

# **CHAPTER – I**

## **INTRODUCTION**

### **1.1 Background**

Bank is considered as the backbone in the development of the national economy. Bank is an establishment for depositing, with drawing and borrowing money (Oxford English Dictionary). Banks are institution who pool to gather the scattered saving of the people and arrange for its productive use. In other words, they accept the surplus fund of people as deposit and supply it to meet the financial needs of the people and modern business by various means. Bank is therefore known as a dealer of money. As present context bank is not only confined to accepting deposits and disbursing loan. In addition to this, a bank may be engaged in different types of functions such as remittance, discounting bills etc. “Indeed, many financial institutions-including security dealers, brokerage firms, mutual funds and insurance companies are trying to be as similar as possible to banks in the services they offers” (Rose, 2002 :2) a modern bank performs such as variety of functions that it is difficult to give a precise and general definition of a bank.

“The banking sector is largely responsible for collecting household saving in terms of different types of deposit and regulating in the society by lending in different sectors if economy. By lending their resources in small scale industries under intensive banking program has enabled the banks to share in the economy growth of the economy.” (Shrestha, 1995; 32).

Bank provides the excess amount of funds to fulfill the demand of the investors and better allocation of financial resources and to encourage

economic growth in the economy. For this loan should be efficiently managed and controlled. If loan is not efficiently managed, it can cause inflation or deflation, recession and unemployment in the economy. Misleading of loan management can lead to misallocation of the investible resources and the economic power concentrated on the certain persons and against the social objective. So, the non-performing loans not only creates the problem in the economy of the country but it can move the bank towards the liquidation.

Commercial banks are organized institution providing loans for the needed. The loan advancement is the main function of commercial banks. Commercial bank can mainly undertake measure such as organizational reforms of banks, maximum utilization of resources and increase in non-cash reserve transaction to reduce the spread interest rates on deposits and credit. They depoly fund raised from different sources into different assets with a primary objective of profit generation. They also play an important role for the economic development and proverty alleviation of the country through providing credit facilities, quality banking service to a people both business community as well as common man. Concentrated efforts of all types of banks and financial institution support by a dynamic policy of central bank are needed to achieve the desired economic growth.

In the context of Nepal, our history of banking sector is rather more slow evolution. Even now, the banking system is in the evolutionary phase.

Nepal Bank Ltd. is the first Modern bank of Nepal. It is taken as the milestone of modern banking of the country. It was established in 1937 A.D. To issue national currencies and promote financing

organizations, Nepal Rastra Bank was established in 1956 A.D. under NRB act 1995 as the central bank of Nepal. Similarly Rastrya Banijya Bank was established in 1965 A.D. as the second commercial bank of Nepal. The financial shapes of these two commercial banks have tremendous impact on the economy. That is the reason why these banks still exist in spite of their bad positions. For more than two decades, no more banks have been established in the country. After declaring free economy and privatization policy, government encouraged the foreign banks for joint venture in Nepal. As a result Nepal Arab Bank Ltd. (NABIL) was established in 2041 B.S. This is the first modern bank with latest banking technology. Then a lot of commercial banks have been opened in the country. Now, there are altogether 26 commercial banks are operating including agriculture developing bank.

Indeed, making loan is the principal function of banks to fund conception and investment spending by business, individuals government offices. The fact how well a bank performs its lending function has a great deal to do with the economic health of the country. Bank loans support the growth of new businesses and job, and promote economic vitality. Loan advancement account for more than half of bank's total assets and about two-thirds of their revenues. More risk in banking tends to be concentrated in the loan portfolio when serious financial trouble, its problems usually spring from loans. Generally loan problems emerge from the following reasons.

- ) Loans has become uncollectible due to lack of efficient management.
- ) Illegal manipulating of loans.
- ) Unexpected economic downturn.

Loan management is especially focused on the management of loan disbursement and collection procedure, handling and monitoring. All the activities followed by a bank for the disbursement and collection of loan are known as loan management. So we can say that loan management is a backbone of any bank. If a bank do loan management properly and accordingly, bank can earn more profit. Every bank's success or failure heavily depends on effective loans management.

## **1.2 An Introduction of Kumari Bank Limited**

Kumari bank limited came into existence as the fifteenth commercial bank by starting its banking operation from Chaitra 21, 2057 B.S. (April 03, 2001) with an objective of providing competitive and modern banking service in the Nepalese financial market. The bank has paid up capital of Rs. 900 million of which 70% is contributed from promoters and remaining from public.

Kumari Bank Limited has been providing wide range of modern banking service through 16 points of representations located in various urban and semi-urban part of the country, outside and 5 providing some latest/pucreative banking service like E-banking and sms banking service in Nepal. The bank always focus on building social technology driven internal system to cater the changing needs of the customer that enhance high comfort and value. The adoption of modern globus software developed by temenos NV, Switzerland and arrangement of centralized data base system enables customer to make highly secured transactions in any branches regardless of having account with particular branch. Similarly the bank has been providing 365 days banking facilities, extended banking hours till 7p.m. in the evening. Utility bill payment services, inwards and outward remittance services, and various other

banking services, visa electron debit card, which is accessible in entire visa linked ATMS (including 14 own ATMS) and POS (Point of Sale) terminals both in Nepal and India, has also added convenience to the customer.

The bank has been able to get recognition as on innovative and fast growing institution striving to enhance customer value and satisfaction by banking transparent business practice professional management, corporate governance and total quality management as the organizational mission.

### **Mission**

- ) Provide world-class service to customers at higher satisfaction level.
- ) Practice total quality management and embrace good governance.
- ) Optimize assets to achieve sound business growth.

### **Vision**

- ) KBL are customer oriented-client is always first priority.
- ) Employees have direct input and control over work processes.
- ) Employees are treated equitably, with respect and good faith.
- ) KBL are transparent in our dealings and conduct.

## **Mission Statement**

We shall be the preferred provider of financial services to our target clients by embracing good governance, service excellence and professional culture in order to achieve should business growth and maximum shareholders value. KBL branches are located in Kathmandu, Lalitpur, Biratnagar, Birgunj, Pokhara, Itahari, Chitwan, Birtamod, Damuli, Baglung, Bhairabhawa.

### **1.3 Significance of the Study**

Commercial bank accept the deposit from the public and provide the necessary amount for the investors ass of their demand from which the banks earn the profit. In banks loan management has become integral part of almost ever banking operation. It is indisputable that the loans and advances are major sources for generating profit in case of financial institution. There is need not additional capital investment to care higher rate of economic growth. Domestic saving and foreign capital (growth & loans) are two principle sources of capital available for investment. Domestic saving is the most crucial and viable source of capital.

Bank also attract those domestic saving and grant loan and advances to business sector in long term, mid term and short term to accelerate economic activities.

In the context of Nepal, there is less availability, if research work in loan management. There is enough research work on the other performance of commercial bank but his specific function does not seem given importance before. Hence fund collected by bank should be cautiously allocated under loan and advance. This undertaken venture is pivotal factor to know the rue affairs and position of KBL in regard to management of disbursed loans and advances. This will also be a

guideline for improving their performance to achieve this objectives. This study also helps to identify the hidden weakness regarding loan management of KBL will be beneficial to the following :

**I) To the shareholders :** shareholders are true owners of the company. This study will be useful to them for acquiring the answer to the following :

) How funds are utilized as loan and advances?

) To what extent they are gaining?

) Is the productivity of their limited resource satisfactory?

**II) To the management :** This study will be helpful to compare and analyse own with others regarding performance viz success or failure, effectiveness and so forth.

**III) To the outsiders :** Customers (depositors and debtors), creditors, competitors, investors, financing agencies, stock exchange, personnel can get information about performance of KBL's loans and advances with the help of this analysis. They can make yes or no decision regarding investment.

**IV) To the policy makers :** Officers of government, ministry, central bank and security exchange and tax office can formulate appropriate policy regarding bank with the help of this study.

## **1.4 Focus of the Study**

Modern commercial banking practice in Nepal is recent phenomenon. This study confirms the analysis of loan and advances, deposit collection and their trends, profitability, liquidity from F.Y 2060/2061 to 2064/2065 to gauge its performance. No company can earn enough profit without well-managed portfolio of loan.

This study is focused on loan management procedure of Kumari Bank limited effective or not and also focus on loan disbursement, loan recovery and loan outstanding position of the bank. In essence, the current study through light on the loan management of KBL to draw attention of new researchers and the management of the bank in order to aware their in their vital activities.

## **1.5 Statement of the Problem**

Nepalese people depend on non institutional money lenders such as local lenders called Mahajans, landlords, and merchants at high interest rate because of lack of enough financial institution. Although some financial institutions are operating but still there operating system and loan lending process are complex and rigid. Most of the financial institutions are operating only in Kathmandu. Why do not they want to go in remote area? Wherever else financial institutions are one of the apex entities of economy in any nation promoting different business activities such as trade, industry and commerce.

From the review of early studies, journals, annual reports of few banks and periodicals showed that the current position of the loan management is not satisfactory basically in the public banks. Nepal Bank limited and Rstriya Banijya Bank used to have operating loss some years

before. It occurs due to ineffective loan management. A bank can not run properly without managing its liquidity position. This liquidity position depends on the management of disburse loan in time and their self studying capacity or all expenses. Without effective and proper loan management no bank can run properly and can not accomplish its predetermined goals and objectives. Hence it is the life-blood of any financial institution. Its being a national issue and to contribute toward the topic through the study among the lot of topics, the loan management topic is selected.

Many of us unknown about loan disbursement and loan repayment pattern of Kumari Bank Limited, which plays the dominant role in conducting proper loan management. This research is concerned on the following issues:

- ) For what purpose and in which sector the loan of KBL has been mobilized?
- ) How does the KBL disburse loan and recover their loan?
- ) What is the procedure of loan management?
- ) Is their any relationship between loan disbursement and principle collections?

## **1.6 Objectives of the Study**

This study tries to meet the following specifies objectives :

- a) To analyze the trends of deposit collection and loan investment.
- b) To measure total amount of loan out of total deposit.

- c) To evaluate the performance of KBL in terms of liquidity, profitability, non-performing loan.
- d) To know the view of employees in regard of the loan management.

## **1.7 Limitation of the Study**

This study is only focus on with the Kumari Bank Limited with relevance to the loan disbursement, repayment and outstanding only in detailed form.

Every study has limitation. This study has some limitation. This study based for the partial fulfillment of MBS course of T.U. So it may not be useful for other aspect. The main limitation of this study are as follows :

- a) This study is focused only on loan management of KBL.
- b) This study is based on annual reports of 5 years data upto F.Y 2064/65.
- c) Though data used in the study will both primary and secondary and based on the information provide by the bank. The truth of the research is based upon the data provided by the bank.

## **1.8 Organization of the Study**

This study is organized into give chapters such as introduction, review of literature, research methodology, presentation and analysis of data and summary, conclusion and recommendation.

Introduction is presented in the first chapter. It is divided into six sub topics. They are background of study, significance of study, focus of study, statement of problem, objective of the study and limitation of the study.

Review of literature - It consists of the review of the concept and the previous studies completed in the relevant study such as Books, journals, thesis and other related materials.

Methodology - It presents research design, nature and source of data, data collection procedure, data processing procedure, population and sample test of hypothesis and techniques of financial analysis.

Presentation and the Analysis - To analyze and evaluate the data with the help of analytical tools and interpret the result so obtain while presenting the data, in order to make attractive and to know analysis various charts and graph are used as of the necessary.

Summary, conclusion and recommendation - At the last all the findings are presented and after finding all the facts toward the problem (What are the factors due to which the problem occurred are recognized) and the suggestion are provided for the further improvement.

## **CHAPTER - TWO**

### **REVIEW OF LITERATURE**

Review of literature deals with the past findings related to topic. Such findings provide the base for the further research or study. Past studies help to provide the necessary data and information to the researcher with in time and effort. In our study, main target is know actual position of the loan management through the research past finding can be know and what are problems or weakness are identified and from our research contribution can be provided to the topic in order to know and solve the problems regarding the loan management of the commercial banks. The researcher use different books, reports, journals and research studies published by various institution unpublished dissertation submitted by master level students have been reviews. It is divided into two sub topics :

- ) Conceptual Review
- ) Review of Related Study

#### **2.1 Conceptual Review**

Bank as among the most important financial institutions in the economy and essential business in thousands of local towns and cities. In the context there is much confusion about exactly what is bank is certainly, bank must be identified by the function (services and roles) they perform in the economy. The problem is not only the functions of banks are changing, but the functions of their principal competitors are also changing.

Commercial banks are the life blood and foundation store for the economic development of the country. The economic development of the banks depends on the development of the banks and the financial institutions commercial banks main target is to encourage the saving habit of the people and to mobilize the deposited account in various sectors such as trade, commerce, industry and other sectors. So, the banks fulfillment the demand of the customers by providing loan whenever they needed which benefits both the customers and the bank and in overall it helps in the economic development of the country.

Credit administration involves the creation and management of risk assets. The process of lending takes into consideration the people and system required for the evaluation and approval of loan requests, negotiation of terms documentation, disbursement, administration of outstanding loans and workouts, knowledge of the process and awareness of its strength and weakness are important in setting objectives and goals for lending activities and for allocating available funds to various lending function such as commercial, installment and mortgage portfolio (Johnson, 1940, 32)

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

### **2.1.1 Loan (Definition)**

Oxford Advanced Learners' Dictionary dubbed the term from s "A thing that is lent especially a source of money". (Oxford Learner's Dictionary, 1997). Similarly webster's dictionary defined loan as "something lent a source of money lent often for specified". (Agnes, 2000, 821). Financial institutions lead money out of deposits, they have received. They must increase money by advancing loan since they have to pay interest on deposits".

Bank do not keep cent percent reserve against deposits for meeting the demands of depositors. As all depositors with a small reserve satisfy their demand whenever and wherever demonstrated and grant loan from excess reserve than depositor head to needy feasible subscriber.

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

- 1) Consumer loan, overdraft and credit card loan.
- 2) Residential mortgages
- 3) Non-personal loan, such as commercial loans to business, financial institution, government and their agencies.
- 4) Direct finance leading
- 5) Other financial arrangement that are in substance loans.

As gist it is apt to quote "performing loans have multiple benefits to the society while non performing loan evades even existing capital."

### **2.1.2 Types of Loan**

Types of loan are also known as disbursement procedures and falls under lending procedures disbursements procedures.

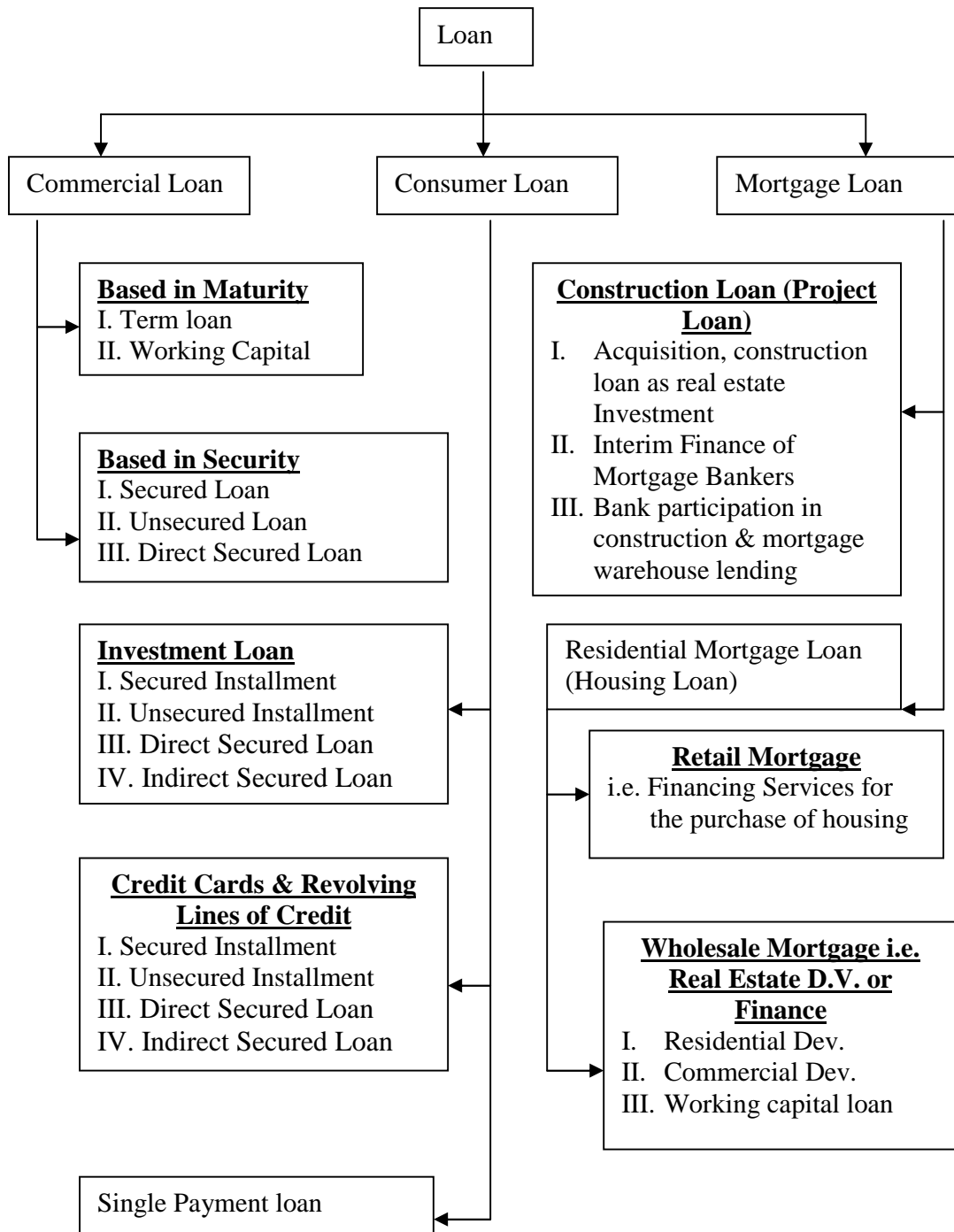
- 1) Overdraft
- 2) Cash credit
- 3) Bills discounting (Munjaj, 1997, 76-77)

Likewise, Johnson & Johnson has depicted the types of loan as follows :

- 1) Commercial loan
- 2) Consumer loan
- 3) Mortgage loan (Johnson, 1940, 158)

Johnson has classified loan is as follows :

## Loan Classification Chart



**Chart - 1**

Source : Johnson et al "Commercial Bank Management

[New Correl : The Dryden Press, 1940 ehs : 8, 10-11]

Whereas KBL provides the following varieties of loan :

- 1) Overdraft
- 2) Short term loan/working capital
- 3) TR/importance loan
- 4) Term Loan
- 5) Expert credit
- 6) Priority sector
- 7) Deprived sector
- 8) Home loans
- 9) Education loans
- 10) Private vehicle loan
- 11) Commercial vehicle loan
- 12) Other consumer loan
- 13) Loan against financial guarantee
- 14) Loan against marketable securities

As there is no uniform standard among intellectuals and organizations for classifying loan sincere and authentic effort is being made for categorizing and dealing about loan.

