as to determine that they hold adequate capital against it. These risks that they are adequately compensated for risks incurred. So, to establish creditability position is a major issue in commercial banking sector during these days.

It is true that high profitable or successful organization can easily fulfill the every need of the organization, customers and can serve the society. To improve the profitability situation of the bank, it is necessary to establish the higher creditability position of the bank. Thus, the creditability is the major source and building better creditability position is the major strategy of every commercial bank.

Credit is the most effective and sensitive area in commercial bank. It is regarded as the heart of every commercial bank. But the banking sector is far from this fact. Thus credit management is considered as the major issues in Nepalese commercial banking sector.

Credit management concept has appeared as one of the challenging issues in Nepalese banking sector. There is lack of such scientific and empirical research that could identify the issues of credit management in Nepalese commercial bank. In this regard, the performance of Nepalese commercial banks is to be analyzed in terms of their credit. Some research questions relating to the credit practices, credit efficiencies, liquidity position, industrial environment, management quality organization culture are considered as a clear evident in present situation.

Although Rastriya Banijya Bank, now ranks no.1 in terms of deposit (approx Rs.54 billion) and loan and advances (approx Rs. 25 billion) with most extensive banking network of over 114 branches, is facing the problem of high NPA level with 27.64%. The high level of NPA shows that there is lack of proper credit management in RBBL. Thus the specific research study was initiated to find out the answer of following problems on credit management of RBBL.

- Is the credit practices adopted by RBBL in good position?
- What is the credit efficiency of the Rastriya Banijya Bank Limited?
- Is the proper credit portfolio maintained by RBBL?
- Is there any relationship between credit position and profitability situation?
- How does the RBBL manage better creditability position?
- How RBBL classified their loan and evaluate their impact on the profitability?
- Implementation of NRB directives on classification of loan and loan loss provision.
- What is the proportion of loan & advances and total deposit?
- What is the proportion of good and overdue loan?

1.4 Objectives of the Study

It is well known fact that each and every task has its own objectives. There are different functions that are to be performed in a systematic way, which requires efforts and all these efforts, is dissected by the assigned objectives.

The fundamental objective of the study is to explore the credit efficiency or inefficiency, its management and practices in commercial bank in Nepal, with special reference to RBBL, the fully state owned commercial bank.

The objectives are:

1. To assess credit practices, efficiency and current credit position of Rastriya Banijya Bank Limited to total commercial bank.
2. To examine the credit (Loan) disbursement procedure of RBBL.
3. To analyze the portfolio behavior of lending and measuring the ratio of loan and advances in different sector.
4. To find out the ratio of credit amount investment in different securities.

5. To find the total credit position and credit deposit (CD) ratio of RBBL.
6. To find out loan classification and loan loss provision and its impact on the profitability of bank.
7. To find out proportion of performing and non performing loan as well as NPA Percentage of bank
8. To analyze the contribution of income, generating from loan and advances to total Income of the bank.
9. To analyze the trend of deposit utilization towards loan and advances & net profit and their projection for next five year.

1.5 Significance of the Study

As at the data end of 2007, altogether 208 bank and non bank financial institutions were operating in Nepalese financial market. Out of them, 23 are in "A" class commercial banks 38 in "B" class development banks, 74 in "C" class finance companies, 12 in "D" class micro-credit development banks, 17 in saving and credit co-operatives, and 47 in NGOs. In this cut throat competition, Commercial banking sector is considered as successful area in financial sector of Nepal. In today's situation, commercial banks have to be more innovative and sincere to establish better creditability position due to vast competition among them. The present study dealt with how commercial banks managed credit position and how organizational effective those were? So this study would be significant in the following ways.

1. This study would be very useful for bank management, decision makers, potential manager, assistant manager, policy makers and researcher because it deals with credit management and practices of commercial bank.
2. This study would be helpful to the related bodies of RBBL for improvement of performance of credit and profitability.

3. It would be useful to interested parties, depositors, borrowers, loan investors and Shareholder of RBBL to found financial strength/ weakness of the Bank.

1.6 Limitations of the Study

The limitations of this study were as follows.

1. The study was based on the analysis data of 6 years period from the F.Y.2058/059 to 2063/064.
2. The study was mainly based upon secondary data as well as primary data. The primary data was obtained through interaction with the RBBL's staffs.
3. The study was conducted on the basis of published financial reports and other information.
4. Limited tools and techniques were used because of lack of sufficient resources and time constraint.
5. The study was based on RBBL as a representative of commercial bank.

1.7 Organization of the Study

This whole study report was divided into five chapters for its proper arrangement.

Chapter -I: The first chapter was the introductory chapter. It consisted of the following topics.

1. General background of study
2. Introduction of Rastriya Banijya Bank
3. Statement of the problem
4. Objective of the study
5. Significance of the study
6. Limitation of the study
7. Organization of study

Chapter -II: The second chapter dealed with the review of literature. It consisted of two parts.

1. Conceptual Review
2. Review of relevant NRB directives
3. Review of Financial Sector Reform Program
4. Review of relevant Articles/ Journals
5. Review of relevant research studies

Chapter-III: The third chapter was concentrated on research methodology used in the study. It included the following topics.

1. Research Design
2. Nature and Source of Data
3. Method of Data Collection
4. Data Processing Technique
5. Presentation and Data Analysis Tools

Chapter-IV: The fourth chapter contained the presentation and analysis of data. It was the main chapter of the study.

Chapter-V: The fifth chapter provided the summary, conclusion and recommendations of the overall study period.

The bibliography and annexes were also included as supplements to the above chapters.

CHAPTER- II

LITERATURE REVIEW

2.1 Conceptual Framework

Under this heading the concept and meaning of the term used in the study has been discussed.

2.1.1 Concept of Credit Management

In banking system term ‘Credit” is used to denote transaction involving the transfer of money or other property on promise of repayment, usually at a fixed date later. It is the foundation of funding the business and industry. Loan and advances are the main functions of every commercial bank. Loan and advances (Credit) a means by which banking company perform its credit creation function. This is the function which helps to generate profit of every commercial bank. Bank loan and credits are also the means of increase of money supply. As bankers are using the capital collected from their customers for the investment it is necessary to be aware about the risk associated with lending. Certainly, it is not possible to make risk free lending but necessary pre-caution can reduce the risk. This pre-caution is necessary not only for the respective banking company but for the whole banking system because the demise of any banking institution not only makes loss for its shareholders and depositors but it also makes negative effects of whole banking sector.

In sincere response to these topics, let’s bifurcate the term credit management in two separate terms: Credit and Management in order to deliver the meaningful sense about the topic. Oxford Advanced Learner’s Dictionary dubbed the term credit as “A thing that is lent, especially a sum of money” similarly, the term management is defined as the control and making decision in a business or similar organization and further says, the process of dealing with or contributing people or thing (Oxford Advanced Learner’s Dictionary, 1997: 279).

Book of Banking Management says that the banking sector or transaction, an unavoidable of credit 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 document of loan flow, loan administration, audit of loan, renewal of loan, the condition of loan flow, the provision of security, the provision of the payment of capital and its interest and other such procedures. This management plays a crucial role in healthy competitive activities (Bhattarai, 2003: 170).

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 process and awareness of its strength and weakness are important in setting objectives and goals for lending activities and for allocation available funds to various lending function such as commercial, installment and mortgage portfolio (Jonshon,1940: 132).

“Monetary policy and deposit mobilization in Nepal” has conducted that mobilization of the domestic saving is one of the prime objective of monetary policy in Nepal. And commercial banks are the most active finance intermediary for generating resources in the form of deposit of private sector and providing credit to the investors in the different sectors of the economy (Bajrachrya,1991: 93).

Credit is an important function of every commercial bank. Then now Credit management concept has appeared as a major concept in commercial banking sector. 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 known as credit risk. Portfolio management helps to minimize the credit risks by spreading over the risk the various portfolios. These methods of managing credit risk are guided by the saying do not keep the all eggs in the same basket.

Then, it can be said that credit management refers to a systematic ways including the function of, to search business areas, to analysis credit risk, to supply credit to customer as prescribed by the NRB directives, regular follow up, regular monitoring and recovery the loan after maturity period. In the present situation, the credit management aspects are also improving in Rastriya Banijya Bank Limited. New credit policy, recovery policy and guidelines have been prepared and implemented to restore the best practices in credit management. New business areas have been explored and new lending has been started to creditworthy clients in order to generate the income stream. The management team has established six core teams in order to make adequate efforts toward loan recovery and loan administration. This recovery team comprises four recovery units in regional levels, one unit for Kathmandu Main Office (KMO) and one unit for consortium loans. As at mid - October 2007, the Bank was able to recover Rs. 12.7 billion of loans in cash of those categorized as NPA. Loans worth Rs.3.3 billion have been restructured.

2.1.2 Concept of Commercial Banking

Little is known about banking before the middle ages. There is no unanimity among the economist about the origin of the word ‘banking’. The term ‘Bank’ is derived from the Latin word ‘Bancus’ which refers to the bench on which the banker would keep his money and records. Some person traces its origin to the French word ‘Banquee’ and the Italian word ‘Banca’ which means a bench for keeping the record of lending and exchanging of money or coins in the market place by money lenders and money changers.

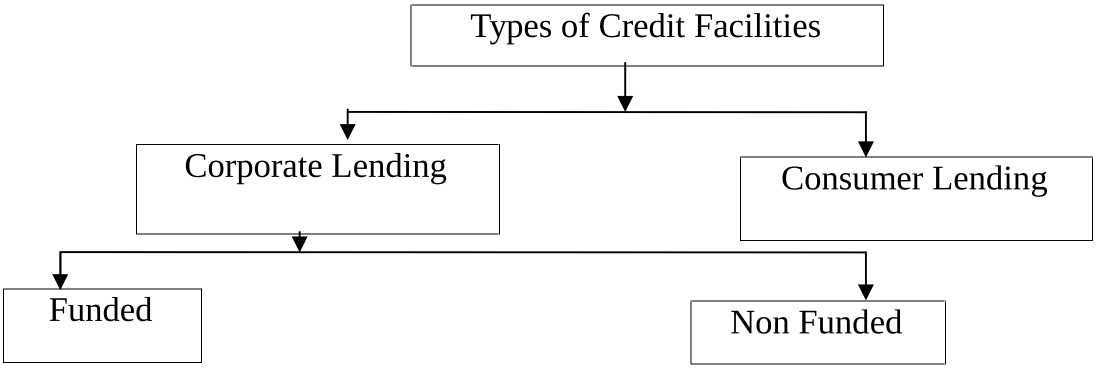
Commercial bank is a major category of the banking companies which are presently active in every financial sector. A commercial bank can be defined as an institution, which involved in the business like deposit collection, credit creation, guarantee, letter of credit, remittance business and other business. The commercial bank collects money from those who have it to spar or who are saving it out of their income and lend this money out against goods security to those who requires it. In the Nepalese context,“ A commercial bank as one which exchanges money, deposits money, accept deposit, grants loan and perform commercial banking function” (Commercial Bank Act, 1974).

BFI Act, 2063 which is popularly known as Umbrella Act for banking sector has put commercial banks in its ‘A’ class licensed institutions and has allowed to perform all the business which as a banker can do. Theses Act determines the business for these category institutions that are same as internationally recognized business of commercial banks.

The development of an economy in fact depends upon the development of the financial institutions to a substantial extent. The mission of such financial institution is significant not only in mobilizing saving but also in making investment for the development of different sectors of an economy which consequently helps in reducing poverty, raising employment opportunities and minimizing disparity in the wealth and opportunities between richer and poorer sections of the society (Basnet, 1994:18).

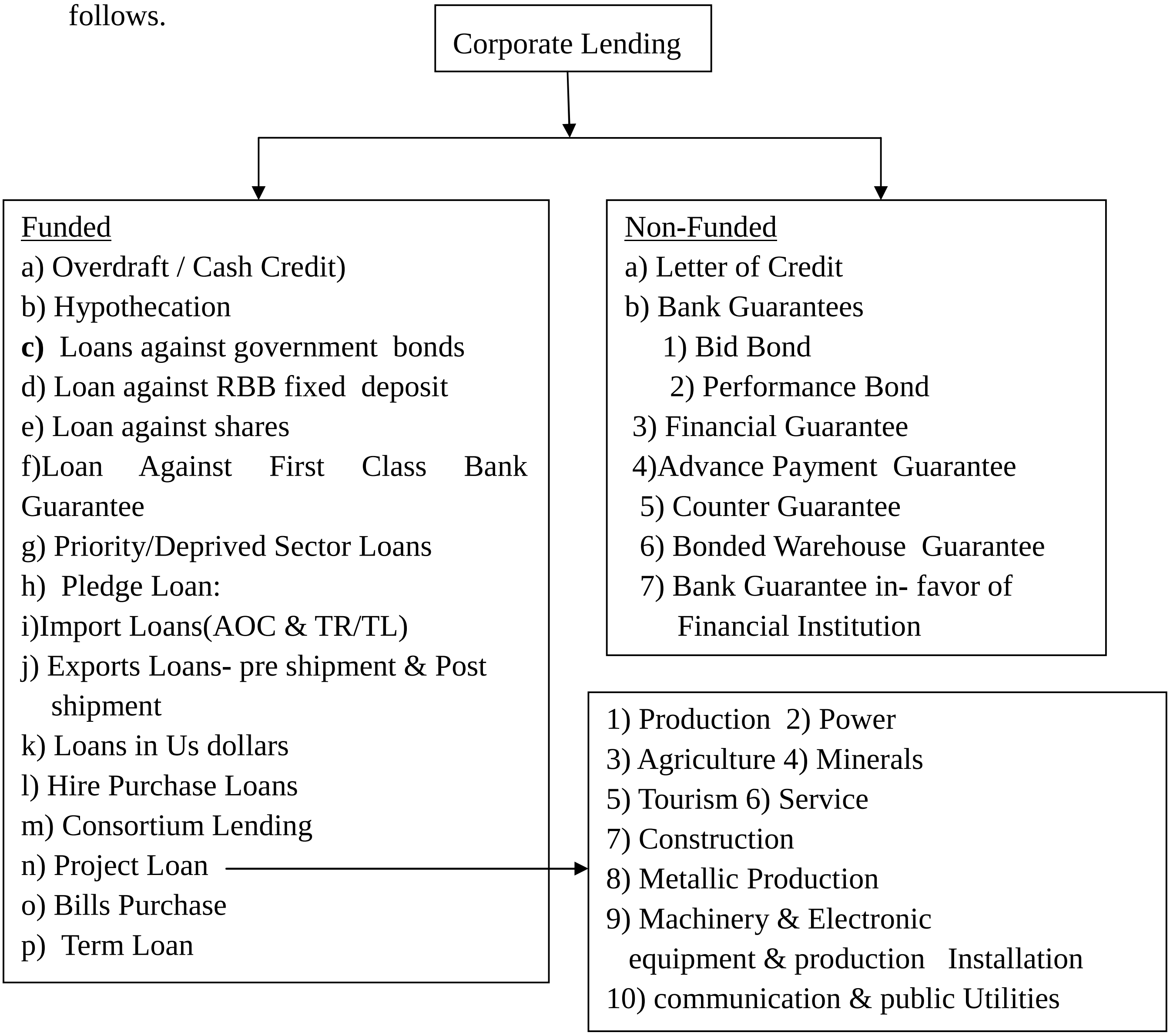
2.1.3 Types of Loan Facilities Provided by RBBL

There are different types of loan and advances banking companies are providing. On the basis of their form and nature these loan can be classified in different category. Some of them which banks part with funds are fund based loan and loans which are non fund based called non- funded or documentary loan. The loan and advances provided by RBBL can be classified as follows.



2.1.3.1 Corporate Lending

RBB provides the corporate lending products to its customers offering the funded and non- funded facilities. A brief explanation of each type of facility as follows.



(Source: RBB Credit Manual, 2060 & Bank Guarantee Manual, 2063)

Funded Facilities

The bank provides funding loan to meet the growing demand of the society through the facilities as follows.

a) Overdraft/ Cash Credit/ Hypothecation

Overdraft/hypothecation is a kind of working capital loan. The working capital is the difference between current assets and current liabilities. This type of loan is granted to the customer to meet their working capital gap having with maturity period of 1 year. Such loans are typically used by business borrowers to finance the purchase of stocks (Inventories) for resale. It is necessary to determine the borrower's working capital cycle and need of working capital. In this type of loan, the borrower can enjoy the revolving facility and renewed every year if necessary.

Eligible Parties: Trading & industrial firms, construction companies, service oriented firms that have been registered for at least six months.

Purpose: Working Capital

Term: 1 Year

Repayment : Revolving

Interest: Payable quarterly

Monitoring: Borrowers to provide quarterly:

- Aged list of account receivable
- Stock statement (inspected by bank)

b) Loan against Government Securities

Eligible Parties: No restriction

Term: The lesser of 1 Year or the maturity date of the securities

Repayment: In full by end of term unless renewed

Security: Acceptable securities issued by Government & NRB

Interest: Payable quarterly

Limit: Not exceed 90% of the face value of securities

c) Loan against RBB fixed deposit

Eligible Parties: Any customer holding RBB fixed deposits

Purpose: Any Legitimate Purpose

Term: The lesser of 1 Year or the maturity date of the fixed deposits

Repayment : In full by end of term unless renewed

Security: Hypothecation of RBB fixed deposit

Interest: Payable quarterly

Limit: Not exceed 90% of the face value of securities

d) Loan Against shares

Restricted – such loans must be approved by Central Office only.

Purpose: Any legitimate Purpose.

Term: 1 Year

Repayment: In full by end of term unless renewed

Security: Hypothecation of acceptable shares listed on the Stock Exchange

Interest: Payable quarterly

Limit: Not exceed 50% of the market value of share. The market value should be monitored every month.

e) Loan Against First Class Bank Guarantee

Purpose: Any legitimate Purpose

Term: The lesser of 1 Year or the maturity date of the bank guarantee

Repayment : In full by end of term unless renewed

Interest : Payable quarterly.

f) Priority/Deprived Sector Loans

These are special loans required by NRB. Refer to the separate Micro and small Enterprise credit manual

g) Pledge Loan

New pledge loan limits are undesirable. Existing facilities should be gradually reduced and transferred to other lending.

Purpose: Working Capital

Term: Max. Six Months

Security: Marketable goods under lock and key in go- down.

Interest: Payable quarterly.

Monitoring: Inspected pledged goods quarterly or as required.

h) Import Loans Advance on Credit (AOC)

Eligible Parties: Those firms, which are registered for import/export of the goods.

Purpose: To effect the payment of import documents subject to be accepted by opener/ or rate negotiated by opener/or directed by existing rules

Term : Maximum 45 days from the date of AOC creation or Nostro A/C debit date whichever is earlier.

- **Import Loan TR/TL**

Eligible Parties: Those importer who has already imported the goods

Purpose: To release the goods from custom

Security: Acceptable Collateral

Term: 90 days to 150 days

Interest: Payable quarterly

Repayment: In full or partial payment

i) Export Loan (Pre-Shipment/Post-Shipment)

Pre-shipment loan (PXL)/Advance on Bills for Collection (ABC)

Purpose: To facilitate the preparation of the export of goods & to sell the goods in local market.

Term: Pre-shipment 90 days or latest shipment date whichever comes first. After the shipment of goods from custom point to the Calcutta port (in case of L/C received from 3rd country) or after the delivery of goods to the transport company in case of local Letter of Credit.

Interest: Payable quarterly

Security: Acceptable collateral & authenticated Letter of Credit in favor of exporter

j) Loans in U.S. Dollars

Eligible Parties: Those firms which are registered for export of goods or having income in U.S. dollars. The U.S. dollars account must be domiciled with RBB.

Repayment: In full at maturity after receiving payment of negotiated documents. If payment is disputed the borrower's U.S. dollar account must be debited with the amount outstanding.

Security: Assignment of authenticated export letter of credit established from a third country in convertible currency.

Interest Rate: NRB refinance rate plus 2 %

Interest Payable: Quarterly or at repayment, whichever comes first.

k) Hire Purchase Loans

Purpose: To finance the purchase of motor vehicle, automobiles, trucks, buses, dozers, trippers, rollers.

Security: The vehicle is to be registered in the Bank's name plus other collateral necessary

Term: Maximum 3 years

Limit: Not to exceed 75% of invoice amount

Interest: Payable EMI amount up to maturity period.

l) Consortium Loans

While a single financial institution can not grant credit to a project because of single borrower limit or other reasons, two or more such institution may agree to grant credit facility to the project. Such kind of loan is called consortium loan**.** Financial institutions may also go on consortium financing to share the risk of project between them. The consortium loans should be referred to

Central Office for consideration.

m) Project Loan

The project loan is granted to the customer as per project viability. The borrowers himself invest certain portion to the project from their equity and rest will be financed by bank. It is a long term or a short term loan provided for the establishment of a new industrial and or service oriented project or for the expansion, modernization, merger of one or more projects in one project or split the project, purchase of project defined according to government of Nepal’s industrial policy and registered under the government’s rules and regulations. Maturities on project credit range from 12 months to as long as 5 years, depending on the size at the specific project.

Funding and non-funding facilities can be provided for the project in different sectors outlined below.

Production, Power, Agriculture, Minerals, Tourism, Service, Construction, Metallic Production, Machinery and Electronic equipment and Production and installation, Transportation Equipment Production and Installation, Communication and Public Utilities etc.

n) Bills Purchase

a) Clean Bill

Purpose: To enable a customer to cash cheques, drafts, traveler’s cheques, payment orders, etc

Term: 7 days for local cheques and instruments and 15 days drawn on external accounts.

Interest: Bills Purchase commission. If not realized within the stipulated period interest to be charged at the banks highest published rate for the period of using the funds (not applicable to travelers cheques purchased form tourists).

Repayment: After realization of payment or by debiting customers account if if not realized.

b) Documentary Bills Drawn Under L/C's

i) Foreign Bill Negotiation (FBN) at Sight

Purpose: To facilitate the exporter. It is also known as a post shipment facility

Security: Authenticated Letter of Credit

Term: In accordance with letter of credit

Interest: 15days interest as commission if not release the document after the stipulated period interest rate of export loan to be charges for the rest period.

ii) Foreign Bill Negotiation (FBN) Usance bill

Purpose: To facilitate the exporter. It is also known as a post shipment facility

Security: Authenticated Letter of Credit in favor of the borrower.

Term: In accordance with letter of credit

Interest: 15days interest + Usance period

o) Term Loan

Money lent in lump sum to the borrowers with fixed term period is called term loan. In other words, the loans with maturities period exceeding one year are called terms loans. It is principle form of medium term debt financing having maturities of 1 to 8 years. Especially, the terms loan is granted to borrowers for long period to fulfill their needs of fixed assets, i.e.to purchase land & building, machine & equipment, vehicle etc. It is repaid in equally monthly or quarterly (as per agreement between lender and borrower) installments over the period of loan.

Non- Funded Facilities

a) Letter of Credits

Letter of credit is a commitment undertaking by a bank on behalf of its customer (known as buyer/importer) to pay the counter value of goods/ service within a given date of its supplier (known as seller/exporter)according to agreed stipulated and against presentation of specific documents.

The NRB Act defines; "Letter of Credit" means an instrument issued by a bank to another bank instructing to accept cheques, draft, hundi or bill of exchange drawn by specified person up to the limit of specified amount.

Eligible Parties: Firms, which are registered for import and export of goods
Special comments: Application for letter of credit may processed by the following branches;

Main Branch Office New Road Kathmandu, branch office Biratnagar, Rani, Birgunj and branch office Bhotahity.

b) Bank Guarantees

The bank can give the following types of bank guarantee on behalf of the customer to the suppliers, Government Departments for the procurement of goods and services on credit.

1. Bid Bonds

A bid bond is issued on behalf of the customer in order to participate in tender bid; therefore it is also known as tender guarantee.

Eligible Parties: Contractor companies and suppliers of goods with JV.

Purpose:- Required by contractor as evidence to good financial status to enable them to bid on contract without the need to make a cash deposit.

Term:- Maximum Six months and as per the nature of contracts, it will be extension.

Cancellation:**-** The bid bond will be cancelled either when the contract is awarded or refused the contract.

Security:- Cash margin, fixed deposit, government securities and any acceptable collateral.

2. Performance Bonds

Performance bond is normally issued on behalf of the customer in order to perform debt, duty and service as per the terms of contract awarded through the Tender Guarantee. The guarantee is usually given for 5 to 10 percent of the total contract value depending upon the beneficiary's demand.

Eligible Parties:- Contractor companies and suppliers of goods with JV, who have demonstrated an ability to satisfactorily complete contracts on time & within budget.

Purpose:- Required by contractor as evidence of their ability to perform in accordance with the terms of contract.

Term:- Maximum Three years but make provision for extension

Cancellation:- Such bonds expire at maturity date if not extended.

Security:- Cash margin, fixed deposit, government securities and any acceptable collateral.

Special Comments: Only issue these bonds for those contractors who have proven their ability to complete contracts satisfactorily. Do not provide such bonds for in-experienced contractors or those who have a history of disputes with their customers. Bond must be returned to the Bank to ensure cancellation and receive the Bank of liability.

3. Advanced Payment Guarantees

Advanced payment guarantee is issued on behalf of the customer in order to obtain mobilization fund as per the terms of contract, therefore it is also known as mobilization /advanced payment guarantee.

Eligible Parties:- Those contractor companies and suppliers of goods with JV, the bank has already issued the performance bond for them.

Purpose:- Required by contractor as evidence of their ability to perform in accordance with the terms of contract.

Term:- Maximum Three years but make provision for extension.

Cancellation:- Such bonds expire at maturity date if not extended.

Security:- Cash margin, fixed deposit, government securities and any acceptable collateral.

Fees:- in accordance with the bank's standard tariff.

4. Counter Guarantees

A bank issues inland counter guarantee to another bank within the country where as the foreign bank on behalf of their own party issues foreign counter guarantee to the other bank of the beneficiaries' country. The collateral is not necessary to issue such type of guarantee because; it is issued on behalf of the customer under the guarantee of foreign or inland bank.

5. Bonded Ware House Guarantees

Bonded ware house guarantee is generally issued in favor of custom office on behalf of exporter to avail Bonded Warehouse facility. Bank is obligated to inform beneficiary before one month of guarantee maturity. If not informed, bank is liable to settle claim that is lodged at any point of time after the maturity.

Eligible: Those firms registered for the import of goods.

Purpose: to guarantee payment of customs duties on imported raw material.

Term: Maximum One year

Security: Cash margin.

6. Financial Guarantees

Financial guarantee is issued on behalf of the customer in order to obtain supply in credit and to obtain loan form any other banks/ financial institutions. This type of guarantee is also issued on behalf of money changers and remitting companies in order to obtain license from NRB.

Eligible Parties: Registered firm, company and suppliers of goods.

Term: Maximum One year

Security: Cash margin, fixed deposit, government etc.

7. Bank guarantee in favor of Financial Institution

NRB directives chapter 16(12) allow banks to issue a bank guarantee in favor of financial institutions in those cases where an additional loan would exceed the single obligor limit. Allowed only with board of directors approval.

Requirements:

- 3 years audited financial statements.
- Deposit account with right of offset.

2.1.3.2 Consumer Lending (Retail Banking)

RBB has introduced different retail banking products to meet the growing demand of the country's people. The retail products are as follows:

Retail Banking

↓

Housing Loan
Home Furnishing and Decoration Loan
Vehicle Loan (Private/Business use)
Education Loan
Mortgage Loan (Personal Loan)
Professional Loan
School Bus Loan
Term loan/Overdraft Loan for Schools
Loan against Gold Silver

(Source: Consumer Loan Manual of RBBL, 2063)

a) Housing Loan

Purpose: Purchase/ construction of residential /residential cum commercial building and renovation/extension/improvement of building. Swapping/ refinancing with existing financer

Eligibility: Nepalese Citizen of age not below 21 years & not exceeding 65 years by completion of the loan period

- Sufficient income to serve debt.
- Should not be black listed/defaulter with any bank.
- Sustainable source of income and EMI should covered 50% of gross monthly income and 80% of surplus monthly income.

- The land owner must be the borrower himself/herself.

