CHAPTER - ONE

INTRODUCTION

1.1 Background of the Study:

The beautiful natural sceneries of Nepal have widely attracted a number of tourists in the country all through these years. But the economy of Nepal has remained inactive as a result of poor development of infrastructural facilities in the country. In order to improve the living conditions of people in the country, banks in Nepal came up with innovative banking schemes intended to upgrade the economic condition of the country. The banking institutions in Nepal offer modern banking facilities and some of the international banks of repute have also opened their branches in the capital city of Kathmandu to cater to the needs of foreign travelers. These banks in Nepal offer money exchange value of almost all foreign currencies as well as profitable credit card facilities for foreign travelers. If you're a shopaholic and love to take home some good Nepali artifacts, then you can opt for shopping credit card scheme offered by these international banks, which also give discount facilities especially during the peak season. Majority of the banks in Nepal have made it mandatory to exchange foreign currency either through authorized agents or the money exchange counters located at the Tribhuvan International Airport, in Katmandu. Also when you exchange for money, please ask the respective counters to give you the money exchange receipt. It's important to note that there are 24 hrs cash withdrawal facilities at some of the popular banks of Nepal. Some of banks in Nepal offer unique facilities for the development of agri-oriented industries in the rural areas. There are certain financial banks in Nepal like the Grameen Bikash Bank Biratnagar, which is in fact a semi government organization with a share distribution of 34.95 % Central Bank of Nepal, 8.25% Nepal government and 25 % different commercial banks. This bank offers different kinds of financial products such as---insurance, voluntary savings and loans.

A Banker is one, who in the ordinary course of his business receives money which he pays by honoring cheque of persons from whom or whose account he receives it. Bank is the major part of financing. Bank involves in a process of collecting scattered money and to help its mobilization in different sectors according to the need of customers. Generally Banks are those financial institutions which offer the widest range of financial services especially credit, savings, payment service and perform the financial function in any business.

Normally, an institution established by law, which deals with money and credit, is called bank. On the other side an institution involved in monetary transactions is also called bank. The business providing financial services to consumers and financial institution is also known as bank. It also provides loan, accept deposits, exchange money, transfer the
money and checks account, which can be used like, money to make payments and purchases and give services. Without the growth of financial field, there is no chance to develop business and without the growth of business, the country cannot develop at any costs. So that bank is very necessary all over the country. So banking sector plays vital role in the economic development of the country. Banks came into existence mainly with the objective of collecting the idle funds, mobilizing them into productive sector causing an overall economic development. The bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society they are serving.

The functions of modern banking system are multifarious in nature and owing to the shift in emphasis of the functions of bank a different stage of development; different economists have defined banking in different ways.

— Bank is an institution whose debts are widely accepted in settlement of other people's debts to each other.‖ **- Prof. R. S. Sayers**

— Bank is an establishment which makes to individual such as advances of money as may be required and safely made to and to which individuals entrust money when not required by them for use.‖ **- Prof. Kinley**

— A banker is one who is the ordinary course of his business, receives money which he pays by honoring cheques of persons from whom account he receives.‖ **- Dr. H. L. Hart**

— A bank is a dealer in capital or more properly a dealer in money; he is intermediate party between the borrower and the lender. - **Gilbert**

— Banks made a wide variety of loans to a wide variety of customers for many different purposes from purchasing automobiles and buying new furniture, taking dream vacations or pursuing college education, to constructing home and office buildings. Loans may be divided as: real estate loans, financial institutional loans, agricultural loans, commercial and industrial loans, loans to individual, miscellaneous loans, lease financing receivables etc. **- Peter S. Rose**

Banking has crossed the various phases to come to the modern form. Traditional forms of banking were traced during civilization of Greek, Rome, and Mesopotamia. Merchants, Goldsmith and Moneylender are said to be ancestors of modern banking. Merchants started the system of banking by trading in letters than the physical money because in

remitting money from one place to another is very cumbersome. For this they issued different documents as the near substitute of the money, called draft in modern days. Goldsmith is used to keep valuable good in his custody and used to charge certain commission for keeping valuable goods in his custody and return back the valuable on demand. They also issued the receipt to the depositors which could to be transferred to any person that the depositors wished. This receipt gives birth to the bank note. Moneylender used to give loan to the needy public and they used to keep fraction of total

deposit in the form of cash and rest was lent. This gives birth to the basic fractional reserve principle of modern banking. It is very difficult to say that exactly from where the word ―Bank‖ is originated. The word bank was developed from Latin word ―Bancus‖, Italian word ―Banca‖ or French word ―Banque‖, all meaning a bench. Bank of Venice is the first bank set up in 1157 A.D. in Italy. Subsequently, Bank of Barcelona (1401) and Bank of Genoa (1407) were established. Introduction of Banking Act-1833 in United Kingdom accelerates the growth of banks as well as it provides the freedom to open joint stock company banks. Like other abolish in 1933 B.S. during the period of Rana Prime Minister Ranodip Singh. It was the first step toward institutional development of banking in Nepal. It provides the loan to the public and its employees against securities, but it does not take any deposit. Nepal Bank Limited was the first bank in Nepal which was established in Kartik 30, 1994 B.S. Nepal Rastra Bank was set up in 14 Baishak 2013 B.S. under Nepal Rastra Bank Act 2012 B.S and it is the central bank of Nepal. Subsequently, government set up Rastriya Banijya Bank in 10th Magh, 2022 B.S. as fully owned commercial bank. Industrial Development Bank was established in 2013 B.S. In 2018 B.S. IDC was converted to Nepal Industrial Development Corporation. Agriculture Development was set up in 2024 B.S. After eighty's decade, government adopted liberal economic policy. Then various joint venture and other banks were launched in the country. Under which government initiated foreigners to make investment in Nepal. Today, bank has become an important part of the society and it is considered as the backbone of the country. Banking business is itself seems to be helpful on capital formation. We cannot imagine the development of the economic condition of the country without banking. Banking has been played a vital role for the overall development economic condition of the country. Modern Banks refers to commercial Banks.

Commercials Banks are one of the vital aspects of this sector which, deals in the process of analyzing the available resources in the needed sector. It is the intermediary between the deficit and surplus of financial resources. Financial system contains two components via; depository and non-depository financial institutions and Commercial Banks come under financial institutions. These institutions act as an intermediary between the individuals who lend and who borrow. Commercial Banks are the major component in the financial system. They work as the intermediary between depositors and lenders and facilitate in overall development of the economy, with major thrust in industrial development. Commercial Banks came into existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sector and causing and overall economic development. The banks have the responsibility of safeguarding the interest of the depositors, the shareholders and the society they are serving. A sound banking system is important because of the key roles it plays in the economy; intermediation, maturity transformation, facilitating payments flows, credit allocation and maintaining financial discipline among borrowers. Banks are the gathers of saving, allocates of resources providers of liquidity and payment services. In the year 1934 AD, the establishment of Nepal Bank Ltd. with the Imperial Bank of India came into existence under ―Nepal Bank Act, 1937‖ as the first commercial bank of Nepal, inaugurated on November 1937. Rastriya Banijya Bank, the second commercial bank was established in the year 1965. RBB being the largest commercial bank plays a major role in the economy. On the long run Commercial Bank Act was felt, accordingly it was established in 1974 AD. According to section 2 (a) of Commercial Bank Act 1974, the commercial bank are the heart of economic system it exchanges money, accepts deposits, grants loan and operates commercial transaction. They make funds available through their lending and investing activities to the borrowers, individuals, business firms and government. The activities of the commercial banks and financial institution are governed by the bank and financial institution related act 2063.

1.2 Profile of Kist Bank:

Kist Bank Ltd. formally registered as Kist Finance Limited. The Head Office of the Bank is located at Anam Nagar, Kathmandu. At present, KIST Bank provides banking facilities and services to rural and urban areas of the Kingdom through its 51 branches and 80 ATMs. The Bank has developed corresponding agency relationship with more than 150 International Banks having worldwide network. The Bank is using Pumori Plus, the most commonly used software by Nepalese Banks.

The Bank offers Any Branch Banking Service (ABBS). Telex and SWIFT are other modes of communication for efficient and effective transmission of information. In order to facilitate the customers with State-of-Art Technology, Bank is providing Debit Card Network jointly in consortium with 12 other member Banks. This facility enables the customers to withdraw cash from any of the ATMs Terminals located at different parts of the country and to purchase goods from more than 250 shopping complexes and departmental stores under POS arrangement.

Global Connection:

Bank has strategic alliance with ICICI Bank, which facilitates our customers to remit their money to more than 670 locations of India through ICICI Bank branches and their correspondent Banks in India. KIST Bank's customers can effect their money transfer to India either through Speed Transfer Arrangement or through Demand Draft Arrangement. Under Speed Transfer Arrangement, money can be credited on-line to the beneficiary's account at more than 400 branches of ICICI Bank, India. Under Demand Draft Arrangement, the Bank can issue draft payable at more than 670 locations in India. The bank is globally connected through various prominent Banks in Asia, Europe and North America like

American Express Bank, Standard Chartered Bank, UBAF etc. Its services across the globe include remittance, draft arrangement, import and export business, guarantee etc.

Mission of the Bank:

We at KIST Bank, our goal is to provide a wide range of banking services and products in the emerging socio-economic environment within and outside the country maintaining high standards of integrity and efficiency with excellence.

1.3 Credit Policy:

The Credit policy is the primary means by which senior management and the board guide lending activities. Although the policy primarily imposes standards, it also is a statement of the bank’s basic credit philosophy. It provides a framework for achieving asset quality and earnings objectives, sets risk tolerance levels, and guides the bank’s lending activities in a manner consistent with the bank’s strategic direction. Credit policy sets standards for portfolio composition, individual credit decisions, fair lending, and compliance management. Credit policy should provide a realistic description of where the bank wants to position itself on the risk/reward spectrum. It needs to provide sufficient latitude for a bank to respond to good business opportunities while concurrently controlling credit risk. In normal circumstances, a bank should be able to achieve portfolio objectives and respond to changing market conditions without triggering a limit. Limits should not be so conservative that insignificant changes breach them, nor should they be so liberal that they have no practical effect. For the policy to be an effective risk management tool, it must clearly establish the responsibilities of those involved in the lending process. Policies should be periodically reviewed and revised to accommodate changes in the bank’s strategic direction, risk tolerance, or market conditions. Policy review should consider the organizational structure, breadth and complexity of lending activities, capabilities and skills of lending personnel, and strategic portfolio quality and earnings objectives. Changes in regulations and business conditions also need to be considered. In addition to providing an opportunity for change, the review should evaluate how well the policy has guided lending decisions. For example, a high volume of exceptions indicates that many loan decisions are being made outside the policy. This could mean that the bank is assuming more risk than is desirable or that the policy is too restrictive. If the bank's policy is too restrictive, easing it could increase business opportunities without unduly increasing risk. Conversely, the absence of exceptions may indicate that the policy is too vague, and a tightening of the policy could strengthen the controls on loan quality. All policy reviews should include the organizational unit responsible for assessing compliance with policy.