**i) Term Loan**

obtaining loan directly from bank or financial institutions is known as term loan. It refers to money lent in lump sum to the borrowers. It is principal form at medium term debt financing having. Maturities of 1 to 8 years, term loans are as usually repaid in level amounts over the period of

the loan, either a large final "Bullet payment" or just single "Bullet payment" as maturity.

Banks as accommodate cash flow of the borrowing firms. The rate of interest on it is sometimes fixed not only for the life of loan but also as per piece rate. The conditions of a term loan are likely these of most unsecured funds.

Barely and Myoss urge that bank loans with maturities including 1 year period is called term loan. The firm agrees to pay interest based on the bank's prime rate and to repay principal in the regular instalments special patterns of principal payments over time can be negotiated to meet the firm's special needs. (Richard A. Barely & Myess, 1996)

## **ii) Overdraft**

overdraft connotes the excess amount with drawn over their deposits. The situation of overdraft evolves when bank honors the cheques to an agreed limit. It is a kind of working capital (i.e. fulfillment of short-term needs of business loan and allowed only in current account hence, it is an agreement by which the bank allow the customer to draw over and above the current account balance. The account balance fluctuation frequently since with drawn and repayment of money tools place. Interest on overdraft is charged on debit balance on daily basis.

## **iii) Cash Credit**

It is the commonest form of lending done by the firm (Bank). The loan is not given directly in cash but deposit account is being opened on the name of loan taker and the amount credited to that account. In this way, every loan creates deposits. It may be operated within the stipulated

limit and required time by the borrower. It is provided against the pledge or hypothecation of stock in trade, land building, goods and machinery.

**iv) Working Capital Loan**

Working capital denotes the different between current assets and current liabilities. It is granted to the customers to meet their working capital gap for supporting production process. A natural process develops where in funds moving through the cycle are generated to repay a working capital loan. Working capital loan can be categorized into fixed (permanent) working capital and variable (Temporary) working capital. Short term loan meets the fixed working capital needs where as overdraft fulfils the variable working capital demands.

**v) Fixed Deposit Receipt Loan**

the depositors keep fixed deposits for a specified period. The depositor can get loan against the collateral of such deposits if he needs money before the maturity date in general financial institutions allow up to 90% of the FDR face value can be taken against pledge of original FDR for a period not exceeding FDR maturity.

**vi) Project Loan**

Project loan is granted to the customers as per project viability. The borrowers have to invest certain proportion to the project from their equity and the rest will be financed on project loan. The so called "Debt Equity Ratio" of the project is 60 : 40.

"Construction loans are short term loans made to developers for the purpose of completing proposed projects maturities on construction loans range from 12 months to as long as 4 to 5 years, depending upon the size

of the specific project (Johnson, 1940, 242). The basic guiding principle involved in disbursement policy is to advance funds corresponding to the completion of the project.

Hence, what percent of the loan will be disbursed or which stage of completion must be spelled in disbursement policy. Term loan and working capital loan needed for project fall under it.

#### **vii) Priority or Developed Sector Loan**

commercial banks are required to extend advances to the priority and deprived sector. 12% of the total loan must be flown forwards priority sector including deprived sector. Rs. 2 million for single borrower is limit sanctioned to priority sector. Institutional support to agriculture Development Bank and Rural Development Bank are also considered under this category. Deprived sector lending includes.

- Advance to poor/down trodden/weak/deprived people upto Rs. 30000 in generating income on employment.
- Distributional credit to Rural Development Bank.
- Loans to NGOs those are permitted to carry out banking transaction for lending upto Rs. 30000.

#### **viii) Hire Purchase Financing (Installment Loan)**

Hire purchase loans are characterized by periodic repayment of principal and interest over the maturing of the loan. Hirer agrees to take the goods on hire at a stated rental including the repayment of principal as well as interest with an option to purchase. It extended on secured or unsecured basis having maturities of five years or longer.

Majority of installment loans are made at a fixed rate with the interest rate remaining constant over the life of the loan. A recent survey of commercial banks indicates those banks are planning to offer installment loans on a variable rate basis. It can be secured and on secured as well as direct and indirect.

**ix) Bridge-Gap Loan (Share Loan)**

The approving institution cannot disburse the facility (of loan) due to incompleteness of legal and other formalities through term loan is approved to some customers and bridge-gap loan can be asked in such situation.

**x) Off Balance Sheet Transaction**

In fact, bank guarantee and letter of credit refer to 'off balance sheet' transaction of financial institution. It is also known as contingent liability. Contingent liability pinpoints the liability, which may or may not arise during the happening of certain event. Footnotes are kept as reference to them instead of recording in the books of accounts. It is not funded based remunerative facilities but more risky than the funded until adequate collateral are taken. Let's take two varieties to describe separately Book Guarantee

It is used for the sake of the customers in the form of their party (beneficiary) up to the approved limit. Generally a certain percent amount is taken as margin from the customer and the customer's margin account is credited.

## **Letter of Credit (L/C)**

It is issued on behalf of the customer (buyer/importer) in favor services stating to pay certain sum of money on the submission of certain document complying the stipulated terms and conditions as per the agreement of L/C. This also known as important letter of credit since the bank of importer opens it. However, the some import L/C is known as export L/C to importer's bank and exporter himself. This classifies the fact that importer and importer do not open separate L/C for the trade of some commodities.

### **xi) Housing Loan (Real Estate Loan)**

Financial institutions also extend housing loan to their customers. It is different types such as residential building, commercial complex, construction of warehouse etc. It is given to those who have regular income or can earn revenue from housing project itself. KBL loan policy says that housing loan will be provide to purchase loan and building, construct new houses (residential or commercial) or to renovate and repair existing houses. Real estate loan will be given probably to known parties, considering the current market position.

### **xii) Consortium Loan**

Not single financial institution great loan to the project due to single borrower limit or other reason and two or more such institutions may consent to grant credit facility to the project among them. Financiers have equal (or likely) charge on the projects.

### **xiii) Bill Purchase and Discount**

Purchasing of bill or exchange of customers to which favour limit is prescribed, is known s purchasing of bills, such bills may be either

documentary bills of which contains documents of title to the goods (like air way receipt, airway bill, bill of landing, truck receipts) or clear bills of which do not have any documents concerning with title of goods. Indeed, it is form of advance granted by discounting the bill keeping the bill as security. The holders of bill of exchange can come to bank for discounting their bills when they need cash.

This is why, it is urged that a good bank manager knows difference between bill and mortgage. The bank also purchase cheques of approved customers. It is deemed as being liquid investment as it process certainly to get back fund invested on it maturity over.

#### **xiv) Single Payment Loan**

Occasionally retail customers need to borrow large amounts of funds for a short term and then repaid in a single payment. As it and then repaid in a single payment. As it is a special purpose loan, it required special handling than typical retail loan. Commercial loan many banks.

The differentiating features of it are that the funds are needed for a short period of time and a source of funds will be available to retire the loan. Loan made against the certificates of deposit is it example. It is usually not a major component of a bank consumer loan portfolio.

#### **xv) Credit Cards and Revolving Lines of Credit**

Bank are increasingly utilizing charge cards and revolving lines of credit to make line lowers the cost of making loan since operating and processing cost are reduced. Due to standardization, centralized department processes revolving credits resulting reduction on administrative cost continued borrowing arrangement enhances cost advantage. "Once the credit lines is established, the customer can borrow

and repay according to his needs and the bank loan proved the fund to the customer on lower cost." (Anderson, 1940, 220)

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

### **2.1.3 Objectives of the Sound Loan (Credit) Policy**

The purpose of a written loan policy are (i) to assure complacence by lending personnel with the banks policies and objectives regarding the portfolio of loan and (ii) to provide personnel with a frame work of standards within which they can operates.

### **2.1.4 The Elements to be Dealt in Loan Policy**

The well set up loan (credit) policy normally throws light on he following components.

#### **i) Loan Volume**

The policy consist the credit deposit ratio the bank has to maintain volatility to deposits and borrowings affect loan volume. High volatility of deposits and borrowing will result low loan volume and vice versa. Single borrower limit granted by bank should nor exceed the one set by regularly authorities. Under funded credit and non funded credit banks grants maximum up to 25% and 50% of its core capital respectively as loan.

#### **ii) Loan Mix**

Financial institutions do not put their old funds only to one sector even though this sector is doing well. Investment in only one sector may

cause bankruptcy of the lenders. Even if two individual borrowers of different sector have the same level of risk, the portfolio risk is minimized due to diversification. The ceiling (i.e. maximum amount of loan wanted to be granted) is fixed in relation to core capital of the bank keeping within the periphery of NRB directives.

There must be clear specification regarding the mix of short term and long term loan deposit mix and interest rate movement of bank affects the main of short term of long term.

### **iii) Pricing**

The bank however not the risk beyond a certain should level irrespective of how high the lending rate be prime lending rate is fixed as a practice. Based on the risks, percentage is added in the prime lending rate. The rate follows the same direction of risk i.e. higher the risk, higher the rate and vice versa. Fixed or mixed of floating rate of interest along with compensation balance is to be kept.

In essence, pricing should be fixed in a manner results profit. Profitability in loan is determined as given below,

$$P = I - O - C - D$$

Where,

P = Profitability

I = Interest inclusive other charge if any

O = Operating expenses

C = Cost of fund

D = Expected default loss

**iv) Lending Authority**

Either centralized or decentralized approach can be adopted by lending authority. A certain limit is given to branch nothing under lateral approach. The proposal should be submitted to head office beyond branch limit. The board of director is the climate lending authority having cap like single borrow prescribed by NRB. Some banks fix limit to the official based on their layer under both the approaches. In some organizations the lending authority is tied up with the knowledge and expertise rather than with the level.

**v) Securities**

Liked and disliked securities of bank must be stated in loan policy. Some banks accept bullions & personal guarantee as securities (collateral), whereas others go more forward than that and demand collateral like land, building etc, likewise, the policy should cover the selection of valuator. Guiding factor for selecting collateral are marketability, liquidity, transferability and convenience.

**vi) Risk Analysis**

Criteria to be met by borrower for getting loan should be clearly described proper demarcation about liquidity; leverage; efficiency com profitability ratios must be established to case selection of borrowers consistently.

**vii) Loan Administration and Control Mechanism**

"The administration of loan portfolio may be divided into the general management objectives of planning, organizing and controlling lending activities." (Johnsom et al 1940; 133)

Planning should entail consideration of risk and return of loans that meet profit objectives and allocation of loan assets among consumer, commercial, mortgage organizing refers to the passing of planned goals and objectives into actions through definition of policies as well as establishment of support function and dissemination of service where as controlling covers making and monitoring loans and keep on performance standard and to attain profit objectives and goals. "In certain countries there is 'four eyes' concept". A single person cannot to anything. There should be involvement of at least two official or two departments. (Dahal, 2002; 119) instance of separate department for separate functions like credit approval, documentation, disbursement and so on facilities in finding mistakes of one department by others. It assists in keeping non performing assets (NPA) or low level.

The banks need to take various securities so that in case of default of loan such securities can be disposed to recovery of loans.

#### **viii) Loan Classification and Provisions**

Loans show their signal (as good or bad) with the passage of time and they should be classified and provided accordingly. Net loan (i.e. total loan loss provision) should be shown instead of showing gross loan in the financial statement. In loan policy the following should be dealt.

- ) Statement of policy objectives
- ) Organization of the lending function
- ) Loan standard
- ) Handling of problem loan
- ) Loan review and raising process

- ) Legal consideration
- ) Delegation of authority
- ) Types of credit expansions
- ) Pricing
- ) Market area

### **2.1.5 Commercial Loan Analysis**

Commercial loan offers examine numerous financial factors to uncover a company's financial weakness. Their evaluation begins with a general analysis involving an examination of key financial trends and factors. When one of those factors not meeting the industry norm, commercial loan offers must perform a more detailed analysis to uncover the causes.

#### **A) General Analysis**

The general analysis consists of general trend analysis, and separate analysis of credit, collateral, capital, and capacity. General trend analysis provides loan officers with a quick indication of a company's performance in several key areas: sales, operating income, net income, selling/administrative, working capital, and cash flow. Five year trends of these data permit loan officers to determine quickly whether a company's performance has improved, declined, or remained stable. Credit, capital and capacity analyze involve a comparison of a company's financial ratios against industry standards.

#### **i) Credit**

Credit analysis measures a company's ability to repay its short and long term obligation. Thus, it is one of the most important factors

considered by loan officers the credit analysis really consists of efficiency, profitability, and liquidity analyses. Inventory turnover, receivables turnover, fixed asset turnover, and total asset turnover, fixed asset turnover are primary efficiency measures. Profitability analysis considers operating margin, return on assets, and return on equity, while liquidity analysis includes the current and quick ratio.

Comparison of company's performance vis-à-vis the industry reveals much about the company's relative strengths and weaknesses. For example, if all four of a company's profitability ratios are above the industry norms, profitability is evaluated as strong. If non of them are above the norms, profitability is poor. Intermediate results lead to either normal or weak conclusions. In arriving at an overall opinion of credit, loan officers simultaneously consider a company's profitability, efficiency, liquidity positions.

## **ii) Collateral**

Collateral analysis proceeds to examine the relationship between the value of all assets and pledged assets. To estimate their value, loan officers appraise book value, age, and condition of assets. Generally, if available collateral (collateral value - pledge assets) is much larger than the loan requested, collateral is strong. Lower level of available collateral lead to normal, weak, or poor conclusions.

## **iii) Capital**

Capital analysis provides an indication of a company's leverage position. Long term debt to total assets, total debt to total assets, interest coverage, and fixed charge coverage are the primary factors. If all four measures of capital are above industry standards, a company's capital

position is strong. If they are all below, capital is poor. Otherwise, capital is normal or weak.

#### **iv) Capacity**

Capacity analysis measures the degree to which a loan can be supported by a company, using the same ratios as capital analysis. However, the ratios include the actual amount of the loan requested by the borrower. Thus, they reflect the leverage position of the company with the additional debt burden.

#### **B) Detailed Analysis**

A detailed analysis is performed whenever a general analysis indicates a weakness. For examples, if inventory turnover is below the industry average, commercial loan officers examine additional factors such as source prices and gross margin. Moreover, for any measure that is below the industry norm, loan officers examine its historical trend to determine if the condition is temporary or chronic.

As problem areas are identified and examined the loan officers accumulate loan covenants, or restrictions, which become part of the final loan agreement. For example, if long term debt to total assets is above the industry average, a loan officer may recommend reducing long term debt. A covenant may also be written prohibiting additional long - term borrowing. Thus in addition to providing more information about a company's weaknesses, low level analyses pinpoint areas that require covenants.

To thoroughly evaluate a company, a loan officer must know which financial factors require consideration and their interrelationships, how to interpret and integrate the results of multiple analyses, and when

to proceed with additional analyses. The voluminous data and complexity of the problem make the loan decision difficult for even the most seasoned loan officers.

