

LOAN MANAGEMENT OF COMMERCIAL BANK

(A Case Study of Kumari Bank Limited)



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RECOMMENDATION

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ABBREVIATION

| | | |
|------|---|---------------------------|
| A.D. | : | Anno Domini |
| ATM | : | Automatic Teller Machine |
| B.S. | : | Bikram Sambat |
| CR | : | Current Ratio |
| CRR | : | Cash Reserve Ratio |
| EBL | : | Everest Bank Limited |
| EBT | : | Earning Before Tax |
| FDR | : | Fixed Deposit Receipts |
| F.Y. | : | Fiscal Year |
| GDP | : | Gross Domestic Product |
| HBL | : | Himalayan Bank Limited |
| i.e | : | That is |
| KB | : | Kumari Bank |
| KAFL | : | Kathmandu Finance Limited |
| Ltd. | : | Limited |
| NP | : | Net Profit |
| No. | : | Number |
| NPL | : | Non-Performing loan |
| POS | : | Point of Sale |
| P.E. | : | Probable Error |
| Rs | : | Rupees |
| r | : | Correlation coefficient |
| S.E. | : | Standard Error |
| T.U. | : | Tribhuvan University |
| www | : | World wide web |

CHAPTER – ONE

INTRODUCTION

1.1 Background

The Nepalese financial system comprises of commercial banks, development banks, finance companies, co-operative societies, non government organization, insurance companies, Nepal stock exchange, citizen investment trust, employees provident fund and postal saving services.

Financial institution like commercial banks, development banks and finance companies play a central role in mobilizing allocating resources in a national economy. This stands in fundamental contrast to planed economy, where financial institution plays a largely incidental role in resource allocation. Financial institutions are the heart of financial system which plays the role of intermediaries between surplus units (lenders) and deficit (borrowers) units in an economy. It holds the deposit of millions of persons, government and business and other profit and non-profit oriented organization. Therefore, such institutions accept deposits and in turn lend it to people who are in need of financial resources. Financial institution makes the flow of investment easier, so no one can deny the role of it. It makes the funds available through their lending and investing activities to borrowers like individuals, business firm and government. They provide technical and administrative assistance to industries, trade and business.

Bank is the important partner of business and promoter of economic activities. It is institutions, which deal with money in those persons who have spare money if they have no urgent need for money at that time people like to save money, deposit it in bank and other who needs money they can borrow from bank. Commercial bank Act 1974 defines a commercial bank. A commercial bank means bank which deals in exchanging currency accepting deposit, giving loan and doing commercial transactions. Commercial banks are the largest source of finance and its business is largely confined to business institution. The commercial bank were established with the concept of

supplying short term loan for the enforcement of lend in priority and deprived sector these banks initiated to provide credit to small and cottage industries, agriculture and service etc.

In modern time most of the developing countries are trying to centralize their policies towards the rapid economic development through the liberalization and privatization. Commercial banks are successful to bring about the healthy competition among banks. After beginning of Nepal Bank Limited various bank and financial institutions was established. Due to initiation of various bank and financial institution though competition is also being arises. Due to though competition, every commercial bank are ready to provide loans in productive as well as unproductive sector in Nepal, Specially huge numbers of financial institution provides loans on unproductive sector and ultimately customer or debtors are unable to repay the loan on time so this can be happened due to lack of honesty and integrity of the consumer. Right now financial institution faces huge losses on their lending money.

Bank is establishing for dealing with money. The basic functions of commercial bank are the accepting of all kinds of deposits and lending of money. In general there are several challenges confronting the commercial bank in its day today operation. The main challenge facing the commercial banks is the disbursement of funds in quality assets (Loans and Advances).

Bank plays a vital role in developing the economy of any country. The level of overall development of any country i.e. social, cultural, political, technological or economical so characterized by the level of economic growth and crux of the economic growth lies in the development of well managed and structured banking system. Hence, banks can be considered as the backbone of a country's overall development or banks can be regarded as the pioneer to create and mobilize the capital, rendering various financial services. Banks have been contributing commendable efforts to establish and develop the industries, trade and commerce in the country. Though bank refers to create and mobilize the capital /funds: modern banking has specific purpose, it provides an effective payment and credit system, which facilitates the

challenging funds economy. Moreover banks also encourage industrial innovations and business expansion through the funds provided by them to the entrepreneurs. Beside this they encounter various functions on behalf of their customer and in turn they are paid for their services. Commercial banks undertake the payment of subscriptions, insurance, premium, rent etc, and collection of cheque, bills, salaries, pension, dividend, interest etc. Further more commercial banks also arrange to remit money from one place to another on behalf of beneficiary. They issue Bank Guarantee, letter of credit, which easier to overcome the problems regarding national and international trade. In fact the economic development of a country is not possible without a sound banking intermediation.

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 1997 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 Rastriya Banijaya 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. as a first joint venture bank. 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 operating in the country including agriculture developing bank.

Indeed, making loan is the principal function of banks to fund conception and investment spending by business, individuals and 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 government of new business 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 due to the following reasons.

- Loan 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 19 points of representations located in various urban and semi-urban part of the country, outside and 5 providing some latest 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 7 P.M. in the evening. Utility bill payment services, inwards and outward remittance services, and various other banking services, visa electron debt 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 an 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 process.
- Employees are treated equitably, with respect and good faith.
- KBL is transparent in our dealings and conduct.

1.3 Significance of the Study

This study will exist in carrying out the decisions for further studies. Loan and advances are the most profitable of all the assets of a bank. These assets constitute primary sources of income to the bank. It means interest earned from such loan and advances occupy major space in income statement of the bank. As a business institution, a bank aims at making huge profit. Since loan and advances are more profitable than any other assets. So it is very important to be remained that must of the banks failure in the world due to the shrinkage in the value of loan and advances. Hence loan is known as risky assets, Risk of non-repayment of assets (loan) is known as credit risk or default risk. In banks loan management has become integral part of almost every banking operation. It is indisputable that the loans and advances are major source for generating profit in case of financial institution. Therefore, success of any bank doesn't depend upon how much money a bank able to lend? But it depends upon the quality of loan. So success of any bank depends upon the amount of performing assets loan. This study will help in better improvement

for further evaluation and regulation body to know existing recovery problem. It also hopes that they will formulate new modified law and other proceedings. They study equally importance for the many groups:

- 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 advance?
 - 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 analyses 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. 2062 / 2063 to 2065 / 2066 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 focuses 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 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 their operating system and loan lending process are complex and rigid. Most of the financial institutions are operating only in urban area. 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 Rastriya Banijya Bank used to have operating loss some years before. It occurs due to ineffective loan management. A bank cannot 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 cannot accomplish its predetermined goals and objectives. Hence it is the life-blood of any financial institution. It's 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 principal collections?

1.6 Objectives of the study

This study tries to meet the following specifies objectives:

- To analyze the trends of deposit collection and loan investment.
- To measure total amount of loan out of total deposit.
- To evaluate the performance of KBL in terms of liquidity and profitability.
- To suggest and recommend on the basis of major findings.

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 limitations of this study are as follows:

- This study is focused only on loan management of KBL.
- This study is based on annual reports of 5 years data up to F.Y. 2065 / 2066.

Though data used in the study will both primary and secondary and based on the information provided 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 five chapters such as Introduction, review of literature, research methodology, presentation and analysis of data and summary, conclusion and recommendation.

Introduction: Introduction is presented in the first chapter. It is divided into six subtopics. 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 consist 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 and the suggestion are provided for the further improvement.

CHAPTER-TWO

REVIEW OF LITERATURE

This chapter provides knowledge about the development and progress made by the earlier scholar on the concerned field of the study, review existing books, published and unpublished articles, review of policy documents to provide readers background, familiarity in order to fill the gap of research. Review of literature is the process of learning and understanding the concept of related area thoroughly. It assures readers that are familiar with important research that has been carried out in similar areas. Similarly, it also establishes that the study as a link in a chain of research that is developing and emerging knowledge about the concerned field. In addition it also summarizes the findings of previous literature to provide knowledge about the background of the work done by earlier research work and to stop duplicate of the previous work. Thus, this work may be valuable component of research work.