1.4 Statement of the Problem:

Today as we know that banking industry is one of the fast growing businesses in Nepal. After the liberalization policy was adopted by government, this banking sector has been growing dramatically. However due to political instability, government couldn't be able to pay sufficient attention in this sector. Regulation, supervision, and monitoring by government have been weekend in banking sector as like other sectors and also other types of non-business practices might have been occurred in this sector. Due to such type of non-business practices will hamper on this sector. Ultimately it effects on its activities of this sector. Commercial banks in Nepal have been facing various challenges and problems specially in lending. The problem in lending is rising due to an economic condition of the country, variation in government policies and due to the default borrowers. However the country had stepped in liberal economy and world trade organization, but still banking sectors are not able to grab the opportunities or advantages from them. In context of Nepal, many banks are facing huge loss by lending in a huge project or industry. Still there is the trend of giving consortium loan for a big project so to minimize risk. Bank confidently can give only housing loan, hire purchase loan or Overdraft of certain limit to an individual, but still it gets feared to invest in a big project solely. The major statements to be analyzed in this study will definitely be the credit management adopted by Nepalese Commercial Bank. This study highly focused on following statements.

- What procedures do the commercial banks applied while lending?
- How the loan of commercial banks turns into non-performing assets?
- What provisioning do the commercial banks follow to safeguard their loan?
- Which principle do the commercial banks follow to minimize the risk factor in lending?
- What will be the financial status of a commercial bank if its Total Loan Amount exceed the Total Deposit Amount?

1.5 Objectives of the Study:

The basic objectives of the study is to examine the credit policy. The specific objectives of the study are listed below:

- To analyses the lending process of commercial banks.
- To analyses the deposit utilization towards lending.
- To assess the impact of credit policy on liquidity.
- To assess the non-performing assets and loan loss provision.
- To give suggestion for appropriate credit management.

1.6 Need of the Study:

The basic need of the study is partial fulfillment of the requirement for the degree of Master of Business Studies. The study will be beneficial to the borrower or the customer of the bank; management team of bank; researchers, general interested public and other people and organization.

1.7 Focus of the Study:

As we know that credit itself is a quite difficult job and is highly riskier as well as sensitive too. The main focus of this study is to know about the effective credit policy and effort used to manage them. The main focus of this study is the credit functioning and controlling in the commercial banks.

1.8 Significance of the study:

Credit is the major sources of income in any commercial bank. There is no doubt that the profit earned by any bank depends on the volume of the good lending. Study on commercial bank's lending practice carry a great significance to shareholders, professionals, bankers themselves and the student eager to know about lending practices and their management. This study is based on measuring the efficiency of Kist Bank Ltd. in the practices of lending. This study no doubt will have importance to various groups of people but in particular it is directed to certain group of people which are:

- Importance to shareholders.
- Importance to management team of the bank.
- Importance to customers
- Importance to financial institution and stock exchange.
- Importance to government bodies and policy makers.
- Importance to outside parties: investors, customers, competitors, stockbrokers, dealers and market makers.

1.9 Limitation of the Study:

The benefits and limitations are the two faces of a same coin. Each and every research work has more or less limitations. To make this study precise, meaningful and valuable some limitations are made so that the objective of this study is achieved within limited time, resource and information.

Some major limitations of this study are listed below:

- The study mainly focuses on the factors relating to credit practices.
- The study is based on secondary data such as annual report, financial statement etc. Inaccessibility of information which could have helped to analyze other
- Aspects of credit functioning as well.
- The study is based on commercial banks.
- Due to time restriction it couldn't be done for going deeply towards the subject matter.

Thus, overall financial position of the banks cannot be judged by this report and this study is only helpful for credit operation only.

1.10 Organization of the Study:

The study has been organized into five chapters each devoted to some aspects of the study of Credit operation and its management The chapters one to five consists of Introduction, Review of Literature, Research and Methodology, Presentation & Analysis and Summary, Conclusion and Recommendation. The rationale behind this kind of organization is to follow a simple research methodology approach. The contents of each of the chapter of this study are briefly mentioned here.

Chapter 1: Introduction

Chapter one contains the introduction to the study. It deals with introduction of the main topic of the study like background of the study, profile of **KIST Bank Ltd**, and Credit Policy, Statement of the Problem, Research Methodology, Objective of the Study, Focus of the Study, Limitation of the study and organization of the study.

Chapter 2: Review of Literature

Chapter two includes a discussion on the conceptual frame work and review of the major empirical works. The conceptual consideration and review of related literature conducted in this chapter provide a framework, with the help of which the study has been accomplished.

Chapter 3: Research Methodology

Chapter three describes the research methodology employed in the study. This chapter deals with research design, nature and sources of the data, method of data collection and analysis.

Chapter 4: Data Presentation and Analysis

Chapter four consists of presentation and analysis of data, which describes with the empirical analysis of the study. In this chapter all collected relevant data are analyzed and interpreted and will explain the major findings of the study.

Chapter 5: Summary, Conclusion and Recommendation

Chapter five consists of Summary of the Study, Conclusion and Recommendation and on the basis of the study. This chapter presents the major findings of the study recommendations are made to the commercial bank regarding to credit management.

CHAPTER - 2

REVIEW OF LITERATURE

Review of Literature is a decisive part of all studies. It helps to find out already discovered things. Past studies are also the basis for the research so it cannot be ignored. They provide foundation to the present study. Review of Literature is needed to develop a new research frame work which is based on past knowledge and experience. The primary purpose of Review of Literature is to identify:

- What research has been done in the subject?

- W hat others have written about the topic?

- What theories have been advanced?

- The approach taken by other researchers:

Thus the purpose for reviewing literature is to learn, analyze, and find out what research studies have been done in the same subject, and finding what they had left in that subject. For the purpose researcher uses different books, reports, journals and research studies published by various institutions, unpublished dissertations submitted by master level students have been reviewed.

2.1. Conceptual Review - "Credit Management":

"Lending is the principal business activity for most commercial banks. The loan is typically the largest asset and the predominate source of revenue. As such, it is one of the greatest sources of risk to a bank's safety and soundness. Whether due to lax credit standards, poor portfolio risk management, or weakness in the economy, loan diversified problems have historically been the major cause of bank losses and failures. Effective management of the loan and the credit function is fundamental to a bank's safety and soundness.

Credit management is the process by which risks that are inherent in the credit process are managed and controlled. Because review of the credit management process is so important, it is a primary supervisory activity. Assessing credit management involves evaluating the steps bank management takes to identify and control risk throughout the credit process. The assessment focuses on what management does to identify issues before they become problems. This booklet, written for the benefit of both examiners and bankers, discusses the elements of an effective credit management process. It emphasizes that the identification and management of risk among groups of loans may be at least as important as the risk inherent in individual loans. For decades, good loan managers have concentrated most of their effort on prudently approving loans and carefully monitoring loan performance. Although these activities continue to be mainstays of loan management, analysis of past credit problems, such as those associated with oil and gas lending, agricultural lending, and commercial real estate lending in the 1980s, has made it clear that credit managers should do more. Traditional practices rely too much on trailing indicators of credit quality such as delinquency, nonaccrual, and risk rating trends. Banks have found that these indicators do not provide sufficient lead time for corrective action when there is a systemic increase in risk.

Effective Credit Management begins with oversight of the risk in individual loans. Prudent risk selection is vital to maintaining favorable loan quality. Therefore, the historical emphasis on controlling the quality of individual loan approvals and managing the performance of loans continues to be essential. But better technology and information systems have opened the door to better management methods. A Credit Manager can now obtain early indications of increasing risk by taking a more comprehensive view of the loan scenario. To manage their risks, bankers must understand not only the risk posed by each credit but also how the risks of individual loans and portfolios on loan are interrelated. These interrelationships can multiply risk many times beyond what it would be if the risks were not related. Until recently, few banks used modern portfolio management concepts to control credit risk. Now, many banks view the loan portfolio in its segments and as a whole and consider the relationships among portfolio segments as well as among loans. These practices provide management with a more complete picture of the bank's credit risk profile and with more tools to analyze and control the risk Credit management is like a portfolio management since banks are lending in various aspects. Their purpose may be the same that is to make huge profit but their way in lending in various aspects has made a portfolio. Thus credit management can be also called a loan portfolio management" ***(Comptroller of Currency Administrator of National Bank, 1998:1-2)***

2.1.1. Various types of Credit:

Loan portfolio management deals with managing all types of credit. There are many types of credit that commercial banks provide. This lending can be categorized as:

Loan and advances based on their nature: Loan and advances based on their nature can be categorized as

- Secured Loan & Advances

- Unsecured Loan & Advances

A secured loan & advances may be called to those loan and advances which are granted upon taking the higher value of security as compare to the loan granted amount. In other words, if the Distress Value of Security is higher than the loan granted amount, then this loan is called secured loan and advances. The distress value of the security that the bank put in must be more than 90% of the loan limit. An unsecured loan and advances is the one which is granted by the bank without any collateral, or granted only upon the personal guarantee of any customers or upon corporate guarantee. Again if the bank grant loan and advances by putting in with lower value of the security as compare to loan amount, then this types of loan is also referred as unsecured loan and advances. Loan and advances based on the involvement of the fund. Based on the involvement of the fund, loan and advances can be classified as

- **Fund based Loan and Advances**

- **Non Funded based Loan and Advances.**

Fund based Loan and Advances:

Fund based loan and advances are the direct lending of funds to the customers. In Funded based loan and advances, loan is granted directly to customer either by cash or by manager's cheque. It is called funded since it involves to cash. Funded based loan and advances are as follows:

a. Overdraft:

Overdraft is a short term credit given for meeting the working capital of the borrower. Overdraft is given only for one year. If the borrower is genuine and if their interests are not accrued or if it is really doing a good transaction, then upon its request, it can be renewed for further one year period. Overdraft is given only to meet the working capital requirement in any business and the business unit should possess a current account for the purpose. In this facility, certain limit is given to a customer or borrower and interest is charged only on used amount from the limit. Amount can be overdrawn up to the granted limit.

b. Cash Credit:

Cash credit is a drawing account against credit granted by the bank. It is also operated in the same way as in overdraft. A borrower is required to open a cash credit account with the bank and bank issued separate cheque for cash credit account. Bank permits customers to borrow fund up to fixed limit. Cash credit is allowed against the security of tangible assets. They may be hypothecation of stock, plant and machinery along with its insurance policy favoring to bank, and other current assets.

c. Demand Loan:

Demand loan is also a short term loan granted to meet borrower's fixed working capital requirement. Installment is required to pay on periodically installment or on lump-sum basis. For this a customer is required to open separate Demand loan account. If demand loan once is repaid in full or in part, then it can't be withdrawn again by the customer.

d. Bridge loan:

Bridge loan is another short term loan granted to meet immediate requirement of fund especially for any project. It is basically a loan meant for bridging the fund. Like in Demand loan, if once bridge gap loan is credited, the borrower is not allowed to withdraw the loan.

e. Pledge loan:

Pledge loan is the bailment of the goods as security for payment of a debt or performance of a promise. Bailment is the delivery of the goods by one person to another for some purpose upon a contract. After the purpose is completed those goods are to be return to the delivering person. A pledge may be in form of goods, stocks or any movable property.

f. Hire Purchase Loan:

Hire purchase loan means financing on vehicles to the customers by the bank. It is a credit facility introduced to finance the customer durables like motor vehicles or contractor equipments. In this facility customers or borrowers are required to pay some portion of amount and the remaining shall be financed by the bank. Generally upon receiving the pro-forma invoice and marking to the cost as per pro forma invoice, bank shall finance up to some cost considering the borrower's repayment capacity and remaining should be borne by a customer. The financed vehicle will be in the name of bank. The financed vehicle should be insured by the customer favoring to the bank.

g. Housing Loan:

Housing loan is granted for the construction of house, purchase of house, purchase of land, extension of the house, repair and maintenance of the house for the borrower. A certain cost required for above purposes is sketched by an engineer’s or an engineering consultancy. Making base to that sketched figure, bank will finance portion of amount seeing the borrower's repayment capacity. Borrowers should insure the proposed house favoring to the bank.

h. Personal Loan:

Personal loan is granted to the individuals or borrower to meet their cash requirement for social function and rituals and personal cash management. This loan is borrowed to those borrowers who has good income sources and can repay it timely.

i. Term loan:

Term loan is given for financing capital/fixed expenses on the project, ongoing and upcoming projects. Term loan is provided to purchase or import of plant, machinery, furniture, equipments etc. Term loan are relatively granted for relatively longer period and are repayable on installment basis.

j. Consortium Loan:

Consortium loan is participation finance. If one bank will not be able to grant higher amount of loan either due to Single Obligor Limit or due to cash crisis, then participating with other banks, or financing mutually with other bank refer to consortium loan. More than one bank mutually agrees to grant loan to a borrower involves consortium credit or consortium financing. This type of loan is given to airlines, big industries or hydro project. Under the consortium agreement, the participating banks acquire common interest and share the advances and securities on predetermined proportion.

k. Loan against Fixed Deposit Receipt:

If any customer has fixed deposit in bank and that is not matured, then that customer can enjoy loan against Fixed Deposit Receipt when he needed fund urgently. Bank is bound to advance credit against same receipts.

l. Loan against share:

Some bank may provide loan against lien of share certificate. The share should be in listing in Stock Exchange.

m. Loan against gold:

Some bank grant loan against gold by taking gold as a security. If the borrower is seeking lesser amount of fund, then some bank grant them loan upon submission of their gold as collateral.