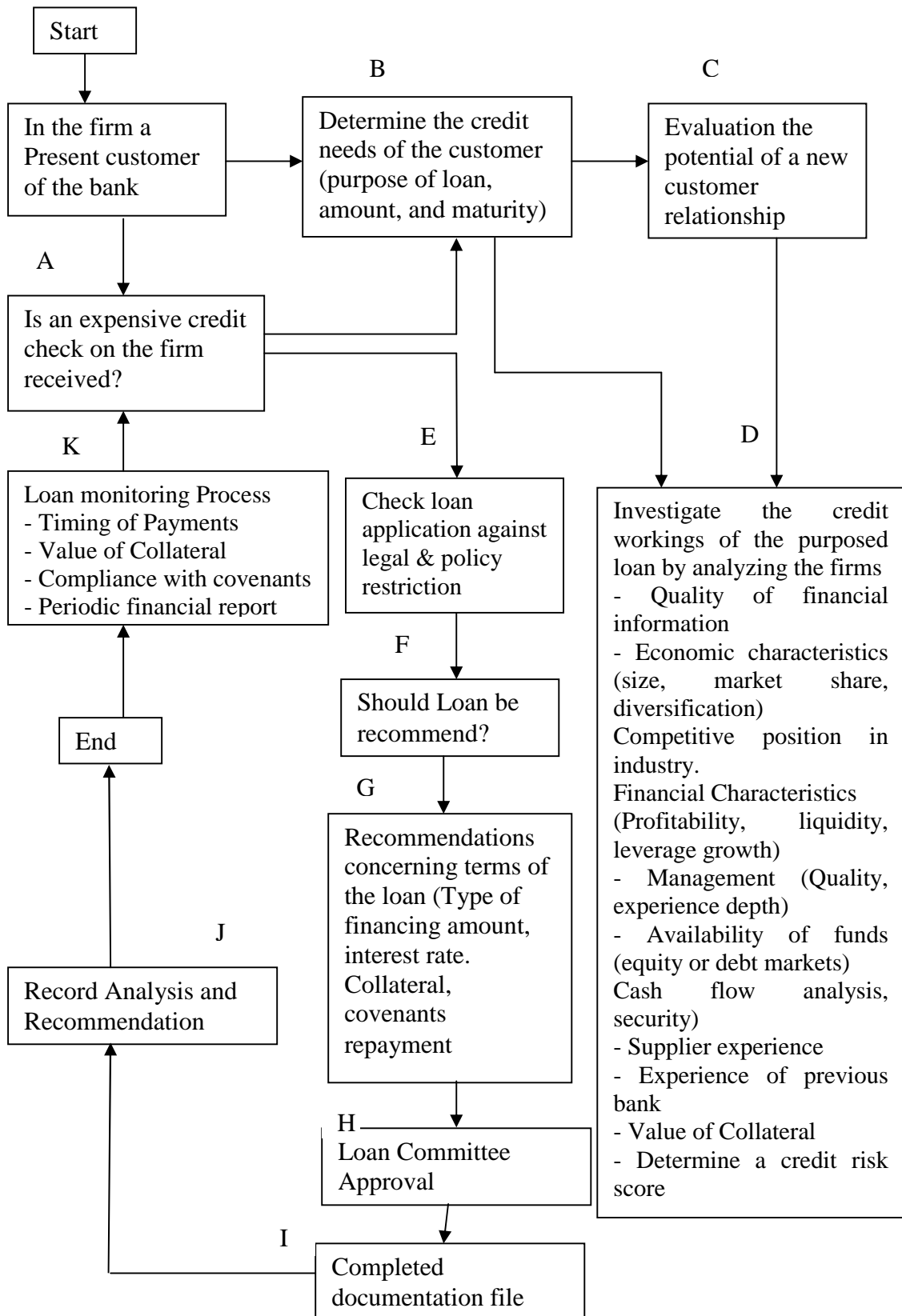
### **2.1.6 Business Loan Decision Making Process**

When loan officers, credit analyzers, and loan review committees evaluate a commercial loan application, they combine financial projections with qualitative information. The loan granting decision is based on the analysis of a firm's historical and preformed financial information and on the interpretation of qualitative information concerning its product markets and industry characteristics, plus the overall performance of management.

In practice, the evaluation of a loan application is based on the information presented in financial statements plus any qualitative information, such as the quality of management, the ability to repay the loan, and the availability and value of collateral. Frequently the qualitative information is of greater value in the lending decision than the financial statement analysis.

Generally, business loan decision making process is as follows :

## Business Loan Decision Making Process



Source : Using an expert system with inductive learning to evaluate business loans (Show and Gentry), vol. 17, number 3, Autumn 1988 (Page 47)

### **2.1.7 Principle of Lending**

Cautions loan policy is essential to carry out the business of lending consistently. Inevitable policies to be considered and analyzed for granting loan are as follows :

#### **i) Principle of Safety Fund**

Bank borrow (accept deposits of other) to lend (to grant loan to others) so, it deals others money and its own common sense. There must be authenticity about the get back of lent money (i.e. loan). It should look the fact that is there any unproductive or speculative venture or dishonest behaviour of the borrower.

#### **ii) Principle of Liquidity**

Liquidity denotes short-term solvency of the borrower "Liquidity refers to pay on hands on cash when it in needed without hunting to sell long term assets or loss in unfavourable market" (Singh, 1999; 149). A banker has to ensure that money will come in as on demand or as per agreed terms of repayment. Under it, a banker clarifies that the borrower have utilized money for their short term needs but not in fixed assets or schemes that take a long term finance.

#### **iii) Principle of Security**

The banks need collateral (security) as cushion to grant advances and loans. Adequate values of collaterals ensure the recovery of loan correctly or the right time. Accepted security should be readily marketable, handy and free from encumbrance.

**iv) Principle of Purpose of Loan**

Purpose for granting loan has obtained supremacy (or attention) over principles of security. Loan request for productive sector only be accepted rejecting loan request for speculation, social function, pleasure trips, ceremonies and repayment of prior loan as they are unproductive.

**v) Principle of Profitability**

profit is the crux for firm's expansion and diversification. Sufficient amount of profit is to be earned by every company for successful day to day operations earn long term survival in the competitive environment. Profitability denotes the value created by the use of resource is more than the total of the input resources. The operating efficiency and adequate return to the investors like in earned profit planned deposit and advances policy results profit. Entire activity must suit for profitability.

Lending role also affects profitability and is affected itself by banks internal policy like control bank's rate, inter bank competition, central bank's directives on lend rates and creation of borrower.

**vi) Principle of Spread**

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

**vii) Principle of National Interest**

In lending and granting advances, interest of nation should not be distorted priority and deprived sector of economy and other alarming sector should be given proper emphasis while extending advances.

### **2.1.8 Loan Approval Process**

Disbursement procedure works offer the operation of loan approval process under lending conditions & disbursement procedures.

Loan approving authority approves loan only offer being convinced that the loan will be recovered along with interest. There may not be the same procedure for all kinds of loan. The process of accepting loan to industry or merchant differs from each other. Similarly, the approving process of loan concerning to primary sector and bigger project is also not similar. Approval of wrong loan proposal on haunch the marks lending institution death-knell. It entails the following sequences.

#### **i) Application**

Every loan process gets momentum after submission of loan request. It encompasses project proposal, historical financial statement and document about incorporation cum legal experience.

#### **ii) Conducting the Interview**

Loan officer may conduct oral interview with the applicant to gauge authenticity at the bank premise. It should be done in a friendly and positive manner. Here is the threat that interviewer may be extremely negative due to the risk of undesirable loan. It clarifies about :

- ) **Loan purpose :-** uniformity between the need of borrower and lender.
- ) **Amount of loan :-** the loan amount will be more accurate if applicant has well defined thought.

- ) **Repayment source :-** every loan possesses primary as well as secondary repayment source. Hence, repayment plans should be realistic.
- ) **History of Business :-** Past and present of firm in regard to management, principal and their age, experiences as well as product and service position along with heightened competition.
- ) **Banking relationship :-** Accounts kept in different banks and loan taken from them and reason to change financial institution is to be mentioned. Lastly separate credit file is to be allowed for each applicant though loan is not allowed. This facilitates the possibility of future business with the applicant.

### iii) **Credit Analysis**

"Analyzing a credit request includes analysis of the character, capacity and capital position of the potential borrower and evaluation of those features in terms of the current economy and the economic conditions predicted over the loan period" (Johnson, 1940; 174). He further says that the basic question the loan officer attempts to answer in the credit analysis includes :

- ) What is the character and managerial ability of the borrower?
- ) What is the borrowers' capacity to repay the loan as requested?
- ) What is the capital position of the borrower in case of the borrower experiences difficulties?

- ) How will current and predicted economic conditions affect the ability of the borrower to repay the loan?

Johnson and Johnson have presented credit analysis under the following eight steps :

- ) Acquiring basic information about the borrowers.
- ) Acquiring basic information about loans.
- ) Making preliminary review of risk.
- ) Acquiring more complete information.
- ) Varying the critical information.
- ) Making a refined analysis of the risk.
- ) Making an overall decision.
- ) Structuring the loan.

#### **iv) Forecast and Risk Rating System**

The analysis has to forecast impending major risk based on the finding of historical analysis on the present considering the present and foreseeable future environment. The analyst has to disclose the extent to which inherent risks will be mitigated and how unmitigated risk can be covered.

#### **2.1.9 The Management of Providing Loan : Disbursement Management**

The following are inevitable for loan

**i) Proposal of Loan**

Printed loan proposal starting essential things should be kept ready and any coming odd or new customer should be given it. It includes name, occupation, address, kind of loan, amount of loan and securities. After filling aforesaid, it should be given to loan department where it is to be reviewed carefully to know the correctness.

**ii) Deed of the Loan**

Loan department prepares it and includes name address of the loan taker and year of loan taken, quality of loan, interest rate, loan recovery date and date of loan agreement (dead) etc. such deed has to be registered form related office.

**iii) Granting Loan Based on Guarantee**

Bank grants loan taking movable or immovable properties of third person if the debtors security is less than needed or unacceptable or do not meet banks' limit. But all legal processes related to it should be helpful.

**iv) Commitment Deed**

After approval of proponent's proposal, loan department prepares separate commitment deed to be signed by the debtors. It portrays loan condition and the rules of bank abiding the borrowers.

**v) Contract of Indemnity**

Contract deed of indemnity needs to be prepared the same department.

**vi) Invoice**

The debtor must submit all bills, vouchers and documents relating to business on time as per demand of the bank.

**2.1.10 The Management for Loan Recovery (Recovery Management)**

Bank desires the proper utilization of loan by the debtors. Indeed, recovery of loan denotes sequences lay down to get back amount with all due interest including remedial and punitive action to be taken if necessary.

**i) Audit of Credit**

Credit audit refers to keeping eyes on the granted loan decide how properly this utilized. It is done until the loan is recovered. It is done from time to time to know plight of debtors, proper use of the loan and profit loss position. It comprises

- ) Verification of loan documents.
- ) Field visit
- ) Forms of credit to be prepared
- ) It may be different forms such as :
  - o Internal credit audit
  - o External credit audit
  - o Credit audit by control bank

**ii) Recovery of Interest on Loan**

The borrower should pay interest and principal on time as per the deed of the loan and time assigned by the bank. Otherwise, bank add

interest according to rule of bank it shares the interest on interest if borrower does not pay loan in fixed time.

**iii) Loan Recovery Process**

Bank recovers the granted loan as per the terms and conditions stated in the deed of loan. Loan should be repaid either on installment basis or lump-sum basis as per the deed of loan. Loan recovery period can be extended making new agreement if borrower's situation goes beyond his control.

**iv) Handover of Securities**

Bank needs to return movable or immovable properties taken as securities from borrower or security received from third persons as guarantee.

**v) Process of Recovering Date-expired Loan**

The bank recovers principal and interest of not recover loan as per Bank and Financial Ordinance Act 2062. After recovering the loan accordingly the remaining cash from sale of property (Security) should be returned to the borrower. Good, acceptable, low qualities, doubtful and bad are the classification of loan by NRB.

**vi) Maintenance of Data**

A report must be prepared containing clear cut information about loan from release date to recovery data. This works as guideline to current and future management.

## **2.2 Review of Related Studies**

### **2.2.1 Review of Books**

Crosse (1963) has mentioned in the book "Management policies for commercial banks", that lending is essence of commercial banking, consequently the formulation and implementation of sound lending policies are among the most important responsibilities of bank directors and management. Well conceived lending policies and careful lending practices are essential if a bank is to perform its credit creating function effectively and minimize the risk inherent in any extension of credit. Before formulating a lending policy, many factors have to be taken into consideration because banks are not the real owners of deposits but rather the custodians of money.

Gitman and Jochnk (1972) in their book "fundamentals of investing" compare the bank investment with a vehicle. He says that it is such vehicle into which funds can be planed with the expectation that will preserve or inverse in a value generates positive results. A banker seeks optimum combination of earning liquidity and safety while formulating investment policy.

Eugene (1978) gives his view in his book "Money and Banking" that in an economic that depends more and more on credit, banks find themselves lending for variety of purposes, sometimes directly, sometimes through other agencies. This wider use of loan is not due merely to a change in attitude of the banks. It reflects also more fundamental changes such as shifts in the public's consumption patterns and in financial investment policies.

In the words of Singh and Singh (1983), the credit policies of banks are conditioned to great extent by the national policy frame work

every banker has to apply his own judge for arriving at a credit decision keeping of course his bankers and credit policy also in mind.

Joshi and Shrestha (2058) in the book "Principal of Bank and Insurance". Mention the principle of sound investment policy of commercial bank. In this topic the authors identify the investment policy as profitability, liquidity, shift ability, safety diversification of risk, capital adequacy, solvency, social welfare etc.

They further states; the field of investment is more challenging as it offers relatively greater scope to banker for their loan portfolio, but this higher degree of freedom in the field of credit management is also accompanied by greater risk particular during recent year, the credit function has become more complex.

Dahal & Dahal (2002) has mentioned in his book "A Hand Book to Banking" that loan and advances dominate the assets side of the balance of any bank. Similarly, earning from such loan advances occupy a major space in income statement of the bank. Lending can be said to the reasoned etra of bank. However, it is very important to be remained that most of the bank failures in the world due to shrinkage in the value of loan and advances. Hence loan known as risky assets. Risk of non repayment of loan is known as credit risk as default risk.

As inference from all these above stated authors it can be said that loan management refers to systematic identification of needy one or required party (loan taker), verifying their documents, pre and post site visit, disbursement of loan keeping collateral was cushion for giver and post disbursement inspective cum sound recovery of granted loan as far as predicable.

### 2.2.2 Review of Journals

Srivasaou and Yong (1986) has explained an expert credit granting system proto type in designing expert financial systems : A case study of corporate credit management, credit granting process in the participating corporation considered of two distinct phases (i) a customer evaluation phase, where the customer's credit worthiness is evaluated based on a variety of criteria; (ii) a credit limit determination phase, where the conclusions of the analysis are transformed into a credit limit are the customers, system design was, therefore, split into two phases, (iii) development of an appropriate model to support the credit limit determination phase.

Shrestha (1997) "Lending operation of commercial banks of Nepal and its impact on GDP" has presented with the objective to make an analysis of commercial banks lending to the gross domestic product (GDP) of Nepal. She has set hypothesis that there has been positive impact of lending of the commercial banks to the GDP. In research methodology she has considered GDP as the dependent variable and various sectors of lending via agriculture, industrial, commercial service and social sectors as independent variables. A multiple regression techniques have been applied to analyze the contribution. The multiple analyzes have shown that act the variables except service a sector lending has positive impact on GDP. Thus in contusion, she has accepted the hypothesis i.e. there has been positive impact a GDP. In conclusion, she has accepted the hypothesis i.e. there has been positive impact by the landing of commercial in various sectors of economy, except service sector investment.

Shrestha (1998) in his article "A Study on deposit and credit of commercial bank in Nepal" concluded that the credit deposit ratio would be 51.30%, other things, remaining the same. In Nepal that was the lowest under the Nepal that was the lowest under the period of review. Therefore, he had strongly recommended that the joint venture banks should try to give more credit entering new fields as far as possible, otherwise, they might not be able to absorb even the total expenses. as a separate part of the management.

Karki (2006) has summarized some of the challenge through his article "Nepalese financial sector: Challenges and some solutions" which are as follows:

According to the article "The financial sector is facing major changes of high NPL of the banking sector, which come around 18% of the total loan but if the loan classification is made according to least international practice, it is assumed to exceed 307, credit demand is being met largely by non institutional source i.e. private money lender, merchant trader, individual landlord at very high rate of interest, which is 2-3 times higher than of institutional source, this shows that the unorganized financial sector is playing a major role in Nepalese economy. The liquidity position of the banking sector is rated as high as 24%, but the productive sector of the economy is starved by credit crunch. This has created a paradoxical situation in banking sector. He has given some suggestion to improve the Nepalese financial sector as:

The financial institution especially commercial banks have to identify new areas of investment to increase loan and advances in reducing the liquidity position with the rapid growth in the number of banks and financial institutions, deposit insurance scheme is a must. The principal reason for introducing such deposit insurance should be one of

the social justice rather than economic justification in order to protect the interest of the small depositors. In this condition, this scheme should be expedited to implement.