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 principle 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 serving 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 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 form " 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."

Banks 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 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:

- a). Consumer loan, overdraft and credit card loan.
- b). Residential mortgages.

- c). Non-personal loan, such as commercial loans to business; financial institution, government and their agencies.
- d). Direct finance leading.
- e). 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 and Johnson have depicted the types of loan as follows:

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

Where as KBL provides the following types of loan:

- 1). Overdraft
- 2). Short term loan / working capital.
- 3). TR/ importance loan.
- 4). Term loan.
- 5). Export Credit.
- 6). Priority sector.
- 7). Deprived sector.
- 8). Home loan.
- 9). Education loan.
- 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 from 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 installments special patterns of principal payments over time can be negotiated to meet the firm's special needs.

(Richard A. Barely and Myoss, 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 fulfills the variable working capital demands.

v). Fixed Deposit receipt loan

The depositors keep fixed deposits for a specified period. The depositor can loan against the collateral of such deposit if they need money before the maturity date in general financial institutions allow up 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 develops 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 are limit sanctioned to priority sector. Institutional support to Agriculture Development Bank and Rural Development Bank are also considered under this category.

Deprived Sector lending includes.

- 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 up to Rs 30000.

viii). Hire Purchase Financing (installment loan)

Hire purchase loans are characterized by periodic repayment of principal and interest over the maturity 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). Housing loan (Rental 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 provided 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.

xi). Bill Purchase and Discount

Purchase of bill or exchange of customers to which favor limit is prescribed, is known as 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.

xii). Consortium Loan

Not single financial institution grant 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). 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 is a special purpose loan, it required special handling than typical retail loan.

xiv). 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 line 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 large credit lines.

2.1.3 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 offers 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 of efficiency, profitability, and liquidity analysis. 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 strength and weaknesses. For example, if all four of a company's profitability ratios are above the industry norms, profitability is poor. Intermediate results lead to either normal or weak conclusions. In arriving at an overall opinion of credit, loan officers simultaneously liquidity position.

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 measured 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 weakness, low level analyses pinpoints are as 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.

2.1.4. 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 in 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.

2.1.5 Principle of lending

Cautious loan policy is essential to carry out the business of lending consistently. Inevitable policies to be considered and analyzed for granting loan as 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 behavior 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 unfavorable market" (Singh, 1999; 149). A banker has to ensure that money will come in as or 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 infixed 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, interbank 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.

2.1.6 Loan Approval Process

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

Loan approving authority approval 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 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 posse's 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, experience as well as product and service position along with heightened competition.
- Banking relationship: Accounts kept indifferent 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. These facilities are the possibility of future business with the applicant.

iii) Credit Analysis:

"Analysis a credit 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 borrower's 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.

2.1.7 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 old 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 etc. such deed has to be registered from 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 departments prepare 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.

2.1.8 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:
 - Internal credit audit
 - External credit audit
 - 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 chares 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 person as guarantee.

v) Process of Recovering Data-expired loan

The bank recovers principal and interest of not recover loan as per Bank and financial ordinance Act 2062. After recovering the loan according 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

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 "fundamental 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.

Joshi and Shrestha (2058) in the book "Principle 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.

Eugene (1987) 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.

Dahal and 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 extra 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

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.

Srivasu and Yong (1986) has explained an expert credit granting system prototype in designing expert financial system: A case study of corporate credit management, credit granting process in the participating corporation considered of two distinct phase i) a customer evaluated based on a variety of criteria; ii) a credit limit determine phase, where the conclusion 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 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 CDP. Thus

in confusion, 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 lending of commercial in various sectors of economy, except service sector investment.

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 exceed 30%, 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 provide financial researcher opportunity to affect a transfer of

the expertise contained in normative model to practicing managers through the medium of intelligent 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 " Lending practice of commercial bank 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 the recommended that banks should give emphasis on efficient utilization of resources.

Aryal (2000) in his research "Loan management of agriculture development bank" states objectives as 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 or borrowers about ADB/N and its loan collection and disbursement effects.

- To evaluate the role of interest raise, disbursement procedure and collection other in actual loan collection of the bank.

His findings are as follows:

- Actual loan disbursement, collection and over standing are increasing in 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.
- Target loan collection and disbursement fixed by planning and project department is nor significantly different than the actual.

Bhattarai (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 changes in interest income from it.
- Average deposit and loan and advances of KAFL during research period are similar to finance companies industry.
- Term loan, loosing 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 Via-versa.

Kafle (2006) has concluded his study entitled "Non-Performing loans of Nepalese commercial banks". The main objectives of the study are 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 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 term of Everest Bank and Himalayan bank Ltd.
- Analyzing the lending efficiency and its contribution in total profitability of EBL and HBL.
- 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 2058 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 fund. The NRB issued Directive annually to guideline the banking activities. Every bank should be follow NRB rules and regulations, otherwise he should apply fine. NRB Directive states 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.

1). Provision for Minimum Capital Fund

Licensed financial institution should keep minimum capital fund for total risk

Weighted assets after 2005 are as follows:

Table 2.1
Provision for Minimum Capital Fund

| Institution | Minimum capital fund to total risk weighted assets. | |
|----------------------|-----------------------------------------------------|--------------|
| | Core capital | Capital fund |
| 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 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.

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 borrows 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. 100000 per each micro enterprise to be provided on a gradual basis to group member for enterprise to be 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 depositor's 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 bank, 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

Loan 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 Provision

| Classification of Loan | Criteria | Loan loss provision |
|------------------------|-----------------------|---------------------|
| 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 researchers conducted on investment analysis and policy of commercial banks but these few researches 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

This Chapter includes the research design, sources of data, Population and Sample, data gathering procedures, data processing procedures and statistical procedures. This Chapter presents the theoretical relation between figure of loan disbursement and collection and to explain the causes of delayed payment from borrowers.

3.1 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 study aims to portray accurately upon the soundness of KBL in relation to loan disbursement, capital adequacy, deposits, profitability and liquidity.

Hence descriptive and analytical research design is applied for the study.

3.2 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.

Sample is the part of the population that we actually examine in order to gather information. Thus a same is maker representation of the population.

At present there are altogether 26 commercial bank on operation in Nepal.

All commercial banks have been taken as population. Among them KBL has been selected as sample for the study.

Since, the study is concerned with the loan disbursement and recovery of KBL, therefore Five years data are taken as sample for the study. The census of the population is neither feasible nor desirable for the study of this nature that is why a sample from the population has therefore selected for the purpose of this study.

3.3 Nature and Source of data

Both Primary and Secondary sources of data have been collected in order to achieve the real and actual results.

This study, basically concentrated on secondary data. The source of secondary data has been collected from published data as annual reports, bulletins, financial statistics, articles, journal and annual balance sheet of Kumari Bank Limited as well as the website. In addition to above sources, primary data has been collected by distributing related questionnaire among twenty personnel of KBL.

3.4 Data Collection Procedure

The data has been collected on secondary sources from the related banks. To collect necessary data and information other concerned people was also consulted. Banking and financial statistics, NRB policies and directives are collected from the website of NRB. The annual reports, audited and unaudited financial statement of KBL was collected by frequent visit to the Head office and website of the bank. The study will also be based on primary data, information will be collected developing a scheduled questionnaire and distributing these to employees of KBL (Manager, Director and Finance Chief). Beside this, junior employees are also observed and response has been drawing from them about relevant questionnaire.

3.5 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.

3.5.1 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 firm's financial performance and status that of other firms 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 measures the ability to meet its short term obligations or its current liabilities. It measures the speed with which a bank's assets can be converted into cash to meet 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:

$$\text{CurrentRatio} = \frac{\text{CurrentAssets}(CA)}{\text{CurrentLiabilities}(Cl)}$$

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 for collection. Likewise, current liabilities denote 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

The 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:

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

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:

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

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.