Non Funded based Loan and Advances:

There are some such advances which do not involve the fund in their grant. These kinds of advances are called non funded advances. In such advances bank only make commitment that in case of borrowers default, the bank will make well the loss as per the terms made in contract. If the borrower defaults on this advanced, it will convert to fund based advances.

Non funded loan and advances are as follows:

a. Bank Guarantee:

Bank gives guarantee to third part or beneficiary on behalf of their customers. Bank guarantee is a written letter of undertaking issued by a bank, committing to make the losses good to the third party in case of non compliance of the terms of the contract. In bank guarantee, three parties are involved.

- The principal debtors on behalf of whom the guarantee is issued

- Beneficiary on favor of who guarantee is issued - Guarantor who issue bank guarantee.

Bank Guarantee is of following types:

i) Bid Bond Guarantee:

Bid bond guarantee is issued by a bank favoring the beneficiary on behalf of its' customer for bidding the tender.

ii) Performance Bond Guarantee:

Performance Bond Guarantee is issued by a bank favoring the beneficiary on behalf of its' customer to whom the tender is awarded.

iii) Advance Payment Guarantee:

Advance Payment Guarantee is issued by a bank to beneficiary on behalf of its' customer for receiving the mobilization fund from beneficiary as per the contract.

iv) Maintenance Guarantee:

Maintenance Guarantee assures the beneficiary of financial compensation to the extent of maintenance guarantee in case of non maintenance by the debtor.

v) Retention Guarantee:

Retention Guarantee assures the creditors of financial compensation to the extent of retained money if some defects are noticed in job accomplished by the debtors till a specific period.

vi) Custom Guarantee:

Custom Guarantee assures the customs financial compensation to the amount of guarantee if goods are not taken out of the country by a specified time.

vii) Judicial Guarantee:

Through judicial guarantee, the bank assures the court that the money will be available on the first demand of the court if the decision goes against the accused on whose behalf the guarantee is issued.

b. Letter of Credit:

Letter of Credit; also know as Documentary Credit is a credit letter issued by a bank. It is a bank's conditional undertaking of payment. It is an instrument for making payment against documents. It is a document which ensures payment importer or buyer and exporter or seller. It is an undertaking by the importer's bank that if the exporter exports the goods and produces document as stipulated in Documentary credit, the bank would make payment to the exporter.

2.1.2 Importance of Credit Management:

"Any analysis of a bank’s ability to reduce or cut existing commitments must consider more than its legal obligation to lend. It should also consider reputation risk and the potential for lender-liability actions. The withdrawal or reduction of commitments can have significant ramification for a bank. From a strategic perspective, any tightening of commitments may adversely affect a bank's ability to maintain or grow a customer base if it is perceived as an unreliable lender in tight credit markets. A bank's reputation may also suffer if it is perceived as unwilling to support community credit needs. Given these additional risks, bank management must carefully assess the implications of curtailing lending lines.

a) Transaction Risk:

In the lending area, transaction risk is present primarily in the loan disbursement and credit administration processes. The level of transaction risk depends on the adequacy of information systems and controls, the quality of operating procedures, and the capability and integrity of employees. Significant losses in loan management have resulted from inadequate information systems, procedures, and controls. For example, banks have incurred increased credit risk when information systems failed to provide adequate information to identify concentrations, expired facilities, or stale financial statements. At times, banks have incurred losses because they failed to perfect or renew collateral liens; to obtain proper signatures on loan documents; or to disburse loan proceeds as required by the loan documents.

b) Compliance Risk:

Lending activities encompass a broad range of compliance responsibilities and risks. By Law, a bank must observe limits on its loans to a single borrower, to insiders, and to affiliates; limits on interest rates; and the array of consumer protection. Lending activities may expose it to liability for the cleanup of environmental hazards. A bank may also become the subject of borrower-initiated ―lender liability‖ lawsuits for damages attributed to its lending or collection practices. Supervisory activities should include the review of the bank's internal compliance process to ensure that examiners identify and investigate compliance issues.

c) Strategic Risk:

A primary objective of loan management is to control the strategic risk associated with a bank's lending activities. Inappropriate strategic or tactical decisions about underwriting standards, loan portfolio growth, new loan products, or geographic and demographic markets can compromise a bank's future. Examiners should be particularly attentive to new business and product ventures. These ventures require significant planning and careful oversight to ensure the risks are appropriately identified and managed. For example, many banks are extending their consumer loan activities to ― sub prime‖ borrowers. The product may be familiar, but the borrowers' behavior may differ considerably from the banks' typical customer both bankers and examiners need to decide whether the opportunities outweigh the strategic risks. If a bank is considering growing a loan product or business in a market saturated with that product or business, it should make sure that it is not overlooking other lending opportunities with more promise. During their evaluation of the loan management process, examiners should ensure that bankers are realistically assessing strategic risk.

d) Reputation Risk:

When a bank experiences credit problems, its reputation with investors, the community, and even individual customers usually suffers. Inefficient loan delivery systems, failure to adequately meet the credit needs of the community, and lender-liability lawsuits are also examples of how a bank's reputation can be tarnished because of problems within its lending division. Reputation risk can damage a bank's business in many ways. The value of the bank's stock falls, customers and community support is lost, and business opportunities evaporate. To protect their reputations, banks often feel that they must do more than is legally required.

e) Credit Culture and Risk Profile:

Understanding the credit culture and the risk profile of the bank is central to successful credit management. Because of the significance of a bank's lending activities, the influence of the credit culture frequently extends to other bank activities. Staff members throughout the bank should understand the bank's credit culture and risk profile. The credit culture exerts a strong influence on a bank's lending and credit risk management. Values and behaviors that are rewarded become the standards and will take precedence over written policies and procedures.

A bank's risk profile is more measurable than its credit culture. A risk profile describes the various levels and types of risk in the portfolio. The profile evolves from the credit culture, strategic planning, and the day-to-day activities of making and collecting loans. Developing a risk profile is no simple matter. The risk profile will change over time as portfolio composition and internal and external conditions change. Credit culture varies from bank to bank. Some banks approach credit very conservatively, lending only to financially strong, well-established borrowers. Growth oriented banks may approach lending more aggressively, lending to borrowers who pose a higher repayment risk. These cultural differences are grounded in a bank's objectives for asset quality, growth, and earnings. Emphasizing one of these objectives over another does not, in and of itself, preclude achieving satisfactory performance in all three. However, the emphasis will influence how lending activities are conducted and may prompt changes in credit policies and risk control systems. They have cultural values, credit policies, and processes that reinforce each other and that are clearly communicated, well understood, and carefully followed. The culture, risk profile, and credit practices of a bank should be linked. If the credit practices and risk-taking activities of a bank are inconsistent with the desired culture and policies, management should find out why and initiate change to bring them back in balance" (Comptroller of Currency Administrator of National Bank, 1998:9-11)

2.1.3 Objectives of Credit Management:

Loan portfolio objectives establish specific, measurable goals for the portfolio. They are an outgrowth of the credit culture and risk profile. The board of directors must ensure that loans are made with the following three basic objectives in mind:

• To grant loans on a sound and collectible basis.

• To invest the bank's funds profitably for the benefit of shareholders and the protection of depositors.

• To serve the legitimate credit needs of their communities.

For most banks, meeting these three objectives will require that senior management and the board of directors develop medium- and long-term strategic plans and objectives for the loan portfolio. These strategies should be consistent with the strategic direction and risk tolerance of the institution. They should be developed with a clear understanding of their risk/reward consequences. They also should be reviewed periodically and modified as appropriate. In drawing up strategic objectives, management and the board should consider establishing:

• What proportion of the balance sheet the amount of credit should comprises?

• Goals for loan quality.

• Goals for portfolio diversification.

• How much the loan amount should contribute to the bank's financial objectives?

Business plans or budgets detailing the financial goals for the loan amount are the next step in the strategic planning and goal setting process. Business plans should set realistic financial goals that are consistent with strategic goals and risk tolerance levels. Bankers and examiners should be alert to aggressive financial goals because they generally require high growth and increased risk-taking. Banks typically assess their financial performance using measurements such as earnings, return on equity, and return on assets. Financial performance measures should also consider the relationship between risk and return. In addition to establishing strategic objectives for the credit management, senior management and the board are responsible for setting risk limits on the bank's lending activities. Risk limits should take into consideration the bank's historical loss experience, its ability to absorb future losses, and the bank's desired level of return. Limits should be based on the interrelationship of risk and reward and on the risk to capital, earnings, or both. The bank should have a system in place to ensure that exposures approaching risk limits are brought to the attention of senior management and the board. Both on- and off balance- sheet exposure should be included in the risk limit measurement system. Exceeding or modifying established risk limits should require their explicit approval. In addition, any proposed changes to the bank's underwriting standards should be evaluated to determine how the change will affect overall credit management"

2.1.4 Principle of Good Lending:

All loan and Advances extended to the borrower shall be returned back after maturity as per the terms and conditions stipulated at the time of approval. All lending officer must study the ability of the borrower to repay the loan. Borrowers may not be able to repay the loan or they are not willing to repay the loan. So, for this purposes, bank should undertake the borrower's security to safeguard the loan. Banks extends credit facilities based under certain principles such principles are regarded as credit policy. The major principles of good lending are:

Safety:

"Safety First" is most important principle of good lending. When a bank lends, then the bank should confirm on their lending whether they are safe or not. The bank shall ensure that the advances when granted to the right customers and is utilized in such a way that the advances are safe for all time.

Liquidity:

It is not enough that the loan will come back; it is also important that the advances granted to the customer must come on demand or in accordance with the agreed terms of repayment. The source of repayment must be definite.

Profitability:

The main goal of bank is to earn profit. For this, the bank is required to increase its investment without letting the fund remain idle. The bank should try to invest only on those projects from which it can ensure goods and timely interest income. But bank never should forget its own liquidity condition while lending huge number of loans. Secured and long term loan can give good income.