This paper has assumed to describe an expert credit granting prototype designed for a fortune 500 corporation. The focus has been on the conceptual process undertaken for designing the prototype. The model base and rules that comprise the prototype are combination of non-active prescription and managerial reference presented in a user friendly environment issue that need conscious recognition in implementing such expert system in corporate finance were also brought forth. The progress in computer and information technologies has provided financial researcher opportunity to affect a transfer of the expertise contained in normative model to practicing managers through the medium of intelligent computer systems. This is a modest attempt to provide a conceptual foundation of this notion and illustrate its feasibility.

### **2.2.3 Review of Past Thesis**

Panta,(1976)in his thesis, "A study of the commercial banks deposits and its utilization" tried knowing the relationship between the collections of deposits and its effective utilization. The researcher concluded that the commercial banks are concentrating their loans only for short duration of times. Through, the research, he recommended the banks should also provide loan on the loan time durations which helps ineffective utilization of the deposits.

Bhattarai, (1978) in her thesis paper "Leading practice of commercial banks in Nepal" has examined the lending practice of the

commercial banks. The researcher found the result that utilization of resources is more important than the collection of the deposits. So, she recommended the banks to give more attention on the efficient utilization of the resources which help in the economic development of the country but she has concluded the efficient utilization of resources is more important means lower capital formation that hampers economic development of the people and the country. So she recommended that banks should give emphasis on efficient utilization of resources.

Aryal (2002) in his research "Loan management of agriculture development bank" states objectives are follows:

- ) To analyze the target and achievement of loan disbursement and collection.
- ) To find the relation between the loan disbursement and collection of the bank.
- ) To analyze loan disbursement and collection in different purpose.
- ) To analyze the view of borrowers about ADB/N and its loan collection and disbursement effects.
- ) To evaluate the role of interest rate, disbursement procedure and collection other in actual loan collection of the bank.

His finding is as follows:

- ) Actual loan disbursement, collection and over standing are increasing in decreasing rate decreasing rate of growth rate

and higher growth rate of loan disbursement than loan so the production is the major problem of the bank.

- ) There is positive relation between loan disbursement and collection.
- ) Targeted loan collection and disbursement fixed by planning and project department is nor significantly different than the actual.

Subedi (2003) has submitted a thesis named "Loan management of Himalayan securities finance limited" on 2060 to share or developments of Tribunal University. His research objectives are as follows:

- ) To analyze the loans and advances provided by HISEF limited from FY 2054/55 to 2058/59.
- ) To analyze the interest rate structure on loans to be issued.
- ) To analyze the recovery or payment of the loans disbursed.
- ) To study the appropriateness of HISEF limited loan policy as per directives or finance companies issued by NRB on 2058.
- ) To study the effectiveness of HISEF limited in relation to release and recovery of loan.
- ) To study the attitudes of employees and clients of hisef limited in regard to the performance of the right institution.
- ) To suggest and recommend the future strategies to be taken to improve organization preset status.

Her research's major findings are as follows:

- ) Current ratio of HISEF is relatively greater than standard (92:1). Its average is 2.89 it has 77% consistency in this bank over study period. There is problem of cash being idle in the several years.
- ) Loan and advances to total deposit ratio ranges in between 78.49% to 95.41%. There is 93.96% consistency over the study periods average of the ratio is 85.93% this shows that deposit collected mainly goes to lending loan and advances. Hence HISEF main source of income comes from interest earned from loan and advances. There is high degree of positive correlation between total deposits and loan and advances.
- ) Capital adequacy ratio is more than 0% there the study period. This is to be 8% according to NRB directives. It has increased in last year. This is 86% consistency in the ratio through the study period. This shows capital fund (Net worth) is sufficient to meet total deposit as per NRB directives for this (8%)
- ) Average deposit of HISEF during research period is greater than finance companies industry.
- ) Average loan and advances of HISEF during research period is greater than finance companies industry.

- ) Average ratio of loan and advances total deposit of HISEF during research period is greater than finance companies industry.
- ) Net profit ratio is decreasing and negative is 5<sup>th</sup> year. This shows weakness of loan lending practice.
- ) Invest income from loan and advances and loan and advances hold higher degree of position correlation. Change in loan and advances bring change in interest income it.
- ) Net profit and paid up capital holds high degree of negative relation. Change in paid up capital brings change in the net profit but in advance direction.
- ) Term loan, housing loan, loan purchase and fixed deposit receipts loan occupy major position in due loan. Fixed deposit receipt loan is decreasing trend. Hence, terms loan housing loan and live purchase loan should be given more emphasis to recover.

Bhattacharai (2006) has studied "Loan Management of Kathmandu Finance Ltd." These major research objectives are as follows:

- ) To analyze the loan and advances of KAFL.
- ) To analyze the interest rate structure of loans and advances as well as deposits.
- ) To analyze the necessary or repayment of the loans disbursed.

Major findings in his study are as follows:

- ) Interest income from loan and advances hold high degree of positive correlation. Change in loan and advances bring change in interest income from it.
- ) Average deposit and loan and advances of KAFB during research period is similar to finance companies industry.
- ) Term loan, housing loan, hire purchase and for loan occupy major position in due loan. FRD loan has decreasing trend. Hence, term loan, housing loan and hire purchase loan should be given more emphasis to recover.
- ) Interest income from loan and advances and EBT goes in same, direction. Increase in interest income causes increase in EBT and vice-versa.

Kafle (2006) has concluded his study entitled "Non-performing loans of Nepalese commercial banks". The researcher's main objective of the study is as follows:

- ) To know the problems of the non-performing loans and effects in the ROA and ROE of the Nepalese commercial banks.
- ) To find out whether the Nepalese commercial banks are following the NRB directives regarding loan loss provision for non-performing loan or not.

Major findings in his study are as follows:

- ) No banks have been following NRB's directives regarding the loan loss provision.
- ) Return on assets (ROA) and return on equity (ROE) of the bank depend upon the NPLs.
- ) The high degree of negative correlation between NPL and ROA and between the NPL and ROE clearly indicates that there is an inverse relation between them.

Baniya (2009) has concluded his study entitled " A comparative study between Everest Bank and Himalayan Bank Ltd " states objectives are as follows:

- ) To analyze the financial strength and weakness of the selected sample banks.
- ) To measure the banks lending strength and lending efficiency.
- ) To analyze the lending contribution in total profitability
- ) To evaluate the liquidity, earning activity, credit and capital adequacy position of selected sample banks.

His findings are as follows:

- ) Measuring the lending strength of EBL and HBL.
- ) Measuring the lending strength in absolute terms of Everest Bank and Himalayan Bank Ltd.

- J Analyzing the lending efficiency and its contribution in total profitability of EBL and HBL.
- J Correlation coefficient between total deposit and loan and advances of EBL and HBL were found positively correlated. Positive correlated shows the significant relation between net deposit and loan and advances.

#### **2.2.4 Review of Legislative Provision**

NRB Act 2013, NRB Act 058 and Commercial Act 2031 are reviewed in this segment. After February 4, 2004 the ordinance relating bank and financial institutions has been promulgated. The ordinance is popularly called an umbrella act as it reveals and replaces all existing Acts relating to commercial banks, NIDC, other Development banks and finance companies and brings all such institutions under the purview of a single act. The ordinance is divided into 12 chapters and contains altogether 93 sections. Loan disbursement and its recovery procedures are covered under chapter 7 that re-establishes the NRB's authority to regulate lending and minimize the changes of loan going to an unscrupulous or diversion of funds. The NRB issued Directive annually to guideline the banking activities. Every bank should be follow NRB rules and regulations, otherwise he should apy fine. NRB Directives state about loans and advances in Directives no. 2.

The main provisions established by NRB in the form of prudential norms in above relevant area are briefly discussed here under.

##### **i) Provision for Minimum Capital Fund**

License financial institution should keep minimum capital fund for total risk weighted assets after 2005 is as follows :

**Table 2.1**  
**Provision for Minimum Capital Fund**

<b>Institution</b>	<b>Minimum capital fund to total risk weighted assets</b>	
	<b>Core Capital</b>	<b>Capital Fund</b>
For "A", "B" and "C"	6.00%	12.00%
For "D"	4.00%	8.00%

**ii) Provision for Investment in the Deprived Sector**

According to new provision, investment in share of rural development banks by commercial banks, which used to be counted for priority sector lending, only is new to be included under the deprived sector lending. According to the provision, banks are required to extend credit to deprived sector as stipulated percentage.

**iii) Provision of Credit to the Priority Sector**

NRB requires commercial banks to extend loan and advances, amounting at least 12% of their total outstanding credit to the priority sector. Commercial banks credit to the deprived sector is also a part of priority sector credit. Under priority sector credit to agriculture, credit to the cottage and small industries and credit to service are counted commercial bank's loan to the co-operatives licensed by the NRB is also to be computed as the priority sector credit from the fiscal year 1995/96 onwards.

Nepal Rastra Bank announced its policy of phasing out this programmed as follow :

2002/03	7%
2003/04	6%
2004/05	5%
2005/06	2%
2006/07	2%

**iv) Provision for the Investment in Productive Sector**

Nepal being a developing country needs to develop infrastructure and other primary sectors like agriculture industry, etc. For this NRB has directed commercial banks to extend at least 40% of their total credit to the productive sector. Loan to the priority sector, agriculture sector and industrial sector have to be included in productive sector investment.

**v) Provision for the Single Borrower Credit Limit**

**a) For "A" "B" "C" Class Licensed Institution**

Licensed institution may extend to a single borrower or group or related borrowers the amount of fund based loans and advances up to 25 percent of the core capital fund and non fund based of balance sheet facilities like letter of credit, guarantees, acceptances, commitments up to 50% of its core capital fund. Fixation of limit on credit and facilities to single borrower shall be made on the basis of core capital fund as per the latest quarterly balance sheet certified by the internal auditor of concerned institution. The fund based loan and non fund based facilities are separate and accordingly the single borrower limit shall not be calculated by aggregating the both.

**b) For "D" Class Licensed Institution**

Credit to the deprived and low income people may be extended a maximum of up to Rs. 40,000 per group member/individual for operation

of micro business and not more than Rs. 1,00,000 per each micro enterprise to be provided on a gradual basis to the group member for operation of micro enterprise against acceptable collateral.

However, the institution shall extend such-enterprise credit up to 25 percent of the total loans and advances.

**vi) Cash Reserve Requirement**

Commercial banks are required to keep adequate liquidity to meet the depositors demand for cash at any time and to inject the confidence of the depositors thoughts regarding the safety of deposited fund. To serve for the public welfare NRB has directed commercial banks to maintain 5% minimum cash reserve.

**vii) Loan Classification and Loan Loss Provision**

To improve the quality of assets of commercial banks, NRB has directed the commercial banks to classify their outstanding loan and advances, investment and other assets into four categories on the basis of time

- a) Pass
- b) Substandard
- c) Doubtful
- d) Loss

Loans and advances falling in the category of pass classified as performing loan.

Loan and advances falling in the category of substandard, Doubtful and Loss are classified and non performing loan.

The loan loss provision on the basis of the outstanding loans advances and bills purchase classified as per this directive should as follows:

**Table : 2.2**

**Classification of Loan and Required Provisioning**

<b>Classification of Loan</b>	<b>Criteria</b>	<b>Loan loss provision</b>
Pass	Due up to 3 months	1.00%
Substandard	Due up to 3-6 months	25.00%
Doubtful	Due up to 6-12 months	50.00%
Loss	Due up to 12 months	100.00%

**2.2.5 Research gap**

This review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make study meaningful and purposive. There has been lots of article published related to investment policy loans and advances of commercial banks. There are various researches conducted on investment analysis and policy of commercial banks, impact and implementation of NRB guideline in commercial banks but these few research conducted on loan management aspect of commercial banks. However, no one has done a study on "Loan Management" with Kumari Bank Limited. Therefore, the research attempts to study in this area. To know the loan management of Kumari Bank will probably be the first study of this bank in the subject matter.

So, this study will be fruitful to those interested person parties scholars, professor, students, business man and government for academically as well as policy perspective.

# **Chapter - Three**

## **Research Methodology**

### **3.1 Introduction**

Research can be defined as an organized, systematic, database, critical, scientific inquiry investigation into a specific problem, undertaken with the objective of finding answer & solution to it. It is the systematic and objective analysis and recording of controlled observation that may lead to the developments of generalization principles or theories, resulting in prediction and possibility of ultimate control of events.

Research has two important aspect. First, it is sufficiently broad to include all types investigations requiring solutions to a problem. Second, it explicitly recognizes the systematic nature of the research process in which data are gathered, recorded, analyzed, and interpreted in an orderly manner.

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with a certain objective in view. It is a way to solve the research problem systematically. It may be understood as a science of studying how research is done scientifically. It includes the various steps that are generally adopted by researcher in studying his research problem along with logic behind them. (Kothari, 2001; 39)

Research design, nature and source of data, sample and method of data analysis are incorporate under this chapter. Here research methodology comprises analytical and descriptive research design. The main objective of this study is to see trend relationship between figure of

loan disbursement and collection and to explain the causes of delayed payment from borrowers followed by recommendation.

### **3.2 Research Design**

Research design is an overall framework or plan for the collection and analysis of data that focuses on the data-collection methods, the research instruments utilized and the sampling plan to be followed. Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance. The problem, the methodology, data gathering, data analysis and report writing are the basic elements of a research design. The crux of this research is to analyze the soundness of KBL in relation to loan disbursement, capital adequacy, deposits, profitability and liquidity.

The research design is thus an integrated form that guides the researcher in planning and exercising the research works, both exploratory (descriptive) cum analytical along with historical types are adopted as procedure under research design statistical analysis is also used here in :

*i) Descriptive analysis*

It design will be adopted in fulfilling the objectives of this study it is tough to study the principle cases arising from borrower's side and quantity then in relation to the weak repayment performance of KBL.

*ii) Statistical Tools Analysis*

It throws light on the trend situation of loan disbursement and recovery (collection) from FY 2060/2061 to 2064/2065 as far as possible. Karl Pearson's coefficient of correlation is used to analyze the relationship between total deposits and loan and

advances. Average, percentage, graphs, chart and diagram will used here in.

### **3.3 Nature and Source of Data**

Both primary and secondary source data have been collected in order to achieve the real and actual results.

#### *i) Primary Data*

Those data which are collected for the first time for any specific purpose are called the primary data. Primary data gathered by the researcher for the research project at hand. Collection of primary data is comparatively expensive than the collection of secondary data but they are exactly in the form that the researcher requires. It has been institution gathered through questionnaire and observation of institution itself. Questionnaire are distributed among twenty personnel of KBL head office and branch, to concern and then responses are collected for study.

#### *ii) Secondary Sources of Data*

Those data which are collected by one agency, organization or person but used by other agencies organization of person are called secondary data or secondary sources. Collection of secondary data is comparatively cheaper than the collection of primary data but the secondary data may be in the form that the investigator needs. The required secondary data collected form :

- ) Nepal stock exchange
- ) Annual general report of KBL
- ) NRB directives

- ) National newspaper, journals and magazines
- ) Websites
- ) Published and unpublished reports.

### **3.4 Population and Sample**

The well specified identifiable group of people, events or thing of interest that the researcher wishes to investigate is known as the population. Population is whole aggregate number in which the researcher has to study. Population may be finite or infinite. A proposal is one where all the member can be easily counted or one containing a fixed number of elements.

Sample is the part of the population that we actually examine in order to gather informations. Thus a sample is smaller representation of the population.

At present there are altogether 25 commercial bank on operation in Nepal. Loan management of KBL has been focused. Hence, loan disbursement and recovery of KBL from EY 2060/61 to 2064/65. Five year data care taken as sample for the study, since it is time consuming and number some of census the whole population. All commercial bank data are published by Nepal Rastra Bank for the study period is taken as population of the study.

### **3.5 Data Collection Procedure**

The study will also be based on primary data information will be collected developing a scheduled questionnaire and distributing these to employee of KBL (Manager, director and finance chief).

Besides this, junior employees are also observed and response has been drawing front them about relevant questionnaire.

### **3.6 Method of Data Analysis**

Data analysis, in this study, is done according to the pattern of data available. For study, any analytical tools can be used in solving the problem. All collected primary as well as secondary data are arranged, scanned, tabulated under various heads and then after descriptive cum statistical analysis have been carried out to enlighten the study.

Mean, standard deviation, correlation, coefficient variation, hypothesis are being calculated under statistical analysis. "Financial analysis is the starting point of making plans before using any sophisticated forecasting budgeting procedures" (Pandey, 1999; 108). Hence ratio analysis is used under financial analysis to attain the result after tabulating the data.