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

ii) Net profit to Total Assets Ratio

It measures 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 banks remain often subtracting total external liabilities from total assets. Here, total assets represent all the assets beside accumulated loss and intangible assets. The ratio exhibits the rate of return earned on net worth (or shareholders fund or equity). It compensation is to be done as:

$$\text{Return on Net Worth} = \frac{\text{Net Worth After Tax}}{\text{Net Worth (TA - External Liabilities)}}$$

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, $\sum x = x_1 + x_2 + x_3 + \dots + x_n = \text{sum of Observation}$

N= Number of items observed

X= Variables

ii) Standard Deviation (S.D.)

It is defined as the positive square not 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:

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

Where,

σ = Standard Deviation

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

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

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 multiplies 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 $\left(\bar{X} \right)$. 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 changes in another variable correlation may be:

- Simple or partial or multiple correlations.

- Positive or 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:

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

$$r_{xy} = \sqrt{xy} = \text{Correlation between } x \text{ and } y$$

$$N \sum xy = \text{Product no. of observation and sum of product of } x \text{ and } y.$$

$$\sum x \sum y = \text{Product of sum } x \text{ and } y$$

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 behavior of the dependent variable. It is square of correlation coefficient.

vi) Probable Error

The probable error of the coefficient of correlation helps to determine the reliability of the value of r and interpret it.

Mathematically expressed,

$$P.E. = 0.6745 \frac{1-r}{N}$$

vii) Time Series Analysis

A series formed from a set of data arranged in accordance with time of occurrence is said to be a time series. A time series shows the relationship between two variables, one being the time.

Mathematically, time series is defined by the fundamental relationship $y = f(t)$ where, y is the value of the variable under consideration in time t . The time t may be yearly, monthly, daily etc.

Among the many time series analysis methods, a widely and most commonly used to describe the trend is the method of least square. Under this method the line between the dependent variable y and the independent variable x (i.e. time) be represented by

$$y = a + bx.$$

$$\text{Where, } \sum y = na \qquad a = \frac{\sum y}{n}$$

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

‘a’ gives the average of y and ‘b’ the rate of change. (Bajracharya, 2058)

CHAPTER – FOUR

DATA PRESENTATION AND ANALYSIS

In this chapter the relevant information available has been used by analyzing the loan management of KBL for the fulfillment of the research objectives, five years data covering from the 2061/2062 B.S. to 2065/2066 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. 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 work. Therefore, Banks collects the scattered funds from public in the form of deposits and mobilized it on different sectors. 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 (2061/2062-2065/2066) is presented in the table below.

Table 4.1 Deposits collection by KBL (Rs in Millions)

| FiscalYear(B.S.) | Deposit Collection (Rs in 000) | Increase/Decrease In Deposit Collection | % increase/Decrease |
|------------------|--------------------------------|-----------------------------------------|---------------------|
| 2061-2062 | 6268.95 | - | - |
| 2062-2063 | 7768.96 | 1500.01 | 23.93 |
| 2063-2064 | 10557.09 | 2788.13 | 35.89 |
| 2064-2065 | 12774.28 | 2217.19 | 21.00 |
| 2065-2066 | 15610.93 | 2936.65 | 22.99 |

Source: Annual Reports (2061/2062-2065/2066)

As shown in the table 4.1 the deposit collection by KBL in the year 2061/2062 to 2065/2066 is Rs 6268.95, Rs 10557.09, Rs 12774.28 and Rs 15610.90 respectively. There is increasing trend occurs up to the year 2063/2064 in deposit collection. After that the decreasing trend is occurs in the year 2064/2065 and in the year 2065/2066 the trend is increasing in deposit collection. Similarly, Total deposit collection in the year 2062/2063 is Rs 1500.01, increased in percent by 23.93. Total deposit collection in 2063/2064 is Rs 10557.09 which is increasing trend with 35.89 percent increasing rate. In the year 2064/2065 the deposit collection trend is increasing but in decreasing rate with 21 percent. In the year 2065/2066 the deposit collection trend is increasing with increasing rate with 22.99%. The deposit collection by KBL for 5 years (2061/2062-2065/2066) is shown as bar charts.

Figure 4.1 Deposit Collection of KBL

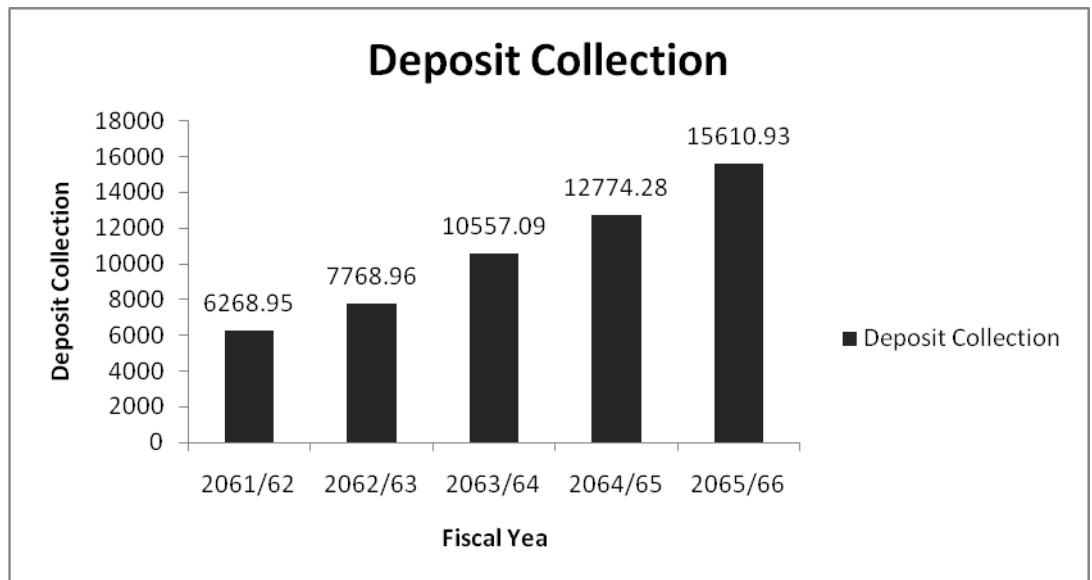


Figure 4.1, Shows that the total deposit collection of KBL has increased regularly in the year from 2061/62 to 2065/66. It seems that the deposit collection of KBL may also increase in next year too.

4.1.2 Deposit Composition of KBL

The deposit composition of KBL helps us to study about the loan disbursement. The following table shows the deposit composition of KBL.

Table 4.2. Deposit Composition (Rs in millions)

| Year | Deposit | | | | | | | | | | |
|---------|---------|-------|---------|-------|---------|------|---------|-------|--------|------|----------|
| | Saving | % | Fixed | % | Current | % | Call | % | Other | % | Total |
| 2061/62 | 1515.58 | 24.18 | 2302.09 | 36.72 | 279.36 | 4.46 | 2102.84 | 33.54 | 69.08 | 1.10 | 6268.95 |
| 2062/63 | 2317.84 | 29.83 | 3162.83 | 40.71 | 350.82 | 4.52 | 1880.74 | 24.21 | 56.73 | 0.73 | 7768.96 |
| 2063/64 | 4461.37 | 42.26 | 2776.48 | 26.30 | 403.80 | 3.82 | 2827.70 | 26.78 | 87.74 | 0.83 | 10557.03 |
| 2064/65 | 4138.81 | 32.40 | 3799.56 | 29.74 | 601.72 | 4.71 | 4124.56 | 32.29 | 109.63 | 0.86 | 12774.28 |
| 2065/66 | 4170.31 | 26.54 | 4527.05 | 28.81 | 780.09 | 4.96 | 6135.56 | 39.05 | 97.89 | 0.62 | 15710.9 |

Source: Annual reports (2061/62-2065/66)

Table 4.2 shows that the deposit composition of KBL by applying different headings like; Saving, Fixed, Current, Call and Other deposits including margin deposit, certificate deposit etc.