Term: 5, 10 and 15 Years with interest 7.75, 8.5 & 9.5% respectively

Security: Land and building not more than 50% of distress value

Repayment: Equally Monthly Installment

Fees: Loan processing 1%, pre-payment 1% and penalty 2%

Limit: 70% of construction cost and 60% of valuated amount (in the case of purchase) as valuated by RBBL's approved valuator.

b) Home Furnishing and Decoration Loan

Purpose: Home furnishing and decoration

Eligibility: Same to housing loan.

Nature: Term of period not more than 5 years

Repayment: Equally Monthly Installment

Interest Rate: 8%

Fees: Loan processing 1%, pre-payment 1% and penalty 2%

Limit: Up to 90% of the invoice value of the material/total job estimate.

c) Vehicle Loan

Purpose: To Purchase new car/jeep/pickup van for private or business purpose. To purchase 2nd hand (used up to 3 years and which has run not more than 40,000 km) car/jeep/pickup van for private or business purpose provided the vehicle is in good condition as certified by the authorized dealer.

Eligible:

- Nepalese citizen/company registered in Nepal.
- Nepalese Citizen of age not below 21 years & not exceeding 65 years by completion of the loan period.
- Sufficient income to service debt.
- Should not be black listed/defaulter with any bank.
- Sustainable source of income and EMI should covered 50% of gross monthly income and 80% of surplus monthly income.

Term: Max.5 years for personal vehicle and 3 years for commercial use.

Security: The vehicle is to be registered in the Bank's name Guarantee/ other security if required.

Interest: 7.5% subject to be review timely.

d) Education Loan

Purpose: Tuition fees & deposit, Cost of travel for studies abroad, Textbooks, boarding/lodging expenses.

Eligibility: Student should be a Nepalese Citizen of age range from 16-30 years. (45 years incase of postgraduate Student), sufficient income of the parent/guardian to service debt, student visa for studies abroad (during loan disbursement), confirmation of admission from a recognized university or institution

Limit: Nepal and SAARC region:	Rs.20,00, 000/-
Abroad:	Rs.30,000,000/-
Minimum Ceiling	Rs.2,00,000/-

Interest: 7.5% for studying in Nepal and 8.5% for the education in abroad

Security: Sufficient security to fully cover loan amount.

Period: 5 years maximum after final disbursement.

Repayment: Equal Monthly Installments

Fees: Loan processing 1%, pre-payment 1% and penalty 2%

e) Mortgage Loan (Personal Loan)

Purpose: For Business and Personal Purpose development of residential / commercial Complex

Eligibility:

- Nepalese citizen 21years to 65 years
- Sufficient income to service debt.
- Should not be black listed/defaulter with any bank.
- Sustainable source of income and EMI should covered 50% of gross monthly income and 80% of surplus monthly income.

Nature of facility: Term, Revolving and Hybrid of the two.

Pricing: 10% subject to be review timely.

Repayment Period: 5 years and revolving

Fees: Loan processing 1%, pre-payment 1% and penalty 2% Repayment Equal Monthly Installments in the case of term & quarterly interest payable in the case of revolving facility.

f) Professional Loan

Purpose: Provides the credit facility to professional as a Doctor, Chartered Accountant, Engineer, scientist, MBA, lawyer etc.

Eligibility:

- Nepalese citizen of age 20-65 yrs, with At least 2 year's continuous experience.
- Sufficient income to service the loan.
- For self Employed entrepreneurs He/ she must be a
- Doctor, Chartered Accountant, Engineer, scientist, MBA,
- Lawyer etc having registered firm for minimum 2 years.

Limit: Up to Rs.20,00,000/-

Security: Land and building mortgage and/or pledge of equity shares/HMG bonds acceptable to Bank as per Banks rule.

Interest: 8.5% subject to be review timely.

Period: 5 years with Equal Monthly Installments.

g) School Bus Loan

Purpose: Provides School bus facility to school

Eligibility:

- The school should be registered as Company or Trust as per Government requirement. If registered as a Trust, its objectives, clause shall include "Borrowing from Bank" provision.
- The school should be running continuously for more than 3 years
- Number of students should not be less than 400 in the school.
- The school should be located in its own property or lease property with

lease period valid for not less than loan period**.**

Loan limit: Up to Rs.15,00,000/-or Financing shall not be more than 80% of net invoice value

Term: 5 years

Fees: Loan processing 1%, pre-payment 1% and penalty 2%

Repayment: Equal Monthly Installments

h) Term Loan/Overdraft Loan for Schools/College

The bank also provides the Term loan/Overdraft Loan for Schools/college as per following terms and condition.

- The school should be registered as Company or Trust as per Government requirement. If registered as a Trust, its objectives, clause shall include "Borrowing from Bank" provision.
- The school should be located in its own property or lease property with lease period valid for not less than loan period.
- Major shareholders (all having more than 10% shares) and all the trustees should stand guarantor
- The School and the promoters must confirm that they are in due compliance with all the applicable rules and regulations as per of the government.
- Financing shall not be more than 50% of the Distress value of the Collateral but can go up to 70% in case to case basis.
- Loan shall not be more than 5 years.
- For Construction of School Building (Term Loan). Financing shall not be more than the 70% of the Construction cost provided by an approved valuator.
- All legal formalities (Naksapass etc) of the construction must be fulfilled.

i) Loan against Gold and Silver

Eligible Parties: Any Citizen of Nepal

Purpose: Any legitimate purpose

Term: One year

Repayment: In full by end of term unless renewed

Security: Gold & Silver

Limit: Not to exceed 70% of the value

Interest: 10% and payable quarterly

Special Comments: Branch cashier is responsible for such loans

2.1.4 Principles of the Credit Policy

There are different principles of lending established for the sustainability of the banks and financial institutions and assurance of return. Banking companies have to examine the loan demand proposal presented to them on the basis of theses principles; if such proposal complied with these principles then only loan should be sanctioned. These principles can be listed as follows (Regmi, R.R., 2007:168).

A) Principle of Liquidity

Liquidity is always required for any banking company to meet the cash withdrawal of the depositors. It is the fund of depositors upon which banking business is dependent. So to maintain the continue faith of depositors every banking company needs to maintain a certain level of liquidity. Presently, the rate of liquidity is 12 percent of its total risk weighted assets for the banking companies having license of the class A, B, C and 8 percent of its total risk weighted assets for the banking companies having license of D class is determined by NRB directive no 1.In addition to this every banking company has to keep certain percent of amount of the total deposit and liabilities to NRB to maintain liquidity. For the banking companies having class A license 5 percent of the total deposit, for the banking companies having class B & C license 2 percent of total deposit and liabilities is determined as compulsory reserve ratio (CRR) by directive no 13 of NRB.

a) Principle of Security

Security of the loan is another necessary aspects needed to be thought seriously. For the security of loan banks have ensure the timely return of the interest and principal. The nature of the collateral, background of the customer, his capacity to pay, guarantee, etc are some important aspects in this regard. So before making the decision of lending, every banking company has to think seriously in these matters. For the security of the loan banking companies are getting different types of security from the debtor or guarantor. These, mortgage, hypothecation, pledge, assignment/ Power of Attorney Guarantee (Personal/ corporate, lien.(Movable/fixed are some ways by which banking companies make their loan secure for repayment.

b) Principle of Diversity

Concentrated lending can create the problem in banking companies once respective sector fails to perform properly. The Principle of diversity Says do not keep the all eggs in the same basket. So before making decision of lending, banking companies have to think that the concentration in lending should be avoided and diversity should be maintained. To reduced the concentration risk of banking companies and promote diversity the NRB directive no 3 make limitation. The maximum limitation of concentration in single customer, firm, company or group is 25 percent of the primary capital in fund based lending and 50 percent in non fund based lending for the banking companies having license of class A, B & C. Likewise, for the companies having class D license the limitation of 40 thousands for the micro business and 1 lakh for the micro industry not exceeding 25 percent of total lending for a single or group of customers is determined.

c) Principle of Stability

While investing in the security or providing loan on the security banking companies need to check the price stability of such securities because at the time of crises banks can make money by selling these securities. If the price rate of such securities is stable and strong, bank’s investment will remain secure, otherwise it can be risky.

d) Principle of Profitability

The main objective of the banking companies is to make profit and lending is the main source of profit for every banking company. So every banking company needs to lend their money in profitable way. When the customer for the loan presents the proposal, the bank has to examine the profitability of such proposal.

2.1.5 Lending Criteria

For every disbursement of credit, well defined and approved procedure must be followed, such well establish criteria for disbursing loan and advance is the most essential for the survive and succession of the commercial bank. These criteria are known as 5 C's, of credit needs to be evaluated, which are as follows (Garg Ashish, RBBL Souvenir, 2063:56).

- **Character**

How honest and trustworthy is the borrower. Does the borrower intention to pay? There may be borrowers who have enough resources and cash flow to repay the loan but the intention is missing. This is critical since after all it is the character of the person which prompts him to repay his due as per commitment in time. To assess the character of the borrower requires strong inter person skills to talk to the borrower and understand his mental state, make market check on his past actions with other lenders/ business dealing, business experience, lifestyle etc.

- **Capacity**

Capacity refers to the borrower's ability to generate sufficient cash flow from normal operations to meet future obligations. To the lender, this represents the primary source of repayment for a loan and is the most critical of the five Cs of credit. It needs to be analyzed whether the business has the resources (funds, income and revenue) to repay the debt. The business should be sound enough to generate profit which is sufficient for not only repayment of bank loans but also provides reasonable return for the promoters. The earning capacity of the business should be assessed on a conservative basis taking into account the various risk elements relating to the business and its external environment.

- **Collateral**

This is the second way out in case the cash flow of the business is not adequate to service the debt and loans have defaulted. With a secured loan, you pledge something that you own as collateral. It might be personal assets like certificates of deposits or stocks, or business assets like real estate, inventory, equipment or accounts receivable. What could you offer as security for the loan? Is the collateral going to increase or decrease in value? Can the collateral being offered be registered? Can the security be sold, moved or relocated, with or without the knowledge of the lender? A lender considers the ratio of the value of collateral, against the amount of loan. Collateral is considered a secondary or even tertiary source of repayment for a loan.

- C**apital**

It represents the funds retained in the borrowing entity to provide a cushion against unexpected losses. A strong equity position will provide financial resiliency to help a firm weather periods of operational adversity. Minimal or non existence equity makes a business susceptible to miscalculation and thereby increases the risk of default. A strong equity position also ensures that the owners will remain committed to the business. Capital is often looked at as the amount of money that you have invested into your own business. A financial lender or an investor may be curious as to why you are seeking financial assistance before using your own assets. Many lenders or investors also want to know if you plan on using your own money to help your business succeed when needed.

- **Conditions**

It refers to the national and local economy, the industry and the bank itself.

This is often difficult to quantify since it encompasses the entire spectrum of internal or external environment affecting the business. This includes general economic measures, interest rates, the local economy, industry risk analysis, the financial institutions current level of losses and problem credits. Financial lenders and investors are more likely to lend or invest money in a business that will succeed in today's market. Businesses with a poor financial outlook in the next five to ten years are not likely to receive financial backing.

2.1.6 Credit Management and Practices in RBBL

Credit management is a system, which helps to manage credit effectively. It is defined as the function of analyze credit risk, supply credit to customer as prescribed by NRB directives, regular follow up, regular monitoring, review/ renew and recovery the loan after maturity period. The loan management is especially focused on the management of good and problematic loan management.

A. Management of Good Loan

The good loans are also known as performing loan. It is the backbone of every commercial bank because success and growth of commercial bank largely depends upon it. Performing loans are those loans which are not crossed the time schedule of repayment and are within three months delay of maturity fall under the classification of good loan or performing loan. New credit manual 2060, Bank guarantee manual 2063, property valuation manual 2064 and different guidelines have been prepared and implemented to restore the best practices in credit management. The bank has followed various mechanisms to manage the credit effectively as follows.

i. Credit Risk Analysis & Management

The main objective of any business is to earn profit. Banking business is not exception & its main objective is to maximize the shareholders wealth.

Shareholders wealth maximization is the key point to judge the success of banking business at present.
Success is not chance, it should be planned & managed properly. Banking business is facing enormous challenges as well as risk involved in its business. The risk in banking business increased because of new competition, product innovation, increased market volatility etc. Risks are usually defined by the adverse impact on profitability of several distinct sources of uncertainty.

Credit risk is paramount in terms of the importance of potential losses. Credit risk is the risk that the customers default, that is, fails to comply with their obligation to service debt. The credit risk is critical since the default of small number of important customers can generates large losses, which can lead to insolvency. Default is an uncertain event and not known is advance in many cases. This is because the repayment schedule of loans is contractual only in a number of cases. The potential recoveries from default cannot be predicted in advance. Therefore credit risk can be divided into the three risks; default risk, exposure risk, and recovery risk.

Default risk is the probability of the event of default. It can be defined as missing a payment obligation, breaking a covenant, entering a legal procedure or economic default. Payment default is declared when as a schedule payment has not been made for a minimum period. Breaking a covenant such as a financial ratio subject to upper or lower bounds is a technical default. An economic default occurs when the economic value of assets goes down the value of outstanding debts. The economic value of assets is the value of future expected cash flows discounted to present. Such value constantly changes with market conditions. Exposure risk is generated by the uncertainty prevailing with future amount s at risk. For some facilities there is almost no exposure risk. Amortizing credit is repaid with a contractual schedule, so that future outstanding balances are known in advance except in case of prepayment. For all credit lines with repayment schedule, the exposure risk can be considered as small or negligible. However this is not a case for a committed line of credit. The recoveries in the event of default are not predictable. They depend upon the type of default and numerous factors such as guarantees received from the borrower, the type of such guarantees, which can be collateral, or third party guarantees and context at the time of default.

Credit risk management covers both the decision making process, before the credit decision is made and follow up of credit commitments, plus all monitoring and reporting process. The decision making process covers all the steps followed by credit application. The committee should think over various aspects of credit appraisal as well as 5 Cs (character, capital, capacity, collateral and condition) prior to make a decision on particular loan review functions to be made effectively on regular interval in order to eliminate default. The credit risk can be managed by: Limit system and credit screening; Risk quality and rating; Setting of loan covenants; Loan review function, Credit enhancement etc. The provision for loan loss is also a way to manage credit risk in banking business.

ii. Project Proposal Appraisal

After the loan proposal is submitted by a project, the RBBL makes a deep study and analysis on the proposal. Such study can be done in two ways. In first term, it is the study before the loan proposal produced and in the second term, it is the study after the loan proposal accepted. The bank uses the following method and mechanism to accept or not the project proposal.

a) Technical Feasibility

The bank studies the project proposal from the viewpoint of the technical feasibility. Or, before accepting the loan, the bank appraises, whether it is right or not, from the side of technical aspect. It appraises or tests and analyses the positive and negative aspects of the project, from which the present and future of the project can be known. Experts on the project do such appraisal of project. The study of technical feasibility can be done as follows;

- Location of the Project
- Type of technology
- Efficiency of plant and equipment
- Technical Competence
- Legal Aspect

b) Financial Feasibility

Generally, a bank flow loan only for a project, which earns profit. The bank invests in the industry and business only with the objective of gaining profit. The recovery of loan depends on the income generated from the project. Then the bank studies whether the project is financially feasible or not as follows:

- Cost of the project
- Production and Profit
- Cash flow statement
- Performa Balance Sheet

c) Commercial Feasibility

The commercial feasibility is the third way of appraising the proposal of project by a bank. It should appraise and analyze the present and the future of the project. The bank will not provide the loan, if it doesn’t see the project’s bright future. The bank decides to give or not to give loan after studying the commercial viability of the project. It studies the commercial aspect of a project on the following grounds.

- Prosperity of the project at present and future
- Legal aspects
- Competitive power of the project
- Attraction of the Project

d) Management Feasibility

Certainly, it is known to all that, in the lack of clear vision and systematic management, a project or the business can't be run well. A bank should keep its eyes on the management aspect too when it is going to provide loan to a project. If the management is good, the project may be successful. The competent management is necessary for a successful project. A successful project should have the following characteristics.

- Competence
- Qualification
- Experience
- Honesty

iii. Loan Administration

The credit department or loan administration department try to operate all the functions and transactions related to loan management, are as follows.

a) Proposal for Loan

After receiving the loan application, the bank should pay special attention to prepare the proposal for loan. There should be clearly state necessary things, for example the name of the proponent, his occupation, address, kinds of loan, demanded quantity of amount and the statement of securities etc.

b) Deed of Loan

The credit department prepares the deeds of loan to provide the loan facility. The deeds of loan are also called loan contract. The bank does not flow the loan without deed of loan. It contains the quantity of loan, interest rate, the date of loan recovery, the name, address & year of proponent, the date of deed of loan etc. Such deed has to get registered from the related office.

c) Securities

The Rastriya Banijya bank should accept such securities, which would provide safety to its loan. The bank should not provide loan without taking any reliable securities such as; moveable and immovable properties. The principal as well as interest will not be recovered, if it provides loan without security. Also, the bank should examine the kind and nature of the security before disbursing the loan.

d) Personnel /Corporate Guarantee

A bank can provide credit facility to a customer by taking acceptable securities from the moveable and immoveable assets of third person. The bank could not accept more than 50 percent of third person security of total loan amount. All legal process related to third person i.e. personnel guarantee/ corporate guarantee/ letter of attorney should be fulfilled.

e) Commitment Deed

A bank, after discussing, studying and appraising the loan proposal of proponent, accepts the proposal then in addition to other deeds; the bank prepares separate commitment deed to be signed by the debtors. It sets loan condition and other rules and regulation of banks to be followed by the borrower.

f) Contract of Indemnity

In the process of providing loan, the bank prepares the contract deed of indemnity too. The loan proponent should sign in it and impress his thumbs over it. Such deed or contract gives mental pressure to the debtor to pay the debt. If the debtor breaks the condition and covenants, s/he should pay the fine as well as the loan contract will be cancelled. From this contract, it forces the debtor to follow the term and condition legally.

g) Lending Documentation

In providing loan, the documentation that should be prepared on behalf of the bank and the document that should be produced from the side of debtor should be prepared according to rules and regulation. The documents, which are submitted to the bank, may be different according to the kind and nature of the loan. The documents which are prepared from the side of bank to provide the loan to the debtor are called lending documentation. All written documents should be acceptable from the aspect of law. If they are not legal, they can be cancelled by the court, which may cause a great financial loss to the bank. The bank should be prepared as the following documentations before granting the loan.

- Letter with Decision of Delegation of Power
- The deed of loan
- Documents relating to security
- Documents of moveable and immovable property
- Documents relating to insurance
- Other necessary documents: citizenship certificate, scheme of the institution or the business, certificate of registered institution, certificate of income tax registration, financial statement, memorandum & article etc.

h) Regular follow up/ Monitoring

After providing the loan facility, the bank should be monitored and follow up continuously to ensure that the terms and condition are being followed and that all required payments of principal and interest are being made as promised. The credit officer of the bank must visit the customer’s business and collateral security periodically to check the status of business & security. The RBBL is practicing weekly, monthly, quarterly, half- yearly and yearly monitoring the borrower on the basis of credit.

) Credit Audit

Credit audit is an important tool to management of loan. It gives constancy to the relation between the borrower and the bank. The objective of credit audit is to recover the interest and principal of the loan easily, the debtor could utilize the loan in his business or another related sector and verify the collateral security of loan which has fully covered the whole loan limit or not. The credit audit is taken important because the bank can know the reality about the loan it invested. The Rastriya Banijya Bank has been practiced quarterly, half-yearly and yearly auditing of credit through the central office credit department and regional office credit department. To have such credit audit performed the bank can follow two methods i.e. internal and external methods. The internal method is audit by studying all the documents to show the reality of the bank and external method is audit by field visit, both of these methods can be used according to necessity. All sort of examination conducted with objective of showing the reality of loan are called credit audit. Such credit audit is performed in the following ways;

- Verification of the loan documents.
- Examine the borrower has either followed or not terms & condition and other rules and regulation of banks.
- Field visit of business place and location of collateral security.

Review/ Renew

It is discretionary right of a bank whether to renew a loan or not. Credit renew is defined as the extended of maturity period of loan. Generally the loan is renewed for one year. The terms and condition of loans are determined by deed of loan conducted between bank and debtor while providing the loan. The debtor does not break the terms and condition mentioned in the deed. If the bank does not find any difficulties with borrower, the loan is renewed. For renewal of loan, at first, the debtor should write the application and it present to the bank. After presenting the application for renewal, the bank moves the process ahead.

The loan should be reviewed before renew. There is a printed form to review of loan in Rastriya Banijya Bank i.e. CDT 16 which is also called review proposal. The review proposal should be submitted two months prior to expiry of date. There are includes, loan limit, interest income & commission generated from such loan, status of business, collateral security, position of insurance, financial highlight, market competition, credit risk and SWOT analysis etc in review proposal. In addition the bank should review and evaluate to borrower as following matters;

- The bank should see every activities of the debtor
- Whether the loan was properly used or utilized in the purpose for which the debtor had taken the loan or not.
- Whether the debtor had paid the installment of the principal & interest from time to time to the bank or not.
- Whether there will be great loss to the bank from the renewal of loan or not.
- Whether there will be some difficulties to recover the loan with interest after the renewal of loan or not.
- Whether the debtor has submitted the financial statement showing the real picture of his transaction or not.
- Whether the terms and condition mentioned in the loan deed have broken or not.

B. Management of Problematic (Non-Performing) Loan

The problematic loan is also called overdue or non performing loan. Loan & advances falling in the category of sub-standard, doubtful and loss are classified and defined as Non-performing loan. The non performing loan means, the loan which are already crossed the repayment time schedule and 3months to one year delay of maturity date. Or, Past due during the period of three months to one year or more than one year credit is called non performing loan. Rastriya Banijya Bank has been facing the problem of huge Non-performing assets. Non-performing assets of Rastriya Banijya Bank was more than 60 percent before took over new management team. The management team has established seven core teams in order to make adequate efforts toward loan recovery and loan administration. This recovery team comprises four recovery units in regional levels, one unit for Kathmandu Main Office (KMO) and one unit for consortium loans. New loan recovery and debt restructuring manual 2061 and different guidelines have been prepared and implemented to recover problematic loan. Although, the bank has been able to reduced NPA from 60.15 percent to 27.65 percent, it is also more than international norms. The bank has followed various mechanisms to manage non performing loan as follows.

i. Monitoring the Non-Performing Loan

Recovery of the debt is a major part of banking operation. Basically in the condition of high level of non –performing loan the importance of recovery is more essential. As we know that credit creation is a major job of the banking institutions, which are involved in the job of providing loan to the needy person, also need to recover the amount with the interest for their sustainability. The term and conditions of any loans are determined by the contract between the bank and the person, firm, company or corporate body whoever is debtor. It is duty of the every borrower to pay the principal and interest of any loan that he has obtained from the bank in stipulated time. When the borrower failed to pay the loan amount in stipulated time or did not invest the amount of the loan for the concerned purpose then bank start recovery process. The loan recovery and debt restructuring manual 2061 of RBB has provisioned to monitoring the overdue loan as follows.

- The bank should issues of memorandum letter to the debtor providing information about maturity date of loan, outstanding principal and interest before one month expiry of maturity date.

- If the borrower did not pay principal and interest within the loan period, the bank should send a letter asking him to pay the debt amount as soon as possible.
- If the borrower did not pay loan after sending 2nd memorandum letter, the bank should issue a polite letter as per annex three to borrower for asking whether repay the whole loan amount or renew the loan.
- Responding this letter, if debtor present in the bank and pays the due amount then banks have to give him back his property kept as security in the bank. If the debtor shows reluctance to pay the due amount, then the bank should issues 15 days notice to borrower, guarantor and property owner for asking to repay the loan within three month of expiry date otherwise bank can auction, sell or use it in any other ways as it like.

ii. Debt Restructuring and Rescheduling

1) Loans may be rescheduled or restructured only upon submission of a written plan of action by the borrower, which is restructuring on the following grounds:

   - Evidence of existence of adequate collateral and documentation regarding loans.
   - Bank had confidence that the loans can be recovered after rescheduling. The term restructuring means to change the loan type and terms and conditions and including change in loan payment period. Likewise the rescheduling means to extend the loan payment period that have been borrowing the customer.

2) In addition to submission of the written plan of for rescheduling or restructuring of loan as above, at least 25% of accrued interest outstanding on date of restructuring and rescheduling should have been collected.

3) As per the loan recovery and debt restructuring manual 2061 of RBB, the bank can restructuring and rescheduling the non performing loan, which have fulfilled the following terms and condition.

- The business/firm/company of borrower should be operating smoothly.
- There should be still market potentiality of goods and services, which are producing by such borrowers.
- The financial position of the project should be good.
- There should be adequate loan documentation and securities.
- The management capacity of borrower should be able to compete with competitors.
- At least 25% of accrued interest outstanding on date of rescheduling or restructuring should have been collected.
- The borrower should have been submitted proper action plan for revive the business.

iii. Interest Rebate or Waiver Facility

Interest rebate or interest waiver facility is a major technique to recover the non performing loan and advances. The bank has been practicing to recover the overdue loan by providing interest rebate or interest waiver facility to its customer. As per the loan recovery and debt restructuring manual 2061 of RBB, the following condition should be maintained for interest rebate/waiver facility.

- If the business of such borrower has already closed.
- In case of insufficiency of security.
- If the bank thought, it is not possible to recover the loan through auction sale.
- In case the debtor is declared insolvent.
- In case of disappearance or die of the debtor.
- If the borrower willingness to repay the loan by selling the collateral.
- If the business has suffered from huge losses due to natural disaster.

- If the loan has fallen under bad category.

Authority of Interest Rebate/Waiver Facility

Authority	Regular	Int. on interest	Penal	Remarks
Regional Level	-	100%	100%	Up to Rs. 5 millions
Department	-	100%	100%	Up to Rs,10 millions
CEO	250000	100%	100%	
LRDR Comm.	500000	100%	100%	Unlimited

*(Source**:** loan recovery and debt restructuring manual of RBB: 2061)*

iv. Blacklisting

Black list is used as a coercive weapon by regulator to the willful defaulter of bank due. In, Nepal this is a list maintained by the Credit Information Bureau on the basis of information provided by bank and financial institutions under the provision of directives issued by NRB. The objective of the list is to pressure the defaulter for payment of due debt and provide the information to the needy person about the defaulter of the bank debt. Borrower's names are kept under the black list in the following conditions.

- If the date of payment of the principal or interest exceeds one year
- If the misuse of loan and advances is proved.
- If the misuse of collateral property by debtor is proved.
- Incase of disappearance of debtor.
- If debtor is declared as insolvent under the prevailing law.
- In case of not recovery of the entire amount even after the completion of the court procedure of recovery.
- In case it is proved by the court that the person is involved in the forgery or attempt of forgery of negotiable instruments, currency or different electronics cards
- Incase of issuing the cheques which is not honorable or without having sufficient balance in account.

v. Auction of Collateral Security

If the borrower fails to repay their loan, the RBBL sends memorandum letter and does timely supervision of lending project. After this situation banks takes legal provision for recovering loan amount by selling collateral security through auction or any other legal procedure. Bank publishes the borrower's name with the title of collateral in local and national news papers for the payment of loan within 35 days.

Provision for Auction of Collateral

The bank publishes notice in different national news papers for the auction of collateral, if failure to recover loan amount itself or by the borrower. The bank has decentralized the auction power for different level of officials, which are given below.

Condition	OS loan limit	Authority
If all due amount principal with interest recovered.	Un limited	Branch level
If all the due amount not recovered	Up to 5 Million	Regional, department level & MBO
	Up to 30 Million	CEO
	Up to 80 Million	LRDR Comm.
	Above 80 Million	BOD

(Source: loan recovery and debt restructuring manual of RBB: 2061)

vi. Provision for take over the Collateral Security

If principal and interest can not be recovered through the auction sale of collateral or in case no one offers a bid in an auction held by an institution, the bank has authority to take over the ownership of such assets. The bank has decentralized the security take over power for different level of officials, which are given below.