#### **3.6.1 Ratio Analysis**

Ratio analysis is a part of the whole process of analysis of financial statement of any business or industrial concerned especially to take output and loan management decision. Ratio analysis is used to compare form's financial performance and status that of other forms or to it overtime. Ever thought there are many ratios of analyze and interpret the financial statement, those ratios that are related to the investment to the investment operation of the bank are have been covered in this study. The following types of ratios have been used in this study.

#### A) *Liquidity Ratio*

This ratio measures the liquidity position of a firm. It measure the ability to meet its short term obligations or its current liabilities. It measure the speed with which a bank's assets can be converted into cash to met deposit withdrawal and other current obligation. The following lodging ratios have been calculated in order to exhibit the liquidity position of the KBL.

##### i) *Current Ratio*

It provides about the short term solvency of the firms. It establishes the relationship between current assets and current liabilities of which is expressed as :

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

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 purchase and discounted, customer acceptance liabilities, prepayment expenses, bills fore collection. Likewise, current liabilities devote current account deposits, saving account deposits, margin deposits, bills payable, call deposits, bank overdraft, intra bank reconciliation account, provision customer's acceptance liabilities and so on.

**ii) *Cash and Bank Balance to Total Deposit Ratio***

this ratio points the banks capacity to cover their deposit like current, call saving and margin. A higher ratio is preferred since finance company is able to cover deposits. It can be expressed as :

Cash and Bank Balance to total deposit ratio :

$$= \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

**iii) *Cash and Bank Balance to Current Assets Ratio***

This ratio highlights the percentage of readily available funds with the bank. A higher ratio is preferable like the earlier stated ratio in its case too. It is calculated as :

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

**iv) *Loans and Advances to Current Assets***

This ratio highlights the percentage of loan and advance in current assets. A higher ratio means greater loans advances are in current assets.

**B) Profitability Ratio**

Profitability ratios are used to indicate and measure the overall efficiency of a firm in term of profit and financial performance. For better performance, profitability ratios of firm should be higher. Some important profitability ratios are used here as follows :

**i) Net Interest to total Assets Ratio**

Net interest means receive interest minus interest paid. It also known as interest spread. The high ratio indicates that profitability of the bank. Similarly, the low ratio indicates that low profitability of the bank.

$$\text{Net interest to total assets ratio} = \text{Net interest} / \text{total assets}$$

**ii) Net profit to Total Assets Ratio**

It measure the profitability of fund invested in the bank assets. It is computed by dividing the net profit by total assets including profit and loan account (Debit side) higher ratio is preferable since it has more operating efficiency of the firm and vice versa. It is expressed as :

$$\text{Net Profit to Total Assets Ratio} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

**iii) Return on Net Worth (ROE)**

Net worth denotes the owners claim in the asset of the commercial bank's remain often subtracting total external liabilities from total assets. Here total assets represent al the assets beside accumulated loss and intangible assets. The ratio exhibits the rate of return earned on net worth (or shareholders fund or equity). Its compensation is to be done as :

$$\text{Return on Net worth} = \frac{\text{Net Worth After Tax}}{\text{Net worth (TA Z External liabilities)}}$$

### 3.6.2 Statistical Tools

#### i) *Arithmetic Mean (Average)*

The sum of all the observation divided by number of observation is called arithmetic mean or simple average. In equation

$$\bar{X} = \frac{\sum X}{n}$$

Where,

$\sum X = x_1 + x_2 + x_3 + \dots + x_n =$  sum of set observation

$N =$  Number of items observed

$X =$  Variables

#### ii) *Standard Deviation (S.D.)*

It is defined as the positive square root of the arithmetic mean of the squares of the deviations of the given observations from their arithmetic mean. It is used as absolute measure of dispersion of variability. It is calculated as :

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

Where,

$\sigma =$  Standard Deviation

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

$\left(\frac{\sum x}{N}\right)^2 =$  Sum of squares mean

A small S.D. pin points a high degree of uniformity or homogeneity of the data while a large S.D. provokes just adverse.

**iii) Co-efficient of Variation (C.V.)**

The relative measure of dispersion based on standard deviation is known as coefficient of standard deviation coefficient of dispersion based on standard deviation multiplied by 100 is known as coefficient of variation (c.v.)

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

The coefficient of variation reflects the relationship between standard deviation (S.D.) and mean ( $\bar{X}$ ). since CV is independent of unit, two distributions can bitterly be compared with the help of it for their variability. Higher CV denotes higher variability i.e. lesser uniformity and consistency and vice versa.

**iv) Correlation (r)**

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

- ) Simple or partial or multiple correlations.
- ) Positive as negative or zero correlation
- ) Linear or non linear correlation
- ) Perfect or non perfect or zero correlation

In the words of L.H.C. Tippett, "The effect of correlation is to reduce the range of uncertainty of our prediction" (Tippett, Ibid; 416). It is calculated as :

$$r_{xy} = \frac{N \sum xy - \sum x \sum y}{\sqrt{N \sum y^2 - (\sum y)^2} \sqrt{N \sum x^2 - (\sum x)^2}}$$

Where,

$\sum xy$  = Correlation between x and y

$N \sum xy$  = Product of no. of observations and sum of product of x and y

$\sum x \sum y$  = Product of sum x and y

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

It explains the variation deprived in dependent variable due to the any one specific variable it denotes the fact that the independent variable is good predictor of the behaviour of the dependent variable. It is square of correlation coefficient.

vi) ***Probable Error***

Probable error of the correlation denoted by P.E. is the measure of testing the reliability of the calculated values of r. If r be the calculated value r from sample of N pair of observations, then P.E. is denoted by :

$$P.E. \times 0.6745 \frac{1Zr^2}{\sqrt{N}}$$

The Kaul Pearson coefficient of correlation (r) always falls between -1 to +1. The value of correlation in minus signifies the negative correlation and inputs signifies the positive correlation. As the value of coefficient reaches near to the value of zero. It is said that there is no significant relationship between the variables. The coefficient of correlation shall be interpreted based on probable error (P.E.). If the value of correlation coefficient is greater than 6 times the value of P.E., the correlation coefficient is deemed as significant and reliable. If the value of correlation coefficient is less than 6 times the value of P.E., the correlation coefficient is said to be insignificant and there is no evidence of correlation.

**vii) Time Series**

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

The least square method to trend analysis has been used to measure the trend behaviours of the bank. The method widely used in practices. The straight line trend of series of data is represented by the following formula.

$$Y = a + bx$$

Here,  $y$  is used to disunite the trend values to distinguish them from the actual  $y$  values,  $a$  is the  $y$  intercept or the computed trend figure of the  $y$  variable when  $x = 0$ ,  $b$  represents the slope of the trend line of the amount of change in  $y$  variable that is associated with a change of one unit in  $x$  variable, the  $x$  variable in times series analyses represents times.

While analyzing the time series, the propensity of growth and growth rate have been examined based the value of trend value of least square method. The growth rate has been measured from 2008 to 2012 to reveal the real status of the study period.

## **CHAPTER-4**

### **DATA PRESENTATION AND ANALYSAIS**

In this chapter the relevant information available has been used by analyzing the loan the loan management of KBL for the fulfillment of the research objectives five years data covering from the 2060/61 B.S. to 2064/65 B.S have been analyzed and interpreted as per the research methodology defined in chapter three, To have a deep insight of the loan management in Kumari Bank, firstly various steps involved in loan management are discussed. The trend analysis of various aspects related to loan management in KBL done.

For the purpose of analysis, data has been presented in the form of tables and charts. Data presentation and analysis is done to fulfill the objective of the study. The objectives of the study are to analyses the trend of every years deposit collection and loan investment to measure total amount disbursed out of total deposit collected to measure performance of bank in term of profitability liquidity ,NPL to study the attitude of employee of KBL in regard to the performance of the bank. This study is based on both primary and secondary data.

#### **4.1 Analysis of secondary data**

##### **4.1.1 Deposit of KBL**

We know that accepting deposits as well as providing loans are the main world. Therefore, Banks collects the scattered funds from public in the form of deposits and mobilization .The volume of credit extension depends upon the deposits base of a bank besides other factors. The deposits collected by KBL can be divided as current saving, fixed, call

and other deposits. The deposits collection by the bank in five years (2060/61-2064/65) is the presented in the table below.

**Table 4.1**  
**Deposits collection by KBL (Rs. in million)**

<b>Fiscal year (B.s)</b>	<b>Deposit collection</b>	<b>Include in deposit collection</b>	<b>% include</b>
2060-61	4807.94	-	
2061-62	6268.95	1461.01	30.39
2062-63	7768.96	1500.01	23.93
2063-64	10557.09	2788.13	35.89
2064-65	12774.28	2217.19	21.00

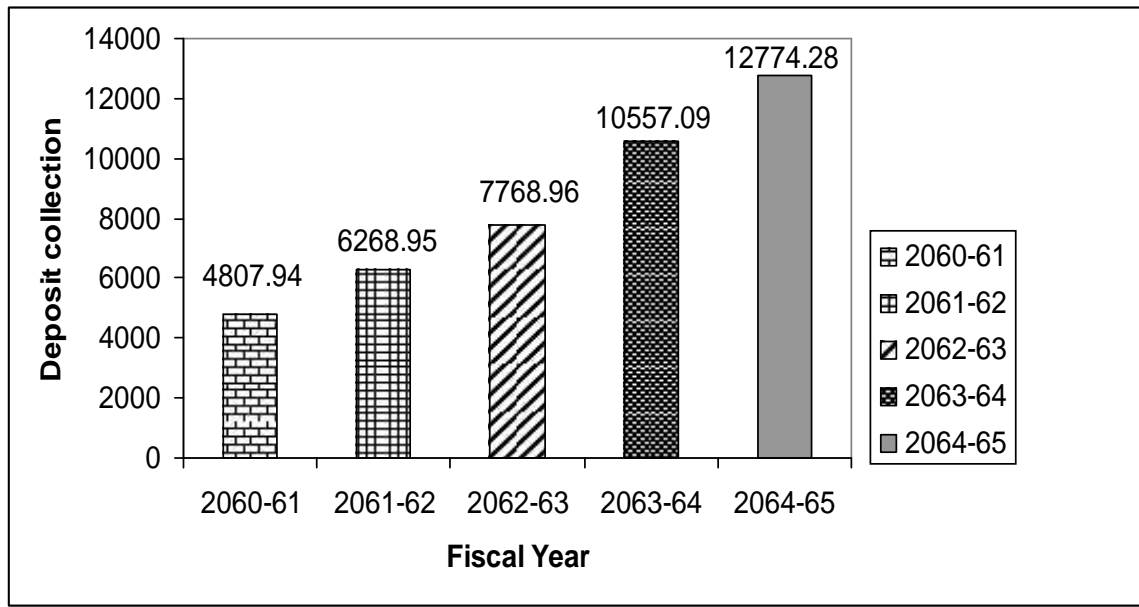
Source: Annual Reports (2060/61 - 2064/65)

The above table shows the deposit collected by KBL from the year 2060/61 to 2064/2065. There is increasing in deposit collection upto year 2063/2064 from year 2060/61. After that trend is declined .In 2060/61,the deposit collected is Rs4807.94million . Similarly in 2061/62 collected amount is Rs 6268.95 million which is 1461.01 million is greater than previous year and in percent it is increased by 30.39 percentage.

Total deposit collection in 2062/63 is Rs 7768.96 million which is increasing trend but in decreasing rate with 23.93 percentage. In the fiscal year 2063/64 total deposit is Rs 10557.09 which is in 35.89 greater in comparison to the year 2062/63. In the year 2064/65 is increasing trend but in decreasing rate with 21 percentage with. The amount is 12774.28 million. From the above deposit collection data clear that trend of KBL fluctuated between the year 2060/61 to 2064/65. The deposit collected by

KBL annually for 5 years (2060/61-2064/65) can be presented in form of bar charts.

**Figure 4.1**  
**Deposit collection of KBL**



#### 4.1.2 Deposit composition of kbl.

The deposit composition of kbl also has significance of the study of the loan disbursement. The follow table shows the composition of deposit of kbl.

**Table 4.2**  
**Deposit composition (RS in million)**

Year	Deposit										
	Saving	%	Fixed	%	Current	%	Call	%	Other	%	total
060/61	902.94	18.78	1292.45	26.88	251.04	5.22	2299.93	47.84	61.58	1.28	4807.94
061/62	1515.58	24.18	2302.09	36.72	279.36	4.46	2102.84	33.54	69.08	1.10	6268.95
062/63	2317.84	29.83	3162.83	40.71	350.82	4.52	1880.74	24.21	56.73	0.73	7768.96
063/64	4461.37	42.26	2776.48	26.30	403.80	3.82	2827.70	2678	87.74	0.83	10557.03
064/65	4138.81	32.40	3799.56	29.74	601.72	4.71	4124.56	32.29	109.63	0.86	12774.28
	9336.54		13333.41		1886.74		13235.77		384.77		
		29.49		32.07		4.55		30.93			

Source: Annual reports(2060/61-2064/65)

The above table shows the composition deposit of KBL viz-current, saving ,fixed , call and other deposits include margin deposit ,certificate deposit etc.

Here we can see that more amount have been collected in call deposit and less in other deposit in initial years. In the years 2060\61 saving deposit collection shows Rs 902.94 which is 18.78 percent of the total deposit. The percentage of the saving deposit shows increasing trend upto fiscal year 2063\64, then it declined in the years 2064\65.The highest percentage of saving deposit in 2063\64 is 42.26 percent. It indicates that cost of source is decreasing.

Fixed deposit in 2060\61 Rs 1292.45 million collected. In the study period , the percentage of fixed deposit to total deposit is highest in 2064\65 where as lowest in 2063\64 . It shows the tread of fixed deposit is increasing. In other words, we can say that dependency in fixed deposit is increasing trend. It virtually affects in profitability .we can say that

there is negative relation between profitability and cost of source of funds. In other words, higher position of fixed deposit indicates higher lending policy of long term loan of the bank and vice versa.

Similarly trend is also observed in current deposit of KBL. But there is no great fluctuation in current deposit. The highest is 5.22 percentages and the lowest is 3.82.

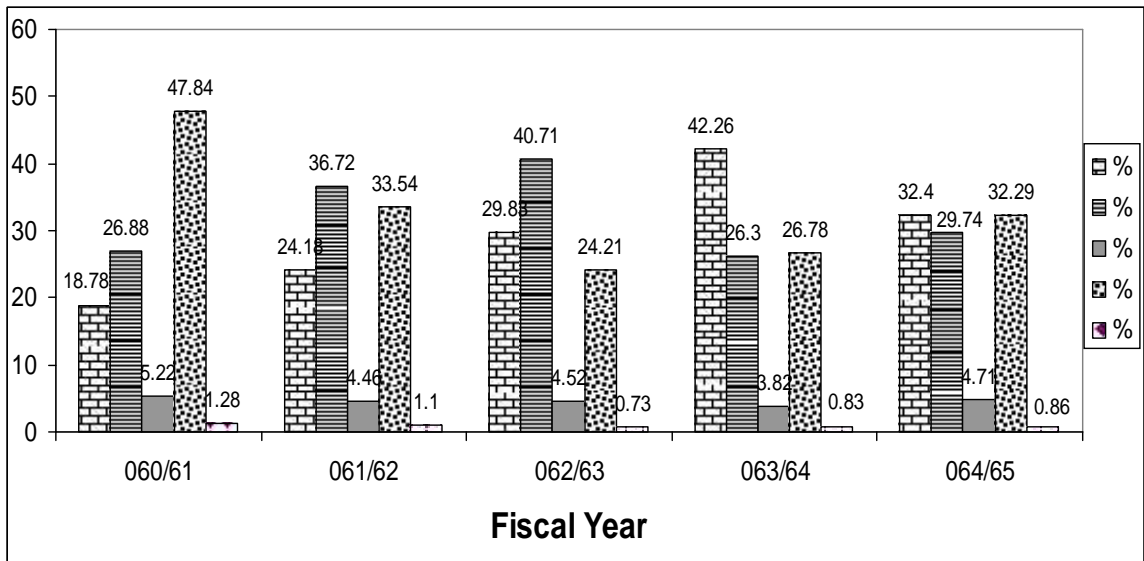
Call and short deposit also show a low degree of decreasing and increasing trend. 2060/61 the percentage of call deposit is only 47.84 percentage of the total deposit. Other deposit which includes margin deposit, certificate of deposits shows slightly decreasing and increasing trend.

The bank depends saving deposit on saving leeries in the total composition. The call deposit has greatest contribution in total deposit in average 32.93 Percentage while fixed and saving contributed in total deposit in average are 32.07 and 29.49 percent respectively. The current deposit has in the fourth rank but other deposit has in the fifth rank and other deposit has less contribution within total deposit.