The above table indicates that the more amount have been collected in Fixed deposit comparing to other four deposits in year 2061/62, and 2062/63. In the year 2063/64 and 2064/65, the more amount have been collected in saving deposit than rest deposit and in year 2065/66 call deposit successful to collect large amount comparing to other deposits.

The percentage of saving deposit shows increasing trend up to the year 2064/65 and it declined in year 2065/66. The highest percent of saving deposit in year 2063/64 is 42.26 percent. It indicates that cost of source is decreasing.

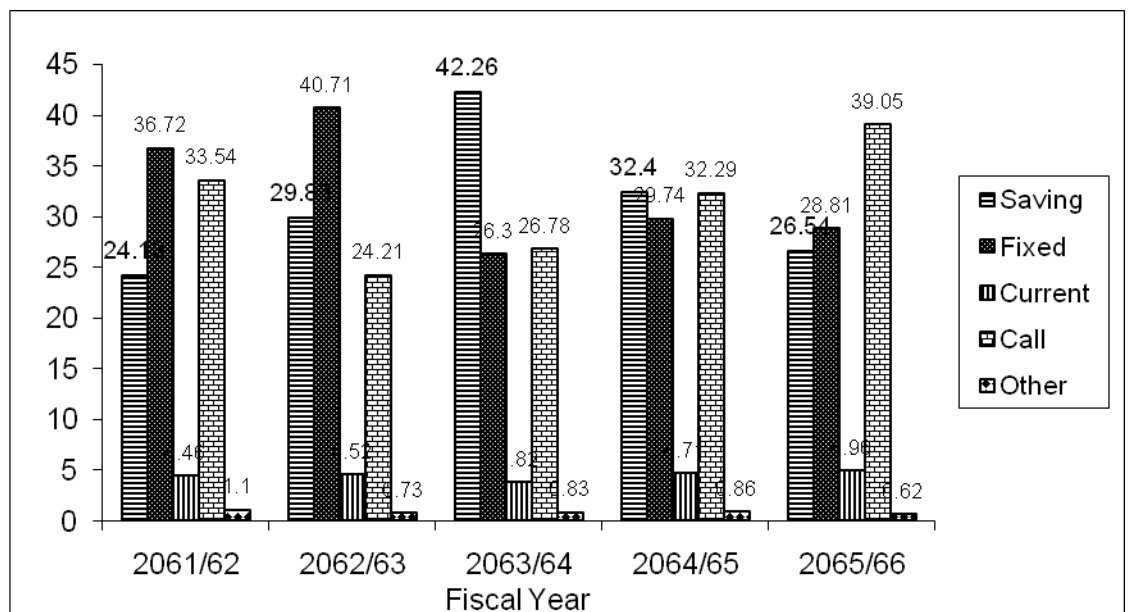
In the year 2062/63, we can observed that the percentage of fixed deposit is increasing then previous year so we can say that the trend of fixed deposit in

increasing or dependency in fixed deposit is increasing trend. But in years 2063/64, 2065/66, the percentage of fixed deposit is decreasing than the year 2062/63. 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 4.96 and the lowest is 3.82 .Call and Short deposit also shows a low degree of decreasing and increasing trend. In 2065/66 the percentage of call deposit is only 39.05 percent of the total deposit. Other deposit which includes margin deposit, certificate of deposits shows slightly decreasing and increasing trend.

The amount collected in fixed deposit is more appropriate to lend because of its fixed nature but cost of ford is high. Similarly, the saving deposit also useful to lend because of low cost of saving deposit in compression to fixed deposit. Bank deposit 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.

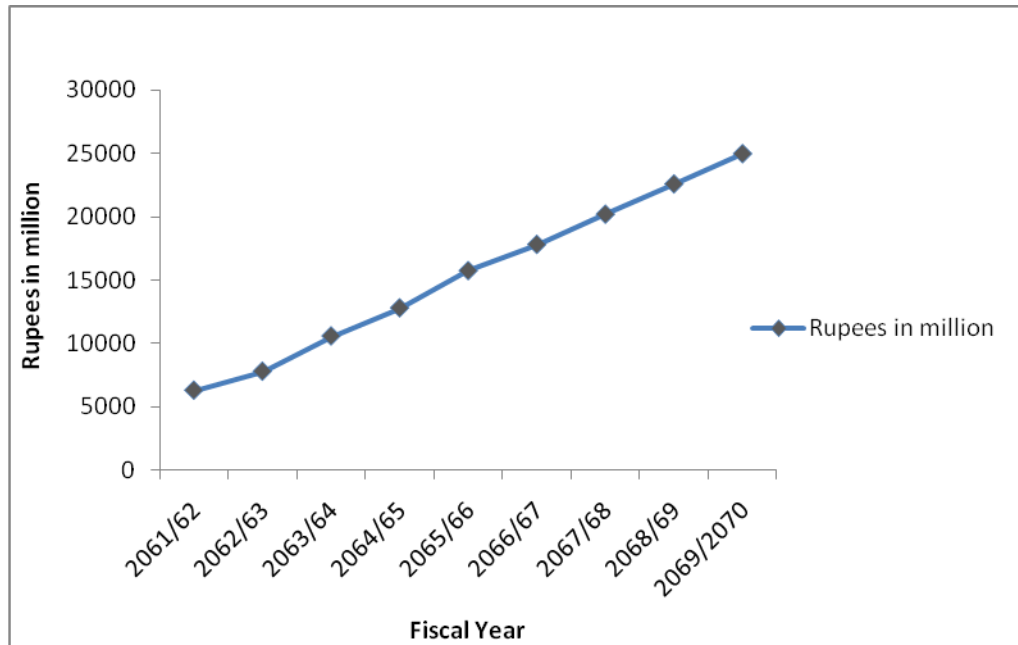
Figure 4.2 Deposit Composition of KBL



4.1.3 Trend of deposit collection

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

4.3 Trend of Deposit Collection



The figure shows that the deposit collection by the bank is in increasing trend, if other things remaining constant. According to the trend forecast the deposit collection in the years 2066/67, 2067/68, 2068/69, 2069/70 is Rs 17782.78, Rs 20171.7, Rs 22560.62, and Rs 24949.54 respectively.

4.1.4 Loan and advances of KBL

Bank helps to collect the deposit and lend the loan and advance. Giving loan and advances is the major task of the bank. Loan and advance is a major substantial amount of assets in asset side. Supplying loan and advances is very difficult and critical job due to the cut throat competition in banking sector and limited area of investment.