S.N.	Loan limit	Authority
1	Up to 5 Millions	Regional and departmental level

2	From 5 to 30 Millions	Chief Executive Officer
3	From 30 to 80 Millions	LRDR Committee
4	Above 80 Millions	Board of director

(Source: loan recovery and debt restructuring manual of RBB: 2061)

vii. Debt Recovery Tribunal (DRT)

For the speedy recovery of the due debt of banks and financial institutions with their borrower, which are not paying the loan within stipulated time the recovery of debts of bank & financial institutions act, 2058 makes provision for establishment of Debt Recovery Tribunal. According to the section 4 of the act, the tribunal comprises three persons from law, banking and account sector. The law member shall be the chairman of the tribunal and his absence the banking member shall chair the tribunal. The government of Nepal by a notification in the Nepal gazette can determine the territorial jurisdiction of the tribunal and give power to originally trial and settle cases relating to debt recovery. Not all the cases related to recovery can be referred to the tribunal. The bank can be referred file to the Tribunal if the following condition to be fulfilled.

- The principal debt amount should be not less than five hundreds thousands.
- The bank has done adequate discussion monitoring, issued memorandum letter with the borrower to settle the debt.
- The bank has been already practiced restructuring/ rescheduling and other agreement with borrower to recovery the due debt.
- The borrower has already black listed or under the process of black listing. The bank auctioned the collateral but either no one offers a bid in an auction held by an institution or the bid amount not acceptable for bank.

2.2 Review of Relevant NRB Directives

Nepal Rastra Bank is the bank of the bank or the chief of all banks operating in the country. It controls, supervise, regulates the functions of commercial banks and the financial institutions. That’s why NRB issues several directives to supervise and control the functions of commercial banks. Only the directives related to credit aspect are given here (Nepal Rastra Bank, Unified Directives, 2062:1).

2.2.1 Directives related to Minimum Capital Fund

The NRB directives no 1 makes detail provisions about the capital fund and its ratio for different category licensed banking companies. Following ratio is determined as minimum capital fund ratio from the economic year 2062/063.

Organization	Capital fund shall be maintained on the basis of risk weighted assets (in percent)	
	Core Capital	Capital Fund
A,B,C Licensed	6.0	12.0
D Licensed	4.0	8.0

(Source: Nepal Rastra Bank, Unified Directives, 2061:1)

- **Classification of Capital**

The capital is classified in two groups, which are as follows:

a) Core Capital: The core capital includes the following.

1. Paid up Capital
2. Share Premium
3. Irredeemable Preference share
4. General reserve fund
5. Retained earning
6. Capital redemption reserve
7. Capital adjustment fund
8. Other free reserves

b) Complementary Capital: Complementary capital includes the following;

1. General loan provisioning
2. Assets revaluation reserve
3. Hybrid capital instruments
4. Subordinated term debt

5. Exchange equalization fund
6. Provision for the loss in investment & investment adjustment

Capital Fund Proportion

Risk weighted assets are classified in two group. One is on balance sheet assets and second is off balance sheet assets. Formula for the calculation of capital fund proportion is as follows:

$$\text{Capital Fund Proportion} = \frac{\text{Core Capital} + \text{Complementary Capital}}{\text{Sum of Total Risk Weighed Assets}} \times 100$$

Sum of total risk weighed assets = On Balance Sheet Total Risk Weighed Assets + Off Balance Sheet Total Risk Weighed Assets

On Balance Sheet Assets

(Cash balance, gold balance, balance on NRB, Investment in Government & NRB bond, fully secured loan against fixed deposit receipts & government bond, balance at foreign bank money at call, balance at local licensed bank, investment on share bond &debenture, loan & advances and bills discounted, fixed assets, interest receivable, other investment in international rated bank etc.)

Off Balance Sheet Assets

(Bills collection, forward foreign exchange contract, letter of credit, Guarantee issued against counter guarantee of international rated banks, bid bond, performance bond, advance payment guarantee, financial guarantee, other guarantee, Irrevocable Loan Commitment, Contingent Liabilities on Income Tax, All Other Contingent Liabilities etc.

2.2.2 NRB Directives relating to Credit Classification and Provisioning

Classification Of Loan	Loss Provisioning
Pass	1%
Sub-standard	25%

Doubtful	50%
Loss (Bad)	100%

(Source: Nepal Rastra Bank, Unified Directives, 2061:8)

- **Pass Credit**

The credits which are 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**

Sub-standard loan means, the loan which are already crossed the repayment time schedule and 3-6 months delay of maturity date. Or, Past due during the period of three months to six months credit is called sub-standard category loan.

- **Doubtful Loan**

All the loan and advances which are past due for a period of six months to one year shall be included in this category.

- **Loss (Bad) Loan**

All loans and advances, which are past due for one year or a period of more than one year as well as advances which have least possibility of recovery or considered unrecoverable and those having thin possibility of even partial recovery in future shall be included in this category. Or, in other words, those credits which are not recovered yet after 1 year from maturity date are known as bad credit. Loans and advances falling in the category of Sub-standard, Doubtful and Loss are also defined as Non-Performing Loan.

Provision for the non performing loans which are rescheduled or restructured is 12.5 percent. Likewise, the Directive makes provision for the provisioning of the non banking assets of the banking companies which they accept during the process of recovery or auction. The rate of provisioning will be 25 percent in the year of acceptance, 50, 75 and 100 percent respectively in the later years until such assets is sold.

- **Additional Arrangement In Respect of "Pass" Loan**

Loans and advances fully secured by gold, silver, fixed deposit receipts and government of Nepal securities shall be included under "Pass" category. However, where collateral of fixed deposit receipt or government of Nepal securities or NRB bonds is placed as security against loan for other purpose, such loan has to be classified on the ageing. Loans against FDRs of other banks shall also qualify for inclusion under the pass loan.

- **Additional Arrangement In Respect of "Loss" Loan**

Even if the loan is not past due, loans having any or all of the following discrepancies shall be classified as "Loss"

- No security at all or security that is not in accordance with the borrower's agreement with the bank.
- The borrower has been declared bankrupt.
- The borrower is absconding or can not be found.
- Purchased or discounted bills are not realized within 90 days from the due date.
- The credit has not be used for the purpose originally intended.
- Owing to non recovery, initiation as to auctioning of the collateral has passed six months or the recovery process is under litigation.
- Loans provided to the borrowers which is included in the blacklist of credit information bureau.
- The business/projects are not operating.
- If the credit card loan has not written off within 90 days from expiry date.

- **Additional Arrangement In Respect of Term Loan**

In respect of term loans, the classification shall be made against the entire outstanding loan on the basis of the past due period of overdue installment of the loan.

2.2.3 Directive relating to the Single Borrower

Nepal Rastra Bank has issued the directive regarding the single borrower limit. The main purpose of the directives is to divers if the commercial banks' lending rather than focusing to the particular borrowers. The directive regarding single borrower limit is a follows:

- **Limit on Credit and Facilities**
  - Funded based credit and advances cans be issued up to 25% (upper limit) of core capital to a single customer, firm, company and group related customer.
  - Non funded based facilities (off-balance items) can be issued up to 50% of core capital to a single customer, firm, company and group related customer.

- **Group of Related Customer**

a) That type of both company which has established with taking 25 percent or more share of another company

b) Member of board of directors of company, share holders of private limited company or, such member and share holder with others in a single house, even if husband, wife, son ,daughter in law, unmarried daughter, adopted son adopted un married daughter, father, mother, step mother, brothers and sisters whom be should look after. And the above members personally or combined take 25 percent or more share of another company.

c) Member of board of directors, shareholders and other relatives as stated in serial no ‘b’ has taken less than 25 percent share of the company solely or combined but have control on the company by the following ways:

- Being president of board of director of the company
- Being executive director of the company
- Nominating more than 25 percent of members of BOD of the company.

d) Firm, company and members as a related group

e) If cross guarantee is given by one company to another company.

2.2.4 Directive relating to the Investment in Shares and Securities

- Banks should prepare written policy relating to investments in the shares and securities of other organized institutions. Such policies should be implemented only under the approval of the board of directors.
- There should be no restriction as to investment by the banks in the securities of Nepal government and securities issued by NRB.

Arrangement relating to investment in shares of institutions

- Bank should invest in the shares and securities of organized institutions, which are already listed in the stock exchange. But, whether the bank has invested that shares and securities, which are not listed in stock exchange or that shares and securities, could not be listed in stock exchange within one year, the bank should provisioning equivalent to the whole amount of such investment be provided and credited to investment adjustment reserve. The outstanding amount in such reserve should not be utilized for any other purpose till the said shares and securities of the organized institution are listed.
- Bank may invest in shares and securities of any one organized institution not exceeding 10 percent of own core capital and the cumulative amount of such investment in all companies not exceeding 30 percent of core capital. If any amount of investment made in excess of this limit, the excess limit should be deducted from the core capital fund while calculating the capital fund. But the banks may invest in shares and securities of that organized institutions which has financial interest not exceeding 20 percent of core capital of the bank. For the purpose of calculation of capital fund, the all amount of such investment in shares and securities should be deducted from the core capital.

Additional Arrangement in Respect Investment

Bank should not invest in any shares, securities, hybrid capital instruments issued by any banks and financial institutions licensed by NRB.

2.2.5 Directive related to Credit Information Center

As the Credit Information Center Ltd, which was previously under the Banker's association, is now registered as a public limited company with the office of the company register, the provision for credit information and black listing issues with the objective of directing the credit flow of the banks and financial institution towards a right and appropriate direction has been defined accordingly.

2.3 Review of Financial Sector Reform Program

In many developing countries, financial sector reforms have been pursed over the past two decades as part of the structural reform programs aimed at promoting growth and financial stability. However, reform, of financial systems in Nepal started later than those in many Asian, African and Latin American counties.

At, present financial system of Nepal has been suffering from so many problems. It has been observed that solving a particular area will not be enough to boost up the system to achieve sustainable economic growth, generate adequate employment opportunities and maintain efficient and sound system as needy by economy. There are some many issues and those need to be addressed in consolidated manner for the overall development of the system. The agenda that need to be addressed are poor legislation, weak and corrupt institutional environment, lack of healthy competition, poor service quality, poor governance, traditional corporate culture, weak regulatory & supervision capability and inadequacy of supportive institutions required for the financial system. Since Nepalese financial system has been dominated by the banking sector & itself has also been suffering of aforementioned problems. To tackles these problems, some banking reform program was also initiated in the past.

The article title "Corporate Governance and Financial Sector Reform in Nepal by Sadhana Upadhy, was published in Nepal Rastra Bank Samachar, Mrs.

Upadhya states that” In case of Nepal, financial sector reforms have been introduced and concerted efforts have been made to transform financial sectors inviting private sector as well as foreign investment. Over the years, new financial institutions have been emerged in the private sector and a great achievement has been sought with the foreign investment. During 1990s, the reform process was made a part of the policy. This reform was found essential with the emergence of financial trouble in Nepal’s two largest public sector financial institutions. Highly unsatisfactory performance of two bank’s (RBB and NBL) and reports of ramparts irregularities in a number of financial institutions have prompted NRB to initiate appropriate actions encouraging transparency and accountability.

“Much has been said and written about the financial sector reforms targeted at improving the performance of Nepal Bank Limited, Rastriya banijya Bank and the Nepal Rastra Bank through the support of the World Bank”.

2.3.1 Concepts of Financial Sector Reform Program

The terminology “financial sector reform” means liberalization of the financial sector by putting the private sector rather than the government in charge of determining who gets credit and at what price. It also means establishing a system of prudential supervision designed to restrain the private actors to make sure that their decision will also broadly in the general social interest. Thus the financial sector reform is to establish a modern financial system capable of acting as the “brain of the economy” and allocating the economy’s savings in the most productive way among different potential investments. However, the liberalization without supportive arrangements for the proper supervision can easily lead to anti social behavior by bankers of the forms referred to as “looting and gambling”. This provides a paradigmatic example of the more general proposition that establishment of a market economy requires a change in the role of government rather than the elimination of all government action, with the new role being one that focuses on providing an environment within which the private sector can act effectively.

2.3.2 Objectives of the Financial Sector Reform Program

The objective of financial sector reform program in Nepal is to develop a competitive, efficient and healthy financial sector. Besides, the program is also expected to assist in creating a sound, prudently managed and well supervised financial sector in Nepal, which is competitive, dynamic and capable of contributing towards macro economic stability and more rapid and sustained economic growth. The financial reform program is expected to contribute immensely toward promoting economic growth by mobilizing and allocating resources efficiently, developing capital markets for attracting long term productive investment, improving domestic saving and investment levels. The reforms are instrumental to improve the health of financial system through the strengthened legislative, managerial and corporate governance.

Hence, financial sector reform is inevitable for the growth, efficiency, stability and sustainability of the economic and financial systems and supporting poverty reduction goals. It is learnt from the Asian crisis that adverse shocks generated in the financial system can be easily transmitted to the loss of employment and income and thus can worsen poverty situation. This implies that sustainable achievement of poverty reduction goal calls for financial stability as well.

The main objectives of the financials sector reform is to create sound, stable and healthy financial system, broaden and deepen the financial system in the economy, enable the policymakers to fully and timely avail sound financial statistics , canalize adequate resources on lowest possible cost to promote sustained and broad based growth momentum, build the institutional capacity to identify and tackle the problems in the financial system, increase the autonomy and capability of central bank and other regulatory institutions for making and implementing their respective policies.

The other objectives of the financial sector reform is to ensure supervisory and regulatory functions effective, improve and update the legal and judicial framework for the financial system and drastically reduce the non performing assets, improve the financial intermediation efficiency and build a strong and stable financial system for promoting economic growth and reducing poverty. But improving the regulatory framework cannot be under taken in isolation from the rest of the elements of the reform process. Weakness in the balance sheets of banks and operating procedures must be identified and remedied to enable them to respond better and comply adequately with the requirements of a stricter regulatory regime. Since banks are corporative entities, corporate restructuring must also take place. This means improving the underlying legal and institutional frameworks for financial and operational restructuring. The bottom line of for all these reforms is to prevent future crises by upgrading the risk management capability of banks and the supervisory authorities.

2.3.3 Project Design and Components

The financial sector reform program, has taken in mind the three weaker dimensions of the Nepalese financial system to be developed and improved first. In view of that, the major components of the projects have been prepared and designed by the government. Accordingly, the financial assistance has been utilized on those three major components, which are as follows:

- Re-engineering of Nepal Rastra Bank
- Restructuring of RBB and NBL
- Capacity building in the financial Sector

2.3.4 Restructuring and Privatization of RBB

The largest commercial bank, RBB has potentially important role-play in the economy to enhance the healthy competition. The political intervention, weak management, poor financial information system and ever-growing bad loan made tremendously impacted on financial health of this bank in the past. Recent auditing work reveled a high negative net worth, weak internal control and information system and poor internal financial management. Thus it was advised to employ technical support to assist in developing a strategic plan for the implementation, such as downsizing, privatization, splitting, merger, acquisition etc. In the same way, technical support was expected to implement any strengthening work identified by the reform proposal. The KPMG/Barents reports recommended that immediate steps from this bank. This included “(a) issuing a statements of government commitment to depoliticize the banking system (b) bringing in management team to take over all steps of banking operation; and (c) ultimately privatizing the bank to good name ‘fit and proper’ buyers”. After the completion of reform program, the bank will be working on sound financial and operational grounds.

During the tenor of management contract the following achievement has been revealed:

- The financial analysis was completed in time and the report was submitted to the NRB on May 1, 2003.
- On the accounting and auditing fronts, the management team prepared Zero-Based Budget Plan for the FY 2002/03 and FY2003/04. A strict budget monitoring system has been introduced and reinforced the best practices in the bank. A Budget Procedure Manual was prepared on May 27, 2003 and implemented in the bank.
- A new Chart of Accounts complying with the International Accounting Standards has been prepared and implemented. A new accounting manual has also been prepared and implemented.
- The credit management aspects are also improving. New credit policy guidelines has been prepared and implemented to restore the best practices in credit management. New business areas have been explored and new lending has been started to creditworthy clients in order to generate the income stream.
- T

  he management team has established seven core teams in order to make adequate efforts toward loan recovery and loan administration. This recovery team comprises four recovery units in regional levels, one unit for Kathmandu Main Office (KMO) and one unit for consortium loans. As at mid- November 2007, the team was able to recover Rs. 13.7 billion of loans in cash of those categorized as NPA. Loans worth Rs. 3.3 billion have been restructured.

- Significant improvements have taken place on HR development fronts. Organizational restructuring and functional restructuring have been completed. In order to right size the bank, the employees' need assessment study was completed and the number of branches required for the bank for operation had been identified. Accordingly, branch rationalization as well as the VRS was adopted. The bank, which had altogether 5422 employees at mid July 2002 has been reduced to 3140 at mid October 2007 through launching of various phases of VRS scheme under Phase II..
- Departmental actions were initiated for the employees involved in fraudulent and dishonest activities in the past. Promotion system was initiated for good performers.
- The new staff bye law has been prepared and implemented which is opened up new avenues for faster promotion and HR development.
- The bank has prepared a comprehensive IT plan in order to install modern IT / MIS system in the bank. The procurement aspect has been completed. Computer hardware and software are being received and tested in the bank. As of Jan/Feb 2008, 78 branches of RBB are computerized within few months. Committees regarding computerization process such as IT Executive Committee, IT Steering Committee, Data Security Committee etc are formed. Trainings to various level staffs in Regional Offices, Branch offices are conducted. Similarly Regional Workshop on IT held for non IBIS branches.
- The financials of the RBB are also improving after the initiation of the restructuring activities. The bank was making a loss since the last few years and even in FY 2002/03 it had made a net loss of Rs. 483 million.

The loss position is no more in the bank now. The bank has been able to make a net profit of Rs. 1040 million, Rs 1323 million and Rs 1591& Rs.1697 million in FY 2003/04, 2004/05 and 2005/06 and 2006/07 respectively.

- The level of NPA of the bank has come down to 27.65 percent in Mid-July 2007 from 60.15 percent in Mid January 2003.
- During the period, total good loan has increased by 6 billion with improved credit portfolio concentration across the diversified sectors (RBBL, Anniversary Souvenir: 39th, 40th and 43th).

2.4 Review of Journals / Articles

Under the heading of credit management different articles can be viewed from various newspaper, economic journals and magazines.

"A study of deposit and credits of commercial bank in Nepal" the credit deposit ratio would be 51:30 percent, other things remaining the same, in 2005 which was the lowest under the period of review. So the commercial bank should try to give more credit entering new field as far as possible. Otherwise they might not be able to absorb even its total expenses" (Shrestha, 2045: 12).

"Nepal Rastra Bank has issued directives to all commercial banks and financial institution ensuring transparency during loan disbursement. As per provision, all commercial banks as well as financial institutions are now required to disclose the name of loan defaulters in every six months. Until now there was no such legal system of disclosing the loan defaulter's name. The new directives have also barred the financial institutions from lending any amount of blacklisted defaulter and his family members. The Credit Information Bureau can blacklist the firm, company or clear the debt within stipulated period. As per the set criteria for blacklisting, the CIB would monitor those individuals and companies that have the principle loans of above Rs. 1 million. If the creditors fails to clear the amount within time, or is found missing the loans among others, the creditors can be blacklisted (Lamichhane, 46th Anniversary of NRB:145).

"Budget 2006/07: A long way to go" Nepal's financial sector seems to be swimming in troubled waters for sometime now, not withstanding the past initiatives by the government and Nepal Rastra Bank.

The major problem stalking the Nepali banking sector is non performing assets that stand close to a staggering Rs. 29 billion as a whole, which is above all attributed, to slow implementation of policies and directives issued by both the government and NRB. Of the total banking sector's loans worth Rs. 159796 million to different sectors so far, 18.19 percent goes under non performing loans, according to NRB sources. Nepal Bank Ltd and Rastriya Banijya Bank occupy the lion's share in these NPLs. As per international norms, NPA level should be maintained below 5 percent. But NBL and RBB have NPAs far in excess of this. RBB recently has reduced its NPA to 50 percent from its earlier 57 percent. Similarly, NPAs at NBL run into 43 percent. If this Rs. 29 billion in NPL is not recovered, it would obstruct all economic activities in the country. The writer suggests that the absence of an Assets Management Company has not helped in the battle against NPAs (The Himalayan Times, June 23, 2006).

"RBB reducing Losses" The new management team has broken its silence after nearly 11 months of taking the management of the bank in its hand. And as the team revealed at a press conference held in middle of December, the annual operating loss of the bank has been reduced to Rs.730 million in the fiscal year 2002/03 as compared to Rs. 1230 million in 2001/02. Basu Dev Ram Joshi, RBB board chairman sounded jubilant announcing that the annual operating loss is projected to come down to mere Rs. 20 million in the current fiscal year that is ending in mid-July 2004.

Most interesting information revealed by RBB senior executives on that occasion is perhaps regarding the reduction in NPA. During the nine months, the bank recovered Rs. 2300 million as principal and interest from the loans were classified as NPA. Sounds fantastic? But RBB executives say it is not that fantastic reason. Not all of the NPA was really bad. The money was no being recovered in the past just because there was no follow up made on the loan to realize it. The culture seemed to be that of “lend and forget”. More importantly, the NPA size has gone up from Rs. 14,889 million as of mid- July 2002 to Rs. 15,531 million as of mid October 2003. But RBB executives say it was due to more stringent requirements introduced recently under the prudential directives of Nepal Rastra Bank (New Business Age, January, 2004:21).

“RBB launched Apartment Loan” With the changed market trend or joint residence in Kathmandu valley, RBB has launched Apartment loan. As per this new scheme the customers may obtain this loan either to build a new apartment or to purchase the apartment in the security of the same. The loan amount of which would be up to 70 percent of the proposed apartment and the interest rate for this loan would be minimum 7.5 percent on the basis of repayment period of 5-15 years. In this first phase, this loan will be disbursed to the clients aspiring to purchase apartment from the projects financed by the bank based in Kathmandu valley. The project financed by the bank includes Guna Colony (Stupa Housing Sinamanal), Prestige Developers Chandol, Kohinoor Hill Housing Balkumari (RBB News Letter 22, May 2008).

Yogendra Regmi in his article “Identification of Problem Loan” has tried to highlight different kinds of risk in banking business. Credit risk, Liquidity risk, operational risk and security risk are main risk for a bank. As stated by the writer it is possible to identify loss and doubtful loan on basis of financial indicator.

1. Debt Servicing ratio	=	Less than 1:1
2. Status of repayment	=	Past due more than 30 Days

3. Situation of the Indus.	=	Declining industry & business activities high competitor and low profitability

4. Financial Position

Net Profit Margin	=	Very Low
Current Ratio	=	Les than 1:1
Net income/ equity ratio	=	Less than 5%
Leverage	=	More than 4:1
Cash cycle	=	More than 180 days

(Regmi, Nepal Rastra Bank Samachar Baisakh, 2062:72)

2.5 Review of Thesis

Rastriya Banijya Bank is only one state owned commercial bank of Nepal. There are many studies related with commercial bank. But, every study has been conducted regarding the private sector and joint venture commercial bank. A few studies were conducted on the NRB role to develop the commercial banks and related to the NRB Directives. In this thesis an attempt was made to review the type of thesis which was related with NRB Directives, Credit management, lending practices, investment policy, loan loss provisioning and classification of the loan.

Sangram Waiba (2006), he has conducted thesis on the topic “A efficiency of lending policy of commercial banks with respect to Kumari Bank and Machhapuchhre Bank Ltd” The basis objectives of his thesis are:

- To assess the lending procedure adopted by selected commercial banks.
- To explore the lending efficiency of selected commercial banks
- To examine the causes or inefficiency in bank lending.
- To analyze the relationship of various components of bank lending & net profits of selected banks. .

Major Findings were

It was observed from that the trend of both performing & non performing loan was fluctuating. There was no set of against non performing loans during the study period.

- Findings shows that non performing loan has significant effect in beginning years of the study period on both bank but this effect was dropped in following years. It indicates that both banks suffered earlier cumulative effect in profitability.
- It was found from the result that lending efficiency of KBL was found better as compare to MBL in many situations. KBL has managed successfully to convert their liability into assets. KBL is successful to collect cheaper deposit than MBL. KBL has low interest expenses to total expenses than MBL. KBL has sound and better liquidity position than MBL.
- The correlation coefficient of outstanding loan to non performing loan, deposit, & net profit were found -0.275, 0.999 & 0.938 in MBL & 0.860, 0.992 & 0.985 in KBL. The result shows that outstanding loan has no significant effect on non performing loan in MBL where as there was highly significant effect in KBL. Similarly there was highly significant effect of loan on deposit in both banks. In the same way, the outstanding loan had also significant effect on net profit in both banks.
- The findings show that there are so many causes for lending inefficiency. The lending policy effectiveness for floating loan resulted that relationship of client with top authority has identified as a major determinant for floating loan for both banks.

Recommendations

- There was no set of policy applied against Non-Performing Loan during the study period in both banks because the trend of NPA Loan was fluctuating. Thus it is suggested to the bank management to follow effective policy against NPA Loan.

- The trend analysis of non-performing loan and profitability was found insignificant in both banks. It is recommended to the bank management to analyze earlier effects on profitability and non-performing loan and make them effective.
- The effect of non-performing loan, deposit and net profit was found relatively insignificant in both banks. It is suggested to analyze the various reasons of insignificance.
- There are many internal as well as external reasons for lending inefficiency. The management should recommended analyzing many other factors that directly or indirectly effects on lending policy of banks.
- Internal system, strategies and major functions should be brought to improve existing lending policy system.

Shrestha (2004), has conducted a study on “Loan management of agriculture development Bank”. His research objectives are:

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

Major Findings

- Finding from loan disbursement, the total loan investment of the development financing increase from Rs. 4.43 billion in 2055/056 to Rs.8.86 billion in 2059/060 registering an annual growth trend of 12.9 percent.
- From loan collection, total collection of the development financing increased from Rs. 3.50 billion in 2055/056 to Rs. 6.96 billion in 2059/060with annual growth of 12.8 percent.

- The total outstanding loan of the development financing increased from Rs. 9.76 billion to Rs. 16.67 billion in same period annual growth of Rs. 10.3 percent.
- Average loan collection to outstanding is strong in western region compared to the other region but weak in eastern, mid western and far western region; where as average collection of loan to disbursement is stranger in western region and weak in far western region.

Recommendations

- Loan recovery is sticky in the case of individual farmers and smooth in the case of institutional organization. It is recommended that a study group must set up to look into the issue in all aspects and increase in loan recovery in general and that from the individual farmers in particulars.
- In the case of borrowers who are able but not repay their due loans, the bank must examine the borrowers past repayment records and corrective action must be taken immediately. In the case of borrowers who are really unable to their loans, repayments schedule must be rearranged after scrutinizing the exact cause of inability.
- Poor recovery is the cause of weak supervision, high interest and other charges laid by the bank, political interference and poor liquidity of the borrowers. So, it is recommended that the recovery policy and procedure must be exercised strictly political interference and pressure must be neglected.
- Bank should give attention to the people who have low income and provide such facilities from which more people are benefited.
- Political and other pressure should be minimized. The borrower selection criteria should implement strictly and the needy should get priority in getting loans.

Dinanath Tiwari (2006), he has conducted the research on the topic of "A case study of Credit Management of Himalayan Bank Ltd" He covered eight years data. From 2051/052 to 2057/058 and his study mostly based on secondary data.

The specific objectives were:

- To examine the impact of deposit in liquidity.
- To analyze the portfolio behavior of lending & measuring the ratio of loans & advances made in different sector.
- To examine the assets management efficiency & profitability ratios.
- To analyze the lending efficiency of the bank.

The major findings observed in his study were as follows:

- The current ratio of the bank shows the fluctuating during the study period. Though the optimal standard of current ratio should be 2:1 for convention measure of liquidity, it is not appraisable or banking business so analyzing over the study period
- Credit to government enterprises to total credit ratio is variable in nature. It is not consistent and this behavior is not affected by NRB rules. The credit to private sector credit ratio shows the high intensity to bank invests in private sector. Credit to bills & discounted to total credit has shows low intensity to invest in credit bills paid & discount some how, the bank has high position to supply credit in this sectors.
- The total assets to total liability ratio shows the more variable in nature and the better performance of assets management in the latest year. Also the loan & advances to total assets ratio shows the better performance in the latest year than previous. The loan & advances to total deposit ratio is slightly lower position than standard measurement. Investment to total deposit ratio shows the less consistency in nature.
- The interest income to total income ratio shows the dependency nature in fund based activity. The interest income to interest expenses ratio in

higher. The total income to total expenses ratio shows the more consistent in nature and overall predominance of bank is satisfactory. –

- Loan loss provision to total loans & advances ratio shows the less consistency in nature. The overall decrease ratio indicates the decrease in volume of non performing loans. The decrease in non-performing loans to total loans and advances ratio shows the better performance of HBL in latest year.