The amount collected in fixed deposit is more appropriate to lend because of its fixed nature but its cost of fund is high similarly, the saving deposit also useful to lend because of low cost of saving deposit in comparison to fixed deposit. How deposit is optimum in saving fixed, call and other deposit it determines in saving, fixed, call and other deposit it determines the nature of loan if there is high demand of long-term loan. The bank should increase fixed deposit. Otherwise, bank should increase other deposit such as saving, call and other deposit.

The flowing charts shows the above information

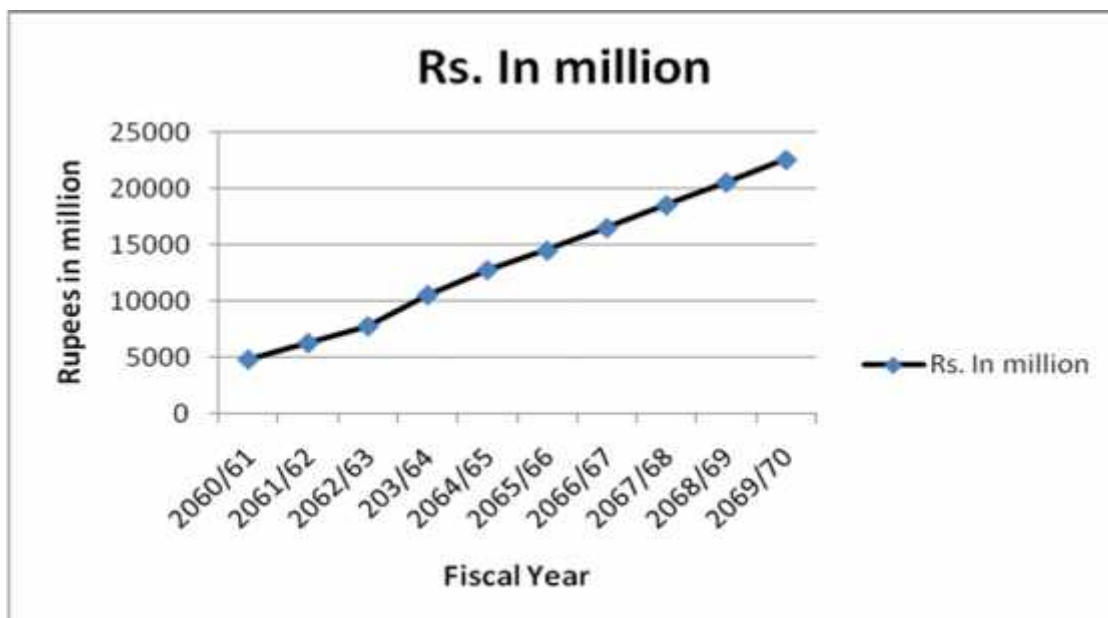
**Figure 4.2**  
**Deposit composition of KBL**



### 4.1.3 Trend of deposit collection

The trend of total deposit in coming year is analyzed using the trend analysis. The following trend line shows the projection of total deposit of KBL upto 2069/70. The calculation of trend for cost has been presented in appendix -1.

**Figure 4.3**  
**Trend of Deposit Collection**



The above figures shows that the deposit collection by this bank is increasing trend if other things remaining constant. According to the trend forecast the deposit collection in the 2065/66 it will be Rs 14501.692 million in 2066/67 it will be Rs 16523.77 Million and in year 2067/68, 2068/69 and 2069/70 Rs18546.85, 20567.93 and 22580.018 respectively.

#### **4.1.4 Loan and advances of KBL**

Bank take deposit and lend loan and advance. Giving loan and advances is the major task of any bank. Loan and advance is a major chunk of assets in asset side .Because of cut throat competition in banking sector and limited area of investment giving loan and advances is difficult and critical job.

**Table 4.3**  
**Loan and advances of KBL**

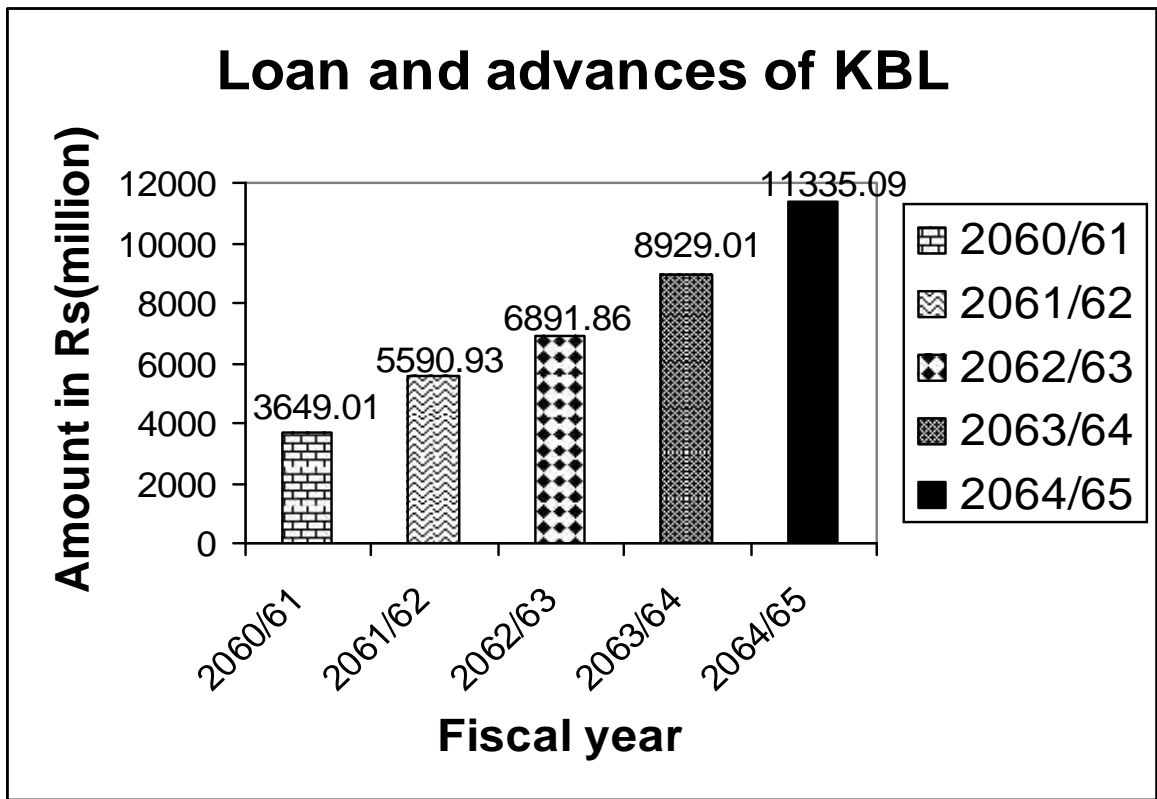
<b>Year</b>	<b>Loan and advances</b>	<b>Include in loan and advances</b>	<b>% include</b>
2060/61	3649.01	-	-
2061/62	5590.93	1941.92	53.22
2062/63	6891.86	1300.93	23.27
2063/64	8929.01	2037.15	29.56
2064/65	11335.09	2406.08	26.95

Source: Annual Reports (2060/61-2064/65)

The above table shows loan and advances .there is more fluctuating in every year .In 2060/61 loan and advance are only 3649.01million similarly loan and advances increase to Rs 5590.93 in 2061/62 which is 53.22 percent greater then previous year. Loan and advances in 2062/63 is Rs 6891.86 million. It is 23.27 percent greater than former year. This percentage is the lowest percentage in the study period. In 2063/64 loan and advances reaches up to Rs 8929.01but there is increasing trend. Loan and advances in 2064/65 Rs 11335.09 million, which is 26.95 percent increase in previous year.

The loan and advances of KBL can present in a form of Bar chart.

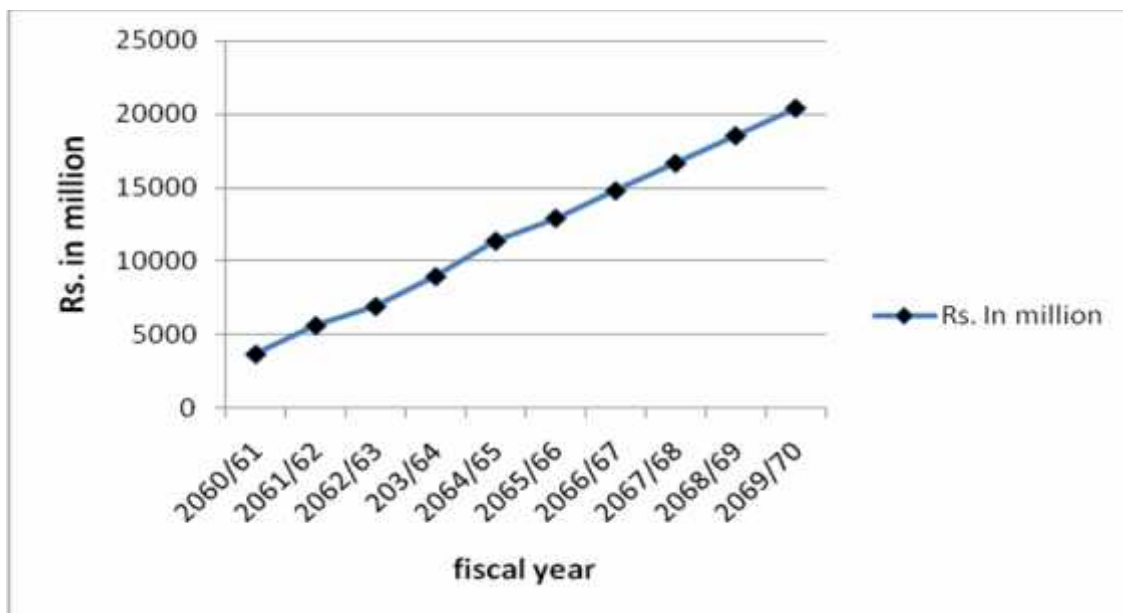
**Figure 4.4**  
**Loan and Advances of KBL.**



#### 4.1.5 Trend of loan and advances

The trend of loan and advances in the coming year is analyzed using trend analysis. The following trend line shows the projection of total loan and advances of KBL upto the year 2010. The calculation of trend forecast has been presented in Appendix-2

**Figure 4.5**  
**Trend of loan and advances**



The above figure shows that the loan and advances by this bank is in increasing trend of other things remain constant. According to the trend forecast the loan and advances in the 2065/66 will be Rs 12892.264 million in 2066/07 it will be Rs 14763.288 million and in year 2067/68, 2068/69 and 2069/70 are Rs. 16634.312, Rs 18505.336, Rs 20376.36.

#### **4.1.6 Loan and advances to deposit collection:**

To evaluate the lending performance of banks, it is important to know how much amount is disburse out of total deposit collection. Loan and advances to deposit collection of KBL has been presented in the table below.

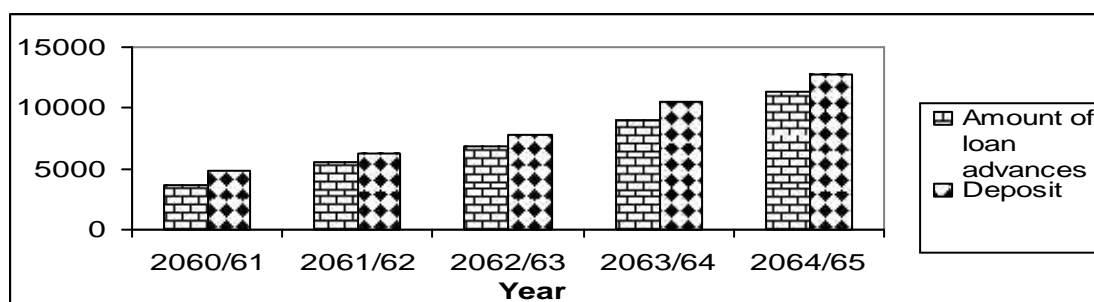
**Table 4.4**  
**Loan Disbursed to Deposit Collection**

<b>Year</b>	<b>Amount of loan advances</b>	<b>Deposit</b>	<b>% of loan and advances of total deposit</b>
2060/61	3649.01	4807.94	75.90
2061/62	5590.93	6268.95	89.18
2062/63	6891.86	7768.96	88.71
2063/64	8929.01	10557.09	84.58
2064/65	11335.09	12774.28	88.73

Source: Annual Report (2060/61-2064/65)

The above table shows the amount of loan disburse in comparison to the amount of deposit collected. In fiscal year 2060/61 the amount of deposit collected was 4807.94 million out of which Rs. 3649.01. was given as loan. It turns out to 75.90 percent of the deposit collection and in the year. 2061/62, Rs. 5590.93 million was disbursed out of Rs. 6268.95 million of deposit collection which is 89.18 percent of the total deposit. Its is the highest amount of deposit utilized in loan of the period. Similarly, in 2062/63 Rs. 6891.86 Million was disburse but of Rs. 7768.96 Million of total deposit. It comes 88.71 percent of total deposit. In the year 2063/64 Rs. 8929.01 Million was disbursed out of total deposit of Rs. 10557.09 Million which is 84.58 percent of the total deposit. In 2064/65 Rs. 11335.09 Million was utilized in loan out of total deposit of Rs. 12774.28 million. It comes 88.73 percent of total deposit. Its shows that the most of the deposit was utilized in loan and advances. Loan disburse to deposit collection can be presented in the following charts.

**Figure 4.6**  
**Loan advances to Deposit collection**



#### **4.1.7 Percentage change in Deposit Collection and Loan and advances.**

Loan disbursement is made out of the deposit collection. So usually the amounts disburse is proportionate to the deposit collection. In order to find out whether loan disburse has been affected by the change in deposit collection or not. This has been presented in the table below.

**Table 4.5**  
**Percentage change in Deposit Collection and Loan Disbursement**

<b>Year</b>	<b>% change in Deposit Collection</b>	<b>% change in loan and advances</b>
2060/61	-	-
2061/62	30.39	53.22
2062/63	23.93	23.27
2063/64	35.89	29.56
2064/65	21.00	26.95

Sources: Annual Report (2060/61-2064/65)

In 2061/62 percent change in deposit is 30.39 percent but percent change in loan is 53.22 percent, Similarly, in 2062/63 23.93 percent change in deposit but in loan there is 23.27 percent less than previous

year. Deposit and loan both have decreasing trend but there is increasing trend in 2063/64 in comparison to previous year. Both are in decreasing in 2064/65.

This percentage shows that there is close relationship between deposit and loan and advance. In 2061/62 and 2064/65 percent change in deposit is less than loan and advances but other year there is greater change in deposit than loan and advances.

#### **4.1.8 Coefficient of correction between Deposit collection and loan disbursement.**

The relationship between deposit and loan must be optimum to gain profit. This total Measure the degree of relationship between these variables- In this analysis, deposit is independent variable (y) and loan is dependent variable (X).

The main reason of finding out of the coefficient of correlation between these two variable are to justify whether collected deposit is significantly used as loan disbursed or not. The table below shows the value of 'r' and ( $r^2$ ), probable error (P.E.) and 6P.E. between deposit and loan and advance of KBL for the study period.

**Table 4.6**  
**Coefficient of correlation between Deposit collation and loan**  
**Disbursed of KBL.**

<b>Coefficient of correlation r</b>	<b>r<sup>2</sup></b>	<b>Probable error</b>	<b>G.P.E.</b>
0.99	0.98.1	0.0030	0.018

Source : Appendix -1

The above table shows that the coefficient of correlation between deposit collection and loan disburse is 0.99 which shows that there is highly positive relationship between these two variables. It also shows that there is optimum utilization of collection deposit by the bank. The coefficient of determination is 0.9801. Two shows that 98 percent of the total variation in dependent variable deposit is explained by independent variable that is loan, loan disburse and deposit collection is positively correlated which shows that an increase in total deposit leads to increase in loan disburse. Normally, a higher coefficient of correlation between deposit and loan is a good sign. It indicate that the efficient management of the bank. KBL is successful in mobilizing its collected deposit.

Probable error (P.E.) is collated to be 0.0030 and 6P.E. is 0.018. The value of r is more than 6P.E. which indicates that there is significant relationship between total deposit collections and total loan disbursement.

#### 4.1.9 Profitability Ratios:

Maximization of profitability is the core objective of any business organization. Bank profitability is the net after tax income or net earnings of a bank. It is usually measured in equity capital.

**Table 4.7**  
**Analysis of net interest to total assets**

(Rs. in Million)

Years	KBL		
	Net interest	Total Assets	Ratio (%)
2060/061	146.32	5494.18	2.66
2061/62	259.79	7437.88	49
2062/63	268.47	9010.28	2.98
2063/64	394.23	1198.31	3.31
2064/65	458.52	15026.60	3.05

Source: Annual Reports (2060/061-2064/65)

The above table shows net interest and total assets from F.Y. 2060/61 to F.Y 2064/65. There is both are increasing trend. In 2060/61 the net interest is Rs. 146.32 million which is 2.66 percent of total assets. In 2061/62. KBL earned only 259.79 Million. It comes 3.49 percent of total assets. Net interest ratio is increasing rate in 2061/62. Rs. 268.47 million of net interest is collect in year 2062/63 which is significantly less than previous year. Net interest of Rs. 394.23 million is collected in 2063/64 which is 3.31 percent of total assets with Rs. 11918.31 Million. In 2064/65, Rs. 458.52 million of interest is collected of total assets of Rs 15026.075 million. It comes 3.05 percent of total assets which is third lowest percent of the study period.