Table 4.3, Loan and advances of KBL

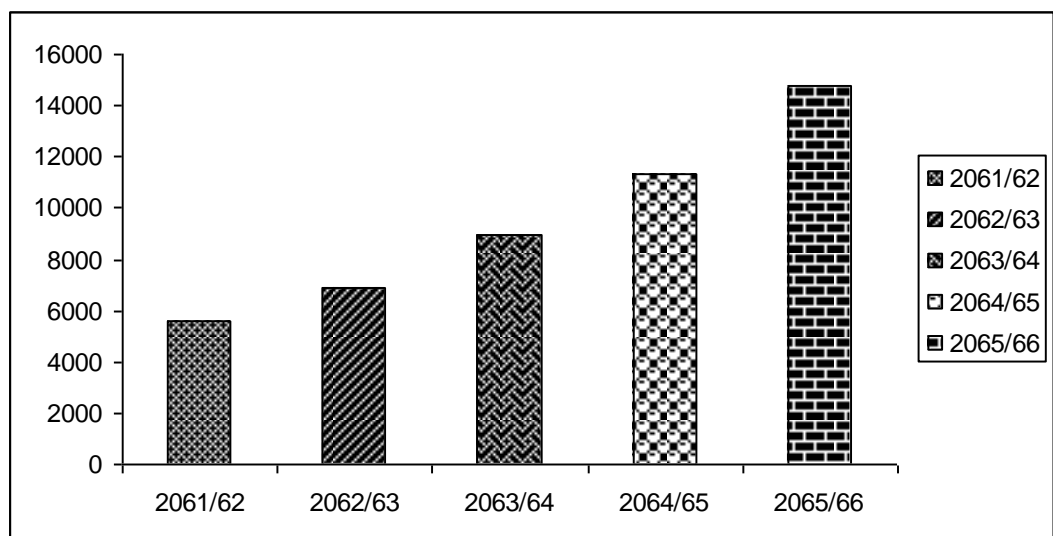
| Year | Loan and advances (Rs in Millions) | Increase in loan and advances (Rs in Millions) | % increase/Decrease |
|---------|---------------------------------------|------------------------------------------------------|------------------------|
| 2061/62 | 5590.93 | - | - |
| 2062/63 | 6891.86 | 1300.93 | 23.27 |
| 2063/64 | 8929.01 | 2037.15 | 29.56 |
| 2064/65 | 11335.09 | 2406.08 | 26.95 |
| 2065/66 | 14795.26 | 3272.88 | 28.41 |

Source: Annual Reports (2060/61-2065/66)

The above table shows that loan and advances of KBL, there is more fluctuating in every year. In year 2061/62, 2062/63, 2063/64, 2064/65 and 2065/66, the loan and advances increase gradually by Rs 5590.93, 6891.86, 8929.01, 11335.09 and 14795.26. And the percentage of loan and advances increase in year 2062/63 and 2063/64. In year 2064/65 the percentage is 26.95 and 2065/66 the percentage increase by 28.41.

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

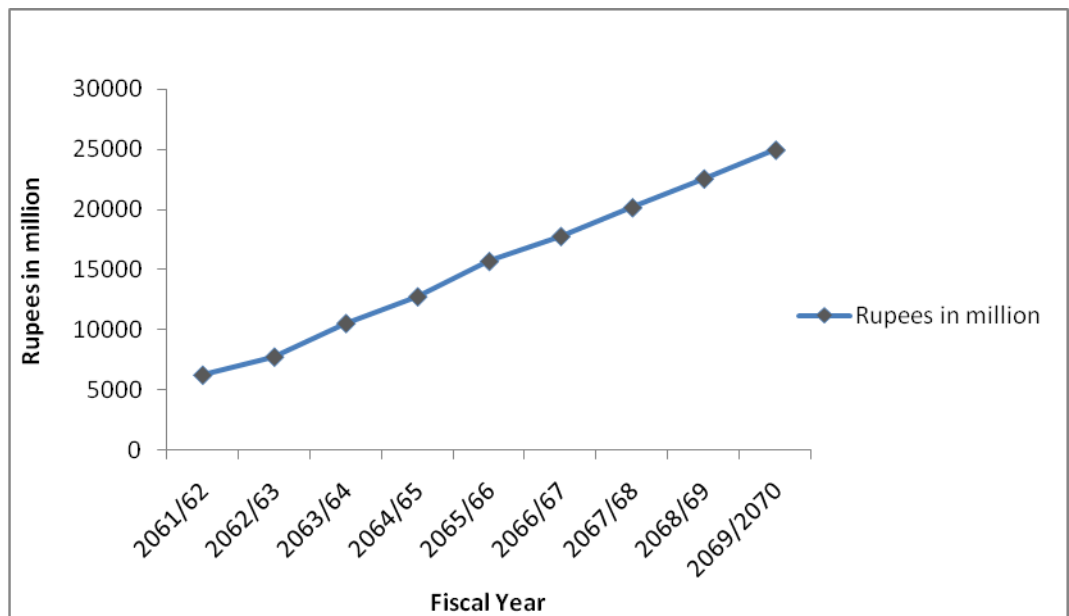
Fig 4.4 Loan and Advances of KBL



4.1.5 Trend of loan and advances

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

Fig 4.5. Trend of loan and advances



Above figure show that the increasing trend of loan and advances. By forecasting this trend the loan and advances will be also increased in coming year. In year 2066/67 it will be Rs 16202.45 million and in year 2067/68, 2068/69, 2069/70, the amount will be Rs 18447.25, Rs 20692.05, Rs 22936.85 respectively.

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.

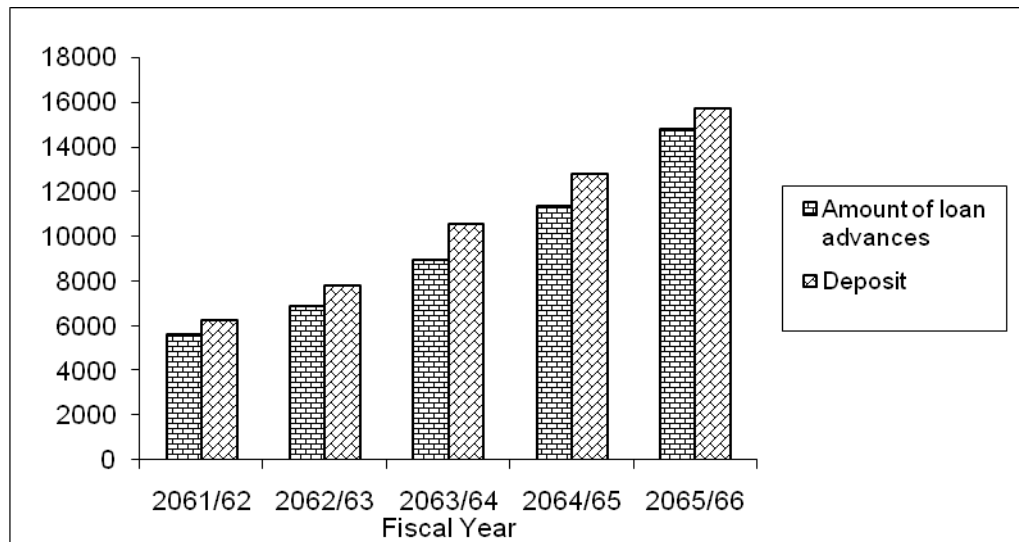
Table 4.4 Loan Disbursed to Deposit Collection

| Year | Amount of Loan advances (Rs in Millions) | Deposit (Rs in Millions) | % of loan and advances of total deposit |
|---------|---------------------------------------------|-----------------------------|--------------------------------------------|
| 2061/62 | 5590.93 | 6268.95 | 89.18 |
| 2062/63 | 6891.86 | 7768.96 | 88.71 |
| 2063/64 | 8929.01 | 10557.09 | 84.57 |
| 2064/65 | 11335.09 | 12774.28 | 88.73 |
| 2065/66 | 14795.26 | 15710.92 | 94.17 |

Source: Annual Report (2061/62-2065/66)

The table shows that the amounts of loan disburse in comparison to the amount of deposit collected. In the fiscal year 2061/62, the deposit collection was Rs 6288.95 million out of which Rs 5590.93 was supply as loan and out of total deposit 89.18% was supply as loan and advances. Similarly, In year 2062/63, 2063/64, 2064/65, 2065/66, the amount of loan advances are Rs 6891.86, Rs 8929.01, Rs 1135.09, and Rs 14795.26 out of total deposit of respective year, the total deposit Rs 7768.96, Rs 10557.09, Rs 12774.28 and Rs 15710.92. Among different year, in year 2065/66, the highest amount of deposit utilized in loan advances. Likewise, in year 2061/62-2065/66, percent of loan and advances of total deposit are 89.18%, 88.71%, 84.57%, 88.73% and 94.17%. It shows that the most of the deposit was utilized in loan and advances. Loan disbursed 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, which can be presented in the table below.