Security:

No matter how attractive the interest or rate is but there is always possibility of loan being default if it is unsecured. Security means adequate collateral having good value which can easily sold if required. Besides security, the bank should also integrate upon the financial position and status of borrower while lending loan.

Diversification:

The bank should not concentrate on only one sector while extending the loan. It should try to diversify its investment. It should mobilize its resources on various collateral, various assets, different business and different individuals and organization. This will help to reduce the banks risk in greater extent.

National Interest:

Even when an advance satisfies, all the above principles it might not be suitable if it does not take into account the national interest. Banks are required to grant advances on those sectors, which are priorities by the government on time to time in meeting the national requirements. The bank should invest on such sectors as per the government or Nepal Rastra Bank

2.1.5 General Procedure in granting loan and advances:

Most bank loan to individuals arises from a direct request from the customer. The customer approach to a member of bank's staff and asks to fill a loan application. On granting loan and advances, the following general procedures are required to follow:

a) Interviews with customer:

Once a customer decides to request a loan, an interview with a loan officer usually follow right way, giving the customer an opportunity to explain their credit needs. After identifying their credit needs, a loan officer must conduct an in-depth interview of the applicant, focusing on 5'Cs.

- Character
- Capacity
- Capital
- Collateral
- Condition

If the loan officer satisfied on above focal points, the officer shall ask the customer to fill up the standard loan application form, designed by the bank and provide the document as mentioned in the application itself.

b) Documentation:

If the customer is a business firm or is engaged in a business activity, then loan officer must ask for the Business Registration form, PAN number, shareholder's details and their citizenship, audited financial report, and the property valuation report of the collateral. If the customer is an individual, then loan officer must ask for their citizenship, verified income source, KYC firm, Property valuation report of the collateral being put in etc. The customer must submit several crucial documents in demand of bank when needed. If all documents seem viable, then the loan can be further forwarded.

c) Site Visit:

For any kind of loan that has been applied in the bank, then the officer must visit the customer's residential location. This is done to identify whether the customer is either rented or he is residing in his own house. This will more clarify on his living address whether he is current resident or permanent resident of that locality. If a business or mortgage loan is applied for an officer of a bank, he usually makes a site visit to access the customer's location and the condition of the property and his business. After site visiting, the officer should make collateral inspection report and if there is business involved, again business inspection report must be made.

d) CIB Report:

For every new and old customer, bank will be unable to identify directly their relation with other financial institution. CIB report is the commonly used approach to identify the customer whether they are enjoying credit facility with other financial institution or not or either they are in the name of black listed. An officer must send CIB report to concerned institution mentioning the client's family details writing his/her father and grandfather name and their address. If the CIB report is positive, then the loan qualifies for further processing.

e) Credit Appraisal Memo:

After all above process is completed, then loan officer must write a credit appraisal memorandum to sanction loan amount to the borrower. In the memo, applicant's proper information including his background must be written. In the memo, the client present request, collateral that the client is offering, CIB information, and recommendation with terms and conditions must be mentioned. This memo should be forwarded for approval.

LOAN APPROVAL PROCESS:

The loan approval process is the first step towards good portfolio quality. When individual credits are underwritten with sound credit principles; the credit quality of the portfolio is much more likely to be sound. Although good loans sometimes go bad, a loan that starts out bad is likely to stay that way. The foremost means to control loan quality is a solid loan approval process.

After a loan is approved, Loan officer should forward offer letter to the customers mentioning all terms and conditions of the facilities offered. Upon execution of all documents, by preparing a checklist of the executed legal documents, Disbursement of loan shall have to be done to the borrower. The legal documents required for disbursement of loan are as below:

- Loan Deed
- Mortgage Deed
- Personal Guarantee Bond
- Letter of Installment, where applicable
- Letter of Disbursement, where applicable
- Demand Promissory note
- Insurance policy issued by insurance company favoring to bank.
- General Indemnity form
- Authority to Debit account.

2.2 Review of NRB Directives:

NRB is the bank of all banks. It regulates, supervises and controls the functions of commercial banks and other financial institutions. Concerned to these activities, NRB has issue various directives to supervise commercial banks. For managing credit NRB has given following directives.

Directives No. 2. Loan Classification and Provisioning

Classification of Loan and Advances shall be on the basis of aging of outstanding principal amount of loan and advances.

Pass (Performing)

- All Loans and Advances not over due and overdue up to 3 months.

- Provisioning requirement is 1%.

Sub-Standard

- Loans and Advances overdue from 3-6 months.

- Provisioning requirement is 25%.

Doubtful

- Loans and advances overdue from 6 months to 1 Year.

- Provisioning requirement is 50%.

Bad

- Loans and Advances overdue for more than 1 Year.

- Least probability of recovery or considered unrecoverable and those having

thin possibility of even partial recovery in future.

- Provisioning requirement is 100%

- Substandard, Doubtful and loss assets are to be classified as Non Performing Assets.

- Assets classification and Loan Loss Provision has to be done in each quarter and the report to be submitted to Nepal Rastra Bank with in one month of the quarter end.

Additional Provision for pass loan:

Loan and Advances against gold and silver, FD receipts, HMG bonds be classified as pass loans. However, if FD and NSB bonds are used to secure loans for other purposes, classification as mentioned above is to be applied.

Additional Provision for Loss loan:

Loans and Advances under following conditions have to be categorized under loss loan although they are not overdue.

- No security at all or securities is not in line in the agreement with the bank

- If the borrower has been declared bankrupt.

- If the borrower is absconding or can't be found.

- If the purchased or discounted bills not realized within 90 days from date due.

- If the non funded facilities like letter of credit and guarantee converted into funded facilities.

- If the loans and Advances are not utilized from the borrowed purpose.

- If initiation as auctioning of the collateral has passed six months and if recovery process is under litigation.

- If the loans and Advances are granted to the blacklisted borrower.

- If project or business is not in condition to operate or not in operation.

- If credit card loan is not written off with in 90 days from due date.

Additional provision for term loan:

On the entire amount of outstanding loan on the basis of past due period of overdue installment i.e. if single installment is not paid with in stipulated time, all the remaining outstanding installments have to be considered for provisioning.

Provision for Off-Balance Sheet items:

If the Off- Balance Sheet items are converted into On- Balance sheet liability of the bank, then classification will have to done as per overdue period as mentioned above.

Provision for realization of Principal and interest:

- Not allowed by overdrawing current account or by extending the limit on an overdraft facilities.

- Where a system in a bank exists as to recovery of principal and interest by debiting the customers' account and recovery is made as such resulting in overdraft, which is not settled within one month, such overdrawn principal amount shall also be liable to be included under the outstanding loan and such loan shall be down graded by one step from its current classification. Interest income should be recognized as per Directive no 4.

Additional Provision for loan granted against personal guarantee:

- For loan against personal guarantee, details of free assets (not mortgaged/hypothecated to other banks or financial institution) equal to amount of advances granted must be taken.

- If the said loan falls under category of standard, sub-standard and doubtful assets, then additional 20% of original provisioning is required. Similarly, classification of such loan and advances shall be prepared separately.

Directives No. 3. Single Obligor Limit, Same Group and Single Sector

Existing Provision and Time Frame to meet new Regulation Time Frame Fund Based Non Fund Based From Ashad 2060 25% of core capital 50% of Core Capital

Relaxion on Single Obligor Limit

- Loans and Advances granted against the security of FDR, other deposit, NSB

Bonds and unconditional Guarantee provided by World Bank, ADB, International

Finance Corporation including other multilateral organization and against unconditional guarantee issued by Internationally Rated Banks having rating of at least A+ by reputed rating agency or bank specified as first class bank by NRB.

- Loans and Advances granted by A class licensed institution to following public sector undertaking for import of following goods.

i) Nepal Oil Corporation

ii) Nepal Food Corporation

Definition of Group Related Borrowers

- Where a company holds 25% or more share in other company, then the both companies.

- A person, firm, directors of a company, shareholders of a private company, partners of partnership firm, proprietor and spouse , spouse daughter, adopted son and daughters, parents, step mother, brother and sister who have supported by such director, shareholders, partners, proprietor residing jointly in same house or separately.

- The company in which the person mentioned under above individually or jointly holds 25% or more shares.

- The director, shareholders or other relatives as mentioned above individually or jointly holds less than 25% share of other company but the management of the another company is controlled by such person in either of following ways:

i) By being the chair person of BOD

ii) By being the chief Executive of the company

iii) By appointing more than 25% of the directors.

- Cross Guarantee provided by one customer/company to other customer/company, then both the customer/company should be considered as one.

- Firms, companies stated to be associated as a group or members of such group.

Returns:

Half yearly returns of customers fall under one group to BFI Regulation Department and Bank Supervision Department of NRB.

Not considered as single group:

All companies fully owned by the government or in which the government has majority

ownership (more than 50%) be treated as separate entity.

Single Sector

Means Sum total of Loans and Advance, Guarantee and Commitments and Letter of Credit granted to the customers of one sector of the economy. If the Loans and

Advances granted by banks are concentrated into single sector, then NRB can direct to provide/raise additional capital as above. Provision for monitoring of credit concentration: Bank has to monitor the loans and advances granted to single sector by segregating the following two categories:

i) Category 1: Loans and Advances aggregating to 50% to 100% of core capital granted to single sector, quarterly monitoring shall be done by bank itself.

ii) Category 2 : Loans and advances granted to single sector exceeding 100% of core capital should be endorsed by BOD and the same decision of BOD shall be intimated to Banking Operation and inspection and supervision department of NRB.

Directives No. 7. Timeframe for Implementation of regulatory directives.

Directives no. 7 deals with timeframe for implementation of regulatory directives. This directives deals with the timeframe of reply for On Site Inspection Report, Loan Loss Provisioning, Loan Portfolio Improvement Program, Capital Adequacy, Management of Assets and Liabilities, Internal Audit and Control, Implementation of Plan, Policies and Procedures and Quarterly Progress Report . For Effective Credit Management, bank should reply for On Site Inspection Report within 30 days, Loan Loss Provisioning immediately on receipt of the instruction from NRB and Loan Portfolio Improvement Program within 30 days.

Directives No. 11. Consortium Lending:

Consortium Lending means loans and facilities provided to any customers, firm, company or project on the basis of mutual understanding by two or more financial institutions.

- Only the financial institution licensed by NRB is eligible to participant to such financing.

- Lead institution selected by consortium group.

Directives No. 12. Credit Information and Black Listing:

- Credit Information Centre has been established under the company act.

- Report has to be provided to the Centre relating to the borrowers.

- Credit facilities approved for RS 2.5 million and above have to be submitted within 15 days after the end of each month.

- Banks prior to extension or renewal, restructuring or rescheduling of loans of Rs. 1 million or more credit information about the borrower shall compulsorily be obtained.

Procedure for Black-Listing

CIC shall include the borrowers in blacklisting within 15 days after confirmation. Classification of borrower

a) Willful Defaulters

b) Non-willful Defaulters

Bank shall not extend new loans/facilities, give additional loan facilities, renew loan facilities or release of balance of installment credit or to accept guarantees of the individual, firm, company or organized institution included in black list.

Directives No. 15. Interest Rates:

- Banks are free to fix interest rates for both deposits and lending.

- Interest rate son deposit and lending shall be published on quarterly basis and should be submitted to NRB within 7 days of each quarter ending.