Net interest is increasing trend from 2060/61 to 2064/65. It indicate that interest earn is greater than interest paid. In other word, we can say that there is moderate utilization of collected fund.

**i) Analysis of Net Profit to total Assets:**

**Table 4.8**

**Net Profit to total Assets Ratio (Rs. in Million)**

<b>Years</b>	<b>KBL</b>		
	<b>NPAT</b>	<b>Total Assets</b>	<b>Ratio (%)</b>
2060/061	48.89	5494.18	0.89
2061/62	87.88	7437.88	1.18
2062/63	103.67	9010.28	1.15
2063/64	170.26	11918.31	1.43
2064/65	174.93	15026.60	1.16

Source : Annual Reports (2060/061-2064/65)

The above table shows the relation between net profit and total assets. In 2060/61, net profit is Rs. 48.89 Million which is 0.89 percent of the total assets. Similarly in 2061/62 bank profit is Rs. 87.88 Million which is higher than previous year, But in 2062/63 bank earned Rs. 103.67 Million of 1.15 percent of total assets which is 0.03 percent decrease than previous year. The bank earned 1.43 percent of profit of total assets in 2063/64, it is the highest percentage of profit of the study period. In F.Y. 2064/65 the bank earned Rs. 180.37 million which is 1.16 percent of the total assets.

So, we can say that the bank can be able proper utilize of the assets. Although the bank profit position shows bank can make profit in coming years. But it is very low percent of the total assets.

**ii) Analysis of Return on equity capital (Rs. in million)**

<b>Year</b>	<b>NPAT</b>	<b>Equity (Rs.)</b>	<b>Ratio (%)</b>
2060/061	48.89	500	9.78
2061/62	87.88	500	17.58
2062/63	103.67	625	16.59
2063/64	170.26	750	22.70
2064/65	174.93	1070	16.35

Source: Annual Report (2060/061-2064/65)

In 2060/61, net profit is in positive with 48.89 million. In the same year equity capital is Rs. 500 million. There is positive ratio with 9.74 percent. The profit in 2061/62 is Rs. 87.88 million. But that year the equity has Rs. 500 million which is equal to the previous year equity. But net profit to equity ratio also increase to 17.58 percent. The bank earned profit of Rs. 103.67 million in 2062/63 which is only 16.59 percent of the total equity. In that year the equity capital also increase from Rs. 500 million to Rs. 625 million. In 2063/64 the bank earned net profit Rs. 170.26 million with equity capital of Rs. 750 million. The highest amount of profit Rs. 174.93 million in 2064/65 of the study period, which is 16.35 percent of the equity capital. In this year the equity capital is Rs. 1070 million which is highest of the other years equity capital.

From the fiscal year 2060/61 to 2063/64 there is increasing trend of profit to equity ratio. After that ratio of KBL decrease to 16.35 from 22.70. Above data shows that the bank able to earn profit for equity share holder.

#### 4.1.10 Analysis of liquidity Ratio

**Table 4.10**  
**Analysis of Current Ratio (Rs. in Million)**

Year	KBL		Ratio (%)
	CA	CL	
2060/061	5437.02	4934.46	1.10
2061/62	7354.90	6792.44	1.08
2062/63	8918.35	8146.43	1.09
2063/64	11728.99	10892.68	1.08
2064/65	14804.60	1326.71	1.12

Source: Annual Report (2060/061-2064/65)

From the above table, in 2060/61 the KBL has 1.10 current ratio between current assets and current liabilities. But in 2061/62, the current ratio declined to 1.08. In both year current assets are greater than current liabilities. Similarly in 2062/63 the current liabilities in 2063/64 Rs. 1728.99 Million and Rs. 0892.68 Million respectively and current ratio is 1.08 in 2064/65 the current ratio is 1.12, which is the highest current ratio of the study period.

From the year 2060/61 to 2064/65, the current ratio is greater than one. It indicates that bank able to pay current liabilities. But it is still less than standard (2:1).

i) **Analysis of cash and Bank balance to total Deposit.**

**Table 4.11**

**Cash and Bank Balances to Total Deposit**

(Rs. in million)

Year	KBL		
	Cash and Bank Balance	Total Deposit	Ratio (%)
2060/061	685.48	4807.94	14.26
2061/62	443.37	6268.95	7.07
2062/63	389.63	7768.96	5.02
2063/64	672.11	10557.42	6.37
2064/65	933.84	12774.28	7.31

Source: Annual Report (2060/061-2064/65)

Cash and bank balance and total deposit in 2060/61 are Rs. 685.48 million and Rs. 4807.94 million respectively cash and bank balance is 14.26 percent of the total deposit. But in 2061/62, the cash and bank of the total deposit is 7.07 percent. Similarly, in 2062/63 the cash and bank balance is Rs. 389.63 million which is 5.02 percent of the total deposit we can see that in 2062/63 the percent of cash and bank balance is decreasing rate. Rs. 672.11 million in 2063/64 which is 6.37 percent of the total deposit. In 2064/65, the percent of the cash and bank balance is 933.84 million. It comes 7.31 percent of the total deposit.

In the above table, we found that every year's cash and bank ratio is above 5 percent. The highest percentage of the cash and bank balance of the study period is 2060/61. It indicates the bank is able to pay cash to deposit holders. In other words, we can say that the large amount is in idle with cash and bank balance indicate lack of proper utilization of assets.

Similarly, the lowest percent of the cash and bank balance is 5.02 percent which indicate that more fund utilized in loan and advances.

**ii) Analysis of cash and Bank Balance, to current Assets.**

**Table 4.12**  
**Cash and Bank Balance to Current Assets.**

(Rs. in million)

Year	KBL		Ratio (%)
	Cash and Bank Balance	Current Assets	
2060/061	685.48	5437.02	12.61
2061/62	443.37	7354.90	6.03
2062/63	389.63	8918.35	4.37
2063/64	672.11	11728.99	5.73
2064/65	933.84	14804.60	6.31

Source : Annual Report (2060/061-2064/65)

In the above table in 2060/61 cash and bank balance and current assets are 685.48 million and Rs. 5437.02 Million respectively. But in 2061/62 cash and bank balance is Rs. 443.37 which is 6.03 percent of the current assets. We can see that the percentage of the cash and bank balance to current assets is in decreasing rate at 4.37 percent in 2062/63. Similarly, in 2063/64 Rs. 672.11 Million which is 5.73 percent of the total current assets. Rs 933.84 million of cash and bank balance in 2064/65. It comes 6.31 percent of the total current assets.

We can see that there is the cash and bank balance to current assets is fluctuating trend. The highest percent of the cash and bank balance to current assets in 2060/61. It indicate that the bank able to pay contingent liabilities and grab market opportunities. In other word, the large amount in cash and bank balance indicate lack of inefficient of the management.

The lowest percent of the cash and bank balance to current assets in 2062/63, which indicates that more fund utilized on other investment like government securities, loan and advances. In other word, it means less chance to grab market opportunity.

**ii) Analysis of loans and Advances to current Assets.**

**Table 4.13**

**Loan and Advances to current Assets**

(Rs. in Million)

Year	KBL		Ratio (%)
	Loan and Advances	Current Assets	
2060/061	3649.01	5437.02	67.11
2061/62	5590.93	7354.90	76.02
2062/63	6891.86	8918.35	77.28
2063/64	8929.01	11728.99	76.13
2064/65	11335.09	14804.60	76.56

Source: Annual Reports (2060/061-2064/65)

In the above table in 2060/61, the loan and advances and current assets are Rs. 3649.01 and 5437.02 million respectively. In this year, loan and advances appear 67.1 percent of the current assets. But in 2061/62, the percentage of loan and advances is increasing rate at 76.02 percent. Again 2062/63 the percentage of the loan advances to current assets is 77.28. It is increasing by 1.26 percent. In 2063/64 Rs. 8929.01 Million of loan and advances in total current assets, which comes 76.13 percent. Similarly, the percentage of the loan and advances to current assets in 2064/65 is greater than previous year which is 76.57 percentage.

In the above table, we can see that the huge amount of the current assets is used for loan and advances. The lowest percentage of the loan and advances to current is 67.11 percent in 2060/61. It means that there is less outflow of loan. In 2062/63, there is highest percentage of loan and advances to current assets which is 77.28 percent. It indicate that more fund are utilized in loan and advances.

#### 4.1.11. Analysis of Non- Performing loan.

**Table 4.14**  
**Non performing loan to loan an advances**

(Rs. in Million)

Year	KBL		Ratio (%)
	Non- Performing loan	Loan and advances	
2060/061	28.19	3469.01	0.77
2061/62	53.99	5580.93	0.97
2062/63	64.35	6891.86	0.93
2063/64	66.12	8929.01	0.74
2064/65	1525.48	11335.09	1.35

Source: Annual Report (2060/061-2064/65)

In above table, we can se that in 2060/61 the total loan and advances are Rs. 3649.01 Million in which 28.19 Million is non-Performing loan, which is 0.77 percent of the total loan and advances. But in 2061/62, NPL is Rs. 53.99 Million. It comes 0.97 percent of the total loan. It is large ratio in comparison to previous year. In 2062/63, the ratio of NPL to total loan and advances 0.93 percent. Similarly, 0.74 percent of NPL in 2063/64. The highest percent of NPL is in 2064/65 which is 1.35 percent.

The rate of NPL is very high in the study period. In 2064/65. Similarly the lowest percentage of NPL is 0.74 percent in 2063/64. NPL and profit have negative relation. It NPL increase the profit automatically decrease and vice versa. In 2064/65 the rate of NPL is greater than one. But other year of the study period is less than one percent.

## 4.2 Analysis of Primary Data

**Table 4.15**  
**Key Risk in KBL**

<b>S.N.</b>	<b>Risk</b>	<b>Number</b>	<b>Rank</b>
1	Credit risk	20 (100%)	1
2	Liquidity risk	2 (35%)	3
3	Interest rate risk	8 (40%)	2
4	Exchange risk	5 (25%)	4

Source: Structured Questionnaire

Table No. 4.15 shows that credit risk is the generic risk in KBL. Regarding the key risk is in 100 percent, respondents said that second rank in interest rate risk and third rank in liquidity rate risk and last are exchanges rate risk from the above risk analysis, credit risk is an important risk in KBL. So that KBL should focus on credit risk among other three risk.

**Table 4.16**  
**Basis of Loan**

S. N	Stream	1	2	3	4	5	Total	Weight value	Mean Value	Rank
1	Collateral	0	3	6	5	6	20	74	3.7	4
2	Profitability of business	6	4	5	3	2	20	45	2.25	1
3	Projected financial statement	1	3	7	5	4	20	68	3.4	3
4	Image of the business	7	0	2	6	5	20	62	3.1	2
5	Image of the business person	6	10	0	1	3	20	45	2.25	1
	Total	20	20	20	20	20				

Source: Structured questionnaire.

The respondent was asked to rank the basis of loan to the applicants. Twenty respondents answered this question. The respondents gave first rank to profitability of business and image of the business person, second rank to image of the business and third rank to projected financial statement and fourth rank to collateral offered by the applicant.

**Table 4.17**

**Sources of credit risk in KBL**

<b>S. N</b>	<b>Steam</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>Total</b>	<b>Weight value</b>	<b>Mean Value</b>	<b>Rank</b>
1	Increase in interest costs	6	10	4	0	20	38	1.9	1
2	No profitability of loan taker	4	9	7	0	20	43	2.15	3
3	Not paying attitude of loan taken	10	1	9	0	20	39	1.95	2
	Total	20	20	20					

Source: Structured questionnaire:

The generic risk in KBL is credit risk. In this perspective, the respondent were asked to rank the source of credit risk first in that view Twenty respondent answered this question. The respondent assigned first rank increase in interest rate, second rank to not paying attitude of loan taken and third to no profitability of loan taken.

**Table 4.18**

**Default loan is Reschedule**

<b>S.N.</b>	<b>Alternative</b>	<b>Number</b>	<b>Percent</b>
1	Yes	16	80
2	No	4	20
	Total	20	100

Source : Structured Questionnaire

The majority of staff said that default loan is should reschedule. But, four respondents have said that default loan should not reschedule.

**Table 4.19**  
**Remedies of Recovering Loan**

S.N.	Steam	Respondents		
		Number	Percentage	Rank
1	Collateral	8	40	1
2	Guarantee	4	20	2
3	Counseling	3	15	3
4	Follow up	1	5	4
5	Technical Support	4	20	2

Source: Structured Questionnaire

The Majority of staff willing to use action of collateral as the instrument for the recovery of loan provided to the business. Out of twenty respondents eight respondents said the bank should adopt policy of auctioning collateral kept by borrower, four answered the bank should adopt protection from guarantor whereas four respondents answered the bank should adopt technical support. Three respondents said counseling and one respondent said that the bank should adopt follow up.

**Table 4.20**

**Percentage of loan to total requirement**

<b>S.N.</b>	<b>Alternative</b>	<b>Number</b>	<b>Percent</b>
1	Not less than 50%	10	50%
2	More than 60%	6	30%
3	More than 70%	4	20
	Total	20	100%

Source: Structured questionnaire

The respondents agree granting loan is generally not less than 50% percent of total requirement of the business. In this regard 30 percent respondents have willing to provide more than 60 percent and 20 percents respondents have willing to provide more than more than 70 percent of requirement of found as loan to the applicants. It serves that they are trying to maintain 1:1 debt equity ratio.

**Table 4.21**

**Any Problem Related to NRB**

<b>S.N.</b>	<b>Alternative</b>	<b>Respondents</b>	
1	Yes	14	70
2	No	6	30
Total		20	100

Source : Structured Questionnaire

Majority of the staff said that they have problem related to NRB. 70 percent said that they have problem and 30 percent said there is no any problem related to NRB.

**Table 4.22**  
**Need of Asset Management Office**

S.N.	Alternative	Respondents	
		Number	Percent
1	Yes	12	60
2	No	8	40
	Total	20	100

Source: Structured Questionnaire

Majority of the bank staff said that they have needed of assets management office 60 percent of respondents said "Yes" and 25 percent of the staff said "No".

**Table 4.23**  
**Support of Judiciary Help**

S.N.	Alternative	Respondents	
		Number	Percent
1	Yes	16	80
2	No	4	20
	Total	20	100

Source : Structured Questionnaire

Out of twenty respondents, 80 percent said that Judiciary should help bank and 20 percent said No need of judiciary help.

**Table 4.24**

**Verification of collateral Before Granting**

S.N.	Alternative	Respondents	
		Number	Percent
1	Office Staff	6	30
2	Related Specialist	10	50
3	Independent Person	4	20
	Total	20	100

Source: Structured Questionnaire

Out of twenty respondents, 50 percent respondents said that related Specialist should involve verification of properties being kept as collateral before granting loan. 30 percent respondents said that office staff should do that work. And only 20 percent said independent person should take involve in verification of collateral.

**Table 4.25**

**Information about Customer Business**

S.N.	Alternative	Respondents	
		Number	Percent
1	Yes	206	100
2	No	-	-
	Total	20	100

Source: Structured Questionnaire

All of the respondents said that the bank should receive regular information about their customer's business.

### 4.3 Finding from Analysis

1. Deposit collection of KBL has significantly increasing trend. We find that there is continuous increasing trend from Rs. 807.94 to Rs. 12774.28.
2. Earlier year, in total call deposit has more contribution than other deposit. But later year, saving deposit have more contribution than other deposit.
3. Loan and advances is in slow increasing trend but there is fluctuating trend- loan and advances have continuous increasing trend although the banking sector have cut throat competition.
4. Most of the deposit amounts are utilized in loan and advances. 75.90 percent to maximum 89.18 percent of deposits are utilized in loan and advances.
5. Correlation between deposit collection and loan disbursement is 0.99. Which indicates that these two variables relation is highly positive? We find  $r > 6P.E.$  it reverts that the relation is significant.
6. Finding from profitability ratio:
  - i) Net interest to total assets ratio is increasing, decreasing and constant trend. But the rate of increasing trend in the year 2064/08 is low than the previous year.
  - ii) Return on equity capital is in positive rate. The bank able to earn few profits to equity holders.

## 7. Finding From Liquidity Ratio

- i) The Current ratio of KBL is not satisfactory. It has maintained just 1:1 or less. The current ratio of the KBL is less than standard (2:1)
- ii) The cash and bank balance is sufficient for deposit holder. The KBL has 14.26 percent cash and bank balance to total deposit which is greater than NRB standard.
- iii) There is 4.37 percent to 6.31 percent of the cash and bank balance to total current assets.
- iv) The large portion (67.11 to 76.36%) of the current assets are used in loans and advances which shows continuous increasing trend.