Table 4.5, Percentage change in deposit collection and loan disbursement

| Year | % Change in Deposit Collection | % Change in Loan and advances |
|---------|--------------------------------|-------------------------------|
| 2061/62 | - | - |
| 2062/63 | 23.93 | 23.27 |
| 2063/64 | 35.89 | 29.56 |
| 2064/65 | 21.00 | 26.95 |
| 2065/66 | 22.93 | 28.41 |

Source: Annual Report (2061/62-2065/66)

The above table shows the percent change in Deposit Collection and percent change in loan and advances. In year 2062/63-2065/66, the percent rate on deposit collection is 23.93, 35.89, 21.00 and 22.93. Similarly, in year, 2062/63-2065/66, the percent rate in loan and advances are 23.27, 29.56, 26.95, and 28.41.

4.1.8. Coefficient of correlation 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 disbursement or not. The table below shows the value of ‘r’ and (r²), 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 Collection and loan Disbursed of KBL.

| Coefficient of Correlation (r) | r ² | Probable error | 6P.E. |
|--------------------------------|----------------|----------------|-------|
| 0.99 | 0.9801 | 0.0030 | 0.018 |

Source: Appendix-1 and Appendix-2

The above table show that the coefficient of correlation between deposit collection and loan disburse is 0.99, showing 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. It 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 collected 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 collection 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 bank. It is usually measured in equity capital.

Table 4.7, Analysis of net interest to total assets

(Rs in millions)

| Year | Net Interest | Total Assets | $\frac{NI}{TA} \times 100\%$ Ratio= |
|---------|--------------|--------------|----------------------------------------|
| 2061/62 | 259.79 | 7437.88 | 3.49 |
| 2062/63 | 268.47 | 9010.28 | 2.98 |
| 2063/64 | 394.23 | 11918.31 | 3.31 |
| 2064/65 | 458.51 | 15026.59 | 3.05 |
| 2065/66 | 558.52 | 18538.56 | 3.01 |

Source: Annual Reports (2061/62-2065/66)

The above table shows that net interest and total assets in decreasing trend from the Fiscal Year 2061/62 to 2065/66.

According to the table, out of total asset Rs 7437.88, the KBL has earned net interest Rs 259.79 in year 2061/62, which is 3.49% in ratio. Similarly, out of total assets Rs 9010.28, Rs 11918.31, Rs 15026.59 and Rs 18538.56, the bank has earned net interest Rs 268.47, Rs 394.23, Rs 458.51 and Rs 558.52 at the ratio 2.98, 3.31, 3.05, and 3.01.

Net interest is in increasing trend in each year that indicates interest earn is greater than interest paid so we can say that there is moderate utilization of collected fund.

Analysis of Net profit to total Assets.

Table 4.8, Net Profit to total Assets Ratio

(Rs in millions)

| Year | KBL | | Ratio % |
|---------|--------|--------------|---------|
| | NPAT | Total Assets | |
| 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 | 15026.59 | 1.16 |
| 2065/66 | 261.44 | 18538.56 | 1.41 |

Source: Annual Reports (2061/62-2065/66)

The above table shows the relation between net profit and total assets. In 2061/62, net profit is Rs 87.88 million which is 1.18 percent of the total assets. Similarly, in 2062/63 the net profit is Rs 103.67 million which is 1.15 percent of the total assets and decrease by 0.03 than previous year. The bank earned 1.43 out of total assets in year 2063/64, which is the highest percentage of profit comparing among the five year's study. In year 2064/65 and 2065/66, the bank earned Rs 174.93 and Rs 261.44 million which are 1.16 and 1.41 percentages of the total assets.

So, we can say that the bank has been able to proper utilize of the assets. Although the bank profit position shows bank can make profit in coming years too.

Analysis of Return on equity capital

Table 4.9, NPAT to equity capital

| Year | NPAT | Equity | Ratio% = $\frac{NPAT}{Equity}$ |
|---------|--------|--------|--------------------------------|
| 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 |
| 2065/66 | 261.44 | 1186 | 22.04 |

Source: Annual Report (2061/62-2065/66)

The table shows that, the profit in 2061/62 is 87.88 with equity amount Rs 500 million and the net profit to equity ratio is 17.58 percent. Similarly, from the year 2062/63 to 2065/66, the equity capital have been increased and net profit also be increased but there is little bit fluctuation in ratio i.e. in year 2062/63, ratio decreased by 0.99 % and In year 2063/64, the ratio increased by 6.11% again it decreased in year 2064/65 by 6.35 and in year 2065/66, the ratio increased by 5.69%

4.1.10 Analysis of Liquidity Ratio

Table 4.10, Analysis of current ratio

| Year | KBL | | Ratio % = $\frac{CA}{CL}$ |
|---------|-----------------------------|----------------------------------------------------|---------------------------|
| | Current Asset CA = TA-FA | Current Liability CL= TA-Equity-Reserve Fund | |
| 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 | 13661.71 | 1.08 |
| 2065/66 | 18290.73 | 16913.61 | 1.08 |

Source: Annual Report (2061/62-2065/66)

From the above table, we can see that the current asset is greater than current liabilities in all study period. In year 2061/62, the CA is 1.08. In year 2062/63, which has the greatest ratio 1.09 among the 5 years and then in year 2063/64, 2064/65 and 2065/66, the current ratios are remain same at 1.08.

From the above table, the current ratio is greater than 1. It indicates that bank able to pay current liabilities. But it is still less than standard (2:1

Analysis of Cash and Bank to total Deposit.

Table 4.11, Cash and Bank Balances to Total Deposit.

(Rs in Million)

| Year | KBL | | Ratio% |
|---------|-----------------------|---------------|--------|
| | Cash and Bank Balance | Total Deposit | |
| 2061/62 | 443.37 | 6268.95 | 7.07 |
| 2062/63 | 389.63 | 7768.96 | 5.02 |
| 2063/64 | 672.11 | 10557.09 | 6.37 |
| 2064/65 | 933.84 | 12774.28 | 7.31 |
| 2065/66 | 1776.29 | 15610.93 | 11.37 |

Source: Annual Report (2061/62-2065/66)

The table shows the cash and bank balance and total deposit and their ratio from the year 2061/62 to 2065/66.

The bank has Rs 443.37 in cash and bank balance out of total deposit and its ratio is 7.07, Similarly, In year 2062/63 to 2065/66, the cash and bank are Rs 389.63, Rs 672.11, Rs 933.84 and Rs 1776.29 out of total deposits. And the ratios are 5.02%, 6.37%, 7.31% and 11.37%.

From the above table, we observe that the cash and bank ratio is more than 5%. The highest percentage of the cash and bank balance of the study period is 2065/66. It indicates the bank is able to pay cash to deposit holders. In other word, 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.

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 | |
| 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 |
| 2065/66 | 1776.29 | 18290.73 | 9.71 |

Source: Annual Report (2061/62-2065/66)

In the above table, cash and Bank Balance and Current assets are shown from the year 2061/62 to 2065/66 and their ratios. In the First year, a current asset is Rs 7354.90 and the cash and bank balance is Rs 443.37 which is 6.03% in ratio out of current assets.

Similarly, In year, 2062/63 to 2065/66 the current asset is Rs 8918.35 million, Rs 11728.99 million, Rs 14804.60 million and Rs 18290.73 million respectively and the cash and bank balance is in the year 2062/63 to 2065/66 is Rs 389.63 million, Rs 672.11 million, Rs 933.84 million and Rs 1776.29 whose ratios are 4.37%, 5.73%, 6.31% and 9.71% respectively.

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 2065/66. 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.

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 | |
| 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 |
| 2065/66 | 14795.26 | 18290.72 | 80.88 |

Source: Annual Reports (2061/62-2065/66)

In the above table in 2061/62, the loan and advances and current assets are Rs 5590.93 and Rs 7354.90 million and loan and advances appear 76.02 percent of the current assets. But in 2062/63, the percentage of loan and advances is increasing rate at 77.28 percent. Again, 2063/64 the percentage of the loan advances to current assets is 76.13. It is decreasing by 1.15 percent. In 2064/65 Rs 11335.09 million of loan and advances in total current assets, which come 76.56 percent. Similarly, the percentage of the loan and advances to current assets in 2065/66 is greater than other previous year which is 80.86 percent.