Recommendations were

- The liquidity position of the bank should more positive than at present. If the bank follows strictly the NRB directives it will help to reduce credit risk arising from borrower's defaulter leak of proper credit appraisal, defaulter by black listed borrowers & professional defaulter.
- Even loan loss provision and non performing loan decreasing, the bank should adopt the sound credit policy. It helps them to decrease the loan loss provision and NPA loan. The recovery of loan is most challenging job in the bank. Therefore the bank must be very careful in strengthen credit collection policy.
- According to NRB directives, all the commercial bank should increase the capital up to Rs. 1000 million by 2063 BS. HBL is also suggested to increase its capital.
- NRB and Government have encouraged the joint venture banks to expand the banking services in rural areas without making unfavorable impact in their profit. HBL is recommended to expand its branches and provide banking services and facilities to the rural communities to accelerate rural areas economic development.

Hiramani Niraula (2006), has conducted research work on topic of "A study on Loan Classification & NPA management of Rastriya Banijya Bank" for partial fulfillment of MBA, submitted to the central department of management, Tribhuvan University.

The objectives were;

- To find out loan classification and its impact on the profitability of the bank.
- To study implementation of NRB directives on classification of loans and loan loss provision.
- To study relation between loan classification and loan loss provision.
- To find out factors affecting to accumulation of Non- performing assets.
- To analyze the impact of Non-performing Assets on financial position of the bank.
- To find out proportion of non performing loan on total assets.
- Current situation of management reform and improve financial position of the bank.
- To study relation between FSRP and NPA management.
- To suggest the improvement of financial infrastructure of the bank.

Major Findings

- The analysis of performing loan to total loan and advances ratio found be slightly improved after the new management tem took over the bank.
- New management team has played vital role to reduce the percentage of non performing loan against the total loan and advances.
- From the analysis of loan and advances against the total deposit, it is found that the average ratio of loan and advances has decreased during the research period.
- It is found from the SWOT analysis there many strength factors in RBB like strong management team, strong deposit base, being the largest commercial bank of the country etc. Similarly, poor financial position with negative net worth, low motivated human resource etc are main weakness of the bank. As well as high level of NPA, increasing trend of negative net-worth etc are current threats of RBB against the opportunities of maximum use of geographical reach, strong enhancement supporting NPA recovery, extensive international relation.

- The accumulative basis, RBB has been able to achieve total cash recovery of NPAs of Rs. 9.09 billion in mid July, 2006. It is found that RBBs financial position has improved since new management took over the bank in January 2003.

Recommendations

- Due to lack of qualified lending expertise, appraisals of schemes or projects reports submitted by loan applicants as well as onsite appraisal of borrowers are not properly in place. Hiring qualified lending expertise is recommended for new management team to provide good loan,
- The high portion of non-performing loan accompanied by higher provision of RBB indicates that the bank's credit portfolio needs serious attention. Hence RBB is recommended to take immediate remedial actions for recovering bad debts.
- To manage the re-organizing NPA,s government should improve bankruptcy/corporate re-organization procedures that help to collect loan repayments. The government must come out with a clear and effective strategy to punish willful defaulters.
- It has been observed that the loans and advances of RBB in commercial and industrial sectors occupied large scale of loan disbursement i.e. more than 50% of investment. Hence it is recommended for new management for exploring new areas of investment.
- Laxity in the follow up and monitoring of loans their recovery process is also not a successful. Effective loan monitoring system should adopted by the bank as soon as possible.

2.6 Research Gap

Credit management is an important function of Banking and Financial institutions. This is the function which helps to collect major portion of profit of any commercial bank. In other words, there is no chance to success of every commercial bank without the proper management of credit. Nowadays there is cut throat competition in Nepalese financial sector. As per the data by the end of 2007 altogether 208 bank and non bank financial institutions are operating in Nepalese financial sector. Out of them, 23 are in "A" class commercial banks 38 in "B" class development banks, 74 in "C" class finance companies, 12 in "D" class micro-credit development banks, 17 in saving and credit co-operatives, and 47 in NGOs. Besides, 2350 saving and credit co-operatives in the micro finance area registered with the Department of co-operatives.

Credit management is the major factor of commercial bank which is made on the basis of NRB directives and policy of concerned bank. The directives of NRB change over time and commercial bank also should adopt their policy with the changing pace of time. So, the up to date study over the change of time frame is major concern for the researcher and concerned organization as well as industry as a whole. This study covered the more recent financial data, NRB circulars and guidelines.

Portfolio behavior is the major part of the credit management. The optimum diversification of credit reduced the default risk of credit. It is the major concern of stakeholder to know the portfolio behavior of the risk. This study also made its effort of find out the assets management efficiency and profitability situation of the bank.

All the previous researches were made on credit or lending practices of private as well as joint venture bank only. No study has yet been conducted about the credit management and practices of Rastriya Banijya Bank Ltd. The RBBL is one of the largest commercial bank in terms of deposits and loan portfolio with most extensive banking network over the country. Hence, this study would fulfill the prevailing research gap of in depth analysis of lending efficiency of RBB.

CHAPTER - III
RESEARCH METHODOLOGY

3.1 Research Design

In this research work, the descriptive as well as analytical research design was adopted to achieve the objective of the study. On the basis of available data, adopting this proposed research design; attempted to investigate Credit Management and Practices of RBB. For analyzing this situation mostly secondary data were used.

3.2 Nature and Source of Data

The study was mainly based on primary as well as secondary data. The primary data were collected from the head office of RBBL through discussion with concerned authority. And the secondary data were collected from various sources which are as follows:

- Annual Reports of the Bank
- Published/unpublished bulletins, news & report of the Bank, Previous thesis.
- Banking & Financial Statics report of Nepal Rastra Bank
- Journals and other published materials form central library TU, Shankar Dev Campus library, RBBL library and Nepal Rastra Bank library.
- Website of RBBL, Nepal Rastra Bank and other various websites.

3.3 Method of Data Collection

To get the reliable information based on the objectives of study, discussion and interviews with concerned officers and staffs of Credit department, Finance department and Strategic and planning department of RBBL were conducted. The required data i.e. relevant reports, news, magazine and annual audited financial statement for analysis were directly collected from finance department and Strategy & Planning department of RBB. Statistical bulletin published by NRB and other publication from NRB, magazine, newspaper and other relevant materials and information were collected from the central library, Shanker dev campus library and NRB library. Likewise, unpublished mater's level thesis and studies were also taken as a source of data.

3.4 Data Processing Technique

First of all raw information were received. After the collection of raw information the processing was done. Then after, all collected data were grouped accordingly to their nature in their tabular and chart by selecting relevant data. The collected data were presented and refined for the purpose of this study. This processing procedure was required for the sequential analysis of data to meet the objective of this research study.

3.5 Presentation and Data Analysis Tools

The data collected from different sources were recorded systematically and identified. The available information was grouped as per the need of the research work in order to meet research objectives. The collected data were presented in appropriate forms of table and charts. For analysis purpose different kinds of appropriate mathematical, statistical and financial tools were applied. Further to represent, the data in simple form diagrams and graphs were used. To make the study more specific and reliable, the researcher used two types of tools for analysis i.e. Financial Tools and Statistical Tools.

3.5.1 Financial Tools

The financial analysis tools were used to examine the financial strength and weakness of the bank. Ratio analysis the powerful tool of financial analysis. Financial ratio represents the numerical or quantitative relationship between two variables. Ratio analysis reflects the relative strength and weakness of this bank and also indicates the operating and financial growth. "Ratio helps to summarize the large quantities of financial data and to make quantitative judgment about the firm's financial performance. Even though there are many ratios, only those ratios have been calculated which are related to subject matter. Following financial ratios were used to calculate the financial implications of lending (Pandey, 1999:108).

➢ **Liquidity Ratio**

The liquidity ratio measures the ability of firm to meet its short term obligation and reflects the short term financial strength of the bank. To measures the liquidity position of the bank, the following liquidity ratios were used.

a) Current Ratio

Current ratio indicates the ability of the bank to meet its current obligation. It measures the relationship between current assets and current liabilities, which is expressed as:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liablities}}$$

Current assets are those assets, which can be converted into cash within a year and so it includes cash and bank balance, investment in treasury bills, bills purchased and discounted, customer acceptance liabilities, prepaid expenses, bills for collection. Likewise, current liabilities includes current, saving, margin deposit, bills payable, call deposit, bank overdraft, intra bank reconciliation account, provision customer acceptance liabilities etc.

b) Liquid Fund to Current Liability Ratio

It indicates the ability of bank to discharge its liquidity risk. Liquid fund are those assets, which can be converted into cash within a short period without any decline in their volume. Liquid fund ratio is also known as quick assets ratio.

$$\text{Liquid fund to Current Liability Ratio} = \frac{\text{Liquid Fund}}{\text{Current Liabilities}}$$

c) Cash and Bank Balance to Total Deposit Ratio

Deposit is one of the major liabilities of the every commercial bank. Bank has to mange its liquidity to meet depositor's demand. This ratio measures the availability of the banks highly liquid or immediate fund to meet its unanticipated calls on all types of deposit.

$$\text{Cash and Bank balance to total deposit ratio} = \frac{\text{Cash \& Bank balance}}{\text{Total Deposit}}$$

d) Loan and Advances to Current Assets Ratio

Loan and advances is the major component in total current assets of every banking institution, which indicates the ability of bank to mobilize of its deposit in the form of loan and advances to earn high return. So, every commercial bank should provide loan & advances in appropriate level to survive in competition.

$$\text{Loan and advances to current assets ratio} = \frac{\text{Loan \& Advances}}{\text{Current Assets}}$$

Loan & advances includes short term loan, overdrafts, cash credit, hypothecation, local & foreign bills purchased and discount.

- **Assets Management Ratio**

The assets management ratio measures the proportion of various assets and liabilities in balance sheet. Every commercial bank should manage its assets and liabilities properly to earn high profit. Assets management ratio measures its efficiency in multiplying various liabilities in performing assets. Following are the various assets management ratio which measure the lending strength and effective use of assets.

a) Total Assets to Total Liabilities Ratio

The total assets of the bank should play vital role in profit generating through lending activities. The ratio measures the bank ability to multiply its liability into assets. It is always recommended to have higher ratio of total assets to total liabilities ratio since it signifies overall increases of credit. The higher ratio indicates the higher productivity.

Total assets to total liabilities ratio = $\frac{\text{Total Assets}}{\text{Toal Liabilities}}$

b) Loan and Advances to Total Assets Ratio

Loan and advances is an important part of total assets. The total working fund play active role to generate reasonable profit through fund mobilization. So bank should carefully mobilize the total assets. The ratio of loan & advances to total assets ratio measures the volume of loan & advances in the structure of total assets. A high ratio indicates better mobilization of funds as loan and advances and vice-versa.

Loan and advances to total assets ratio = $\frac{\text{Loan \& Advances}}{\text{Total Assets}}$

c) Loan and Advances to Total Deposit Ratio

The main source of bank to provide credit facility to its customers is its deposit. The bank utilizes the deposit for profit generation purpose. Loan and advance to deposit ratio shows whether the banks are to successful to utilize the total deposit. Generally a high ratio reflects the higher efficiency to utilize total deposit and vice versa. The ratio can be calculated by using following formula.

Loan and advances to total deposit ratio = $\frac{\text{Loan and Advances}}{\text{Total Deposit}}$

d) Total Investment to Total Deposit Ratio

A commercial bank may mobilize its deposit by investing its fund in different securities issued by government, NRB and other financial and non financial companies. A high ratio indicates the higher efficiency to mobilize the banking fund as investment and vice-versa.

Total investment to Total Deposit Ratio = $\frac{\text{Total Investment}}{\text{Total Deposit}}$

➢ **Profitability Ratio**

Profit is the ultimate goal of every business enterprises, which is essential for the survival of banks, so it is regarded as the engine that drives the banking business and indicates economic progress. It is the major of tangible expression of performance toward achievement of entity objectives and goals. The profitability ratio measures the profitability condition of the bank. Profitability ratios are calculated to measure the management's ability regarding how well they have utilized their funds. Lending is one of the major functions of commercial bank, so following are the various types of ratio which show the contribution of loan and advances to generating in profit and help to decide investor whether to invest in particular firm or not.

a) Interest Income to Total Income Ratio

This ratio measures the volume of interest income to total income. The high ratio indicates the high contribution made by lending investing activities.

Interest Income to Total Income Ratio = $\frac{\text{Interest Income}}{\text{Total Income}}$

b) Interest Income to Interest Expenses Ratio

Interest income to interest expenses ratio measure the gap between interest rates offered and interest rate charged. The ratio can be calculated as follows.

Interest income to interest expenses ratio = $\frac{\text{Interest Income}}{\text{Interest Expenses}}$

c) Return on Loan and Advances Ratio

This ratio measures the earning capacity of the commercial banks through its fund mobilization in forms of loan and advances. Higher ratio indicated greater success to mobilize fund as loan and advances and vice versa. Mostly loan &

advances includes cash credits, overdrafts, bills purchased and discounted. The ratio can be calculated as follows.

$$\text{Return on Loan and Advances Ratio} = \frac{\text{Net Profit}}{\text{Loan \& Advances}}$$

- **Lending Efficiency Ratio**

a. Current Credit Position of RBBL to Commercial Bank

The current credit position of RBBL to total commercial bank ratio shows the proportion on credit of Rastriya Banijya Bank out of total commercial bank. The ratio can be calculated as follows.

$$\text{Current Credit Position of RBBL to Total Commercial Bank} = \frac{\text{Total Loan and Advances of RBBL}}{\text{Total Loan and Advances of Commercial Bank}}$$

b. Performing Loans to Total Loans and Advances

Performing loans to total loans & advances ratio shows the proportion of performing loans in the total loan portfolio. As per the NRB directives performing loans are those loans that repay principle and interest timely to the bank from the cash flow it generates. It is calculated by;

$$\text{Performing Loans to Total Loans and Advances} = \frac{\text{Performing Loans}}{\text{Total Loan \& Advances}}$$

c. Loans Loss Provision to Total Loan and Advances Ratio

Loan loss provision to total loan & advances describes the quality assets that a bank holding. The provision for loan loss reflects the increasing probability of non performing loan. The provision of loan loss mean the net profit of the banks will come down by such amount. Increase in loan loss provision decrease in profit result to decrease in dividends but its positive impact is that strengthens financial condition of the bank by controlling the credit risk and reduced the risk related deposits.

Loans Loss Provision to Total Loan and Advances Ratio

$$= \frac{\text{Loan Loss Provision}}{\text{Total Loan \& Advances}}$$

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

d. Non- Performing Loans to Total Loan & Advances

NPL to total loans and advances ratio determines the proportion of non performing loans in the total loan portfolio. Higher ratio implies the bad quality of assets of banks in the form of loan & advances. Hence lower NPL to total credit ratio is preferred. As per international standard only 5% NPL is allowed but in the context of Nepal 10% NPL is acceptable. It is calculated as follows;

$$\text{NPA Loans to Total Loan \& Advances} = \frac{\text{Non Performing Loans}}{\text{Total Loan \& Advances}}$$

e. Sectors wise Loan and Advances Ratio

This ratio measures the portfolio behavior of the credit disbursement to different sectors. Commercial banks disbursed loans and advances to various sectors of the economy and have types of borrowers.

$$\text{Sectors wise Loan and Advances Ratio} = \frac{\text{Loan on Different Sectors}}{\text{Total Loan and Advances}}$$

f. Security wise Loan and Advance

Every commercial bank has provided the loan and advances in terms of different security to its customers. The ratio measures the portfolio behavior of the credit disbursement to different securities. The ratio can be calculated by;

$$\text{Security wise Loan and Advances} = \frac{\text{Loan on Different Security}}{\text{Total Loan and Advances}}$$

3.5.2 Statistical Method

For supporting the study, statistical tools such as mean, standard deviation, coefficient of variation, correlation and time series with the diagrammatic and pictorial tools have been used under this.

- **Mean Value (Average)**

Among the several tools of measuring central value, the mean value has been used in this analysis where and when necessary. The mean is the arithmetic average of a variable. The mean value is calculated as; (Bajracharya, B.C., 2064:101).

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

Where,

$\overline{X}$ = Mean value or, Arithmetic mean

$\sum X$ = Sum of the observation.

N = Number of observation

- **Standard Deviation**

The standard deviation measures the absolute dispersion. It is said that higher the value of standard deviation higher the variability and vice versa. It is the positive square root of average of the squares of the deviations of the given observations from their arithmetic mean of the distribution. It is calculated as; (Bajracharya, B.C., 2064:177).

$$\sigma = \sqrt{\frac{\sum x^2}{n} - \frac{(\sum x)^2}{n}}$$

Where,

σ = Standard deviation

$\frac{\sum x^2}{n}$ = Sum of squares of observations

$\frac{(\sum x)^2}{n}$ = Sum of square of mean

- **Coefficient of Variation**

The coefficient of variation is defined as the ratio of standard deviation to the mean expressed. 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 homogenous or more uniform or more stable than other and vice versa. It is calculated as;

$$CV = \frac{S.D.}{Mean} \times 100$$

- **Correlation**

Correlation may be defined as the degree of linear relationship existing between two or more variables. The variable are said to be correlated when the change in the value of one results change in another variable. Correlation bay be calculated as; (Sthapit, A.B., Gautam H., Joshi, P.R., Dangol, P.M: 2007:367).

$$r_{xy} = \frac{n\sum d_1d_2 - \sum d_1 \sum d_2}{\sqrt{n\sum d_1{}^2 - (\sum d_1)^2} - \sqrt{n\sum d_2{}^2 - (\sum d_2)^2}}$$

Where,

r_{xy} = Correlation between x& y

d_1 = $X - a_1$ a_1 = Assumed mean of Variable X

d_2 = $Y - a_2$ a_2 = Assumed mean of variable Y

$n\sum d_1d_2$ = Product of no of observations and sum of product of d_1&d_2

$\sum d_1 \sum d_2$ = Product of sum d_1 & d_2

- **Co-efficient of Determination (r^2)**

It explains the variation percent derived in dependent variable due to the any one specified variable is good predictor of the behavior of the dependent variable. It is square of correlation co-efficient.

- **Probable Error**

Probable error of the correlation co-efficient denoted by P.E. is the measure of testing the reliability of calculated value or r. If r be the calculated value from a sample of N pair of observations, then P.E. is defined as.

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

The Karl Person's co-efficient of correlation (r) always falls between -1 to +1. The value of correlation in minus sign signifies the negative correlation and plus sign signifies the positive co-relation. As the value of co-relation coefficient reaches near to the value of zero, it is said that there is no significant relationship between variables. The coefficient of correlation should be interpreted based on probable error. If the value of correlation coefficient is grater than 6 times P.E., the correlation coefficient is deemed as significant and reliable. If the value of correlation coefficient is less than probable error, the correlation coefficient is said to be insignificant and there is no evidence of correlation.

- **Least square Linear Trend**

The most popular and mathematical determining trend of time series is least square method. This tool has been used to find out future trend of pass loan, overdue loan, recovery of overdue loan and deposit. For estimation, Straight line equation is; (Bajracharya, B.C., 2064: 302).

$$Y = a + bx$$

Where,

Y	=	dependent variable
X	=	independent variable
a	=	y-intercept
b	=	slope of trend line

The two parameter a & b in the above equation are obtained by solving two normal equation which are as follows;

1. $\sum y = na + b\sum x$

Or, $a = \frac{\sum y}{N}$

2. $\sum xy = a\sum x + b\sum x^2$

Or, $b = \frac{\sum xy}{\sum x^2}$

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 The Credit efficiency of the Bank

To analyze the credit efficiency of bank, liquidity ratio, profitability ratio and assets management ratio of bank should be measured. The comparative balance sheet and profit and loss account of bank are as follows.

Table 4.1

Comparative Balance Sheet

	Particulars	**058/59**	**059/60**	**060/61**	**061/62**	**062/63**	**063/64**
A	Share Capital	1172	1172	1172	1172	1172	1172
B	Reserve Funds	-18624	-23564	-22610	-21372	-19891	18370
C	**Current Liabilities**	**39171**	**39580**	**40971**	**47275**	**50635**	**52795**
1	Deposits:	38994	39402	40867	43017	46196	50464
	i) Current	4886	4844	5647	7016	8304	10388
	ii) Saving	18957	20893	**23705**	**26979**	29746	33046
	iii) Fixed	15065	13580	**11515**	**9022**	8146	7030
	iv) Call deposit	86	85	**0**	**0**	0	0
2	Borrowings	157	162	**80**	**4218**	4358	2220
3	Bills Payables	20	16	**24**	**40**	41	64
4	Proposed & Div. Pay.	0	0	**0**	**0**	40	47
D	Other Liabilities	23251	25567	25523	29748	7965	10771
	Total Capital & Liab.	**44970**	**42755**	**45056**	**56823**	**39881**	**46368**
	<u>Assets</u>						
E	**Current Assets**	22375	20779	21067	27400	31418	35711
1	Cash Balance	850	1019	1007	1622	1202	1898
2	Bank Balance	3676	2717	6012	3931	4027	4137
3	Money at Call	0	740	100	0	0	20
4	Investment	4159	4623	3117	8416	11555	12650
	i) Gov. Securities	4089	4137	2919	6434	8875	10023
	ii) Others	70	486	198	1982	2680	2627
5	Loans & Advances	13345	11670	10817	13383	14606	16934
6	Bills Disc.& Purchase	345	10	14	48	28	72
F	Fixed Assets (Net)	404	478	392	393	421	440
G	Non Banking Assets	0	0	0	0	98	112
H	Other Assets	22191	21498	23597	29030	7944	10105
	Total Assets	**44970**	**42755**	**45056**	**56823**	**39881**	**46368**

(Source: Annual Report of RBB)

Table 4.2

Comparative Profit and Loss Account

Particulars	058/59	059/60	060/61	061/62	062/63	063/64
1.Interest Income	1745	2051	2236	2329	2283	2359
2.Interest Expenses	2347	2108	1495	1005	850	943
Net Interest Income	**-602**	**-57**	**741**	**1324**	**1433**	**1416**
3.Commission and Discount	215	211	310	288	290	343
4.Other Operating Income	78	84	146	116	110	285
. Exchange Fluctuation Income	78	3	16	14	74	15
Total Operating Income	**-231**	**241**	**1213**	**1742**	**1907**	**2059**
6. Staff Expenses	759	3249	906	811	745	804
7. Other Overhead Expenses	243	245	230	234	289	343
8. Exchange Fluctuation Loss	0	0	0	0	0	0
Opt. Profit Before Provisions	**-1233**	**-3253**	**77**	**697**	**873**	**912**
9. Provisions for Possible Losses	5843	1594	11	137	663	315
Operating Profit	**-7076**	**-4847**	**66**	**560**	**210**	**597**
10. Non- Operating Income/Loss	7	7	147	44	27	29
11.Loan Loss Provisions Written-Back	0	**0**	**910**	720	1516	**1210**
Profit From Regular Operations	**-7069**	**-4840**	**1123**	**1324**	**1753**	**1836**
12.Profit/Loss From Extra-ordinary activities	0	**0**	0		**33**	**4**
Net Profit after considering all Activities	**-7069**	**-4840**	**1123**	**1324**	**1720**	**1832**
13.Staff Bonus Provision	0	**0**	83	0	**127**	**136**
14. Tax Provision	0	0	0	0	0	0
Current Year 's	0	0	0	0	0	0
Previous Year's	0	**0**	0	0	**0**	**0**
Net Profit /(Loss)	**-7069**	**-4840**	**1040**	**1324**	**1593**	**1696**

(Source: Annual Audit Report of RBB)

4.1.1 The Liquidity Position of the Bank

A commercial bank must maintain its satisfactory liquidity position to satisfy the credit needs of the community, to meet demands for deposit withdrawal, pay maturity obligation in time and convert non cash assets into cash to satisfy immediate needs without loss to the bank. To measure the liquidity position of the bank, the following ratio has been calculated.

4.1.1.1 Current Ratio

Table 4.3

Current Ratio

FY	058/59	059/60	060/61	061/62	062/63	063/64	Mean	SD	CV
Ratio	0.57	0.52	0.51	0.58	0.62	0.68	0.58	0.038	6.68

(Source Appendix II; a)

The above table shows that the current liabilities of RBBL exceeded current assets in the study period. The highest current ratio was 0.68 while the lowest ratio was 0.51 times in FY 063/64 and 060/61 respectively. The mean of the current ratio was 0.58 while standard deviation and coefficient of variation were 0.038 & 6.68 percent.

Though the standard of current ratio should be 2:1, the conventional measure of liquidity is not applicable in banking sector. The current ratio maintained by commercial bank at the level of around 1:1 can be regarded as good and sufficient to meet the normal contingencies. But the above current ratio analysis of the bank over six year's period indicates that the bank has not satisfactory liquidity position.

4.1.1.2 Liquid Fund to Current Liability Ratio

This ratio indicates the ability of bank to discharge its liquidity risk. Liquid fund are those assets, which can be converted into cash within a short period without any decline in their volume

Table 4.4

Liquid Fund to Current Liability Ratio

FY	058/59	059/60	060/61	061/62	062/63	063/64	Mean	SD	CV
Ratio	0.12	0.11	0.17	0.12	0.10	0.12	0.13	0.01	7.69

(Source Appendix II; b)

The liquid fund to current liability ratios of bank were in fluctuating trend with very low position. The ratio ranged from 0.11 lowest to 0.17 highest during the study period. The mean ratio for the period was 0.13 which indicated unreasonable situation of the bank.

4.1.1.3 Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositors. Both higher and lower ratios are not desirable. The reason is that if bank maintains higher ratio, it creates loss of earning from investment. In contrast if a bank maintains low ratio of cash, it makes failure to make payment upon the demand of the depositors. So, sufficient and appropriate cash balance should be maintained properly.

Table 4.5

Cash and Bank Balance to Total Deposit Ratio

FY	058/59	059/60	060/61	061/62	062/63	063/64	Mean	SD	CV
Ratio	0.12	0.09	0.17	0.13	0.11	0.12	0.12	0.026	21.65

(Source Appendix II; c)

The above table shows that the cash & bank balance to total deposit ratio of RBB were in fluctuating trend. The highest ratio was 0.17 in the FY 060/061 and lowest ratio was 0.09 in the FY 059/060. The mean ratio was 0.12 in the study period and SD was 0.026. On the basis of CV it can be concluded that the ratios were variable those were too also fall on lower level.

Though the ratios were not consistent, the cash and bank balance of RBBL with respect to deposits was better to serve the customers deposit on withdrawal of demands. Commercial should maintain its cash balance in the ratio of total deposit as directed by NRB from time to time. Otherwise they are liable for penalty.

4.1.1.4 Loan and Advances to Current Assets Ratio

This ratio indicates the ability of bank to utilize its deposit in the form of loan and advances to generate income. So commercial banks should provide an appropriate size of loan and advances.

Table 4.6

Loan and Advances to Current Assets Ratio

FY	058/59	059/60	060/61	061/62	062/63	063/64	Mean	SD	CV
Ratio	0.60	0.56	0.51	0.49	0.46	0.47	0.52	0.0379	7.30

(Source Appendix II; d)

The six fiscal years ratio of loan and advances to current assets ratio was in decreasing trend. The ratio of the FY 2058/059 was 0.60 and lowest ratio was 0.46 in the FY 2062/063. The mean ratio and coefficient of variation were 0.52 and 7.30 percent respectively.

4.1.2 Assets Management Ratios

This ratio measures the efficiency of a commercial bank in its fund mobilization. A commercial bank must be able to manage its assets properly to earn high profit maintaining the appropriate level of liquidity. Assets management ratio measures the efficiency of the bank to manage its assets in profitable way satisfactorily.

4.1.2.1 Total Assets to Total Liabilities Ratio

The total assets of the bank should pay active role in profit generating through lending activities. This ratio measures the bank ability to multiply its liability into assets. It is always recommended to have higher ratio of total assets to total liabilities. The higher ratio indicates the higher productivity and vice versa.