2.3. Review on NRB Act:

As per the provisions of the NRB act, 2012, Nepal Rastra Bank may issue directives from time to time to commercial banks regarding banking, currency and credit. It shall be the duty of commercial banks to comply with the following directives:

1. Development of Banking System and Supply of Credit to commercial Banks:

a) The NRB shall make all possible efforts to develop and regulate the banking system in the kingdom of Nepal.

b) With the consideration to the monitory situation, the NRB may provide loan or refinancing facilities on the condition prescribed by it against collateral or guarantee, to any commercial bank, which supply agricultural or industrial credit.

2. Commercial Bank must obtain the permission to accept deposits, supply loans or issue debenture.

3. Determination of Rates of Interest:

NRB can determine the rates of interest to be charged or paid by commercial bank on loans or deposits. But in the current circumstances, where NRB has not prescribed any rate of interest under sub-section (1), it has given authority to commercial banks itself for fixing interest rate in lending and borrowing. Commercial Bank vary interest rate offered from the published rate to all kinds of deposits by 0.5% on the deposit amount net exceeding Rs 200 million and by 1% on such amount above Rs. 200 million on the basis of understanding with the depositors. The interest rate charges on all types of loan may vary up to maximum of 0.5% on the basis of understanding with the customers.

4. Liquidity:

Commercial banks shall maintain liquid assets (also called "cash reserve") in such proportion of their domestic deposit liabilities as the NRB may prescribe. The Cash Reserve Ratio requirement, after the amendment of NRB policy on 10th April, 1998, is fixed at 6% of fixed deposits and 8% of other deposits, which should be balanced with NRB, along with 3% of total Local Currency deposits as the vault cash requirement.

5. Fund to be maintained with NRB:

Commercial banks must maintain fund in NRB according to the Percentage of total deposits liabilities prescribed by NRB. "Total Deposits liabilities" refers to the liabilities of amounts covered by them the term —Deposits" defined in the 2031, Commercial Bank Acts".

6. Loan to be supplied to the prescribed sectors:

The NRB has prescribed the priority and deprived sectors, for commercial banks to advance 3% of its total loan and advances to these sectors, in order to flow the credit in rural area of the countries.

2.4 Review of Related Studies:

—The effectiveness of the bank's LPM (loan Portfolio Management or Credit Management) process heavily depends on the quality of management information systems (MIS). Indeed, many of the advancements of contemporary portfolio management are the direct result of the more robust MIS that is available today. At the same time, many banks are frustrated in their efforts to expand portfolio risk management by the limitations of their MIS. Loan portfolio managers and examiners should be active proponents of the continued improvement of credit-related MIS. While a bank's systems or technology often impedes MIS improvement, lack of understanding or poor communications between credit management and systems personnel can also do so. Credit-related MIS helps management and the board to fulfill their respective oversight roles. Therefore, when assessing MIS-produced credit reports, the examiner should

determine whether the users are receiving the right kind of information at the right time. Reports to senior management and the board must be more than a presentation of numbers; they must be analytical in nature and allow the users to draw independent conclusions. For example, a report presenting the level of classified assets has limited value; however, if the report contains historical information and shows the classified asset position relative to capital, it becomes more useful. Similarly, reports on numbers of exceptions to policy are not very useful, but reports on aggregate exceptions as a percentage of industry or specialized lending portfolios may signal a change in risk assumption. Summary data presented in a concise format generally satisfies management's needs. A report should not give management or the board more information than it can understand in the time it has to devote to the topic.

Line lending managers have different requirements than senior management and the board. In order to properly inform such different user groups, a bank requires good systems architecture. An ideal system would enable a banker to query, track, and aggregate in all loan data fields; prepare a standard array of reports; and prepare ad hoc reports. Bank management and examiners should assess the adequacy and accuracy of the bank's MIS based on the size and scope of lending activities and any planned changes in the portfolio. The best technology can be next to worthless if the data are not accurate. Only if data are updated periodically and out-of-date loan information purged can MIS reports remain accurate and useful. Preserving the reliability of MIS can be especially difficult in banks that are expanding rapidly. Common data integrity problems include incorrect industry codes, failure to report delinquency, incomplete or outdated information on loan participations, failure to archive note origination dates and amounts at renewal or modification, inaccurate underwriting exception capture, lack of clear reports and reporting lines, incorrect risk ratings or failure to archive risk ratings when a change occurs, and omission of off-balance-sheet exposure. Loan review, credit administration, and audit play a vital role in ensuring that data are accurate. When MIS deficiencies or inaccuracies jeopardize or restrict credit risk management practices, examiners will need to identify the root cause and initiate corrective action" ***(Comptroller of Currency Administrator of National Bank, 1998:33-34).***

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

— Banks are expected to support their local community with an adequate supply of credit for all legitimate business and consumer financial needs and to price that credit reasonably in line with competitively determined interest rates. How well a bank performs its lending function has a great deal to do with the economic health of its region because banks loan support the growth of new business and jobs with in the bank's trade territory and promote economic vitality. Moreover, bank loans often seem to convey positive information to the market place about a borrower's credit, quality enabling a borrower to obtain more and perhaps some what cheaper funds from other source. Banks make a variety of loans to a wide variety of customers for many different purposes – from purchasing automobiles and buying new furniture taking dream vacation, or pursuing college education or constructing homes or buildings"***(Scott D., 1992: 140)***

— Commercial banks act as intermediately-accepting deposits and providing credits to the needy area. The main source of commercial bank is current deposit, so they give more important to liquidity of investment and as such they specialized in satisfying the short term credit needs of business other than long term. Commercial banks are restricted to invest their fund in corporate securities. Their business is confined to financing the short term needs of trade and industries such as working capital financing. They cannot finance in fixed assets. They grant credits in the form of cash credit and overdraft. Apart from financing, they also render services like collection of bills and cheques, safe keeping of valuables, financial advising etc. to their customers" ***(Vaidya S., 1999: 29)***

In the post report titled '**Loan Loss Provision Rises Notably' published in the Kathmandu post,** the reporter had made an endeavor to highlight some facts and figures regarding loan loss provision of commercial banks.' The banking sector is witnessing a huge surge in loan provision reserve lately. The increment is primarily a result of directive issued by Nepal Rastra Bank (NRB) in 2001 that introduced stringent loan provisioning criteria for commercial banks. As per data recently released by the central Banks, the total loan loss provision in the country's banking sector increased from around Rs.8.73 Billion in mid-April 2001 to Rs. 13.18 billion in mid-April 2003.The increment is over 51%.As per latest NRB figures, a remarkable surge has seen in loan provision of Nepal bank Ltd. (NBL).Against the provision of Rs.1.7million in Mid-April 2002, The loan provision amount surged to whopping Rs. 7033billion in a year" The reporter further states that apart from the two technically insolvent government-invested banks, loan provision of other joint venture private banks has also risen significantly and the notable increments seen in the loan loss provisioning amounts is due to the eight-point prudential directives that the central bank issued in the mid-to all commercial banks. The reporter concludes,‖ the directives laid down stringent guidelines relating to loan loss provisioning to ensure a good health of the overall banking system. The directives require loans to be provisioned to the extent of cent percent if payment is defaulted for one year. Likewise, the directives require loans to be provisioned to extend of 25% if payment is defaulted for over 3 months and 50% if the period of default extends beyond, but allowed maximum of 3yrs, unlike the present system of just year, for loans to be provisioned to extent of cent percent"

Mr. Binam Ghimire (2004) in his article titled **"Credit sector reform and NRB" (P. No. 47-49)** has tried to highlight the effects of change or amendment in

NRB directives regarding loan classification and loan loss provisioning**.** Although the circumferences leading to financial problem or crisis in many Nepali banks differ in many respects, what is common access most of banks is increased size of non performing assets (NPAs), To resolve the problem of losses or likely losses of this nature facing the industry NRB has, as the central bank, amended several old directives and issued many new circulars in the recent years.

As pointed by him, since majority of the loans of most of the commercial banks of the country at present falls under substandard, doubtful and even loss categories, loans loss provision now compared to previous arrangement would be dramatically higher. The new classification and provisioning norms are very lent able as they help to strength banks financially. He added that we also must remember that old system remained in force from 1991 to 2001, which was probably the most decade of the business operation of the country .He has indicated that loan loss provisioning is a percentage of total credit of 13th April 2003 . The total increment in LLP is 11,328.11 million and the total increment in credit is only Rs. 7,976.70. He has also stated that tightening provisioning requirements on NPL is essential to insure that banks remain liquid even during economic downturns. In the conclusion he has mentioned that in the recent years NRB has worked for management and reform of the credit of the financial institution more seriously and NRB has adopted reforms aimed not just at dealing with problems banks but also at strengthens banking supervision to reduce the livelihood of the future crisis,’ All prudential directives of NRB in the connections of credit sectors reforms have been made revised on after April 2001. To adapt to such changes there can be some difficulties and for a better & harmonized reforms NRB should continue to be supportive, proactive and also participative to take opinion of the bankers for a change in regulations/ policy taking place in the future.

Mr. Dependant B Chhetri (2005) , in an article titled **"Non Performing Assets: A need for Rationalization" (P. No. 17)** the writer has attempted to provide connection of the term NPA and its potential sources , implication of NPA in financial sector in the South East Asian region .He had also given possible measures to contain NPA. "Loans and advances of financial institutions are meant to be serviced either part of principal of the interest of the amount borrowed in stipulated time as agreed by the parties at the time of Loan settlement. Since the date becomes past dues, the loan becomes non-performing assets. The book of the account with lending institution should be effectively operative by means of real transaction effected on the part of debtor in order to remain loan performing. As stated by the writer, the definition of NPA differs from country to country. In some of the developing countries of Asia Pacific Economic cooperation (APEC) forum, a loan is classified as non-performing only after it has been arrear for at least 6 months. Similarly, it is after 3 months, in India. Loans thus defaulted are classified into different categories having their differing implication on the assets management of financial institution. He also stated that NPAs are classified into practices into 3 categories namely substandard, Doubtful and loss depending upon the temporal position of loan default.‖ Thus the degree of NPA assets depends solely on the length of time the assets has been in form of none obliged by the loan holder. The more time it has elapsed the accordingly. — As per Mr. Chhetrie's view, failure of business for which loan is used, defective and below standard credit appraisal system credit program sponsored by government, slowdown in economy/recession, diversion of fund is some of the factors leading to accumulation of NPAs.

He said that there is serious implication of NPAs, on financial institution. He further added that the liability of credit institution dies not limit to the amount declared as NPAs but extend to extra amount that required for provisioning depends upon the level of NPAs and their quality. As per his view, rising level of NPAs create a psyche of worse environment especially in financial institution like waving interest, rescheduling the loan, writing off the loan, appointing private recovery agent, taking help of land etc NPAs can be reduced. Finally he conducted that financial institution are beset with burden of mounting level of NPAs in developing countries.‖ Such assets debar income flow of financial institution while claming additional resources in the form of provisioning thereby hindering gainful investments. Rising of NAPs cannot be taken as stimulus but the vigilance depended to solve the problem like this, eventually will generate vigor to gear up the banking and financial activities in more active way contributing the energizing growth."