In the above table, we can see that the large amount of the current assets is used for loan and advances. The lowest percentage of the loan and advances to current asset is 76.02 percent in 2061/62. It means that there is less outflow of loan. In 2065/66, there is highest percentage of loan and advances to current assets which is 80.88 percent. It indicates that more funds are utilized in loan and advances.

4.2 Analysis of Primary Data

Table 4.14 Key Risk in KBL

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

Source: Structured Questionnaire

Table no. 4.14 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 is in exchange rate risk in KBL. So that KBL should focus on credit risk among other three

Table 4.15 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 4.16 Sources of credit risk in KBL

| S.N. | Stream | 1 | 2 | 3 | 4 | Total | Weight Value | Mean Value | Rank |
|-------|-----------------------------------|----|----|----|---|-------|--------------|------------|------|
| 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 | 0 | | | | |

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 4.17 Reschedule of Default loan

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

Source: Structured Questionnaire

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

Table 4.18 Remedies of recovering loan

| S.N | Stream | Respondents | | |
|-----|-------------------|-------------|------------|------|
| | | Number | percentage | Rank |
| 1 | Collateral | 8 | 40 | 1 |
| 2 | Guarantor | 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 where as 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 4.19 Any problem related to NRB

| S.N. | Alternative | Respondents | |
|-------|-------------|-------------|------------|
| | | Number | Percentage |
| 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% said that they have problem and 30% said there is no any problem related to NRB.

Table 4.20 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 4.21 Verification of collateral before granting loan

| 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.

4.3 Finding from Analysis

The major findings of the study used on the analysis and presentation of data are presented below.

1. Deposit Collection of KBL has significantly increasing trend. We can find that there is continuous increasing trend from Rs 6268.95 to Rs 15610.93

2. In total, call deposit has more contribution than other deposit comparing to Saving, Fixed, Current and Other deposit.
3. Loan and advances is in slow increasing trend but there is more 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. 84.57 percent to maximum 94.17 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 shows that the relation is significant.

6. Finding from profitability ratio:

Net interest to total assets ratio is increasing in decreasing trend. But the rate of increasing trend in the year 2064/65 and 2065/66 is lower than previous year.

- ii. Net profit to total assets ratio, there is little fluctuation in ratio which shows that the bank able to proper utilization of assets.
- iii. Return on equity capital is in positive rate. The bank is able to earn few profit 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 cash and bank balance ratio is above 5 percent. The highest percentage of the cash and bank balance of the study period is 2065/66 that indicates the bank is able to pay cash to deposit holders.
- iii. There is 6.30 percent to 9.71 percent of the cash and bank balance to total current assets.
- iv. The large portion (76.02 to 80.88%) of the current assets is 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 rescheduled.
- v) Collateral is the main instruments of remedies of the recovery of loan.
- vi) Most of the staff have problem related to NRB.
- vii) Most of the staffs have realized the essential asset management office.
- viii) Related specialist is more useful to verification of collateral before granting loan.
- ix) The bank should receive regular information about consumers business.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

All knows that collection of deposits and making loan and advances are core functions of banks and financial institutions. While collecting the deposits the bank has to provide interest to the depositors, it is cost to the bank. The money collected in the form deposits income. In this transformation process bank have a small interests spread from which they have to meet the operating expenses, cost of bad debt and a small profit margins. In order to pay the interest to the depositors and meet withdrawals of depositors, there should be regular repayments of principle and intercepts of loan from borrowers as per as agreed schedule. In order to make this system interrupted, banks should have all the loans as performing assets i.e. good loans.

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 have invested more deposited amount as loan and advances. Due to the lack of investment opportunities pressure in interest rates, increase of non- performing assets, stagnant economy and changing business environment, 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 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 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 sector wise loan to analyze the capital adequacy of the KBL.

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

All the collected data were analyzed on the basis 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 and financial tools are used.

5.2 Conclusion

Most of the Nepalese commercial banks still lack of 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 of the instability in loan management of the banks and NRB strictly lunched the policy of loan management towards land and buildings.

The loan management of KBL is 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, saving deposit is in second rank and fixed deposit is in third and other deposits 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 89 percent of total deposit is utilized in loans and advances.

5.2.1 Conclusion from profitability ratio

- i) Net interest to total assets ratio shows increasing trend but the rate is high in previous year. Because of high net interest to total assets ratio the profitability of the bank also show high.
- ii) Net profit to total assets ratio is positive in former year because of more interest margin of the KBL.
- iii) Return on equity capital is also positive rate in former year. It provides more utilization of the capital fund.

Conclusion from liquidity ratio

- i) The current ratio (1:1) of the KBL is less than standard (2:1).It indicates that the low liquidity position of the KBL.
- ii) Cash and bank balance to current assets is in satisfactory level.It has maintained NRB directives.
- iii) There is 7.07 percent to 11.37 percent of the cash and bank in total deposit.
- iv) There is 6.03 percent to 9.71 percent of cash and bank in total current assets.

Conclusion from primary data

- i) The higher risk of KBL is in credit risk.
- ii) Profitability of the business and image of the business person is the main factors at loan disburse.
- iii) To reduce the bad debt default loan should be rescheduled.
- iv) Collateral is the main instrument of remedies of the recovery of loan.
- v) The government should established assets management office.
- vi) Related specialist is appropriate for verification of collateral before granting loan.
- vii) Bank should receive regular information about customers business.

5.3 Recommendation

Based on the above discussion and conclusion presented, researcher recommends to the few major solution to the authority, academicians, practitioners and bankers to overcome the current situation. Following are recommendation to improve / manage the loan management of KBL.

- ▶ The banks have to identify the demand and challenge of time at its start and should go on using it correctly as competition is the key to success.
- ▶ The bank has to diversify its assets composition equally in different sectors so that the risk can be minimized.
- ▶ Detail analysis of the customer and their documents, inspection of collateral should be done properly. Analyzing the customer's position and their strength is a major factor to provide loan by bank.
- ▶ 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 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 tight security of their deposit.
- ▶ NRB should tight the supervision and inspection activity towards 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.
- ▶ KBL 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.
- ▶ KBL should conduct a market research

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APPENDIX-I

| Fiscal Year | Year X | Dep.Collection Y | XY | X ² |
|-------------|---------------|---------------------|-----------------------|-----------------|
| 2061/62 | 1 | 6268.95 | 6268.95 | 1 |
| 2062/63 | 2 | 7768.96 | 15537.92 | 4 |
| 2063/64 | 3 | 10557.03 | 31671.09 | 9 |
| 2064/65 | 4 | 12774.28 | 51097.12 | 16 |
| 2065/66 | 5 | 15710.9 | 78554.5 | 25 |
| Sum | $\sum x = 15$ | $\sum y = 53080.12$ | $\sum xy = 183129.58$ | $\sum x^2 = 55$ |

Here, actual trend equation of the linear trend is,

$$Y = a + bx$$

Normal equation is;

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

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

Now, put the value in normal equation.

$$53080.12 = 5a + 15b \dots\dots\dots i$$

$$183129.58 = 15a + 55b \dots\dots\dots ii$$

Multiplying eqn 1st by 3 and eqn 2nd by 1

then we get,

$$159240.36 = 15a + 45b \dots\dots\dots iii$$

$$183129.58 = 15a + 55b \dots\dots\dots iv$$

$$\begin{array}{r} - \text{-----} - \text{-----} - \text{-----} \\ \end{array}$$

$$-23889.22 = -10b$$

$$b = 2388.92$$

Substituting the value of b in eqn i

$$53080.12 = 5a + 15 \times 2388.92$$

$$5a = 53080.12 - 3583.8$$

$$a = \frac{17246.32}{5}$$

$$a = 3449.26$$

Again,

$$Y = a + bx$$

In 2066/67, the required trend of

$$\begin{aligned} Y &= 3449.26 + 2388.92 \times 6 \\ &= 3449.26 + 16722.44 \\ &= 17782.78 \end{aligned}$$