Table 4.7

Total Assets to Total Liabilities Ratio

FY	058/59	059/60	060/61	061/62	062/63	063/64	Mean	SD	CV
Ratio	0.72	0.66	0.68	0.74	0.68	0.73	0.70	0.048	6.86

(Source Appendix II; e)

It can be said that, the total assets to total liabilities ratio is in fluctuating trend. The ratio was 0.72 in the FY 058/059, which decreased to 0.66 in the FY 059/060. Likewise it reached to 0.73 in FY 063/064. The mean ratio was 0.70 when SD and CV were 0.048 & 6.86.

4.1.2.2 Loan and Advances to Total Assets Ratio

Loan and advances of commercial bank represents the major portion in the volume of total working fund. This ratio measures the volume of loan and advances in the structure of total assets. The high degree of this ratio indicates the good performance of the bank in mobilizing its funds by way of lending function. Granting of loan and advances always carries a certain degree of risk. Thus this asset of banking business is regarded as risky assets. This ratio measures the management attitude towards risk assets. The low ratio is an indication of low productivity and high degree of safety in liquidity and vice versa.

Table 4.8

Loan and Advances to Total Assets Ratio

FY	058/59	059/60	060/61	061/62	062/63	063/64	Mean	SD	CV
Ratio	0.30	0.27	0.24	0.24	0.37	0.37	0.30	0.058	20.09

(Source Appendix II; f)

It can be said that the ratios were in fluctuating trend. First it decreased, and then increased. The highest ratio was 0.37 in the FY 063/064 and lowest ratio was 0.24 in FY 061/062. The mean ratio was 0.30 whereas SD & CV were

0.058 and 20.09. The table shows the assets management in terms of loans and advances is better performance in the last two years than the previous years.

4.1.2.3 Total loans & advances to Total Deposit Ratio

This ratio measures the extent to which the bank is successful to mange its total deposit on loan and advances for the purpose of income generation. A high ratio indicates the better mobilization of collected deposit and vice versa. But it should be noted that too high ratio might not be better from liquidity point of view.

Table 4.9

Total Loans & Advances to Total Deposit Ratio

FY	058/59	059/60	060/61	061/62	062/63	063/64	Mean	SD	CV
Ratio	0.693	0.675	0.614	0.628	0.503	0.493	0.601	0.078	12.98

(Source Appendix II; g)

As per the above table it can be found that the ratio of loan & advances to total deposit ratio of bank was in decreasing trend. The highest ratio in the FY 058/059was 0.693 and lowest ratio was 0.493 in the FY 063/064.

Credit deposit ratio should be around 70% as standard. From this point of view the loan and advances to total deposit ratio of the bank slightly low in the first four years but it was very low in last two years.

4.1.2.4 Total Investment to Total Deposit Ratio

A commercial bank mobilizes its deposit by investing in different securities issued by government and other financial and non financial organizations. This ratio measures the extent to which banks are able to mobilize their deposits on investment in various securities. This ratio indicates the proportion of deposits utilized for the purpose of income generation as well as for maintaining liquidity in appropriate level. A high ratio is the indicator of high success of mobilizes deposit in securities and vice versa.

Table 4.10

Total Investment to Total Deposit Ratio

FY	058/59	059/60	060/61	061/62	062/63	063/64	Mean	SD	CV
Ratio	0.107	0.117	0.076	0.196	0.250	0.251	0.997	0.0696	6.98

(Source Appendix II; h)

The above table No. 4.10 shows that the total investment to total deposit ratio of RBBL were in fluctuating trend during the study period. The highest ratio was 0.251 and lowest ratio was 0.076 in FY 063/064 & 060/061 respectively. Where as the mean ratio and CV of the period were 0.997 and 6.98% respectively.

4.1.3 Profitability Ratios

Profitability ratios are very helpful to measure the overall efficiency in operation of financial institutions. In the context of banks, bank can’t survive without profit. The profit is the major indicators or efficient operation of bank. The bank acquire profit by providing different services to its customers or providing loan and making various kinds of investment opportunities. Profitability ratios measure the efficiency of bank. A higher profit ratio shows the higher efficiency of bank and vice versa.

4.1.3.1 Interest Income to Total Income Ratio

This ratio measures the volume of interest income to total income of bank. The higher ratio indicates the higher contribution made by lending and investing activities.

Table 4.11

Interest Income to Total Income Ratio

FY	058/59	059/60	060/61	061/62	062/63	063/64	Mean	SD	CV
Ratio	0.82	0.87	0.59	0.66	0.53	0.56	0.67	0.126	18.88

(Source Appendix II; i)

From the above table.4.11, it can be said that interest income to total income ratio of the bank was in fluctuating trend during the study period. The highest ratio was 0.87 in the FY 059/060 and the lowest ratio was 0.53 in the FY 062/063, where the mean ratio was 0.67 and CV was 18.88%.

4.1.3.2 Interest Income to Interest Expenses Ratio

Interest income to interest expenses ratio is the gap between interest rates offered and interest rate charged. Higher ratio indicates the higher capacity of bank to earned profit and vice versa.

Table 4.12

Interest Income to Interest Expenses Ratio

FY	058/59	059/60	060/61	061/62	062/63	063/64	Mean	SD	CV
Ratio	0.744	0.973	1.496	2.317	2.686	2.502	1.8	0.757	42.05

(Source Appendix II; j)

The above table 4.12, shows that RBBL had high degree of gap between interest offered and interest charged. As per the table, the bank charged high interest rate to borrowers and offering low interest rate to its depositors. According to the table the interest income to interest expenses ratio ranged from 2.686 highest ratios to 0.744 lowest ratios during the study period. The ratio was in increasing trend. It increased up to 2.686 in the FY 062/063 and mean ratio was 1.8 which showed the more profitable situation at the latest year. CV of ratio was 42.05 which were less variable in nature.

4.1.3.3 Return to Loan and Advances Ratio

This ratio measures the earning capacity of commercial bank through its fund mobilization as loan and advances.

Table 4.13

Return to Loan and Advances Ratio

FY	058/59	059/60	060/61	061/62	062/63	063/64	Mean
Ratio	-0.53	-0.41	0.10	0.10	0.11	0.10	- 0.09

(Source Appendix II; k)

The table 4.13 shows that return on loan and advances was in fluctuating trend. The highest ratio was 0.11 in the FY 062/063 and lowest ratio was - 0.53 in the FY 058/059. The mean ratio was also negative i.e. -0.09, which shown the bank was suffered from huge losses in the first two years of study period. Then, the bank was able to earn reasonable profit in the last four year of study period.

4.1.4 Lending Efficiency Ratio

Lending efficiency, quality of lending and its effect measured in this topic. The efficiency of a bank depends upon to a large extent on the efficiency with which its assets are managed and utilized. This ratio is concerned with measuring the efficiency of bank. The following are the various type of lending efficiency ratio.

4.1.4.1 Loan Loss Provision to Total Loan and Advances Ratio

Loan loss provision to total loan and advance describes the quality of assets that a bank holding. The provision for loan loss reflects the increasing probability of non performing loan. Provision for loan loss mean the profit of the banks will come down by such amount. Increase in loan loss provision decrease in profit result to decrease in dividends but its positive impact is that strengthens financial conditions of the banks by controlling the credit risk and reduced the risks related to deposits. The low ratio indicates the good quality of assets in total volume of loan and advances and high ratio indicates more risky assets in total volume of loan.

Table 4.14

Loan Loss Provision to Total Loan and Advances Ratio

FY	059	060	061	062	063	064	Mean	SD	CV
Ratio	0.49	0.56	0.57	0.50	0.37	0.30	0.47	0.099	21.06

(Source Appendix II; l)

The above table 4.14 shows the ratio of loan loss provision to loan and advances which was in increasing trend up to the FY 060/061 then it was decreasing in last three years. The figure shows that the bank suffered huge proportion of non- performing assets in first three years. The highest ratio was 0.57 in the FY 060/061and lowest ratio was 0.30 in the FY 063/064, which was not also satisfactory level. The mean ratio and CV of the study period were 0.47 and 21.06%, which was shown the more consistent in nature.

4.1.4.2 NPA Loans to Total Loans and Advances Ratio

Nepal Rastra Bank, issues different directives from time to time to enhance the strength of bank. As per the NRB directive no 2 related to loan classification and loan loss provisioning on the credit, the bank and financial institutions should classify their loan and advances in four different categories. The loan falling under sub-standard, doubtful and loss categories is termed as Non-performing loan.

Table 4.15

NPA Loans to Total Loans and Advances Ratio

FY	058/59	059/60	060/61	061/62	062/63	063/64	Mean	SD	CV
Ratio	0.55	0.60	0.58	0.51	0.37	0.28	0.48	0.121	25.21

(Source Appendix II; m)

The table 4.15 shows the ratio of NPA loans to total loans and advances which was increasing trend of NPA percentage in first two years and then it was decreasing, but it was (i.e.28%) also higher than international standard (ie.5%). The highest ratio was 0.60 in the FY 059/060 and 0.28 is the lowest ratio in the FY 063/064. The mean ratio was 0.48, which showed higher ratio of non performing loan to total loan and advances. The CV dozing the study period was 25.21 percent which was more consistent in nature.

4.1.4.3 Performing Loan to Total Loan and Advances

The credits which are 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 loan. The performing loan is major current assets of bank.

Table 4.16

Performing Loan to Total Loan and Advances

FY	058/59	059/60	060/61	061/62	062/63	063/64	Mean	SD	CV
Ratio	0.45	0.40	0.42	0.49	0.63	0.72	0.52	0.114	21.92

(Source Appendix II; n)

The table 4.16 shows the proportion of performing loan which was the major component of every bank to total loan and advances. As per the table, the ratio was decreasing in first three years of study period. Then it increased in up to 0.72% in the FY.063/064. The ratios were lies between lowest 0.45% to highest 0.72%. The average ratio of performing loan was 0.52% during the study period.

4.1.4.4 Interest Expenses to Total Deposit Ratio

This ratio measures the percentage of total interest against total deposit. The success and prosperity of every bank depend upon its ability to generate cheaper fund.

Table 4.17

Interest Expenses to Total Deposit Ratio

FY	058/59	059/60	060/61	061/62	062/63	063/64	Mean	SD	CV

Ratio	0.06	0.05	0.04	0.02	0.02	0.02	0.04	0.017	8.10

(Source: Appendix II; o)

Table 4.17 shows that the cost of deposit of RBBL was in decreasing trend. The highest ratio was 6% in the FY 058/059 and lowest ratio was 2% in the last three fiscal years. From the mean point of view, interest expense to total deposit ratio of RBB was 4% during the study period, coefficient of variation between the ratios was 8.10% which show less stable. The overall ratio showed the improving efficiency of the bank and better performance in the latest years.

4.2 Credit Position of RBBL to Total Commercial Bank

Loan and advances is important asset of every commercial bank. Bank earns interest income on loan and advances, which is the major source of income of the banks. Rastriya Banijya Bank is one of the key players in the Nepalese financial sectors. It is the largest and no.1 commercial bank in terms of loan & advances and deposit portion. The current credit position of the bank out of total commercial bank as follows;

Table 4.18

Credit Position of RBBL to Total Commercial Bank

(Rs. In Million)

Particulars	Loan & Advances		Ratio
Fiscal Year	RBBL	Total Commercial Bank	
058/059	27037	111694	24.20
059/060	26609	123211	21.96
060/061	25106	138923	18.07
061/062	27001	159641	16.91
062/063	23247	173383	13.41
063/064	24871	228952	10.86
Mean ($\bar{\bar{X}}$)	25645.17	155967.33	
S.D.	1375.11	38659.15	
C.V.	5.36	24.79	

(Source: Banking and financial statics, mid Jan. 2008:3, NRB)

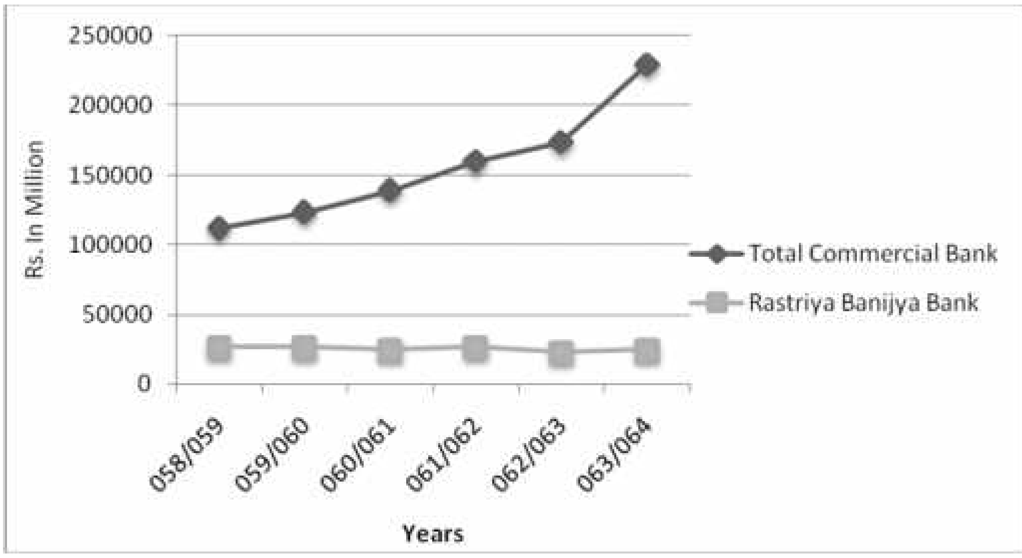
The above table shows the credit position of Rastriya Banijya Bank out of overall Commercial bank for the six consecutive years. The ratios also showed that the loan and advances of RBBL were in decreasing trend during the study period. The overall ratios ranged from 24.20 percent to 10.86 percent.

According to the table, the total loan and advances of Rastriya Banijya Bank Limited was Rs. 27037million out of overall commercial bank Rs. 111694 million at fiscal year 058/059. It showed that RBBL covered 24.20 percent out of overall loan and advances of commercial bank. It reached to Rs 26609 million in the FY 059/060 with decreased by 1.58% than the previous years. Similarly the proportions of RBBL were 21.96, 18.07, 16.91, 13.41 and 10.86 percent in the F.Y. 059/060, 060/061, 061/062, 062/063 and 063/064 respectively. The table clearly shows that the credit position (which is back bone of every financial institutions) of RBBL were in decreasing due to various reason. The main reasons were, because of the cut throat completion in Nepalese financial sector, credit culture and service quality of the bank. Then the bank should improve its credit culture and service quality to survive in the global competition.

The mean ratio & standard deviation of RBBL were 25645.17 & 1375.11 respectively. Likewise they were 155967.33 & 38659.15 in the case of overall commercial bank. Thus it signifies that the RBBL’s loan and advances has lower deviation with lower degree of variation and the overall commercial bank’s loan has higher deviation with higher degree of variation in this ratio.

Figure 4.1

Trend of Loan and Advances



The above diagram shows the current credit position of Rastriya Banijya Bank out of overall commercial bank. From the above diagram it can be seen that loan and advances of RBBL were in fluctuating trend whereas in the case of overall commercial bank it was increasing aggressively during study period. Loan and advances of RBBL was Rs. 27037 million in the FY 058/059 but it has decreased to Rs 24,871 million in the FY 063/064, which recorded decreased of 8.01 percent than the FY 058/059. It is not good sign for the bank. Thus the bank should pay more attention to increase credit position

4.3 Credit (Loan) Disbursement Procedure of RBBL

The credit (loan) disbursement process may vary according to size and types of the loans. However, there is certain lending process followed by RBBL. The principal lending process has the following steps in general (RBBL, Credit Manual, 2060).

a) Application form for requesting Credit Limits

To avail various lines of credit facilities, the client has to duly fill-up bank's prescribed form requesting credit limits which shall contains name of person/

company, full address, legal entity, promoters/ shareholders/ proprietor's name and their background, associated concerns if any, capital, details of securities, sister concern etc.

b) Discussion with the client

After obtaining application form for requesting credit limits, the bank makes discussion with client regarding credit needs, experience, business projection, nature of business, sales turnover, security details, market share of business, financial statement.

c) Site visit

The credit officer of bank usually makes a site visit to assess the customer's location and the condition of the property. The site visit helps to verify the accuracy of the information provided by the applicant. It also reveals the degree of customer's sincerity and character.

d) Reference Check

The credit officer of bank may contact other creditors, who have already enjoyed the credit facility, to find out the applicant's behavior, character, experience, status of business, purpose of loan, past record etc, according to necessity.

e) Documentations

If the bank is satisfied with client regarding business, financial statement, collateral security, then asked to submit several crucial documents (citizenship certificate, scheme of the institution or the business, certificate of registered institution, certificate of income tax registration, financial statement, memorandum & article etc) in order to fully evaluate the loan request, including complete financial statement. In case of corporate borrower, the board of director's resolution authorizing the negotiation of a loan with the bank must be submitted.

f) Obtaining Credit Information Report (CIB)

When a credit proposal is received, the credit worthiness and the transactions record of the client with other banks are to be ascertained. For this, credit inquiry to Credit Information Bureau and other banks is to be sent. While sending the enquiry, following information is given.

- Name of the Client:
- Registration No:
- Registered Address:
- Requested Limit:
- Name of sister concern:

Father's and grand father's name of proprietor, promoters, directors etc

If there are no adverse remarks in the replies obtained from CIB and other bank, then the loan proposal can be initiated.

g) Processing of Proposal

To process a loan proposal, following information are required;

- Background of the client and involved persons.
- Nature and types of business.
- Sister concern and their nature of business.
- Financial position of the business/person.
- Liabilities of the client with other banks and financial institutions.
- Types of facilities requested with limits and period of time.
- Justification as to why the facilities are required.
- How the facilities will be settled/ repaid.
- Types of securities to secure the requested facilities.
- Inspection report of project and proposed collateral
- With the above reports and the information, the credit proposal is processed.

h) Property Valuation

If the project and collateral are satisfactory and acceptable, then the bank send to approved valuator of bank for valuation of property (Land and building).

i) Loan Sanctions

Upon proper scrutiny of the loan appraisal, the sanctioning authority approves the proposal and prepares a loan sanction letter. The sanction letter spells out the details of the loan, the amount and its purpose, the manner of disbursement, the securities to be pledged against the loan, the repayment schedule and other terms & condition of financing.

Upon receipt of the approval from sanctioning authority at the branch, the credit committee of branch issues a credit facility offer letter to the borrower. This letter spell out the details of loan, the amount and its purpose, details of interest rate, service charges, the manner of disbursement the securities to be pledged against the loan and other terms and condition to be implemented by the bank and borrower. If the borrower is satisfied with the credit facility offer letter, the borrower signs in the offer letter and the agreement are made.

4.4 Sector wise Loan Classification of Rastriya Banijya Bank

Credit is an act of lending and borrowing of money. It is a sum of money delivery by bank or one party and receipt by customer or another party on agreement expresses or implied to repay with or without interest. Loan and advances includes credit against different sector like; agriculture, mines, production, service, consumable loan etc. Total credit is the amount that is lend by the bank by accepting the security of debtors. It is depend upon the interest rate structure. The RBB has provided loan and advances to its customer on the basis of different sector determined by Nepal Rastra Bank. The major loan portfolios are; agriculture, production, construction, consumable loan etc. The outstanding of loan and advances which were provided by the bank on the basis of different sector are as follows:

Table 4.19

Sector wise loan classification of Rastriya Banijya Bank

Rs. In Million

Description	**058/059**		**059/060**		**060/061**		**061/062**		**062/063**		**063/064**		$\sum X$	$\bar{X}=\frac{\sum X}{N}$
	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%		
Agriculture	1781	6.59	1679	6.08	1756	6.99	1673	6.20	1369	5.93	963	3.87	9521	1586.83
Mines	45	0.17	61	0.22	24	0.10	38	0.14	52	0.23	167	0.66	387	64.4
Production	6985	25.83	7935	28.74	6566	26.15	6776	25.10	6833	29.58	5071	20.39	40166	6694.33
Construction	318	1.18	353	1.28	351	1.40	547	2.03	677	2.93	1269	5.10	3515	585.83
Metal Production Machinery & Electrical tools	123	0.45	136	0.49	130	0.52	149	0.55	133	0.58	391	1.54	1062	177
Transportation, Equipment Production & fitting	632	2.34	512	1.85	432	1.72	459	1.70	186	0.81	265	1.04	2486	414.33
Transportation Communication & public service	954	3.53	1212	4.39	1090	4.34	895	3.31	756	3.27	818	3.22	5725	954.17
Wholesale & Retail (Trade)	9087	33.61	9074	32.87	10244	40.80	9075	33.61	4647	19.17	6477	26.04	48604	8100.67
Finance, Insurance & Fixed Assets	97	0.36	478	1.73	78	0.31	83	0.31	2419	10.40	2242	9.01	5397	899.5
Service Industries	1847	6.83	1855	6.72	1770	7.05	1908	7.07	1784	7.72	2055	8.26	11219	1869.83
Consumable Loan	1312	4.85	1028	3.72	753	3.00	734	2.72	983	4.25	2053	8.08	6863	1143.83
Local Government	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	644	2.54	644	107.33
Others (Edu. House, Vehi. Personal)	3856	14.26	3286	11.90	1912	7.62	4664	17.27	3408	14.75	2721	10.94	19846	3307.67
Total	**27037**	**100**	**27609**	**100**	**25106**	**100**	**27001**	**100**	**23247**	**100**	**24871**	**100**	**155435**	

(Source: Annual Audit Report of RBB)

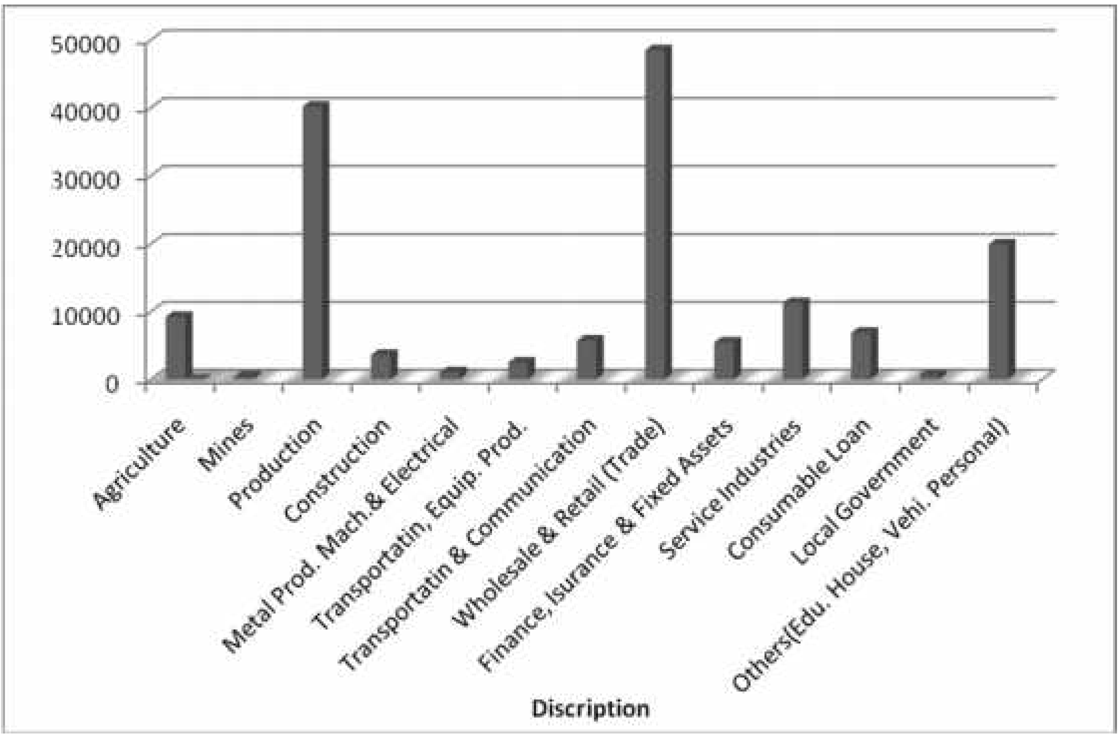
The above table 4.19 exhibits the loan outstanding and proportion of loan on different sector for six consecutive years. The proportions of sector wise loan ranged from 40.80% highest to 0.10% lowest during in the study periods. According to the above table the total loan flows were Rs. 27037, 27608, 25106, 27001, 23247 and 24871 million in the FY 058/059 to 063/064 respectively. As per the table, the wholesale and retail (Trade) sector occupied the highest proportion of total loan and advances during the study period except the FY 062/063. The highest percentage of loan was provided to production sector i.e. Rs. 6833 million out of Rs. 23103 million, which covered 29.58% in the FY 062/063.

Similarly, the lowest percentage of total loan was occupied by mines sector, which were; 0.17%, 0.22%, 0.10%, 0.14%, 0.23% & 0.66% in the FY 058/059 to 063/064 respectively. Likewise the production and others (consumer financing) loan sectors were also the major sector, which ranked 2nd and 3rd respectively in terms of proportion during the study period. As per the above table, it can be concluded that the amount of loan offered to agriculture sector was in decreasing trend where as other sectors were in fluctuating trend from the FY 058/059 to FY 063/064.

The table 4.19also shows the average loan of RBBL in the six years period on different sector. According to the table highest loan flowed was in the wholesale and retail trade i.e. Rs. 8100.67 million in six years period. Likewise it seems that the lowest average loan was disbursed to the mines sector in the six years period was Rs. 64.4 Million. The total loan & advances made by the bank on different sector in six consecutive years can be shown from the following Figure;

Figure 4.2

Sector wise Loan Classification



The above diagram shows proportion of outstanding loans of RBBL on different sectors. The figure 4.2 demonstrates the fact that wholesale and retail trade sector occupied highest part of figure, then after production, consumer loan, service industries sector, agriculture sector loan respectively. Likewise from the above figure, it is clear that the mines sector covered the smallest part of the total loan outstanding.

4.5 Security wise Loan Classification

Commercial bank's main function is collected money as a deposit from different client and borrow loan from other bank, government and NRB. This collected money is reinvested as a loan and advances to client. Bank creates profit from difference of interest rates between borrowing and lending money.

Credit is an important function of bank with a lot of risk. Money invests at right business organization, profitable organization is necessary to earn profit. If bank invested huge amount at wrong place due to miss calculation, it is reason of loss.

Banks survive with profit depend upon the right lending. The bank has provided loan and advances to its customer on the basis of different acceptable securities. The major securities are; moveable/ immoveable securities (including gold & silver, land & buildings, hypothecation, pledge) government guarantee, government bond, receipt of fixed deposit, counter guarantee, personnel guarantee etc. The outstanding of loans and advances which were provided by the bank on the basis of different sectors as follows.