Patrick F. Reidy (2006) provides an overview of the credit portfolio management function, structural alternatives, the skills necessary for its effective implementation, and a final word on training and compensation. The focus is on corporate credit portfolios, as these often present the largest concentration challenges though they can be easily modified. Modern portfolio management of bank assets has fundamentally changed the requirements for individuals using this technique: their backgrounds, their training, and their skills in using available resources. While traditional credit training, remains necessary, today's portfolio manager augments this background with knowledge of early warning systems, alternative structures to better set risk/return parameters, and more. Traditional training focused on the individual loan. Traditional credit training focused on the analysis of a firm's management, operations, and financial structure as the basis for determining a borrower's creditworthiness; now training programs incorporate not only these techniques, but also that elusive element called a bank's credit culture. In essence, a bank's credit culture was a series of written and unwritten rules about which types of customers, industries and credit profiles were acceptable. This culture ultimately dictated the structure and composition of the bank's total portfolio. Protection measures against portfolio losses focused on loan loss reserves based on

Moving-average formulas. Concentration risk was to be avoided, but there were always special customers for whom expectations could be made. If the formulas were correct, then overall expected losses in the portfolio would be covered by reserves. But those formulas and expectations were not always so accommodative. As a result, certain concentrations would invariably lead to extraordinary, or unexpected, losses that were charged to income in the year of their incurrence. Portfolio management looks at the impact of loans individually, collectively and comparatively. Modern portfolio management techniques have supplemented those unwritten rules with portfolio analysis and policies that establish limits on exposure by

country, by obligor, by industry and so on. These limits are derived from a specific focus on the technical aspect of these assets class—a segmentation of the credit product and an analysis of the effect of combining credits into portfolios. Credit portfolios can now be evaluated on the basis fundamental as well as quantities portfolio analysis.(This is now being further institutionalized in terms of required capital as defined in the updated Basel Capital Accords.)

2.5 Review of Previous Thesis:

Dhungana (2007) has conducted research on the topic "**A study on leading practices of finance co. of Nepal; with special ref. to six finance co. in Nepal**" Going through his thesis it is found that NMB is found to be maintaining between assets and liabilities .GFC seems to be lending more in comparison to their available deposits and assets. NMB is found to have good quality of assets than GFC. But both finance companies are not being able to utilize their funds properly to generate profit. The increasing trend of credit risk ratio shows that both companies are not able to decrease their non-performing loans throughout the year. Therefore, both finance companies NMB and GFC are suggested to decrease nonperforming assets by converting it into liquid assets in short period .Liquidity risk is lower as it has higher liquidity ratio in NMB bur higher liquidity decreases profitability which is not good for the company.

Paudel (2007) in his thesis "**A study on lending practices of joint venture commercial banks with reference to Nepal Bangladesh Bank Ltd. And Himalayan Banks Ltd.**" has made comparative study of these two banks in different lending aspects. As per his findings the liquidity position of NBBL is comparatively better than HBL. The liquidity ratio of HBL is more stable and consistent than NBBL which indicates the stable policy of HBL. NBBL is found slightly better to be maintaining between assets and liabilities .NBBL has high loan and advances to total assets ratio, loan and advances to deposit ratio, but HBL has high investment to total loans and advances and investment and total investment to total deposit ratio. He has concluded that NBBL is able to manage its assets to complete in this competitive banking business than HBL. As per findings the liquidity position of NBBL is better and hence HBL is recommended to increase its liquidity position. He has suggested both banks to strictly follow the NRB directives which will help them to reduce credit to risk arising from borrower's defaulters, lake of proper credit appraisals, defaulter by blacklisted borrowers and professional defaulter. Loan loss provision of both banks is in fluctuating trend, So both banks are suggested to adopt sound credit collection policy which will helps to decrease loan loss provision.

Ojha (2008), "**Lending Practices; A study on Nabil Bank Ltd. Standard Chartered Bank Ltd. and Himalayan Bank Ltd".** In his research, it is found that the liquidity position of all these banks is found to be high so they are recommended to search for appropriate areas of lending and investments. SCBL's contribution in loans and advances is the lowest and this has low degree of variation and low growth rate as compare to NABIL and HBL. Thus, SCBL is recommended to give extra priority on productive and priority sector loan. The increasing provision on loan loss and high volume of Non Performing Assets in NABIL and HBL is certainly attracts the high attention of any persons interested with these banks. The high volume of NPA of HBL may be failure due to industrial and agriculture sector. NABIL's increased NPA may have caused due to accumulated bad debts that is kept behind the curtain to show the high efficiency of management. He adds the over confidence in commercial banks regarding credit appraisal efficiency and negligence in taking information from Credit Information Centre has caused many of the bad debts in these banks. Hence, these banks are recommended to follow NRB Directives strictly and be more realistic while granting loan and advances. The low provisioning on loan loss and low percentage of Non-Performing Loans in SCBL is not due to the proper lending and investment of this bank but the bank tends to have less concentration towards lending and investment.

Maskey (2009) in her thesis, **"A comparative study of lending performance of Nepal Arab Bank Ltd. Standard Chartered Bank Ltd, and Nepal Investment Bank Ltd**", has shown her thesis that NABIL bank has advanced huge volume of loan and high interest income from loan and advances compare to other banks studied here. Due to high volume of loans and advances, the provision for doubtful debt is also the highest, which indicates it's superior performance than other two banks. The activity ratio shows that SCBL has better performances than NABIL and NIBL. The lowest loan loss provision ratio is the indicative of better performance of SCBL than other two banks. NABIL's high loan loss provision reflects the increasing possibility of nom performing loan out of total loan and advances. NIBL has high performing loans followed by SCBL and NABIL in both past two years.

As per her research, it is found that NABIL and SCBL has decreasing trend in Loan and advances to total deposit and increasing trend in total investment to total deposit. SCBL seems to be successful towards utilizing its deposit in investment and so does NIBL. NIBL's contribution in loan and advances is the lowest and has high degree of variation as compare to NABIL and SCBL. The high amount of provision on loan loss and high volume of None Performing Loans of NABIL shows the week credit management policy and hence it is recommended to revise its current credit policies and step forward in recovering of the Non Performing Loans. SCBL seems to be inactive towards lending functions because it has not properly mobilized its funds so hence she has recommended it to invest the funds and to avoid the cost of capital of the bank

Bista (2010) in her thesis, **"Credit Risk Managementof Nepal Investment Bank Ltd**", has shown her thesis that NIBL bank has advanced huge volume of loan and high interest income from loan and advances compare to other banks studied here. Due to high volume of loans and advances, the provision for doubtful debt is also the highest, which indicates it's superior performance than others banks.

2.6 Research Gap:

The research carried out by the previous researchers in the subject of Credit Management in Nepalese Commercial banks are practically useful and appreciated by various related persons including academicians, bankers, shareholders and general public. Those researchers have been successful in highlighting the strength and weakness of the credit policies in Nepalese Commercial banks. The recommendation and suggestion given by them to improve the quality of credit have of course provided many guidelines in decision making.

All of the previous works are concentrated in improving the credit policy or credit management of the banks. They have over sighted to fulfill the current challenges to be faced by commercial banks such as:

- to accumulate the resources from the competitive environment
- to invest for the returns
- to minimize the shareholders wealth by protecting the assets of the depositors through complying strict directives issued by NRB,
- to run the branches in the rural communities to improve their living standard by providing banking services in order to promote the economic situation of the country,
- to deliver efficient services to the common people by enhancing efficiency of the staff and improving the management style of the bank,
- to give special attention towards loan recovery as the outstanding loan amount is increasing because of incapacity of the borrower in servicing the interest and loan due to economic recession to over the world
- to help the government for poverty alleviation and access to increased flow of credit and investment in the economic activities of direct to maximum number of low income people through micro and medium size loan.

Lending must be managed in such a way that every financed business or project turns to be good. Because financial institution never aims to send any individual to the street rather aims the individual to rise from the street. This research includes the latest information and data regarding commercial bank and will be able to deliver some of the present issues regarding loan management of commercial banks in the most presentable and effective way.

CHAPTER - 3

RESEARCH METHODOLOGY

3.1 Research Design:

The first step in this research is to design the framework of the research. The task begins with the collection of necessary data and information concerning the study. The data and information collected must be studied carefully and presented them systematically and get them analyzed so as to meet the objectives of this assignment. The research deign for this thesis is shown below:

RESEARCH DESIGN APPLIED

As per above diagram, first of all the necessary data related with Kist Bank were collected from Kist Bank Ltd. Collection of data consists of compiling data of only that useful information to quantity and analyzes how the data helps and assists the study of the research. Then a thorough study of all the data collected was made. After that, necessary data were sorted and analyzed in a systematic manner.

Procedure

For the preparation of this research, following procedure is followed.

Conception

Definition

Planning

Implementation

Termination

a. Conception phase:

For the appropriate topic, various interaction with friends, college library visit, net surfing was done. After making this effort the topic "Credit Management" was chosen.

b. Definition Process:

In the definition phase, certain vision to be carried out for research was developed, the description of the problems the research topic were analyzed. After that, the aim of the research was listed out.

c. Planning phase

Planning is very important phase. In this phase, the methodology to gather information was developed, reference books and reports were collected and the overall work schedule was prepared. Appropriate bank for the topic was selected.

d. Implementation phase

The real work started in this phase. The bank — Kist Bank Ltd" was visited. Various types of credit that Kist Bank is financing are scrutinized. The concept on types of credit, the documentation process in lending, and the factor to be considered while lending was acknowledged from verbal interaction with the staff members. The effort made by the staff in managing credit was observed. Finally, the annual financial report of the bank was collected.

e. Termination phase

The final assignment report was edited, printed and bided with a copy of collected information and then was submitted to the college.

3.2. Sources of Data:

Data is very reliable and effective source for research. Data is a foundation of all fieldwork projects. Data may be obtained from several sources. It also depends on the objectives and necessity of the research. The research design of this report was based mostly on the exploratory design method. Thus, the sources of data collection were based on secondary resources. The source of data can be better explained as following:

Secondary Data

Secondary sources of data refer to the readymade data and report, which is already published by the concerned organization, or data that has been compiled by others. Secondary data is thus defined as the data collected earlier for a purpose other than one currently being pursued. Secondary data are the brochures, annual reports, published reports and statements, published official documents, etc. Secondary data have been collected from following sources:

- Annual Report of Kist Bank Ltd.

- Nepal Rastra Bank Directives.

- Economic Survey (Published by Ministry of Finance)

- Banking and Financial Statistics.

- Books and Articles.

- Previous Dissertations.

- Website related to Credit Management.

3.3 Sample:

Out of Various Commercial Banks, Kist Bank was chosen by sighting its fluctuation in Profit. Since profit is bound with effective credit and the earning from credit holds major portion in profit, this will of course provides the good information regarding the topic "Credit." Seeing its improved amount of profit, more information on the techniques they had adopted for managing credit and their way or effort for managing credit can be obtained. Moreover, recommendations and suggestions derived from the study will be very useful to general public, bankers, shareholders and academies.

3.4 Presentation of data:

Tabular as well as graphical presentation has been used in order to appraise the credit management of Kist Bank Ltd.

3.5 Methods of Analysis

3.5.1. Theoretical Analysis:

Theoretical analysis is the process of identifying the theoretical concepts they have been adopted by the firm for some specific purposes. For assessing Credit Management, the elements, plans, procedures and strategies applied by Kist Bank Ltd. for managing credit has been defined.

3.5.2 Financial Analysis:

Financial analysis is the way of noticing the financial strength and weakness of the firm by establishing some relationship to the items found in profit and loss account and Balance sheet. Many ratios reflecting to the term — **credit"** is assessed to illustrate the result that has been resulted after managing or controlling credit. The ratios used for assessing credit are categorized into two categories.