In 2067/68, the trend of

$$\begin{aligned} Y &= 3449.26 + 2388.92 \times 7 \\ &= 20,171.7 \end{aligned}$$

In 2068/69, the trend of

$$\begin{aligned} Y &= 3449.26 + 2388.92 \times 8 \\ &= 22560.62 \end{aligned}$$

In 2069/70, the trend of

$$\begin{aligned} Y &= 3449.26 + 2388.92 \times 9 \\ &= 24949.54 \end{aligned}$$

APPENDIX-II

| Fiscal Year | Year (X) | Loan and Advances of KBL (Y) | XY | X ² |
|-------------|---------------|-------------------------------|-----------------------|-----------------|
| 2061/62 | 1 | 5590.93 | 5590.93 | 1 |
| 2062/63 | 2 | 6891.86 | 13783.72 | 4 |
| 2063/64 | 3 | 8929.01 | 26787.03 | 9 |
| 2064/65 | 4 | 11335.09 | 45340.36 | 16 |
| 2065/66 | 5 | 14593.34 | 72966.7 | 25 |
| Sum | $\sum x = 15$ | $\sum y = 47340.23$ | $\sum xy = 164468.74$ | $\sum x^2 = 55$ |

Here, the linear trend equation is

$$Y = a + bx$$

Two normal equations are;

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

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

Put the values in normal equation,

$$47340.23 = 5a + 15b \text{ ----- (i)}$$

$$164468.74 = 15a + 55b \text{ ----- (ii)}$$

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

$$142020.69 = 15a + 45b \text{ ----- (iii)}$$

$$164468.74 = 15a + 55b \text{ -----(iv)}$$

Subtracting eqn (iv) from (iii) then, we get

$$22448.05 = 10b$$

$$b = 2244.80$$

Now, Put the value of b in eqn (i)

$$47340.23 = 5a + 15b$$

$$47340.23 = 5a + 15 \times 2244.80$$

$$47340.23 - 33672 = 5a$$

$$a = 2733.65$$

Substituting the value of a and b in eqn.

$$Y = a + bx$$

$$Y = 2733.65 + 2244.80x$$

In year 2066/67, thus the required eqn trend of Y.

$$\begin{aligned} Y &= 2733.65 + 2244.80 \times 6 \\ &= 16202.45 \end{aligned}$$

In year 2067/68,

$$\begin{aligned} Y &= 2733.65 + 2244.80 \times 7 \\ &= 18447.25 \end{aligned}$$

In year 2068/69,

$$\begin{aligned} Y &= 2733.65 + 2244.80 \times 8 \\ &= 20692.05 \end{aligned}$$

In year 69/70,

$$\begin{aligned} Y &= 2733.65 + 2244.80 \times 9 \\ &= 22936.85 \end{aligned}$$

APPENDIX-III

| Fiscal Year | Dep. Coll ⁿ (X) | Loan and Advances of (Y) | X ² | Y ² | XY |
|-------------|----------------------------|--------------------------|----------------|----------------|--------------|
| 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 | 10557.03 | 8929.01 | 111452149.30 | 79727219.58 | 94264362.18 |
| 2064/65 | 12774.28 | 11335.09 | 163182229.50 | 128484265.30 | 144797613.50 |
| 2065/66 | 15710.9 | 14593.34 | 246832378.8 | 212965572.4 | 229274505.4 |
| Total | 53080.12 | 47340.23 | 621123231.2 | 499933289.8 | 556928326.4 |

Coefficient of correlation (r)

$$n \sum xy - \sum x \sum y$$

$$r = \frac{\quad}{\quad}$$

$$\frac{\quad}{\sqrt{n \sum x^2 - (\sum x)^2} \sqrt{n \sum y^2 - (\sum y)^2}}$$

$$\frac{5 \times 556928326.4 - 53080.12 \times 47340.23}{\quad}$$

$$r = \frac{\quad}{\sqrt{5 \times 621123231.2 - (53080.12)^2} \sqrt{5 \times 499933289.8 - (47340.23)^2}}$$

$$\frac{2784641632 - 2512825089}{\sqrt{3105616156 - 2817499139} \sqrt{2499666449 - 2241097376}}$$

$$\frac{271816543}{\quad}$$

$$r = \frac{271816543}{\sqrt{288117017} \sqrt{258569073}}$$

$$r = \frac{271816543}{\quad}$$

$$\frac{271816543}{\sqrt{288117017} \sqrt{258569073}}$$

$$= \frac{271816543}{272943492.3}$$

$$r = 0.99$$

X = Total deposit collection of the year.

Y = Total loan and advances distribution 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 : 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.

$$\begin{aligned} \text{P.E.} &= 0.6745 \times \frac{1-r^2}{\sqrt{n}} \\ &= 0.6745 \times \frac{1-0.99}{\sqrt{5}} \end{aligned}$$

$$\therefore \text{P.E.} = 0.0030$$

APPENDIX-IV

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

Please tick in the box.

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 the business person

Q.No.3. Is default loan is 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. Does your organization has any problem related to NRB?

i) Yes

ii) No

Q.No.6. Did you feel Asset Management office?

i) Yes

ii) No

Q.No.7. Who should take involve in verification of properties being kept as collateral before granting loan?

i) Related specialist

ii) Office staff

iii) Independent Person

Q.No. 8. Does the bank should receive regular information about customer?

i) Yes

ii) No

APPENDIX – V

Kumari Bank Limited

Comparative Balance Sheet

Liabilities:

Rs in million

| Year | 2061/6 2 | 2062/63 | 2063/64 | 2064/65 | 2065/66 |
|----------------------|-------------|---------|----------|----------|----------|
| Share Capital | 500 | 625 | 750 | 1070 | 1186.09 |
| Reserve & Surplus | 145.44 | 238.85 | 275.63 | 294.89 | 438.85 |
| Debenture & Bond | - | - | - | 400 | 400 |
| Borrowing | 401.76 | 251.40 | 212.97 | 100 | 293.42 |
| Deposits | 6268.9 5 | 7768.96 | 10557.03 | 12774.20 | 15710.92 |
| Bill Payable | 7.34 | 1.92 | 16.55 | 65.30 | 70.08 |
| Dividend | - | 6.58 | - | - | 6.58 |
| Tax liability | - | 30 | 11 | 9.65 | 0.234 |
| Other liability | 144.39 | 107.27 | 95.06 | 331.79 | 432.36 |
| Total Liabilities | 7437.8 8 | 9029.98 | 11918.24 | 15026.60 | 18538.53 |

Assets:

Rs in million

| Year | 2061/62 | 2062/63 | 2063/64 | 2064/65 | 2065/66 |
|--------------------------------------|---------|---------|----------|----------|----------|
| Cash & Bank Bal. | 443.37 | 389.63 | 672.11 | 933.84 | 1776.30 |
| Money at cash short notice | 90.00 | 145.00 | 372.21 | 55.36 | 30.00 |
| Investment | 1190.27 | 1394.95 | 1678.42 | 2138.80 | 1510.82 |
| Loan Advances & Bills Purchase | 5590.93 | 6891.85 | 8929.01 | 11335.09 | 14593.34 |
| Fixed Assets | 82.98 | 91.93 | 189.32 | 222.00 | 247.83 |
| Non-Banking Assets | - | 3.6 | 2.4 | 3.14 | - |
| Other assets | 40.33 | 93.32 | 74.83 | 338.37 | 348.02 |
| Total Liabilities | 7437.88 | 9029.98 | 11918.24 | 15026.60 | 18538.53 |