Table 4.20

Security wise Loan Classification of RBBL

(Rs. In Million)

Description	**058/059**		**059/060**		**060/061**		**061/062**		**062/063**		**063/064**		**∑X**
Movable Immovable Assets	22276	82.4	21706	81.6	22163	88.3	25820	95.6	21686	93.3	22726	91.4	136377
Guar. of Licensed Inst.	-	-	-	-	619	2.5	33	0.1	198	0.9	169	0.7	1019
Government Guarantee	-	-	-	-	6	0.02	8	0.03	4	0.02	3	0.01	21
Export Documents	219	0.8	218	0.8	10	0.0	10	0.0	-	-	-	-	457
RBB's Fixed Deposit	284	1.1	236	0.9	195	0.8	99	0.4	88	0.4	55	0.2	957
Government Bonds	28	0.1	37	0.1	60	0.2	30	0.1	46	0.2	353	1.4	554
Personal Guarantee	-	-	-	-	38	0.2	54	0.2	-	-	5	0.0	97
Other securities	1734	6.4	1646	6.2	30	0.1	59	0.2	0.26	0.0	813	3.3	4282
Unsecured	2496	9.2	2766	10.4	1985	7.9	888	3.3	1225	5.3	745	3.0	10105
Total	**27037**	**100**	**26609**	**100**	**25106**	**100**	**27001**	**100**	**23247**	**100**	**24871**	**100**	**153869**

(Source: Annual Audit Report of RBB)

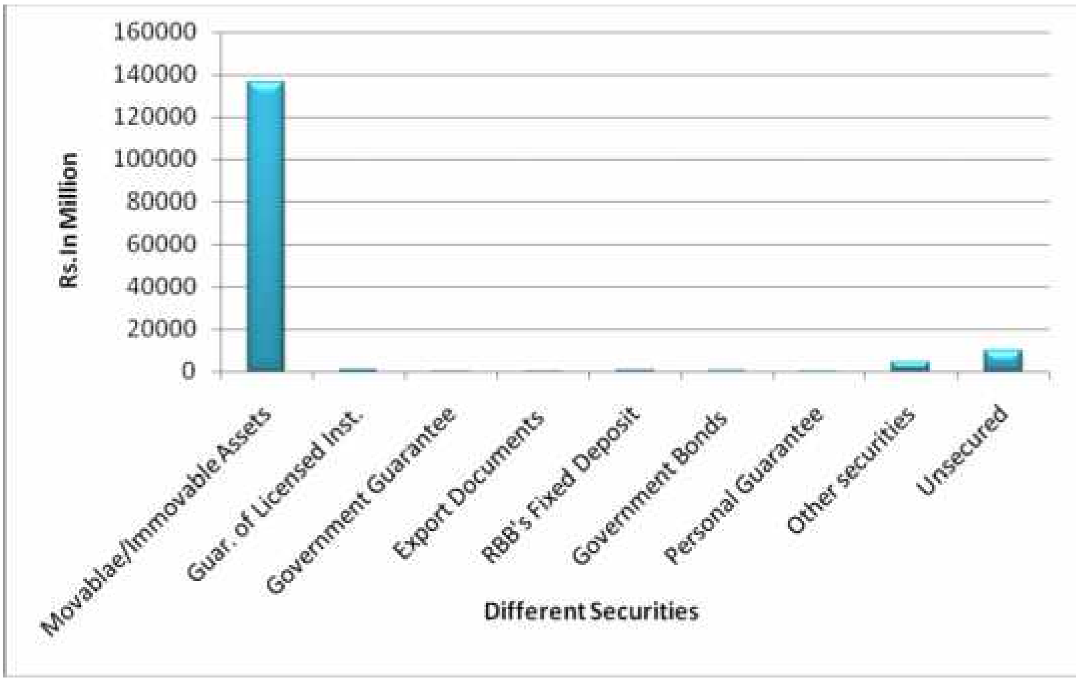
The above table 4.20 shows the loans outstanding amount and proportion of different securities in six consecutives years. According to the above table, it can be founded that the RBBL providing loan and advances to its customers on the basis of different securities like moveable & immovable security, guarantee of local institutions, government guarantee, receipts of fixed deposit, government bond, personnel guarantee etc. The ratio of security wise loan and advances ranged from 95.6% highest to 0.01% lowest during the study period. The moveable/immoveable security including gold & silver, land & building, plant & machinery, vehicle, hypothecation, pledge etc occupied the highest ratio of total loan and advances in all fiscal years. The amount Of Rs. 22276 million was provided on the basis of moveable/immoveable security in the FY 058/059, which covered the 82.4% of total loans and advances. The percentage of loan under such security was same in the FY 059/060 too. Similarly the ratio of this security to total loan and advances were increasing trend, which were 81.6%, 88.3%, 95.6%, 93.3% and 91.4% in the FY 059/060 to 063/064 respectively.

Likewise, the lowest loan granted against government guarantee during the study period. The amount of loan on such type of security was zero in FY 058/059 and 059/060. It was only Rs 6 million in the FY 060/061, which covered only 0.02 % of total loan and advances. Similarly, it was reduced to Rs. 3 million in the FY 063/064 covering only 0.01% of total, which was the lowest ratio.

The ratios of un- secured loan was increasing up to the FY 059/060. The amount of unsecured loan was Rs. 2496 million in the FY 058/059, covering 9.2% of total loan. After increased by 10.81% than the previous year it reached to Rs. 2766 million, which was ocuupied10.40% out of total loan and advances in the FY 059/060. Then it was decreasing in last four years. The ratio of unsecured loan were 7.9%, 3.3%, 5.3% and 3% in FY 060/061 t0 063/064 respectively. As per the above table, it can be concluded that the amount of loan providing against moveable/immoveable securities were in increasing trend where as other securities were in fluctuating trend from FY 058/059 to FY 063/064.The total loan and advances made by the bank on different securities in six consecutive years can be shown from the following figure;

Figure 4.3

Security Wise Loan Classification



The figure 4.3 shows proportion of outstanding loans on different securities. The figure demonstrates the fact that moveable and immovable security (including gold & silver, land & buildings, hypothecation, pledge) occupied highest part of total loan and advances during the study period, then after unsecured and other security respectively. Likewise from the above figure, it is clear that the guarantee of local licensed institutions, government guarantee, export documents, RBB's fixed deposit, government bonds and personnel guarantee covered the nominal part of the total loan outstanding.

4.6 Loan and Advances (Credit) to Total Deposit Ratio

Loan and advances (Credit) and deposits are the major functions of commercial banks. The relationship between these functions shows the efficiency, ability and idle resources of commercial banks. The ratio of loan and advances to total deposits i.e. (CD) ratio shows the effective utilization of 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. The following table 4.21 shows that how much the bank is successful in mobilizing the collected resources i.e. deposits collected from public in terms of loan & advances for the 6 years this research period.

Table 4.21

Comparative analysis of Loan and Advances to Total Deposit

(Rs. In Million)

Periods	**Total Deposit**		**Loan & advances**		**CD Ratio %**
	Amount	**% of total**	**Amount**	**% of total**	
2058/059	38993	15.06	27037	17.57	69.3
2059/060	39402	15.22	26609	17.29	67.5
2060/061	40867	15.78	25106	16.32	61.4
2061/062	43016	16.61	27001	17.55	62.8
2062/063	46195	17.84	23247	15.11	50.3
2063/064	50464	19.49	24871	16.16	49.3
Total	**258937**	**100.00**	**153870**	**100.0**	
Mean	43156		25645		60.10
S.D.	4069		1375		
CV	9.43		5.36		

(Source: Annual Report of RBB)

The above Table 4.21 shows that the RBBL had the highest Credit Deposit (CD) ratio of 69.3 percent in the F.Y.2058/059 and the lowest ratio of 49.3 percent in the FY 2063/064 which revealed that the bank was able to utilize the maximum collected resources of Rs. 27037 million in the FY 2058/059 and minimum of Rs. 23247 million in the FY 2062/063 interms of loan and advances. On the average of 6 years of research period, the CD ratio was 60.10 percent. Similarly, the mean of total deposit and loan and advances for the 6 years of period was Rs. 43156 million and Rs. 25645 million respectively and the cofficient of varition (CV) between them was 9.43 percent and 5.36 percent respectively. The higher the value of CV, the less will be uniformity and the smaller the value of CV, the more will be the uniformity.

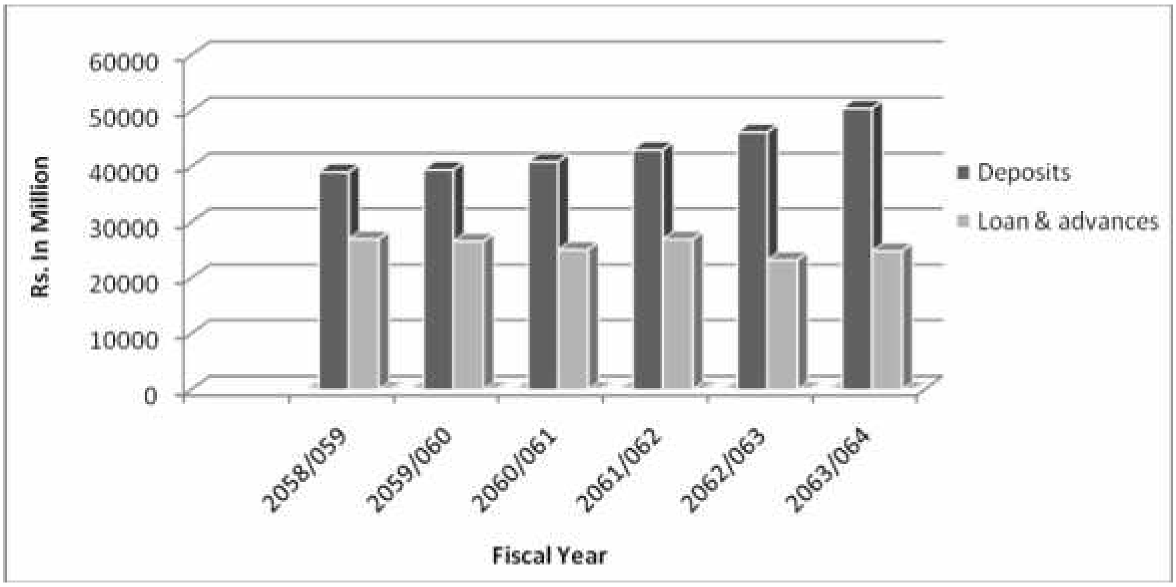
Since the CV of total deposit was more in comparision with loan and advances, it was less uniformity & consistency with respect to loan and advances.

The total deposit in the FY 2058/059 was Rs. 38993 million which was the smallest amount of deposit during the study period. From the FY 2059/060 it took its speed in increasing trend with the maximum deposit of Rs. 50464 million in the FY 2063/064. On the average of 6 years of study period, the bank could utilize only 60.10 percent of its collected resources in loan and advances. This showed that the collected deposit of bank was not fully utilized and high amount of deposit had been kept as idle. Since the bank has to bear high cost on its liquidity fund, the bank should manage to utilize the deposit fully by investing them in proper and safe way, so that the recovery can be done coninuously without any additional new NPA or overdue loan in coming future.

The comparision between the deposit collected by the bank and loan & advances made by the bank for the 6 years from FY 2058/059 to FY 2063/064 can be shown from the following Figure;

Figure 4.4

Graphical Representation showing trend in Deposit Collection and Loan & Advances of RBBL for 6 years



From the above figure, it can be found that the bank was huge idle fund collected from the public during the study period. The bank has to pay interest regularly and also has to bear other costs. Thus, it requires to be invested in proper and safe way and earn more profit in order to strengthen the bank internally to compete with other joint venture banks.

4.7 Analyzing Loan Classification and Loan Loss Provision

Providing the loan to customer is an important & risk able function of every bank and financial institutions. The growth and advancement of financial institutions must depend upon the quality and quantity of the loan. Then the bank should be managed credit administration properly. Loan classification and loan loss provision is a system for managing credit risk.

Nepal Rastra Bank, which is the central bank of Nepal issues different directives from time to time to enhance the strength of bank. As per the NRB directive no 2 related to loan classification and loan loss provisioning on the credit, the bank and financial institutions should classify their loan and advances in four different categories and has to make provision for such classified loan are as follows.

Category of Loan	Rate of provisioning
Pass	1 percent
Sub-standard	25 percent
Doubtful	50 percent
Loss (bad)	100 percent

Pass loan is called performing loan and others; sub-standard, doubtful & loss loans are called non performing loans. The loan classification and loan loss provisioning of Rastriya Banijya Bank for the 6 consecutive years are given below.

Table 4.22

Loan Classification of Loan as per Quality

Rs. (in Million)

Fiscal Year	**Pass**		**Sub-stand.**		**Doubtful**		**Bad**		**Total Overdue**	**Total**
	Amt	%	Amt	%	Amt	%	Amt	%		
058/59	12148	44.93	2660	9.84	5628	20.82	6601	24.41	14889	27037
059/60	10604	39.85	1414	5.32	4296	16.14	10295	38.70	16005	26609
060/61	10635	42.37	707	2.82	1794	7.15	11969	47.68	14470	25106
061/62	13312	49.30	519	1.92	582	2.16	12588	46.62	13689	27001
062/63	14624	62.91	255	1.09	390	1.68	7978	34.32	8623	23247
063/64	17995	72.35	125	0.50	174	0.70	6577	26.44	6876	24871

(Source: Annual Audit Report of RBB)

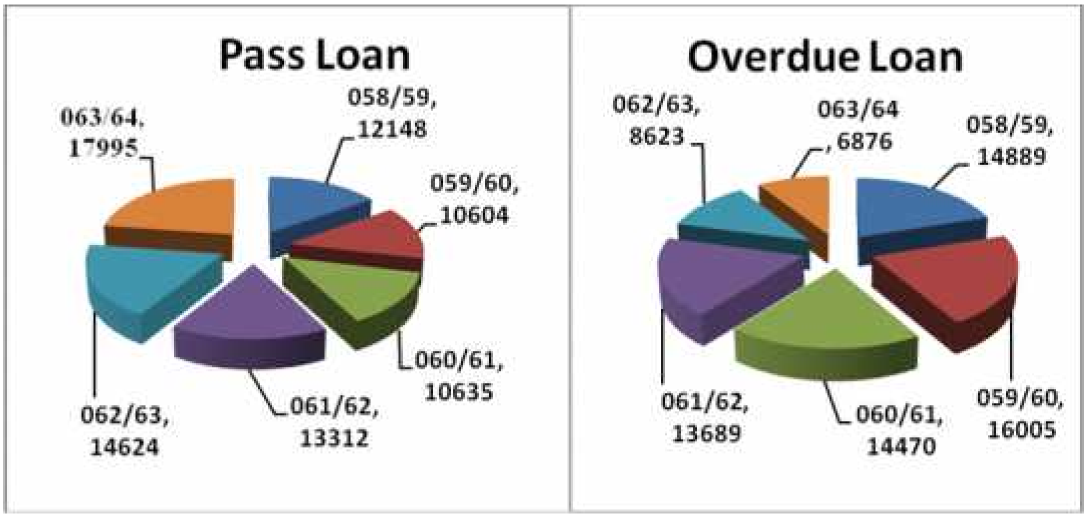
The above Table 4.22 exhibits the loan classification under the quality for six consecutive years. The amounts of pass loan ranged from Rs.10604 million to Rs. 17995 million during the study periods. From the table it is clear that the pass or performing loan of bank was in decreasing trend from the FY 058/059 to 060/061. The amounts of pass loan were Rs. 12148, 10604 & 10635 million, in the FY 058/059, 059/060 and 060/061 respectively. The proportion of pass loan out of total loan and advances were 44.93%, 39.85% & 42.37% in first three FY respectively. From the above table, it can be concluded that the proportion of pass loan which is the main source of income, have been increased from the FY 061/062 to 063/064 than the previous year. The percentages of such loan including restructuring loan were 49.30%, 62.91% and 72.35% in the FY 061/062, 062/063 and 063/064 respectively, which figure indicated that the bank was improving in its portion of pass loan in last two fiscal years than the previous years.

The loans, which are due from the last 3 to 6 months, are categorized in sub-standard loan. The table shows that the amount of sub-standard loan ranged from 2640 million to 125 million during the research period with in decreasing trend. The ratios of such loans were lies between 9.84% to 0.50%. Likewise, the percentages of doubtful loan were 20.82%, 16.14%, 7.15%, 2.16%, 1.68% and 0.70% in six fiscal years respectively.

The loans, which are due from last one year, come under the category of loss. The ratios of loss loan were 24.41% & 38.70% and 47.68% in first three years and 46.62% & 34.32% and 26.44% in second three years respectively. According to the table, the loss loan which covered the huge proportion of total loan, creating the most problem to recovery in the bank. There are different reasons contributing for the increase in the level of NPL in RBB. Lack of guiding rules, accountability and responsibility, political interference, business failure, poor monitoring, insider lending and poor governance are some reasons for this.

Figure 4.5

Graphical representation showing trend in Pass and Overdue Loan & Advances



The diagram 4.5 shows the classification of loan and advances into pass category and overdue category. From the above figure, it is cleared that the pass loan was in decreasing trend in the first two fiscal years. But the portion of pass category loan was increasing in the last four fiscal years study period. Likewise the overdue category loan was increasing in first two years and then it was decreasing in last four years of the study period.

Table 4.23

Loan Loss Provision as per the classification of Loan and Advances

Rs. (in Million)

Fiscal Year	**Pass**		**Restructure**		**Sub-standard**		**Doubtful**		**Bad**		**Additional**	**Total**	**Up to last yr**	**Cur. Yr change**	**Profit & Loss**
	AMT	%	AMT	%	AMT	%	AMT	%	AMT	%					
2058/059	109	0.90	0	0	587	22.1	2649	47.1	6349	96.2	3654	13348	7578	5770	(7083)
2059/060	98	0.92	0	0	294	20.8	1919	44.7	9906	96.2	2712	14929	13348	1581	(4839)
2060/061	428	4.02	0	0	158	22.3	777	43.3	11422	95.4	1490	14275	14929	-654	1040
2061/062	125	1.03	299	25.6	124	23.9	264	45.4	11919	94.7	839	13570	14275	-705	1323
2062/063	141	1.02	323	38.4	57	22.4	189	48.5	7903	99.1	0	8613	13570	-4957	1591
2063/064	175	1.04	471	39.6	19	24.05	59	47.58	6667	101.3	0	7391	8613	-1222	1671

(Source: Annual Audit Report of RBB)

The above Table 4.23 shows the amount and percentage of loan loss provision maintained by RBB in different fiscal years. The percentage of provision on pass loan during the study period was found as 0.9%, 0.92%, 4.02%, 1.03%, 1.02% and 1.04% respectively. As per the NRB directives, the provision should have 1% of pass loan. According to the table, it can be found that the percentage of pass loan slightly below than deadline in first two years i.e.058/059 to 059/060 but last four years the bank has able to maintained loan loss provision as determined by NRB. Likewise, the provision for the loan, which is rescheduled or restructured, is 12.5 Percent. But the given table shows that the percentages of provision for restructuring loan were 25.6% and 38.4% & 39.6% in the FY 061/062, 062/063 and 063/064 respectively which were more than determined by NRB.

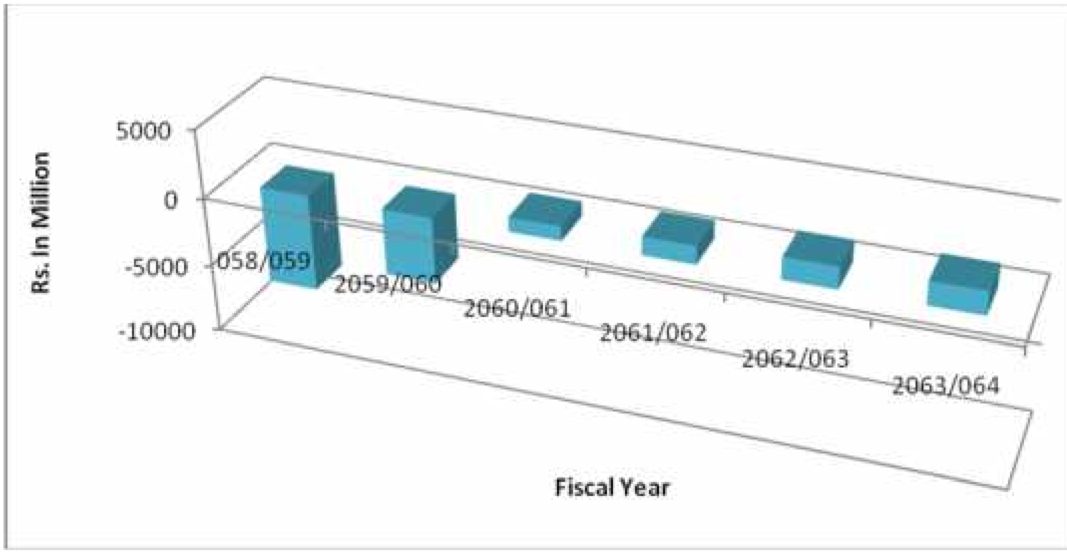
Similarly, as per the NRB directives, the provision should have 25%, 50% and 100% of sub-standard, doubtful and bad loan respectively. The loan falling under sub-standard, doubtful and loss categories is termed as Non-performing, which was in increasing trend during the study period. The above table indicates that the percentage of provision for Non-performing loan slightly below than deadline prescribed by NRB. The percentages of provision for sub-standard loan ranged from lowest 20.8% to highest 24.05%, for doubtful loan ranged from 43.3% to 48.5 % and for loss loan ranged from 94.7% to 101.3% in six consecutive years. Although the table shows, the percentage of provision for loan slightly less than rate determined by NRB on the basis of category of loan, the overall provision which was made by bank in the end of every fiscal year was in satisfactory level.

The amount of total loan loss provisions were Rs.13348 million, Rs.14929 million, Rs.14275million, Rs.13570 million, Rs. 8613 million and Rs. 7391 million in the six fiscal years respectively, which showed that the amount of total loan loss provision was in increasing trend from the FY 058/059 to 059/060, where as it was decreasing from the FY 060/061 to 063/064. It means there was high proportion of NPA in total loan and advances in first three years of study period and vice versa.

There are adverse relationship between loan loss provision and profitability of bank. If amount of loan loss provision increases, there will decrease in amount of profit and vice versa. According to the above table, it found that the RBB had suffered from huge amount of losses Rs.7083 and 4839 million in the FY 058/059 to 059/060 respectively due to the provisioning of huge amount in loan and advances than previous years. Likewise the bank has been able to earn profit from the FY 060/061 to 063/064 amounting Rs. 1040, 1323, 1591 and 1671 million respectively, whereas the amount of loan loss was decreasing than previous year. It is cleared that the loan loss provision directly affects to Net profit.

Figure 4.6

Graphical representation showing trend in Net profit of Bank



The figure 4.6 shows the Net profit position of bank during the study period of six consecutive years. As per the figure, the net profit of bank was in negative at the first two fiscal years. The RBB was suffered from huge amount of losses Rs. (7083) and (4839) million in the FY 058/059 to 059/060 respectively. But the profit position of bank was in positive within increasing trend from the FY 2060/061 to FY 2063/064. It can be found that the bank has been able to earn accumulated profit of Rs. 5625 million in the last four fiscal years.

4.8 Performing and Non-performing Loan & Advances of RBBL

Pass loans are those loans that repay principle and interest timely to the bank from the cash flow it generates. As per NRB directives the loans classified as pass category is termed as per performing loan. Performing loans to total loans and advances ratio determines the proportion of performing loans in the total loan portfolio. Higher ratio implies the good quality of loans of the banks. It should be 100 percent for the better performance and good financial health of the bank.

As per NRB directives the loan falling under category of sub-standard, doubtful and loss are regarded as non- performing or overdue loan. Higher ratio implies the bad quality of assets of banks in the form of loan and advances. Hence lower NPL to total credit ratio is preferred. As per the international standard only 5% NPL is allowed but in the context of Nepal 10% NPL is acceptable.

Table 4.24

Comparative analysis of Pass and Overdue Loan and Advances

(Rs. In Million)

Periods	**Performing Loan**	**Ratio %**	**Non-Performing**	**Total Loan**	**NPA %**
2058/059	12,148	44.90	14,889	**27,037**	55.10
2059/060	10,604	39.80	16,005	**26,609**	60.20
2060/061	10,635	42.40	14,471	**25,106**	57.60
2061/062	13,312	49.3	13,689	**27,001**	50.70
2062/063	14,624	62.9	8,623	**23,247**	37.10
2063/064	17,995	72.36	6,877	24,871	27.64
Mean	51.94				48.06
S.D.	11.78				11.80
CV	22.68				24.49

(Source: Annual Audit Report of RBB)

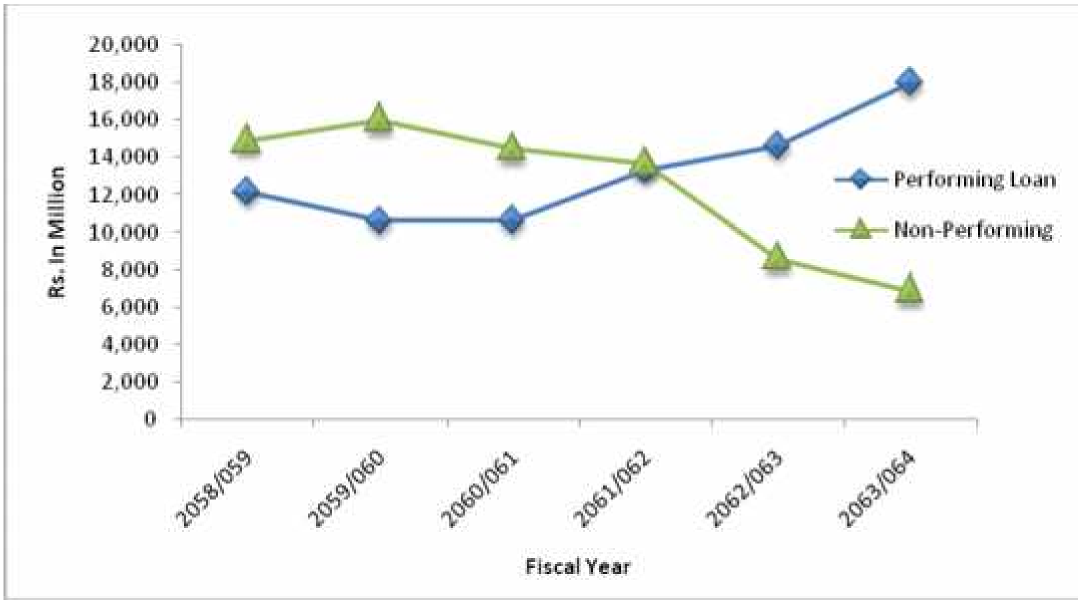
The above Table 4.24 shows the performing loan, non-performing loan and total loans and advances of the bank for six consecutive years. The overall ratios of performing loan and Non-performing loan (NPA percent) had been ranged from 39.8% to 72.36% and 60.20% to 27.64% respectively in six consecutive years. The table shows that the performing loan was in decreasing trend in the first two years i.e. the FY 058/059 to 059/060. The performing loan was Rs. 12,148 million in the FY 2058/059, which was the 44.90 percent of total loan and advances. After decreasing by 12.71% it reduced to Rs. 10,604 million which was 39.80% of total loan and advances in the FY 2059/060. But it was in increasing trend in the last four years of study period i.e. the F.Y.2060/061 to 2063/064. Similarly, the percentage of performing loans out of total loan and advances were 42.40%, 49.30%, 62.90% and 72.36% in the FY 060/061, 061/062, 062/063 & o63/064 respectively. According to the above table, it can be concluded that the amount of performing loan of Rastriya Banijya Bank was in fluctuating trend during the study period.

Similarly, the above table indicates that the Non-performing loan and NPA percent of bank was in increasing trend in the first two fiscal years. The overdue loan of bank was Rs. 14,889 million in the FY 2058/059, which was 55.10% of total loan and advances. The loan reached to Rs. 16,005 in the FY 2059/060, after increased by 7.50% than the F.Y.058/059, covered 60.20% of total loan and advances, which was the highest NPA percentage of bank during the study period too. But the table also shows that the NPA percentage of bank was decreasing from the FY 2060/061 to 063/064. There was Rs. 13,689 million at form of overdue loan in the FY 2061/062, whereas it was Rs. 14,471 million in the FY 2060/061. After decreasing by 37 percent than the FY 061/062, it was reached to Rs. 8,623 million in the FY 2062/063, which covered only 37.10 percent of total loan & advances. The NPA loan reduced to Rs. 6877 million in the year 063/064 which was only the 27.64% of total loan and advances. Hence from the above table, it can say that the performing loan of bank has been gradually increasing, where as the non- performing loan has been decreasing from the FY 2060/061 to 2063/064. Although the NPA was in decreasing trend, it was also higher than international standards.

The mean ratio & standard deviation of performing loan were 51.94 & 11.78, respectively. Likewise they were 48.06 & 11.77 in the case of Non- performing loan. Thus it signifies that the Non- performing loan had higher deviation with higher degree of variation and the performing loan had lower deviation with lower degree of variation in this ratio.

Figure 4.7

Comparative analysis of Performing and Non Performing Credit



As per the above figure the non performing loan curve was in upward up to the FY 059/060, then it was downward slope to the FY 063/064, which indicated the fact that amount and percentage of non performing loan was in increasing trend up to the FY 059/060 then after it was in decreasing trend. Likewise the performing loan curve begins to decrease from the FY 058/059 and finally it was slightly rise up. The performing and non forming loan curve intersects each other in the FY 061/062 which shows that the bank's financial and credit efficiency position was not satisfactory level during the study period.

4.9 Analyzing Interest Income Generating from credit to Total Income

Profit is the ultimate goal of every commercial bank. They involve in business for making profit. Profit can not be achieved easily. It should be managed well with better managerial skills. There are different sources of income which generate profit in the bank. Income from interest of commercial bank is a main source of income. The interest income is received from providing credit facility to various manufacturing, non- manufacturing industries, service sector business as well as financing to government bond, debt, company's debenture etc. Although, interest income receives from various sources, the interest income generating from loan and advances cover huge proportion out of total income of bank. Total income includes interest income, commission & discount, exchange equalization income, non operating income, other income and writes back provision for possible losses etc. The interest income and total income of bank are presented below.