## 8. Finding From Primary Data

- i) The highest risk of the KBL is in credit risk.
- ii) Profitability of the business is the main factor of disbursing the loan.
- iii) The source of credit risk is no profitability of loan taker.
- iv) Most of the staff said that default loan is should reschedule.
- v) Collateral is the main instruments of remedies of the recovery of loan.
- vi) Generally, the loan and advance should be given above 50% of the total requirement of the business.
- vii) Most of the staff have problem related to NRB.
- viii) Most of the staff have realized asset management office.
- ix) Most of the staff has felt support of judiciary help.

- x) Related specialist is more useful to verification of collateral before granting loan.
- xi) The bank should receive regular information about consumers business.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Summary**

Most of the developing countries are involved in the development of economic activities to uplift the standard of living of their people. To promote economic development many business organizations should be established. Objectives of commercial banks are to support and facilitate development, expansion and increase in the productivity of business sector. Kumari Bank Limited was established in April, 2001 to do such activities. Commercial banks collect scattered money from various persons and organizations that have idle money and provide it as a loan to needy persons and organizations. So the financial institution has done a bridge between depositors and loan takers.

Loan management is one of the most important functions in many financial institutions. Without effective and efficient loan management, no financial institution can achieve its goals. Success of any bank basically depends on the effective and systematic loan management. Loan management is the most important part of commercial banks. KBL has invested more than 85 percent of the deposited amount as loans and advances. Due to the lack of investment opportunities, pressure on interest rates, increase of non-performing assets, stagnant economy and changing business environment, the banking sector is becoming more and more competitive and challenging. These factors have impacted on the profitability of the banks as well. In such circumstances, to maintain sustainable growth and profit has become a challenging job for every bank.

The main objective of this study is to identify the loan management system of KBL. In this study an attempt has been made to identify the deposit collection and loan disbursement relation between deposit collection and

loan disbursement performance with identifying their trends. To evaluate performance of the banks the researcher conducted profitability ratio, liquidity ratio and non performing loan and sector wise loan to analyze the capital adequacy of the KBL.

This study was one of the new studies which only try to know the loan management of KBL the required information are secondary as well as primary.

The researcher had submitted question to KBL to find out actual result and the collection of the secondary data were taken from website, NRB, SEBO and the annual report of KBL. To collect primary data the structured question was given to employee of the KBL. Collected data were analyzed by calculating mean and presented in table and figure

All the collected data were analyzed on the basic of loan management with the help of trend analysis, correlation coefficient, profitability ratio, and liquidity ratio, capital adequacy by presenting table and figure in required places. The analysis has been done year wise as well as the average of total study period. To evaluate loan management many statistical tools evaluate and financial tools are used.

## **5.2 conclusion**

Most of the Nepalese commercial banks still lack such orientation and they could not be able to build effective credit policy for loan management however it is necessary to assess the appropriate credit policy in commercial banks for effective performance. Most of the commercial banks are running into profit where as few banks are running into loss. Many commercial banks were making very good profit in past few years but that is decreasing in following years. It is because the instability in loan management of the banks.

The loan management of KBL is not only necessary but also compulsory for better performance of the organization. This study is just a small part to fulfill the partial requirement of MBS. Therefore; it helps to improve and require attention to bring some improvement in loan management of KBL.

The following conclusions are derived from major findings of this study.

- ) Deposit collection of the KBL is satisfactory
- ) In total deposit composition the portion of the call deposit has in first rank fixed deposit is in second rank and saving deposit is in third and other deposit have very low contribution in total deposit
- ) Although the narrow area of investment and cut throat competition in banking sector, loans and advances of the KBL shows continuous increasing trend
- ) In average 85 percent of total deposit is utilized in loans and advances.

#### **Conclusion from profitability ratio**

- a) Net interest to total assets ratio shows increasing trend but the rate is very low in previous year. Because of low net interest to total assets ratio the profitability of the bank shows also low.
- b) Net profit to total assets ratio is negative in former year because of more interest margin of the KBL.
- c) Return on equity capital is also positive rate in former year .It provides more utilization of the capital fund.

#### **Conclusion from liquidity ratio**

- a) The current ratio (1:1) of the KBL is less than standard (2:1). It indicates that the low liquidity position of the KBL.

- b) Cash and bank balance to current assets is in satisfactory level It has maintained NRB directives.
- c) There is 14.26 percent to 7.31 percent of the cash and bank in total current assets.
- d) NPL of KBL is increased at 1.35 which is better than other commercial banks of the kingdom it also foul under international practice; it shows high quality of lending of the KBL.

### **Conclusion from primary data**

- a) The higher risk of KBL is in credit risk .
- b) profitability of the business' and image of the business person is the main factor at loan disburse
- c) to reduce the bad debt default loan should be rescheduled
- d) collateral is the main instrument of remedies of the recovery of loan
- e) Generally KBL gives loan above 50 percent of the total requirement of the business
- f) The government should establish assets management office
- g) Judiciary office should help to the bank staff
- h) Related specialist is appropriate for verification of collateral before granting loan.
- i) Bank should receive regular information about customers business.

### 5.3 Recommendations

In order to better improvement of the loan management of the KBL” the following suggestion and recommendation have portrayed on the basic of analysis and conclusion of the entire research study.

- Excess concentration of loan leading on some certain area depicts the fact that people lack in identifying new innovation most of the people do similar types of business thanking to have more return this germinates excess competition for the business and risk for bankers. Hence it should provide technical support to prospects for identifying new opportunities and to capitalize those opportunities.
- It is truly required that gradual shift of focus from traditional lending to retail banking such as auto loan, housing loan, education loan and personal loan.
- The bank should increase loan disbursement in production sector.
- The bank should maintain current ratio in 2:1.
- The bank should reduce operational cost.
- Capital adequacy of the bank is in NRB standard. So, the bank should keep it this standard.
- The bank should bear sale profit in social activities. It affects the public positive attitude towards the bank.
- Loan should flow on profitable and viable sectors. This will result increase in interest income of loan and advances of which will uplift profit of the organization.
- KBL should reduce high cost bearing deposits to get relief from burden of access payment of interest and to ensure profitability.
- It is necessary to increase amount on non-fund based investment to Maximize return through diversification of lending and

decreasing excess dependency in loan. It works properly to get relief from present low profit situation.

- NRB should regulate all the deposit accepting financial institution under the supervision and regulatory activity so that general people can feel security tight of their deposit.
- NRB should tight the supervision and inspection activity toward the commercial banks and financial institution so that the accounting Manipulation can be avoided. It is because there is huge decrease in the net profit in Nepal Bank due to the lack of quality credit.
- While invested a Maximum amount of its fund on risky assets (i.e. loan). Thus, the banks should always threatened by the few of default. It will be better if the bank diverts some amount of its funds from lending and invest it in less risky investment alternatives. This will help the bank diversify the risk.
- Commercial banks should provide the facility of interest rate rebate to borrower who repays the loan before stipulated time. This may help to increase the number of early payers that will reduce default risk.
- Commercial Banks should conduct a market research on a periodic basis. This will help to identify the potential borrowers. The identified potential borrowers can be attracted towards the bank by the application.

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## APPENDIX-1

### Trend of Total Collection of Deposit

Fiscal Year	Year (x)	Deposit Collection (x)	XY	X <sup>2</sup>
2060/61	1	4807.94	4807.94	1
2061/62	2	6268.95	12537.90	4
2062/63	3	7768.96	23306.88	9
2063/64	4	10557.09	42228.36	16
2064/65	5	12774.28	63871.4	25
<b>Sum</b>	<i>x</i> X15	<i>x</i> X42177.22	<i>xy</i> X146752.48	<i>x</i> <sup>2</sup> X55

Here, actual trend equation of the linear trend is,

$$Y = a + bx$$

Two normal equations are:

$$\sum y = na + \sum bx$$

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

Putting the value of normal equations from the above table:

$$42177.22 = 5a + 15b \dots\dots\dots(i)$$

$$146752.48 = 5a + 55b \dots\dots\dots(ii)$$

Multiplying equation (i) by 3 and equation (ii) by 1.

$$126531.66 = 15a + 45b \dots\dots\dots(III)$$

$$146752.48 = 5a + 55b \dots\dots\dots(IV)$$

$$20220.82 = 10b$$

$$b = 2022.082$$

Substituting the value of b in equation (i)

$$42177.22 = 5a + 15 \times 2022.082$$

$$42177.22 = 5a + 30331.23$$

$$5a = 42177.22 - 30331.23$$

$$a = 2369.198$$

$$Y = a + b \times$$

in 2065 166. thus the required trend of

$$Y = 2369.198 + 2022.082 \times 6$$

$$= 2369.198 + 12132.492$$

$$= \text{Rs } 14501.692$$

$$\text{in } 2066/67, Y = 2369.198 + 2022.082 \times 7$$

$$= 2369.198 + 12132.492$$

$$= \text{Rs } 14501.692$$

$$\text{in } 2066/67, Y = 2369.198 + 2022.082 \times 7$$

$$= 2369.198 + 14154.574$$

$$= \text{Rs } 16523.772$$

$$\text{in } 2067/68, Y = 2369.198 + 2022.082 \times 8$$

$$= 2369.198 + 16,176.656$$

$$= \text{Rs } 18545.854$$

$$\text{in } 2068/69, Y = 2369.198 + 2022.082 \times 9$$

$$= 2369.198 + 18198.738$$

$$= \text{Rs } 20567.936$$

$$\text{in } 2069/70, Y = 2369.198 + 2022.082 \times 10$$

$$= 2369.198 + 20220.82$$

$$= \text{Rs } 22590.018$$

## APPENDIX -2

### Trend of Loan and Advances of KBL

Fiscal year	Year (c×)	Loan and Advances(×)	XY	X <sup>2</sup>
2060/61	1	3649.01	3649.01	1
2061/62	2	5590 .93	11181.86	4
2062/63	3	6891.86	20675.58	9
2063/64	4	8929.01	35716.04	16
2064/65	5	11335.09	56,675.45	25
<i>x</i> X15		<i>y</i> X36,395.9	<i>xy</i> X127897 .94	

Here, actual trend equation of the linear trend is

$$Y=a+bx$$

Two normal equations are

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

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

Putting the value in normal equation from the above table:

$$36,395.90 = 5a+15b \dots\dots\dots(i)$$

$$127,897.94 = 15a + 55b \dots\dots\dots(ii)$$

Multiplying equation (i) by 3 and equation (ii) by 1

$$109,187.7 =15a+45b \dots\dots\dots(iii)$$

$$127, 897.94 = 15a + 55b \dots\dots\dots(iv)$$

Subtracting (iv) from (iii)

$$18710.24 = 10b$$

$$b= 1871.024$$

Putting the value of b in equation

$$36395.90 = 5a + 15 \times 1871.024$$

$$\underline{36395.90 = 5a + 25065.36}$$

$$5a = 36395.90 - 28065.36$$

$$a = 8330.54/5$$

$$a = 1666.12$$

Substituting the value of a and b in equation (i)

$$Y = a + bX$$

$$Y = 1666.12 + 1871.024X$$

In year 2065/66, thus the required equation trend of Y.

$$Y = 1666.12 + 1871.024 \times 6$$

$$= \text{Rs } 12892.264$$

In year 2066/67,

$$Y = 1666.12 + 1871.024 \times 7$$

$$= \text{Rs } 14763.288$$

In year 2067/68,

$$Y = 1666.12 + 1871.024 \times 8$$

$$= \text{Rs } 16634.312$$

In year 2068/69,

$$Y = 1666.12 + 1871.024 \times 9$$

$$= 1666.12 + 16839.216$$

$$= \text{Rs } 18505.336$$

In year 2069/70,

$$Y = 1666.12 + 1871.024 \times 10$$

$$= \text{Rs } 20376.36$$

### APPENDIX-3

Fiscal Year	Deposit Collection (X)	Loan and advancers (Y)	X <sup>2</sup>	Y <sup>2</sup>	XY
2060/61	4807.94	3649.01	23116287.04	13315273.98	17544221.14
2061/62	6268.95	5590.93	39299734.10	31258498.26	35049260.62
2062/63	7768.96	6891.86	60356739.48	47497734.26	53542584.67
2063/64	10557.09	8929.01	111452149.30	79727219.58	94264362.18
2064/65	12774.28	11355.09	163182229.50	128484265.30	144797613.50
Total	42,177.22	36,395.90	397407139.40	300282991.40	345198042.10

Coefficient of correlation (r)

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

$$r = \frac{5 \times 345198042.10 - 42177.22 \times 365.90}{\sqrt{5 \times 397407139.40 - (42177.22)^2} \sqrt{5 \times 300282991.40 - (36395.90)^2}}$$

$$= \frac{190912329.10}{14426.29 \times 13294.86}$$

$$r = 0.99$$

X = Total deposit collection of the year

Y = Total was disbursement of the year

n = Number of Year

P.E. = Probability error.

The correlation coefficient of total deposit and total loan disburse

$$(r) = 0.99$$

$r > 0$  i.e.,  $0.99 > 0$  the relationship between two variables and total deposits and loan disbursed are positively correlation. Not only this, it also shows that there is an optimum utilization of deposit fund in the bank.

Calculation of probable errors

$$\begin{aligned} \text{P.E.} &= 0.6745 \times \frac{1-r^2}{\sqrt{n}} \\ &= 0.6745 \times \frac{1-0.99}{\sqrt{n}} \\ &= 0.0030 \end{aligned}$$

Thus, P.E. = 0.0030

#### **APPENDIX-4**

#### **NET INTEREST MARGIN. (IN MILLION)**

Year	Interest earned	Interest paid	Net interest
2060/61	310.22	163.90	146.32
2061/62	499.92	240.13	259.79
2062/63	605.53	337.06	268.47
2063/64	791.28	397.05	394.23
2064/65	957.25	498.73	458.52

## APPENDIX-5

Questionnaire to KUMARI BANK for the purpose of the study on loan management.

Please tick  in the blank.

- Q.No.1 Which is the key risk in your bank?
- i) Credit risk
  - ii) Liquidity risk
  - iii) Interest risk
  - iv) Exchange risk
- Q.No.2 Which factor play important role at disbursing loan ?
- i) Collateral
  - ii) profitability of business
  - iii) Image of the business
  - iv) Image of he business person
- Q.No.3 Is default loan I should reschedule?
- i) Yes
  - ii) No.
- Q.No.4 Which method should practice in remedies for recovering loan?
- i) Collateral
  - ii) Guarantor
  - iii) Counseling
  - iv) Technical support
  - v) Follow up

- Q.No.5 Which percentage should give loan to total business requirement?
- i) Above 50%
- ii) Above 60%
- iii) Above 70%
- Q.No.6 Does your organization has any problem related NRB?
- i) Yes
- ii) No
- Q.No.7 Did you feel Asset management office?
- i) Yes
- ii) No
- Q.No.8 Have you feel any support judiciary office support?
- i) Yes
- ii) No
- Q.No.9 Who should take involve in verifications of properties being kept as collateral before granting loan?
- i) Related specialist
- ii) Office staff
- iii) Independent person
- Q.No.10 Which is the source of credit risk in your bank?
- i) Increase in interest arrears
- ii) Not paying attitude of loan taker
- iii) No profitability of loan taker
- Q.No.11 Does the bank should receive regular information about customer?
- i) Yes
- ii) No

**APPENDIX -6**  
**KUMARI BANK LTD.**  
**COMPARATIVE BALANCE SHEET**

**CAPITAL AND LIABILITIES.**

(Rs. in Million)

Year	2060/61	2061/62	2062/63	2063/64	2064/65
Share Capital	500.00	500.00	625.00	750.00	1070.00
Reserve and Surplus	5972	145.44	238.85	275.63	294.89
Debenture and Bond	-	-	-	-	400.00
Borrowing	-	401.76	251.40	212.97	100.00
Deposits	4807.73	6268.95	7768.96	10557.03	12774.28
Bill Payable	14.64	7.34	1.92	16.55	65.30
Dividend			6.58	-	-
Tax Liability	-	-	30	11.00	9.65
Other Liability	11.88	114.39	107.27	95.06	331.79
<b>Total Liabilities</b>	<b>5494.17</b>	<b>7437.88</b>	<b>9010.28</b>	<b>11918.30</b>	<b>15026.60</b>

ASSETS:

(Rs. in Million)

Year	2060/61	2061/62	2062/63	2063/64	2064/65
Cash and Bank	685.48	443.37	389.63	672.11	933.84
Balance					
Money at cash Short notice	-	90.00	145.00	372.21	55.36
Investment	983.50	1190.27	1394.95	1678.42	2138.80
Loan Advances and Bills Purchase	3649.01	5590.93	6891.85	8929.01	11335.09
Fixed Assets	57.15	82.98	91.93	189.32	222.00
Non-Banking Assets	-	-	3.6	2.4	3.14
Other Assets	119.03	40.33	93.32	74.83	338.37
<b>Total Assets</b>	<b>5494.17</b>	<b>7437.88</b>	<b>9010.28</b>	<b>11918.30</b>	<b>15026.60</b>