A. Credit Practice Ratios.

B. Credit Efficiency Ratios.

A. Credit Practices Ratios:

Following ratios have been made to analysis the credit practices of Kist Bank Ltd.

i. Net Loans to Total Deposit Ratio:

The main sources of bank's lending depend on its deposit. This ratio is calculated to find out how successfully the banks are utilizing their deposits on loans and advances for profit generating activities. Greater ratio indicates the better utilization of total deposits.

ii. Interest Income to Loans & Advances:

Interest income is one of the major sources of income for a commercial Banks. The high volume of interest income is a indicator of good performance of lending activities.

iii. Net Loans and Advances to Total Assets Ratio:

Loans & advances is the major part of total assets for the bank. This ratio indicates the volume of loans & advances out of the total Assets. A high degree of the ratio indicates that the bank has been able to mobilize its fund through lending function. However lending always carries a certain risk of default. Therefore a high ratio represents low liquidity and low ratio represents low productivity with high degree for safety in terms of liquidity.

iv. Net Loan and Advances to Current Assets Ratio:

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

v. Total Operating Income to Interest Income Ratio:

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

vi. Net Profit & Net Interest Income Ratio:

This ratio measures the Net Profit of banks with respect to Net Interest Income from lending. It identifies how much portion of Net Profit is contributed from the Net Interest Income in lending process. Credit is the major sources of earning in every financial institution. Net interest income is the income earned from lending after providing the interest to the depositors. It is the difference of Interest income and interest Expenses. This ratio measures the portion of profit earned from Net Interest Income.

B. Credit Efficiency Ratio:

Following ratios have been made to analysis the credit efficiency of Kist Bank Ltd.

i. Non-Performing Loans to Net Loan and Advances Ratio:

NRB has directed all the commercial banks to create loan loss provision against the doubtful and bad debts. This ratio helps in minimizing the non performing loans and helps to control the Credit.

ii. Loan Loss Provision to Net Loan and Advances Ratio:

The provision for loan loss reflects the increasing probability of non-performing loan. Increase in loan loss provision decreases its profit and result to decrease in dividends. But its positive impact is to strengthen the financial conditions of banks by controlling the credit risk and reduced the risks related to deposits. The low ratio indicates the good quality of assets in total volume of loan &advances. High ratio indicates more risky assets in total volume of loan & advances.

iii. Non Performing Loan to Loan Loss Provision:

Loan Loss Provision is the compulsion factor in lending practices and Non Performing Loan is the evil factor in banks. If they are high then they will decrease the amount of profit which the banks target to receive. This ratio measures the portion of provisioned loan with Non Performing Loan. Since, all loan are needed to made provision, it is the compulsion part. Rather the difference part as compare to Non Performing Loan is not so good to result a sound profit.

3.5.3. Risk Weighted Assets:

Various assets of a bank are exposed to varying degree of risk. For e.g. Cash balance are not susceptible to any risk whereas advances are susceptible to credit risk. Even within the advances, the risk of loss arising from failure of the customers to settle his/her obligation fully. Similarly, different Off-Balance Sheet items also involve varying degree of risks. Therefore NRB has assigned different risk weight to different categories of assets. The Risk–Weighted value of category of assets is determined by multiplying the nominal value of the category as per the balance sheet with the Risk Weight assigned thereto.

3.5.4 Capital Adequacy Ratio:

Capital Adequacy is used to describe the adequacy of capital resources of the bank in relation to the risk associated with its operations. Adequacy of capital of bank has been the subject matter of consideration by banking authorities around the world for several decades. NRB issued a circular regarding the capital adequacy to be maintained by the commercial banks with effect from March 22, 1991. The commercial banks are required to maintain 11% of Capital Adequacy in form of 5.5% in core Capital and 5.5% in supplementary Capital.

Capital Adequacy Ratio is to be maintained in each quarter.

Capital Adequacy Ratio = $$\frac{CoreCapital \, \Gamma \, SupplementaryCapital}{TotalRiskWeightedAssets} \; X100$$

CHAPTER-4

PRESENTATION & ANALYSIS OF DATA

4.1. Background:

By seeing past performance of Kist bank, it was noted that they were not mobilizing their funds properly. Due to increase of competitive environment, and to avoid huge loss which the bank had faced earlier, the bank is more serious in lending. By seeing the last year audit report, It can be understood that Kist Bank has improved or manage its credit very well.

4.1.1. Model applied by KIST Bank for Credit Procedure:

Once a CAMEL Model was used to be very popular to assess whether to grant the credit or not. Where,

C ≈ Character
A ≈ Assets
M ≈ Management
E ≈ Earnings
L ≈ Liquidity
S ≈ Sensitivity of Risk

However, to make credit more effective, Kist Bank Ltd. is using another model i.e. CAMPARI Model, where,

C ≈ Character ≈ implies to character of the customer
A ≈ Ability ≈ implies ability to utilize the fund in proper manner
M ≈ Management ≈ implies to manage the fund
P ≈ Purpose ≈ Purpose or requirement of the fund
A ≈ Amount ≈ Amount to be funded.
R ≈ Repayment ≈ Income sources required to repay the loan
I ≈ Insurance ≈ Insurance of the security given to bank.

After analyzing this CAMPARI model, KIST Bank will decide whether to grant the fund or not.

4.1.2. Steps applied by KIST Bank for Credit Procedure:

The steps of a loan process are determined by the specific lending activities and standards of KIST bank. However, most loan steps applied by KIST Bank are discussed below.

a) Interviews with customer:

Once a customer decides to request a loan, an interview with a loan officer usually follow right way, giving the customer an opportunity to explain their credit needs. After identifying their credit needs, credit officer of KIST Bank conducts an in-depth interview of the applicant, focusing on 5'Cs.

- Character
- Capacity
- Capital
- Collateral
- Condition

If the loan officer satisfied on above focal points, the officer ask the customer to fill up the standard loan application form, designed by KIST bank and provide the document as mentioned in the application itself.

b) Documentation:

If the customer is a business firm or is engaged in a business activities, then loan officer ask for the Business Registration form, PAN number, shareholder's details and their citizenship, audited financial report, and the property valuation report of the collateral. If the customer is an individual, then loan officer ask for their citizenship, verified income source, KYC firm, Property valuation report of the collateral being put in etc. The customer must submit several crucial documents in demand of bank when needed. If all documents seem viable, then the loan is further forwarded.

c) Site Visit:

The officer of KIST Bank visits the customer's residential location. This is done to identify whether the customer is either rented or he is residing in his own house. This will more clarify on his living address whether he is current resident or permanent resident of that locality. If a clocation and study various details relating to business. After site visiting, the officer makes collateral inspection report or if business then business inspection report is made.

d) CIB Report:

For every new and old customer, bank will be unable to identify directly their relation with other financial institution. CIB report is the commonly used approach to identify the customer whether they are enjoying credit facility with other financial institution or not or either they are in the name of black listed. An officer send CIB report to concerned institution mentioning the client's family details writing his/her father and grandfather name and their address along with the client citizenship number.

e) Credit Appraisal Memo:

After all above process is completed, then loan officer write a credit appraisal memorandum to sanction loan amount to the borrower. In the memo, applicant's proper information including his background must be written. In the memo, the client present request, collateral the client is offering, CIB report, and recommendation with terms and conditions are mentioned. This memo along with collateral inspection report or if for business unit, then business inspection report is forwarded for approval.

f) ***Loan Authority****:*

The lending policy should describe who is authorized to approve credit and should establish specific approval limits for credit approvers. Lending limits may also be set for a group, allowing a combination of officers or a committee to approve loans larger than the members would be permitted to approve individually. Group approval may include dual controls: one approver from the line business unit and another from credit policy or a different line unit. The proposal made in a branch and is send to Credit Control Department and the unit evaluates whether to grant or reject them. If they satisfy with the proposal, the proposal is forwarded further to CEO. CEO has right to accept or reject the approval. If CEO likes the proposal then the loan is approved. Customer is of business unit, then the staff used to inspect the business

g. Mortgaged/Lien Mark and disbursement of loan:

When the loan is approved, then the credit officer carries up necessary action to mortgage or lien mark or transfer of ownership favoring to the bank for the given collateral, and then disburse the loan.

h. Recovery:

It's the duty of the staff members to review the loan; once it is granted. The credit officer reviews on the repayment on the loan and access whether the installment and interest are regular or not. The process of accessing the installment & interest falls under Recovery process. Recovery is like refilling the paste in the tube, so it is a tough job. Loan Recovery is the function of:

$I-F(C) = O$

Where,

I = *Total Loan Flow*

C = *Loan Collection*

O = *Loan Outstanding*

If the interest and installment are regular then the bank make provisioning to the lesser percentage i.e.1 % on outstanding balance and categorized them as pass loan. If the repayments are irregular from three months, then the bank categorized such loan to Sub standard Loan and make provision of 25% on outstanding balance for such loan. Similarly, the irregular repayment of any loan till six months are categorized as doubtful loan and 50% of outstanding balance should be provisioned and for 1 year failure to repay any loan's installment should be categorized as bad loan and 100% provision should be made on outstanding balance. For irregular loan, KIST bank moves on recovery process. However, there is a practice of rescheduling or restructuring the loan upon the request of the client.

i. Reporting:

Loan is classified into 4 groups. Seeing the nature and repayment of installment, considering the time frame, loan is classified into Pass Loan, Substandard Loan, Doubtful loan and Bad Loan. KIST bank has a practice to make a report on Client Wise Loan Classification and sending them to head office and N

Off-Balance-Sheet Exposure:

With the increase in bank securitization activity and the proliferation of capital markets products, more and more credit risk is housed off the balance sheet. Traditionally, Off balance-sheet credit risk has come primarily from loan commitments and letters of credit. The credit risk in these products is fairly straightforward, albeit there is always a measure of uncertainty about whether the facility will be drawn. The credit risk inherent in the capital markets products is more difficult to quantify because of the need to assign a credit risk equivalent. As for securitizations, the bank’s residual exposure to the sold assets is also difficult to measure the loan policy should require that off-balance-sheet and any other indirect exposure is included in exposure limits and subject to periodic review and renewal as part of the loan approval process. KIST Bank do the same process as in funded lending practices whether to entertain the Guarantee Client or the L/C client.

However, in KIST Bank, the trade finance officer looks over for granting them non funded facilities but the process is same for these types of facilities. The trade finance officer interview with the customer, see the Registration details, PAN number, shareholder's details and their citizenship, audited financial report, and the property valuation report of the collateral. The officer inspects the collateral and business whenever he/she deserves. He/she obtains clean CIB Report, and writes a proposal and get approval for such, mortgaged the property and only then provides the requested facility. Reporting is made for such facility to its head office and NRB too.

4.1.3. Safety and Reliability Principles applied by KIST Bank Ltd.:

Standards for Safety and Soundness provide a bank to establish and maintain loan documentation practices. The safety and soundness measures applied by Kist Bank Ltd. for managing can be summarized as below. - Enable the bank to make an informed lending decision and to assess risk, as necessary, on an ongoing basis. - Identify the purpose of a loan and the source of repayment, and assess the ability of the borrower to repay the indebtedness in a timely manner.

- Ensure that any claim against a borrower is legally enforceable.
- Demonstrate appropriate administration and monitoring of a loan.
- Take account of t- Proper documentation of lending procedures & execution of security.

4.2. Presentation and Analysis of Data:

Presentation and analysis of data is very important stage of research study. Presentation is the process of organizing the data in tabular form and placing the available data in reasonable form. Analysis is done to portrait the financial figures in tabular or in graphical form so that recommendation can be given for the remedial measure. Present chapter will discuss the various aspects of credit management and their actual output so that recommendation can be given for remedial purposes.

Table: 4.1 Balance Sheet of Kist Bank Ltd.