Table 4.25

Comparative analysis of Interest Income from Credit to Total Income

(Rs. In Million)

Periods	**Int. income from Loan & Advances**	**Total Income**	**Ratio**
2058/059	1745	2123	82.20
2059/060	2051	2356	87.05
2060/061	2236	3765	59.39
2061/062	2329	3510	66.35
2062/063	2283	4299	53.11
2063/064	2355	4237	55.58
Total	**12999**	**20290**	
Mean	2166.5	3381.67	
SD	212.66	853.70	
CV	9.82%	25.24%	

(Source: Annual Audit Report of RBB)

The Table 4.25 shows the comparative analysis of interest income generating from loan and advances which is the main source of bank for six consecutives years. The ratio of interest income from credit to total income ranged from 87.05% highest ratio in the FY 059/060 to 53.11% the lowest ratio in the FY 2062/063. According to the table, interest income was Rs. 1745 million in the FY 058/059, which occupied 82.20% of total income i.e. Rs. 2123 million. After increased by 17.54% than previous year, it reached to Rs. 2051 million in the FY 059/060, which occupied 87.05% of total income. Similarly, the interest incomes were Rs. 2236, Rs. 2329, Rs.

2283 & Rs. 2355 million where as total incomes were Rs.3765, Rs. 3510, Rs. 4299 and Rs. 4237 million in the FY 060/061 to 063/064 respectively. As per the above table it can be found that the interest income was in slightly increasing trend, which ranged between Rs. 1745 million to Rs. 2355 million. On the other hand the total income of bank increased by 100 percent in the FY 062/063 than the FY 058/059, which ranged between Rs 2123 million to Rs. 4299 million, due to the huge amount received from write back of provision for possible losses.

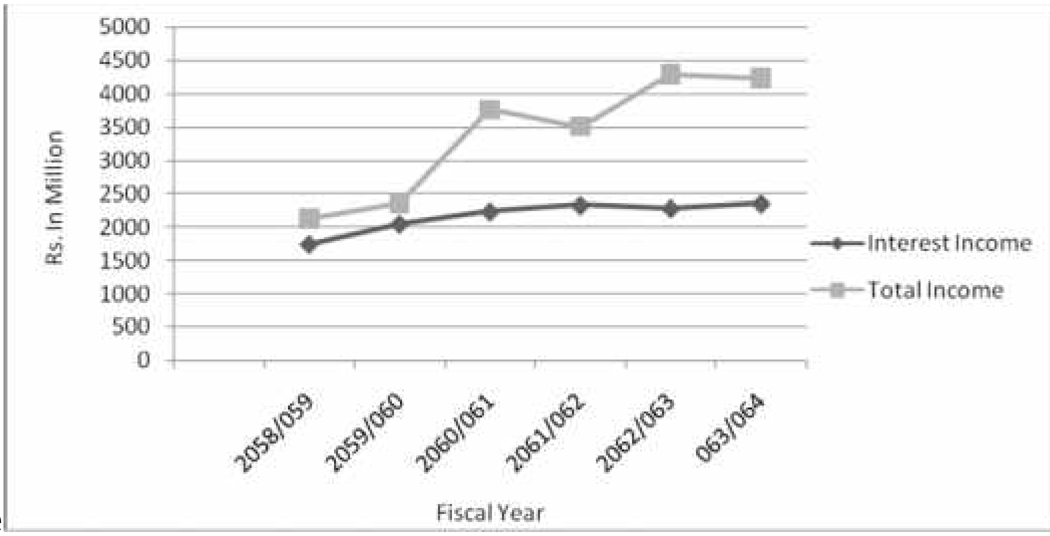
The above table also shows that the proportion of interest income were 82.20%, 87.05%, 59.39%, 66.35%, 53.11% and 55.58% out of total income of bank in the FY from 058/059 to 063/064 respectively. Which proportion indicates that the interest income generating from loan and advances played the major role to total income of bank. As a result it can be concluded that the interest income is major source of every bank's total income.

The standard deviation of interest income generated from loan and advances and total income were 212.66 and 853.70 respectively. Thus it signified that the interest income had lower deviation with lower degree of variation and total income had higher deviation with higher degree of variation.

The interest income generated from loan & advances and total income received by the bank in six consecutive years can be shown from the following Figure;

Figure 4.8

Comparative Analysis of Interest Income from Loan and Total Income



The diagram 4.8 shows amount & proportion of interest income received from loan and advances of Rastriya Banijya Bank in during the study period. From the figure 4.7 demonstrates fact that the interest income generating from loan and advances was in slightly increasing than the previous years where as the total income of bank was in increasing trend.

4.10 Correlation Analysis

Correlation may be defined as the degree of linear relationship existing between two or more variables. The variable are said to be correlated when the change in the value of one results change in another variable.

4.10.1 Correlation between Loan & Advances and Loan Loss Provision

The correlation between loan and advances and loan loss provision shows the degree of relationship between these two items. How a unit increment in loan and advances affect the loan loss provision is measured by this correlation. Here loan and advances is independent variable and LLP is depending variable.

Table 4.26

Correlation Coefficient between Total Loan & Advances and LLP

(Rs. In Million)

Fiscal Year	Loan & Advances	Provision
	X	Y
058/059	27037	13348
059/060	26609	14929
060/061	25106	14275
061/062	27001	13570
062/063	23247	8613
063/064	24872	7391
∑	153872	72126
r	0.72	
PE	0.1326	
6(PE)	0.7956	

(Source: Appendix III; a)

Above table 4.26 explains the relationship between loan and advances and loan loss provision. Here the correlation coefficient between loans and loan loss provision was 0.72. It shows that there was the positive correlation between two variables. Comparing r with probable error, it can be said that there was no significant relationship between them because; 6PE was greater than correlation coefficient. In other words, the total LPP of RBB was positively correlated with the NPL, increased in LLP was due to increased in total loan and advances.

4.10.2 Correlation between Non- performing Loan and Loan and Advances

The correlation between NPL and loan & advances shows the degree of relationship between these two items. How a unit increment in loan & advances affect the NPL measured by this correlation. Here loan & advances is independent variable and NPL is depending variable.

Table 4.27

Correlation Coefficient between Loan & Advances and NPL

(Rs. In Million)

Fiscal Year	Loan & Advances X	NPL Y
2058/059	27037	14,889
2059/060	26609	16,005
2060/061	25106	14,471
2061/062	27001	13,689
2062/063	23247	8,623
2063/064	24872	6,877
∑	153872	74,554
r	0.74	
PE	0.124	
6PE	0.744	

(Source: Appendix III; b)

The above table 4.27 shows the relationship between non-performing loan and loan advances. Here the correlation coefficient between loan and advances and NPA loan was 0.74. It shows that there was the positive correlation. Comparing r with probable error, it can be said that there was no significant relationship between them because; 6PE was greater than correlation coefficient. In other words, the total NPA loan was positively correlated with the total loan and advances. The increased in NPA loan was due to increased in total loan and advances in first three years of study period.

4.10.3 Correlation between Performing Loan and Loan and Advances

The correlation between PL and loan & advances shows the degree of relationship between these two items. How a unit increment in loan & advances affect the PL measured by this correlation. Here loan & advances is independent variable and PL is depending variable.

Table 4.28

Correlation Coefficient between Loan & Advances and PL

(Rs. In Million)

Fiscal Year	Total Loan & Advances X	Performing Loan Y
058/059	27037	12,148
059/060	26609	10,604
060/061	25106	10,635
061/062	27001	13,312
062/063	23247	14,624
063/064	24872	17,995
∑	**153872**	**79,318**
r	**-0.45**	
PE	**0.22**	
6PE	**1.32**	

(Source: Appendix III; c)

The table 4.28 explains the relationship between performing loan and loan advances. The correlation coefficient between loan and advances and performing loan was -0.45. It shows that there was the negative or adverse correlation between two variables. The value of correlation coefficient was less than 6PE, so the correlation said to be not significant. The total PA loan of RBB was negatively correlated with the total loan and advances. The correlation coefficient was negative because the total loans and advances were increasing but PL was in decreasing comparatively in the first three years. Then total loan and advances was in fluctuating but performing loan was in increasing trend in last three years.

4.10.4 Correlation between Non-Performing Loan and Net Profit

The correlation between NPL and Net profit shows the degree of relationship between these two items. How a unit increment in NPL affect the Net Profit is measured by such correlation.

Table 4.29

Correlation Coefficient between NPL & Net Profit

(Rs. In Million)

Fiscal Year	Net Profit X	Non-Performing Loan Y
058/059	-7083	14,889
059/060	-4839	16,005
060/061	1040	14,471
061/062	1323	13,689
062/063	1591	8,623
063/064	1671	6,877
∑	-6297	74,554
r	-0.64	
PE	0.163	
6PE	0.98	

(Source: Appendix III; d)

The table 4.29 explains the relationship between the net profit and non-performing loan and advances. The correlation coefficient between net profit and NPA loan was -0.64. It shows that there was the negative or adverse correlation. The value of 6PE was greater than correlation coefficient, so the correlation said to be non significant. The Net Profit of RBB was negatively correlated with the NPL. The correlation coefficient was negative as the net profit was hugely negative but NPL was increasing first three years in the FY 058/059 to 060/061. Then after the net profit of bank was positive due to NPL was decreasing in last four years of study period. It means the bank was able to earn reasonable profit due to down sizing the NPL in the last four years.

4.11 Trend Analysis

In this chapter, examines the trend analysis of deposit, loan and advances and net profit and forecast trend for next five years. The measures of trend analysis show the behaviors of given variables in series of time. Commercial bank does not carry consistency overall the period. Sluggish economic situation, internal security situation, and other various factors affects in performance of the commercial banks. The objectives of this analysis are to analyze the trend of deposit collection, its utilization as a loan and advances and return as net profit of RBBL.

4.11.1 Trend Analysis of Total Deposit

Deposit is one of the major liabilities of commercial banks. Its trend is determined by various factors. Under this chapter, it can be calculated the trend values of deposit of RBBL for five years from the F.Y. 2059/060 to 2063/064 and forecast for next five years from the F.Y. 2064/065 to 2068/069. The following table shows trend value of deposits for ten fiscal years.

Table 4.30

Trend Value of Total Deposit of RBBL

(Rs. In Million)

Year	Trend Value of Deposit
2059/060	38498.4
2060/061	41243.6
2061/062	43988.8
2062/063	46734.0
2063/064	49479.2
2064/065	52224.4
2065/066	54969.6
2066/067	57714.8
2067/068	60460.0

2068/069	63205.2

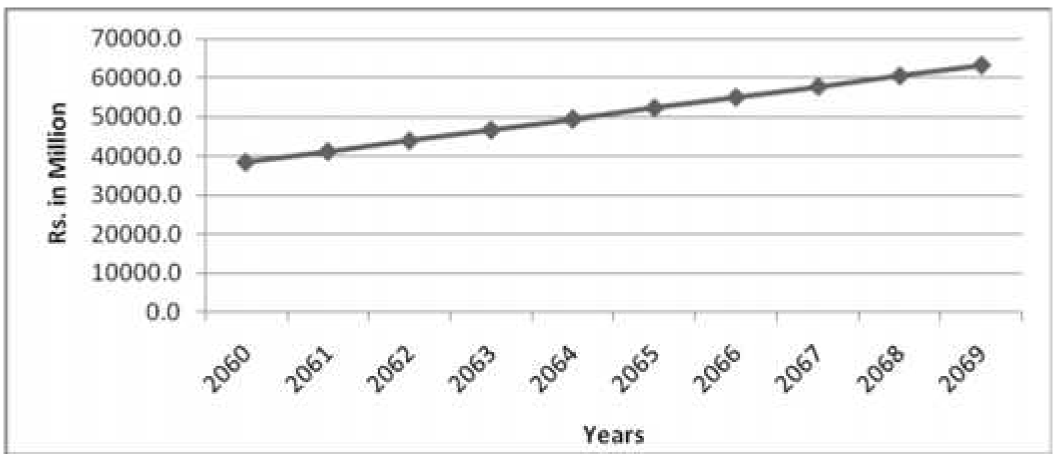
(Source: Appendix, IV, 1:a&b)

The above table shows the trend behavior of total deposit in RBBL. It was increasing trend other thing remaining the same, the total deposit of RBBL in end of Asadh 2069 is predicted to be Rs. 63205.20 million, which is the highest amount of bank during the study period.

The calculated value of trend of total deposit is presented in graph as trend line as follows.

Figure 4.9

Trend Value of Deposit



The figure 4.9 shows the trend value of deposit of RBBL. It was increasing trend during the study period. As per the figure, the trend value total deposit of bank was Rs. 38498.40 million in the F.Y. 2059/060. After increased by 7.13% than the previous year, it was Rs. 41243.60 million in the F.Y.2061/062. Likewise the trend values of deposits were Rs. 43988.8, 46734.0 & 49479.2 in the F.Y.2061/062 to 2063/064 respectively. As per the figure, it can be forecasted that, the total deposit of bank will be Rs. 63205.2 millions in the F.Y.2068/069, if other things remaining the same.

4.11.2 Trend Analysis of Loan and Advances

Lending is one of the major functions of commercial banks; its trend is determined by various factors. Under this topic, it can be calculated the trend values of loan and advances of RBBL for five years from the F.Y. 2059/060 to 2063/064 and forecast for next five years from the F.Y. 2064/065 to 2068/069. The following table shows the trend value of loan and advances for ten years from the F.Y.2059/060 to 2068/069.

Table 4.31

Trend value of Loan and Advances

Rs. In Million

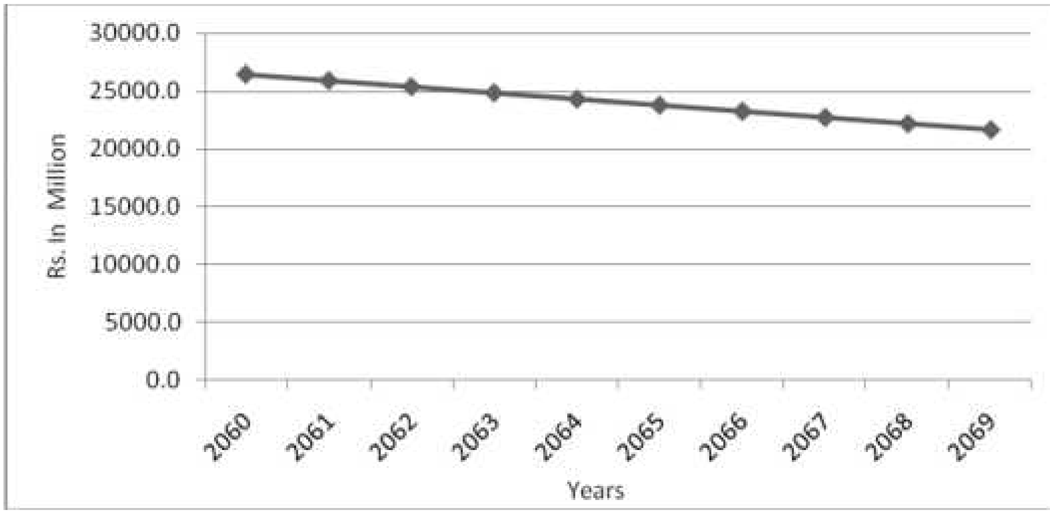
Year	Trend Value of Loan and Advances
2059/060	26433.8
2060/061	25900.3
2061/062	25366.8
2062/063	24833.3
2063/064	24299.8
2064/065	23766.3
2065/066	23232.8
2066/067	22699.3
2067/068	22165.8
2068/069	21632.3

(Source: Appendix, IV, 2:a&b)

The above table shows the trend behavior of loan and advances of RBBL, which was in the decreasing trend. Other thing remaining the same the loan and advances of RBBL in the F.Y. 2068/069 will be Rs. 21632.3 million, which was the lowest amount under this study period. The above calculated behavior of trend analysis of loan and advances pitted in the trend line as follows.

Figure 4.10

Trend Value of Loan and Advances



The figure 4.10 shows the trend value of loan and advances of RBBL. It was decreasing trend during the study period. As per the figure, the trend value total loan and advances of bank was Rs. 26433.80 million in the F.Y. 2059/060. After decreased by 2.02% than the previous year, it reduced to Rs. 25900.30 million in the F.Y.2061/062. Likewise the trend values of loan and advances were Rs. 25366.8, 24833.3 & 24299.8 in the F.Y.2061/062 to 2063/064 respectively. As per the figure, it can be forecasted that, the total loan and advances of bank will be reduced to Rs. 21632.30 millions in the F.Y.2068/069, if other things remaining the same.

4.11.3 Trend Analysis of Net Profit

Net profit measures the success of a firm in every aspects of its operation and strategy, its trend is determined by various factors. Under this chapter, it can be calculated the trend values of Net Profit of RBBL for five years from the F.Y. 2059/060 to 2063/064 and forecast for five years from the F.Y. 2064/065 to 2068/069.

Table 4.32

Trend value of Net Profit

(Rs. In Million)

Years	Trend Value of Net Profit
2059/060	-2557.0

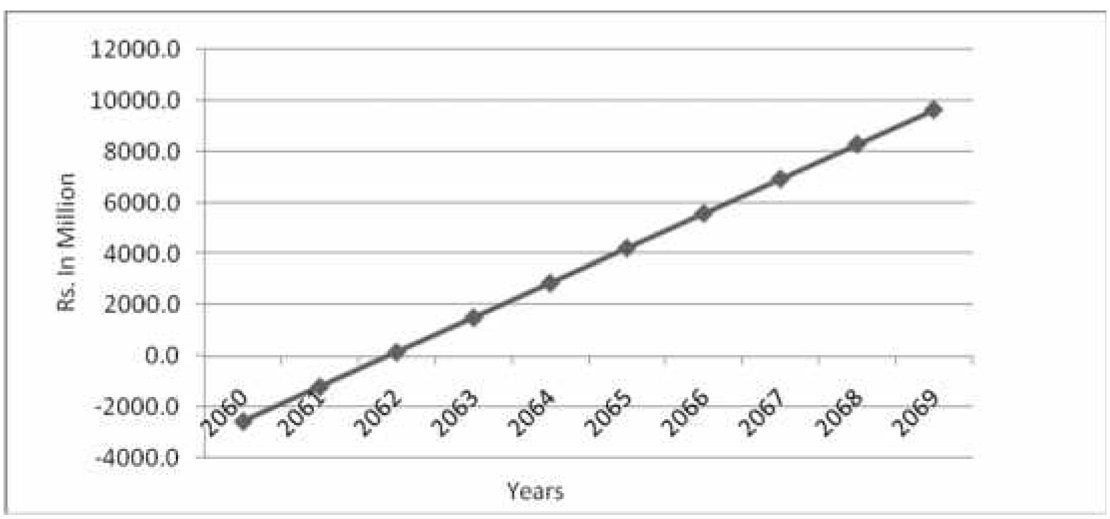
2060/061	-1199.9
2061/062	157.2
2062/063	1514.3
2063/064	2871.4
2064/065	4228.5
2065/066	5585.6
2066/067	6942.7
2067/068	8299.8
2068/069	9656.9

(Source: Appendix, IV, 3:a&b)

The above table shows the trend behavior of Net Profit of RBBL, which was negative in the F.Y 2059/60 & 2060/061, and then after it was increasing trend. Other things remaining the same, the net profit of RBBL in the F.Y. 2068/069 will be Rs. 9656.9 million, which was the highest amount under this study period. The calculated behavior of trend analysis of net Profit predicted in the trend line as follows.

Figure 4.11

Trend Value of Net Profit



The figure 4.11 shows the trend value of net profit of RBBL. It was negative in the first two fiscal years of the study period. As per the figure, the trend value of net profit of bank were Rs. (2557) and Rs. (1199.90) million in the F.Y. 2059/060 and 2060/061 respectively. After the F.Y. 2061/062 the bank was able to earn reasonable profit. The trend values of net profit were Rs.157.2, 1514.3& 2871.4 in the F.Y.2061/062 to 2063/064 respectively. As per the figure, it can be forecasted that, the net profit of bank will be Rs. 9656.90 millions in the F.Y.2068/069, if other things remaining the same

4.12 Major Findings

The followings findings were draw upon analysis of secondary and primary data.

- RBB, now ranks no 1 in terms of deposit, to the level of Rs.50464 million with a loan portfolio of Rs. 24871 million and NPA of 27.64% with most extensive banking network of over 114 branches serving approximately 1.2 million depositors and about 0.3 million borrowers.
- The bank has suffered from loss with accumulative loss of Rs. 11,922 million in first two years of study period. But the bank has been able to earn regular profit for the last four consecutive years amounting to Rs. 5625 million. This has contributed to lower the negative net worth from Rs. (22.39) billion to Rs (17) billion.
- During the study period total good loan increased by Rs 5,847 million with improved credit portfolio concentration across the diversified sectors.
- The NPA reduced to 27.64% from 55.10% with total bad loan recovery of Rs. 16 billion during the study period.
- The comparative analysis of credit position of RBBL to overall commercial bank ratio decreased from 24.20% to 10.86% during the study period due to increase in the cut throat completion in Nepalese financial sector and credit culture & service quality of the bank.
- The analysis of the total loan and advances against total deposit reveled that the CD ratio of bank decreased to 49.30% from 69.30% in six consecutives years of study period. It showed that the collected deposit of bank was not fully utilized and high amount of deposit was been kept as idle. The bank has to bear high cost on its liquidity fund.
- The analysis of current ratio and liquid fund ratio, it founded that the liquidity ratio of bank was very lower than standard norms over six year’s study period. Then the ratio indicated that the bank was not satisfactory liquidity position.

FY	058/59	059/60	060/61	061/62	062/63	063/64
CR	0.57	0.52	0.51	0.58	0.62	0.68
LFR	0.12	0.11	0.17	0.12	0.10	0.12

- The sector wise loan classification ratio indicated that the RBBL disbursed huge amount in wholesale and retail trade sector covering 40.80% out of total loan and advances and the least amount was disbursed in mines sector with only 0.10% of total credit. It showed that there was lack of diversity in loan and advances in Rastriya Banijya Bank.
- The loan loss provision decreased to Rs. 7391 million from Rs. 13348 million during the study period. It showed that the proportion of non- performing loan of bank has been decreasing.
- The ratio of performing loan to total loan and advances of bank increased to 73.25% in the FY 063/064 from 44.93% in the FY 058/059. It showed that the bank has been suffered from the problem of NPA loan in first three years of study period.
- The main objective of commercial bank is to earn profit through mobilization of fund. The average ratio of return on loan and advances was in negative sign, which reveled that the RBBL seems to be failure to earn return on loan and advance during the study period.

FY	058/59	059/60	060/61	061/62	062/63	063/64	Mean
Ratio	-0.53	-0.41	0.10	0.10	0.11	0.10	- 0.09

- The bank was running with operating loss in first two years of study period. But in the last four years the bank has been able to earn operating profit due to increase in net interest income.

Particulars	058/59	059/60	060/61	061/62	062/63	063/64
1.Interest Income	1745	2051	2236	2329	2283	2359
2.Interest Expenses	2347	2108	1495	1005	850	943
Net Interest Income	**-602**	**-57**	**741**	**1324**	**1433**	**1416**
3.Commission and Discount	215	211	310	288	290	343
4.Other Operating Income	78	84	146	116	110	285
. Exchange Fluct. Income	78	3	16	14	74	15
Total Operating Income	**-231**	**241**	**1213**	**1742**	**1907**	**2059**
6. Staff Expenses	759	3249	906	811	745	804
7. Other Overhead Expenses	243	245	230	234	289	343
Opt. Profit Before Provisions	**-1233**	**-3253**	**77**	**697**	**873**	**912**
Prov. for possible losses	5843	1594	11	137	663	315
Operating Profit	**-7076**	**-4847**	**66**	**560**	**210**	**597**

- The correlation coefficient between loans & advances and loan loss provision of RBBL was 0.74. Here correlation coefficient of RBBL is less than the value of 6 times PE, it is insignificant and there is no evidence of correlation. Hence increase in provision of RBBL is not due to increment in loans but due to increment in its non performing loans.
- The degree of relationship between NPL and loan & advances was found to be 0.74. It showed that there was a positive correlation coefficient between them. That means the trend of increasing volume of loan, also increases the non performing loan during the study period.
- The degree of relationship between performing loan and loan & advances was found to be -0.45. It showed that there was a negative correlation between two variables during the study period. The correlation coefficient was negative as

the loans and advances were increasing but PL was in decreasing comparatively in the first three years.

- The degree of relationship between net profit and NPL was negative i.e. -0.64, which showed that there was a negative correlation between them. The value of 6PE was greater than correlation coefficient, so the correlation said to be non significant. The correlation coefficient was negative due to negative net profit and incremental value of NPL in first three years of the study period.
- The trend behavior of total deposit in RBBL was in increasing trend during the study period. The total deposit of RBBL will be Rs. 63205.20 million in the F.Y. 2068/069.
- The total credit of RBBL was in decreasing trend during the study period. The total credit of RBBL will be Rs. 21632.3 million in the F.Y.2068/2069, it other things remain constant.
- The trend analysis showed that net profit of bank was in increasing trend and also expected to increase in coming years. The net profit of RBB will be Rs. 9656.90 million in the2068/069, if other things remaining the same.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Financial sectors have crucial role in the development of a country as it collects the national savings and lend it for further income generation. Banks play an important role in the economic development of a country as the issues of development always rest upon the mobilization of resources. Banks deal in canalizing the available resources to the needy sector causing overall economic development. This research was aimed at studying "Credit Management and Practices of RBBL" Descriptive analysis as well as statistical analysis were used to fulfill the study objectives. Out of the total population of 23 commercial banks RBBL was taken as sample by since it a first commercial bank operated under government sector. The sample was selected from only one government sector bank which is the largest commercial bank in terms of deposit, credit, NPA with most extensive banking network of over 114 branches. Both primary and secondary data were collected for the purpose of this study. Primary data have been collected through the questionnaire and direct interview and secondary data have been collected through annual audit report, magazine and news letter published by RBBL & NRB.

The data collected from various sources were recorded systematically and presented in appropriate forms of tables and charts and appropriate mathematical, statistical, financial tools were applied to analyze the data. The data of six consecutive years of the bank were analyzed to meet the objective of the study. There was higher proportion of non performing loan in the total loan and advances, which recorded 27.64% from 55.10% after the new management team took over the bank. As per international norms, NPA level should be maintained below five percent. Since higher provision was apportioned for NPL, its loan loss provision was also significantly higher in the period of first three years. However in last three years after new management period it recorded significant decrement in NPA & loan loss provision and increment in performing loan of the bank.

Most of loans of RBB were non - performing and hence it did not generate income instead demanded high provision for probable loss. There was negative return on loan and advances in RBB. Possibility in the field of earned profit after new management took over the bank. The contract management could able generate green signal to all of its best wisher.

Although, RBB has the highest portion of income generating assets the loans and advances, bank could not operate with profit in first two years of study period. In other words, there was negative return on loan and advances. RBB incurred high cost on deposit due to huge idle fund in the bank and improper lending and monitoring practices.

There was positive correlation between LLP and loans & advances in RBBL. It was because of growing rate of non -performing loan as well as provision. Size of provision depends upon the non performing loan. Higher the NPL, higher will be the provision. Hence, even size of loans and advances do not increases, if NPL increases, LLP automatically increase. The degree of relationship between NPL and loan & advances was perfectly positive correlation in the bank during the study period. It means if loan and advances increases the NPL loan will also increases. Likewise, the degree of relationship between performing and total loan advances to be found negative during the study period. Similarly there was negatives correlation between net profit and NPL. Net profit of RBB was increasing in negative trend and NPL was increasing in positive trend in first two years and vice versa after last four years, which was the reason behind the negative correlation between these two variables.

Pass category of loan in total proportion of loan and advances has been gradually increased after took over the bank by new management and has been tried to reduce the loss category of loan. The proportions of commercial loan as well as consumable loan were the leading loan portfolio of loan and advances in the RBB. The result of regression is not supporting to the study as the coefficient were not statistically significant. It may be due to the lack of large number of observations in the study. The trend analysis of NPA, loan recovery and good loan on the basis of three non performing assets may decrease in future with the help of good policy regarding to the good loan and bad debt recovery process in coming years.

There are many strength factors in RBB like strong management team, strong deposit base, being the largest commercial bank of the country etc. Similarly poor financial position with negative net worth, low motivated & productivity of human resources etc are weakness of the bank. As well as high level of NPA, increasing trend of competition etc are current threats of RBB against opportunities of maximum use of geographical reach, strong enhancement supporting NPA recovery, extensive international relation. RBB has been able to increased good loan by app.6 billion and achieve total cash recovery of NPAs of Rs. 16 billion on as accumulative basis in mid-July 2008. Financial position is improving trend since the new management took over the bank in January 2003.

As per the loan classification and provisioning directives loans and advances have to be categorized into four types namely pass, sub-standard, doubtful and loss with respective provisioning 1%, 25% 50% and 100%. The loan falling under pass category is regarded as performing loan that which falls under remaining three categories is regarded as non-performing loan. RBB has the highest proportion of loss graded loan followed by doubtful loan in the total NPA which is an indication of Bad quality of assets of bank in the form of loans and advances.

Present scenario of the Nepalese banking industry is highly affected by the vicious circle of NPA. In the context of RBBL, it is almost collapse position and government of Nepal has decided to handover the management of the high portfolio holding bank to the foreign group of expert to rescue the Nepalese economy from the collapse. Improper credit appraisal system, ineffective credit monitoring and supervision system, economic depression, borrower's misconduct, over valuation of collateral, political pressure to lend the creditworthy parties etc are the major factors leading to the non-performing assets. Setting up recovery cell, hiring assets Management Company, introducing effective laws to recover the bad loans etc. are some measures to resolve the problem of NPA. Proper classification and loan loss provisioning also helps to confront the problem of NPA. The latest directives regarding loan classification and loan loss provisioning is very important for maintaining sound financial health of banks.

5.2 Conclusion

In order to streamline the financial sector, liberalization started in Nepal in 1980s which encourage financial institution to support the national development by gathering spread small savings and disbursing them in various productive fields. After adopting this policy by the nation, foreign investment entered in Nepal by means of joint venture in financial sectors. There are 23 commercial banks, 38 development banks, 74 finance companies, 12 micro-credit development banks are in existence at present. Banks came into existence mainly with the objectives of collecting idle fund, mobilizing them into productive sector for the economic development. These banks have responsibility of safeguarding the interest of depositors, stakeholders and society they are serving. Lending is the top most income generating function of the commercial banks but it is equally risky too. In order to cover the risk inherent in the lending portfolio, banks have to make loan loss provision by categorizing the loans into different categories as per the NRB directives. Increasing non-performing loan is a serious problem of Nepalese banking sector. The non-performing loans adversely affect the income flow of the bank.

Although the RBBL has almost highest market share of deposit as well as loans and advances, which has been facing serious problem of NPA. The bank has higher percentage of market share in lending too; which are the most income generating assets, but operating in loss since long time.

Ineffective credit policy, political pressure to lend non viable projects, overvaluation of collateral and without collateral disbursement are the major causes of mounting non-performing assets in government owned bank. In addition, leading factors of accumulating NPAs are poor credit appraisal system, ineffective credit monitoring & supervision system, poor security system, economic recession, willful defaulters etc. Proper classification and close review of loans enable banks to monitor loan portfolio and take remedial step to safeguard deterioration of its credit quality. Further more, establishment of strong recovery cell, hiring assets Management Company, implementation of proper rules and regulations are also essential to solve the problem of NPA. Present NRB directive is more effective than previous as a result proper classification of loans and adequate provisioning for the future loss which reduces profit in the short term but can be use as cushion for future distress situation.

5.3 Recommendations

On the basis of findings of the study the following recommendations were put forwarded.

- Nepal’s membership to World Trade Organization, Nepalese financial sector will be opened to the international markets by 2010 AD. Nepalese financial sector now would become more competitive & those able to live with would survive. Indeed, the financial institutions would also get new markets in other member countries. This calls the need for quality services to face competitive in the international market. It is highly recommend that the bank is required to strengthen its financial position by providing quality service by using latest automatic technologies and skilled man power.

- It has been observed that the market share of RBB in terms of loan and advances out of overall commercial bank are decreased during of study period. But the deposits being are main obligation of bank was in increasing trend. Therefore, the bank definitely should focus to find out the new business areas such as hydropower, consumable products, SME, agriculture etc to explore investment opportunities which may ultimately increase the performance of the bank and support the national development as well.

Rs in Millions

Fiscal Year	Deposits	Loan & Advances
2058/059	38993	27037
2063/064	50464	24871

- The bank has been reduced NPA to 27.64% from 55.10% after took over the bank by contract management, although NPA level was also higher than international standard. This indicated that the bank was suffering from the serious problem of NPA during the study period. Hence RBB is recommended to take immediate remedial actions for recovering bad debts. Hiring Assets Management Company and fully followed directives, rules, regulation & policy which have been approved by the NRB and Government to resolve the problem of non-performing loans.
- The liquidity position which has measured the efficiency of the bank was lower than the standard norms during study period. This indicated the

emergency status of bank to fulfill its short term obligation. Thus it is suggested the bank to maintain the proper level of liquidity.

- The sector wise loan classification ratio indicated that the RBBL disbursed huge amount in wholesale and retail trade sector covering 40.80% out of total loan and advances. It showed that there was lack of diversity in loan and advances. The Principle of diversity says do not keep the all eggs in the same basket. Thus it is recommended that the bank should maintain the proper diversity in credit.
- The analysis of the total loan and advances against total deposit, it was founded that the CD ratio of bank decreased to 49.30% from 69.30% in six consecutives years of study period. It showed that the collected deposit of bank was not fully utilized and high amount of deposit has been kept as idle. Since the bank has to bear high cost on its liquidity fund. The bank should manage to utilize the deposit fully by investing them in proper and safe way.
- Mains points that lead to NPA are improper credit appraisal system, political pressure to lend unviable projects, ineffective credit monitoring and supervision system, overvaluation of collateral etc. Besides these, negligence in taking credit information from CIB. Hence, the bank is recommended to consider all above points while sanctioning loans. Not only at the time of sanctioning, more attention to be given for monitoring to utilize them properly.
- There is lack of qualified, efficient and professional lending expertise especially in branch level of Rastriya Banijya Bank. Then the bank is recommended to initiate regular indoor and outdoor training programs, which makes employee efficient, professional and competitive in credit appraisal, monitoring & proper risk management.
- The customers are waiting for qualitative services, the employees are waiting for sound working environment and attractive remuneration and the government, its owner is waiting for its overall efficiency and more

contribution to the economy. Then the new management should satisfy all these different aspiration to improve the situation of RBB.

- There is the lack of follow up and monitoring of pass loan as well as overdue loan and advances in Rastriya Banijya Bank. Thus, the bank should be adopted effective & regular follow up & monitoring system to manage the credit properly.
- Looking a current trend of banking business, RBB must be very careful formulating the marketing strategies to serve its customer. The marketing strategy should be innovative that would attract and retain the customers. The bank recommended developing an innovative approach to bank marketing for its well being and sustainability in the market.
- According to the NRB directives, all the commercial bank should increased their capital up to Rs. 2000 million. RBBL is also suggested to increase its capital. The increment in capital can be made either by capitalization of profits or issue of shares.
- With improvement in performance of RBB it is important to develop a strategic plan for the institution which would guide further restructuring and reforms in the institutions.
- NRB as a central bank, issues various directives and policies from time to time to streamline the financial sector. In this connection, newly circulate directives has more emphasized on loan classification and provisioning which is more tight than that of previous. In order to smooth operation of banking industry, only imposing policy would not be sufficient. NRB should play supportive role as well by credit information bureau so that commercial banks can get required credit information about borrower. In addition, NRB should establish a NPA management cell which may deal with NPA of all commercial banks. These steps would also help to reduce the non performing loans.

- It is often said that ‘prevention’ is better than cure. Hence it is recommended for the new management to take preventive measures before disbursing the loan. New management team of bank is highly recommended to have an information system to gather all the possible information and activities about borrowers so that necessary precautions can be taken in time.
- Political pressure is a major reason to increase in NPA and regular occurrence of loss with accumulative loss of Rs. 23.85 billion in Rastriya Banijya Bank. Then, it is recommended to Nepalese government that the bank should be privatized as soon as possible.

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Website

www.google.com

www.nrb.org.np

www.rbb.com.np

APPENDIX - I

Rastriya Banijya Bank
Central Office,
(A) **Singhadarbar Plaza, Kathmandu**

	Particulars	058/59	059/60	060/61	061/62	062/63	063/64
	Capital and Liabilities						
A	Share Capital	1172	1172	1172	1172	1172	1172
B	Reserve Funds	-18624	-23564	-22610	-21372	-19891	-18370
C	**Current Liabilities**	**39171**	**39580**	**40971**	**47275**	**50635**	**52795**
1	Deposits:	38994	39402	40867	43017	46196	50464
	i) Current	4886	4844	5647	7016	8304	10388
	ii) Saving	18957	20893	**23705**	**26979**	29746	33046
	iii) Fixed	15065	13580	**11515**	**9022**	8146	7030
	iv) Call deposit & others	86	85	**0**	**0**	0	0
2	Borrowings	157	162	**80**	**4218**	4358	2220
3	Bills Payables	20	16	**24**	**40**	41	64
4	Proposed & Dividend Payable	0	0	**0**	**0**	40	47
5	Tax Provision	0	0	**0**	**0**	0	0
D	Other Liabilities	23251	25567	25523	29748	7965	10771
	Total Capital and Liabilities	**44970**	**42755**	**45056**	**56823**	**39881**	**46368**
	Assets						
E	**Current Assets**	22375	20779	21067	27400	31418	35711
1	Cash Balance	850	1019	1007	1622	1202	1898
2	Bank Balance	3676	2717	6012	3931	4027	4137
3	Money at Call & Short Notice	0	740	100	0	0	20
4	Investment	4159	4623	3117	8416	11555	12650
	i) Government Securities	4089	4137	2919	6434	8875	10023
	ii) Others	70	486	198	1982	2680	2627
5	Interest Receivable	0	0	0	0	0	0
6	Loans and advances(Overdraft)	13345	11670	10817	13383	14606	16934
7	Bills Discounted & Purchase	345	10	14	48	28	72
F	Fixed Assets (Net)	404	478	392	393	421	440
G	Non Banking Assets	0	0	0	0	98	112
H	Other Assets	22191	21498	23597	29030	7944	10105
	Total Assets	**44970**	**42755**	**45056**	**56823**	**39881**	**46368**

Comparative Balance Sheet

Rastriya Banijya Bank

Central Office

Singhadarbar Plaza, Kathmandu

(B) **Comparative Profit and Loss**

Particulars	**058/59**	**059/60**	**060/61**	**061/62**	**062/63**	**063/64**
1.Interest Income	1745	2051	2236	2329	2283	2359
2.Interest Expenses	2347	2108	1495	1005	850	943
Net Interest Income	**-602**	**-57**	**741**	**1324**	**1433**	**1416**
3.Commission and Discount	215	211	310	288	290	343
4.Other Operating Income	78	84	146	116	110	285
5. Exchange Fluctuation Income	78	3	16	14	74	15
Total Operating Income	**-231**	**241**	**1213**	**1742**	**1907**	**2059**
6. Staff Expenses	759	3249	906	811	745	804
7. Other Overhead Expenses	243	245	230	234	289	343
8. Exchange Fluctuation Loss	0	0	0	0	0	0
Operating Profit Before Provisions	**-1233**	**-3253**	**77**	**697**	**873**	**912**
9. Provisions for possible losses	5843	1594	11	137	663	315
Operating Profit	**-7076**	**-4847**	**66**	**560**	**210**	**597**
10. Non- Operating Income/Loss	7	7	147	44	27	29
11.Loan Loss Provisions Written-Back	0	**0**	**910**	720	1516	**1210**
Profit From Regular Operations	**-7069**	**-4840**	**1123**	**1324**	**1753**	**1836**
12.Profit/Loss From Extra-ordinary activities	0	**0**	0		**33**	**4**
Net Profit after considering all activities	**-7069**	**-4840**	**1123**	**1324**	**1720**	**1832**
13.Staff Bonus Provision	0	**0**	83	0	**127**	**136**
14. Tax Provision	0	0	0	0	0	0
Current Year 's	0	0	0	0	0	0
Previous Year's	0	**0**	0	0	**0**	**0**
Net Profit /(Loss)	**-7069**	**-4840**	**1040**	**1324**	**1593**	**1696**

APPENDIX - II

Ratio Analysis

(a) Current Ratio

Particulars	058/59	059/60	060/61	061/62	062/63	063/64
Current Assets	22375	20779	21067	27400	31418	35711
Current Liabilities	39171	39580	40971	47275	50635	52795
Ratio	0.57	0.52	0.51	0.58	0.62	0.68
Mean	0.58					
S.D.	0.038					
C.V.	6.68					

(b)Liquid Fund Ratio

Particulars	058/59	059/60	060/61	061/62	062/63	063/64
Liquid Fund	4871	4486	7133	5601	5257	6127
Current Liabilities	39171	39580	40971	47275	50635	52795
Ratio	0.12	0.11	0.17	0.12	0.10	0.12
Mean	0.13					
S.D.	0.01					
C.V.	7.69					

(c) Cash balance to Total Deposit

Particulars	058/59	059/60	060/61	061/62	062/63	063/64
Cash and bank balance	4526	3736	7019	5553	5229	6035
Deposit	38994	39402	40867	43017	46196	50464
Ratio	0.12	0.09	0.17	0.13	0.11	0.12
Mean	0.12					
S.D.	0.026					
C.V.	21.65					

(d) Loan and Advances to Current Assets Ratio

Particulars	058/59	059/60	060/61	061/62	062/63	063/64
Loan and advances	13345	11670	10817	13383	14606	16934
Current Assets	22375	20779	21067	27400	31418	35711
Ratio	0.60	0.56	0.51	0.49	0.46	0.47
Mean	0.52					
S.D.	0.0379					
C.V.	7.30					

(e) Total Assets to Total Liabilities

Particulars	058/59	059/60	060/61	061/62	062/63	063/64
Total Assets	44970	42755	45056	56823	39881	46368
total liabilities	62422	65147	66494	77023	58600	63566
Ratio	0.72	0.66	0.68	0.74	0.68	0.73
Mean	0.70					
S.D.	0.048					
C.V.	6.86					

(f) Loan and Advances to Total Assets Ratio

Particulars	058/59	059/60	060/61	061/62	062/63	063/64
Loan & advances	13345	11670	10817	13383	14606	16934
Total assets	44970	42755	45056	56823	39881	46368
Ratio	0.30	0.27	0.24	0.24	0.37	0.37
Mean	0.30					
S.D.	0.058					
C.V.	20.09					

(g) Total Loan and Advances to Total Deposit Ratio

Particulars	058/59	059/60	060/61	061/62	062/63	063/64
Total loan & advances	27037	26609	25106	27001	23247	24871

Total deposit	38994	39402	40867	43017	46196	50464
Ratio	0.693	0.675	0.614	0.628	0.503	0.493
Mean	0.601					
S.D.	0.078					
C.V.	12.98					

(h) Total Investment to Total Deposit Ratio

Particulars	058/59	059/60	060/61	061/62	062/63	063/64
Investment	4159	4623	3117	8416	11555	12650
Deposit	38994	39402	40867	43017	46196	50464
Ratio	0.107	0.117	0.076	0.196	0.250	0.251
Mean	0.997					
S.D.	0.0696					
C.V.	6.98					

(i) Interest Income to Total Income

Particulars	058/59	059/60	060/61	061/62	062/63	063/64
Total Income	2123	2356	3765	3511	4300	4241
Interest income	1745	2051	2236	2329	2283	2359
Ratio	0.82	0.87	0.59	0.66	0.53	0.56
Mean	0.67					
S.D.	0.126					
C.V.	18.88					

(j) Interest Income to Interest Expenses

Particulars	058/59	059/60	060/61	061/62	062/63	063/64
Interest income	1745	2051	2236	2329	2283	2359
interest expenses	2347	2108	1495	1005	850	943
Ratio	0.744	0.973	1.496	2.317	2.686	2.502
Mean	1.8					
S.D.	0.757					

C.V.	42.05

(k) Return on Loan and Advances

Particulars	058/59	059/60	060/61	061/62	062/63	063/64
Return	-7069	-4840	1040	1324	1593	1696
Loan & advances	13345	11670	10817	13383	14606	16934
Ratio	-0.53	-0.41	0.10	0.10	0.11	0.10
Mean	-0.09					

(l) Loan Loss Provision to Total Loan and Advances

Particulars	058/59	059/60	060/61	061/62	062/63	063/64
Total Loans & advances	27037	26609	25105	27001	23247	24871
Total Provision	13348	14929	14275	13570	8613	7391
Ratio	0.49	0.56	0.57	0.50	0.37	0.30
Mean	0.47					
S.D.	0.099					
C.V.	21.06					

(m) NPA Loans to Total Loans and Advances

Particulars	058/59	059/60	060/61	061/62	062/63	063/64
NPA loans	14889	16005	14471	13689	8623	6877
Total loan & advances	27037	26609	25106	27001	23247	24871
Ratio	0.55	0.60	0.58	0.51	0.37	0.28
Mean	0.48					
S.D.	0.121					
C.V.	25.21					

(n) Performing Loan to Total Loan and Advances

Particulars	058/59	059/60	060/61	061/62	062/63	063/64
Performing	12148	10604	10635	13312	14624	17995
Total loan & advances	27037	26609	25106	27001	23247	24871
Ratio	0.45	0.40	0.42	0.49	0.63	0.72
Mean	0.52					

S.D.	0.114
C.V.	21.92

(o) Interest Expenses to Total Deposit Ratio

Particulars	058/59	059/60	060/61	061/62	062/63	063/64
Interest expenses	2347	2108	1495	1005	850	943
deposit	38994	39402	40867	43017	46196	50464
Ratio	0.06	0.05	0.04	0.02	0.02	0.02
Mean	0.04					
S.D.	0.017					
C.V.	8.10					

The mean, standard deviation and coefficient of variation are calculated by using following formulae.

(1) Mean ($\bar{X}$) $= \frac{\sum X}{N}$

Where,

$\bar{X}$ = Mean value or, Arithmetic mean

$\sum X$ = Sum of the observation.

N = Number of observation

S.D. (σ) $= \sqrt{\frac{\sum x^2}{N} - \frac{(\sum x)^2}{N}}$

CV = $\frac{S.D.}{Mean} \times 100$

APPENDIX - IV

1 (a) Trend Value of Total Deposit of RBBL (2059/060 to 2063/064)

Years	Actual Deposit	x= X-2062	x^2	xy	Y= a+bx
(X)	(y)				
2060	39402	-2	4	-78804	38498.4
2061	40867	-1	1	-40867	41243.6
2062	43016	0	0	0	43988.8
2063	46195	1	1	46195	46734.0
2064	50464	2	4	100928	49479.2
Total	219944	0	10	27452	

a = $\frac{\sum y}{n}$ b = $\frac{\sum xy}{x^2}$

$= \frac{21994}{5}$ $\qquad\qquad$ $= \frac{27452}{10}$

$= 43988.80$ $\qquad\qquad$ $= 2745.20$

Where, n = no of years

y = actual deposit

1 (b) Trend Value of total deposit of RBBL (064/065 to 068/069)

Years	x= X-2062	Trend Value (Y= a+bx)
2065	3	52224.4
2066	4	54969.6
2067	5	57714.8
2068	6	60460.0
2069	7	63205.2

2 (a) Trend Value of total Loan and Advances of RBBL (059/060 to 063/064)

Years	Loan & Advances	x= X-2062	x^2	xy	Y= a+bx
(X)	y				
2060	26609	-2	4	-53218	26433.8
2061	25106	-1	1	-25106	25900.3
2062	27001	0	0	0	25366.8
2063	23247	1	1	23247	24833.3
2064	24871	2	4	49742	24299.8
Total	126834	0	10	-5335	

$$a = \frac{\sum y}{n} \qquad b = \frac{\sum xy}{x^2}$$

$$= \frac{126834}{5} \qquad = \frac{-5335}{10}$$

$$= 25366.8. \qquad = -533.50$$

Where, n = no of years

y = actual loan and advances

2 (b) Trend Value of total Loan and Advances of RBBL (064/065- 068/069)

Years	x= X-2062	Trend Value (Y= a+bx)
2065	3	23766.3
2066	4	23232.8
2067	5	22699.3
2068	6	22165.8

2069	7	21632.3

3 (a) Trend Value of Net Profit of RBBL (2059/060 to 2063/064)

Years	Net Profit	x= X-2062	x^2	xy	Y= a+bx
X	y				
2060	-4839	-2	4	9678	-2557
2061	1040	-1	1	-1040	-1199.9
2062	1323	0	0	0	157.2
2063	1591	1	1	1591	1514.3
2064	1671	2	4	3342	2871.4
Total	786	0	10	13571	

$$a = \frac{\sum y}{n} \qquad b = \frac{\sum xy}{x^2}$$

$$= \frac{786}{5} \qquad = \frac{13571}{10}$$

$$= 157.20 \qquad 1357.10$$

Where, n = no of years

y = actual loan and advances

3(b) Trend Value of total Net Profit of RBBL (064/065- 068/069)

Years	x= X-2062	Trend Value (Y= a+bx)
2065	3	4228.5
2066	4	5585.6
2067	5	6942.7
2068	6	8299.8
2069	7	9656.9

Appendix - III

(a) Correlation between Loan & Advances and Loan Loss Provision

Year	Loan & Advance (X)	Provision (Y)	d_1 = (X- 25106)	d_2 = (Y-14275)	$d_1.d_2$	d_1^2	d_2^2
2058/059	27037	13348	1931	-927	-1790037	3728761	859329
2059/060	26609	14929	1503	654	982962	2259009	427716
2060/061	25106	14275	0	0	0	0	0
2061/062	27001	13570	1895	-705	-1335975	3591025	497025
2062/063	23247	8613	-1859	-5662	10525658	3455881	32058244
2063/064	24872	7391	-234	-6884	1610856	54756	47389456
Total	**153872**	**72126**	**3236**	**-13524**	**9993464**	**13089432**	**81231770**

Correlation coefficient can be calculated by using following formula:

$$r = \frac{n\sum d_1 d_2 - \sum d_1 \sum d_2}{\sqrt{n\sum d_1^2 - (\sum d_1)^2}\sqrt{n\sum d_2^2 - (\sum d_2)^2}}$$

$$= \frac{6 \times 9993464 - 3236 \times (-13524)}{\sqrt{6 \times 13089432 - (3236)^2}\sqrt{6 \times 81231770 - (-13524)^2}}$$

$$r = \frac{59960784 - 43763664}{\sqrt{78536592 - 10471696}\ \sqrt{487390620 - 182898576}} = \frac{16197120}{\sqrt{68064896}\sqrt{304492044}}$$

$$= \frac{16197120}{8250.15 \times 17449.7} = 0.72$$

Probable Error (PE) $= 0.6745 \times \frac{1-r^2}{\sqrt{N}} \quad 0.6745 \times \frac{1-(0.72)^2}{\sqrt{6}} = 0.1326$

(b) Correlation between Loan & Advances and Non-Performing Loan

Year	Loan & Advances (X)	NPL (Y)	$d_1 =$ (X- 25106)	$d_2 =$ (Y- 14471)	$d_1 d_2$	d_1^2	d_2^2
2058/059	27037	14889	1931	418	807158	3728761	174724
2059/060	26609	16005	1503	1534	2305602	2259009	2353156
2060/061	25106	14471	0	0	0	0	0
2061/062	27001	13689	1895	-782	-1481890	3591025	611524
2062/063	23247	8623	-1859	-5848	10871432	3455881	34199104
2063/064	24872	6877	-234	-7594	1776996	54756	57668836
Total	**153872**	**74554**	**3236**	**-12272**	**14279298**	**13089432**	**95007344**

$$r = \frac{n\sum d_1 d_2 - \sum d_1 \sum d_2}{\sqrt{n\sum d_1^2 - (\sum d_1)^2}\sqrt{n\sum d_2^2 - (\sum d_2)^2}}$$

$$= \frac{6 \times 14279298 - 3236 \times (-12272)}{\sqrt{6 \times 13089432 - (3236)^2}\sqrt{6 \times 95007344 - (-12272)^2}}$$

$$r = \frac{85675788 - (-39712192)}{\sqrt{78536592 - 10471696}\sqrt{570044064 - 150601984}}$$

$$= \frac{125387980}{\sqrt{68064896}\sqrt{419442080}}$$

$$= \frac{125387980}{8250.15 \times 20480.29} = 0.74$$

Probable Error (PE) = $0.6745 \times \frac{1-r^2}{\sqrt{N}}$ $0.6745 \times \frac{1-(0.74)^2}{\sqrt{6}}$ = 0.124

(c) Correlation between Loan & Advances and Performing Loan

Year	Loan & Advances (X)	PL (Y)	d_1 = (X- 25106)	d_2 = (Y- 10635)	d_1d_2	d_1^2	d_2^2
2058/059	27037	12148	1931	1513	2921603	3728761	2289169
2059/060	26609	10604	1503	-31	-46593	2259009	961
2060/061	25106	10635	0	0	0	0	0
2061/062	27001	13312	1895	2677	5072915	3591025	7166329
2062/063	23247	14624	-1859	3989	-7415551	3455881	15912121
2063/064	24872	17995	-234	7360	-1722240	54756	54169600
Total	**153872**	**79318**	**3236**	**15508**	**-1189866**	**13089432**	**79538180**

$$r = \frac{n\sum d_1 d_2 - \sum d_1 . \sum d_2}{\sqrt{n\sum d_1^2 - (\sum d_1)^2}\sqrt{n\sum d_2^2 - (\sum d_2)^2}}$$

$$= \frac{6 \times (-1189866) - 3236 \times (15508)}{\sqrt{6 \times 13089432 - (3236)^2}\sqrt{6 \times 79538180 - (15508)^2}}$$

$$r = \frac{-7139196 - 50183888}{\sqrt{78536592 - 10471696}\sqrt{477229080 - 240498064}}$$

$$= \frac{-57323084}{\sqrt{68064896}\sqrt{236731016}}$$

$$= \frac{125387980}{8250.15 \times 15386.07} = -0.45$$

Probable Error (PE) $= 0.6745 \times \frac{1-r^2}{\sqrt{N}}$ $\quad 0.6745 \times \frac{1-(-0.45)^2}{\sqrt{6}}$ =0.22

(d) Correlation between Loan & Advances and Performing Loan

Year	Net Profit (X)	NPL (Y)	d_1 = (X- 1040)	d_2 = (Y- 14471)	d_1d_2	d_1^2	d_2^2
2058/059	-7083	14889	-8123	418	-3395414	65983129	174724
2059/060	-4839	16005	-5879	1534	-9018386	34562641	2353156
2060/061	1040	14471	0	0	0	0	0
2061/062	1323	13689	283	-782	-221306	80089	611524
2062/063	1591	8623	551	-5848	-3222248	303601	34199104
2063/064	1671	6877	631	-7594	-4791814	398161	57668836
Total	**-6297**	**74554**	**-12537**	**-12272**	**-20649168**	**101327621**	**95007344**

$$r = \frac{n\sum d_1d_2 - \sum d_1 \sum d_2}{\sqrt{n\sum d_1^2 - (\sum d_1)^2}\sqrt{n\sum d_2^2 - (\sum d_2)^2}}$$

$$= \frac{6 \times (-20649168) - (-12537) \times (-12272)}{\sqrt{6 \times 101327621 - (-12537)^2}\sqrt{6 \times 95007344 - (-12272)^2}}$$

$$r = \frac{-123895008 - 153854064}{\sqrt{607965726 - 157176369}\sqrt{570044064 - 157176369}}$$

$$= \frac{-277749072}{\sqrt{450789357}\sqrt{419442080}}$$

$$= \frac{-277749072}{21231.80 \times 20480.29} = -0.46$$

Probable Error (PE) = $0.6745 \times \frac{1-r^2}{\sqrt{N}}$ $0.6745 \times \frac{1-(-0.46)^2}{\sqrt{6}}$ =0.163