BALANCE SHEET					
Capital & Liabilities	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**
1. Share Capital	200,000,000	800,000,000	2,000,000,000	2,000,000,000	2,000,000,000
2. Reserve & Surplus	19,051,845	25,455,788	45,118,881	89,257,112	143,334,241
3. Debentures & Bonds	-	-	-	-	-
4. Borrowings	262,147,775	250,263,337	130,000,000	600,000,000	910,042,857
5. Deposit Liabilities	1,178,793,223	2,744,729,320	8,684,077,599	15,962,630,909	15,808,486,437
6. Bills Payable	-	-	16,010,619	9,030,316	1,343,622
7. Proposed and Dividend Payable	20,957,116	42,259,746	77,117,584	100,000,000	-
8. Income Tax Liability	19,573,045	12,763,610	3,356,583	7,674,815	-
9. Other Liabilities	39,906,844	68,420,619	195,856,035	178,625,510	152,047,265
Total Capital & Liabilities	**1,740,429,848**	**3,943,892,420**	**11,151,537,301**	**18,947,218,662**	**19,015,254,422**
Assets					
1. Cash Balance	8,865,065	79,240,532	383,620,377	563,285,761	762,964,671
2. Balance with NRB	106,416,365	210,560,657	638,941,296	1,027,273,950	1,152,429,262
3. Balance with Banks/Financial Institut	205,235,059	296,496,192	205,597,542	84,769,826	72,957,444
4. Money At Call and Short Notice	-	362,263,832	1,184,504,371	1,366,278,666	413,058,403
5. Investments	197,177,000	315,631,796	1,085,100,224	2,057,665,832	1,874,110,454
6. Loans, Advances & Bills Purchased	1,097,201,916	2,448,241,563	6,803,438,816	12,345,844,354	13,042,567,516
7. Fixed Assets	80,450,548	160,325,909	714,439,187	1,149,484,432	1,225,108,153
8. Non-Banking Assets	-	-	-	-	-
9. Other Assets	45,083,895	71,131,939	135,895,488	352,615,841	472,058,519
Total Assets	**1,740,429,848**	**3,943,892,420**	**11,151,537,301**	**18,947,218,662**	**19,015,254,422**

Table 4.2: Profit and Loss Account of Kist Bank Ltd.

PROFIT & LOSS ACCOUNT					
Particulars	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**
1. Interest Income	136,043,110	244,001,547	594,757,003	1,517,073,218	1,994,330,218
2. Interest Expense	78,263,727	141,949,536	338,978,515	967,324,784	1,302,975,346
Net Interest Income	**57,779,383**	**102,052,011**	**255,778,488**	**549,748,434**	**691,354,872**
3. Commission and Discount	2,608,783	3,725,990	4,326,371	16,765,899	68,037,524
4. Other Operating Income	11,080,423	24,844,321	63,616,626	86,607,112	80,706,114
5. Exchange Fluctuation Profit	-	-	44,392	2,789,688	7,669,576
Total Operating Income	**71,468,589**	**130,622,322**	**323,765,877**	**655,911,133**	**847,768,086**
6. Staff Expense	7,280,539	16,243,464	42,549,602	142,973,538	193,638,808
7. Other Operating Expense	17,646,267	32,975,988	97,769,112	236,495,814	291,212,165
8. Exchange Fluctuation Loss	-	-	-	-	-
Operating Profit Before Prov. For Loss	**46,541,783**	**81,402,870**	**183,447,163**	**276,441,781**	**362,917,113**
9. Provision For Possible Loss	9,081,396	16,509,192	46,583,756	58,890,417	273,204,997
Operating Profit	**37,460,387**	**64,893,678**	**136,863,407**	**217,551,364**	**89,712,116**
10. Non-operating Income/Loss	4,384,706	11,208,664	505,088	2,405,257	3,595,683
11. Loss Provision Written Back	-	-	-	-	-
Profit From Regular Operation	**41,845,093**	**76,102,342**	**137,368,495**	**219,956,621**	**93,307,799**
12. Profit/Loss From Extra-ordinary Activities	-	-	-	-	-
Net Profit After considering All Activities	**41,845,093**	**76,102,342**	**137,368,495**	**219,956,621**	**93,307,799**
13. Provision For Staff Bonus	3,804,099	6,918,396	12,488,045	19,996,056	8,482,527
14. Income Tax Provision	11,982,913	21,913,280	35,217,357	55,822,334	30,748,143
-Current Year	11,982,913	21,792,943	34,556,175	60,310,067	34,182,389
-Up to Previous Year	-	120,337	(1,286,563)	1,267,032	(265,200)
Current Year Differed Tax income/expenditure	-	-	1,947,745	(5,754,765)	(3,169,046)
Net Profit/Loss	**26,058,081**	**47,270,666**	**89,663,093**	**144,138,231**	**54,077,129**

4.2.1 Credit Practices Ratios:

Following ratios have been made to analysis the credit practices of Kist Bank Ltd.

i. Net Loans to Total Deposit Ratio:

The main sources of bank's lending depend on its deposit. This ratio is calculated to find out how successfully the banks are utilizing their deposits on loans and advances for profit generating activities. Greater ratio indicates the better utilization of total deposits. Followings are the summarized picture of Net Loans and Advances and Total Deposit of Kist Bank Ltd.

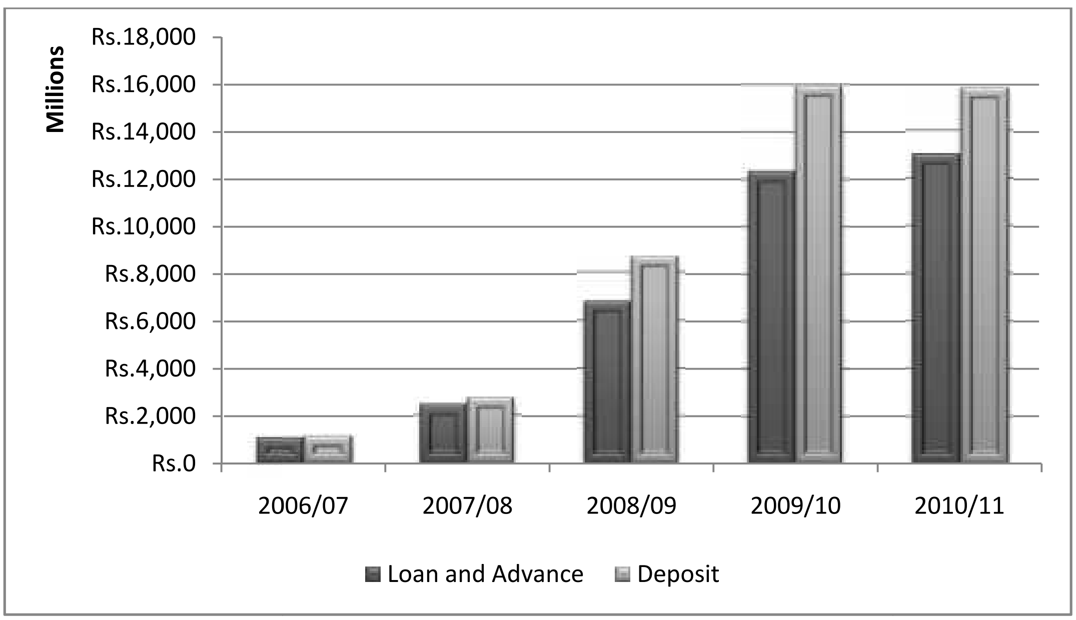
Table: 4.3

Net Loan and Advance to Total Deposit

Particulars	2006/07	2007/08	2008/09	2009/10	2010/11
Loans and Advances	1,097,201,916	2,448,241,563	6,803,438,816	12,345,844,354	13,042,567,516
Deposits	1,178,793,223	2,744,729,320	8,684,077,599	15,962,630,909	15,808,486,437
Total Loan To Deposit Ratio (%)	**93.08**	**89.20**	**78.34**	**77.34**	**82.50**

Figure: 4.1

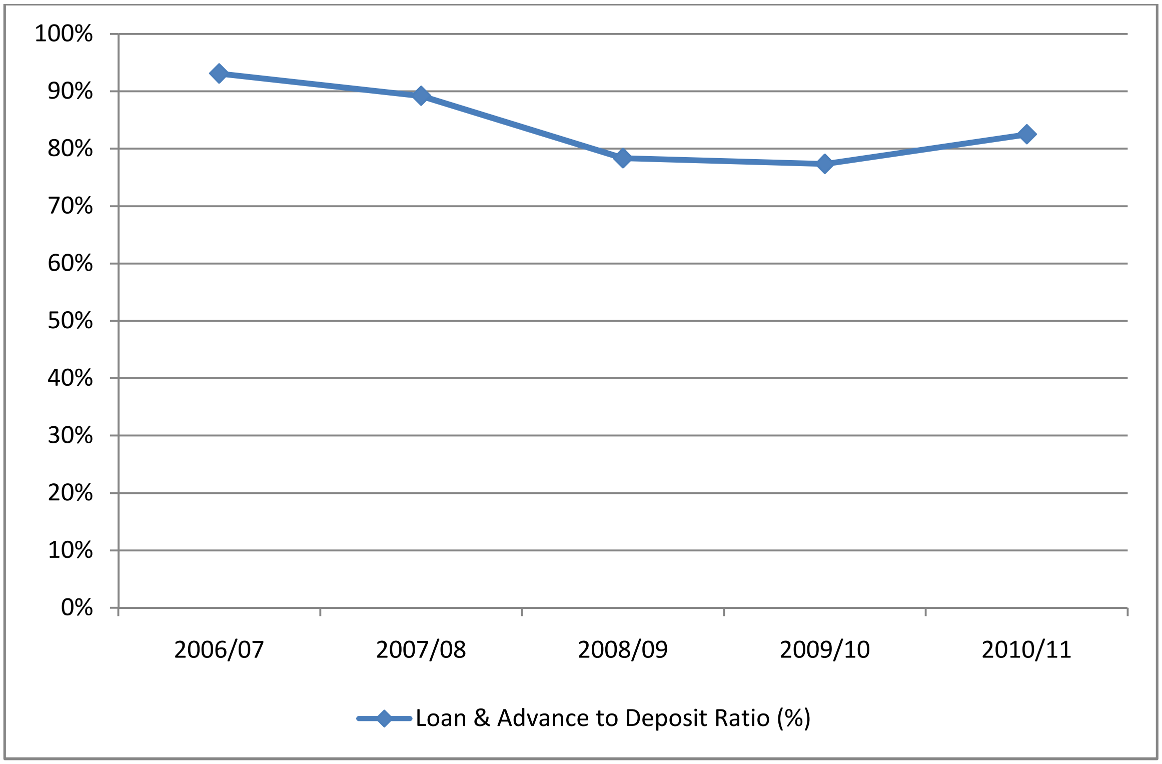
Net Loan and Advance to Total Deposit



The Deposit of Kist Bank is in increasing trend. Likewise, Loan & Advances are also in increasing trend. It is reflected with Deposit because in the same year both Deposit and Loan and Advances had decreased.

Figure: 4.2

Net Loan and Advance to Total Deposit Ratio



The rate of Loan & Advances over Deposit was in decreasing trend till F/Y 2008/09 and was almost constant during 2008/09 and 2009/10 but again increased at 2010/11.

ii. Interest Income to Loans & Advances Ratio:

Interest income is one of the major sources of income for a commercial Banks. The high volume of interest income is an indicator of good performance of lending activities. Followings are the summarized picture of Interest Income and Net Loans and Advances of Kist Bank Ltd.

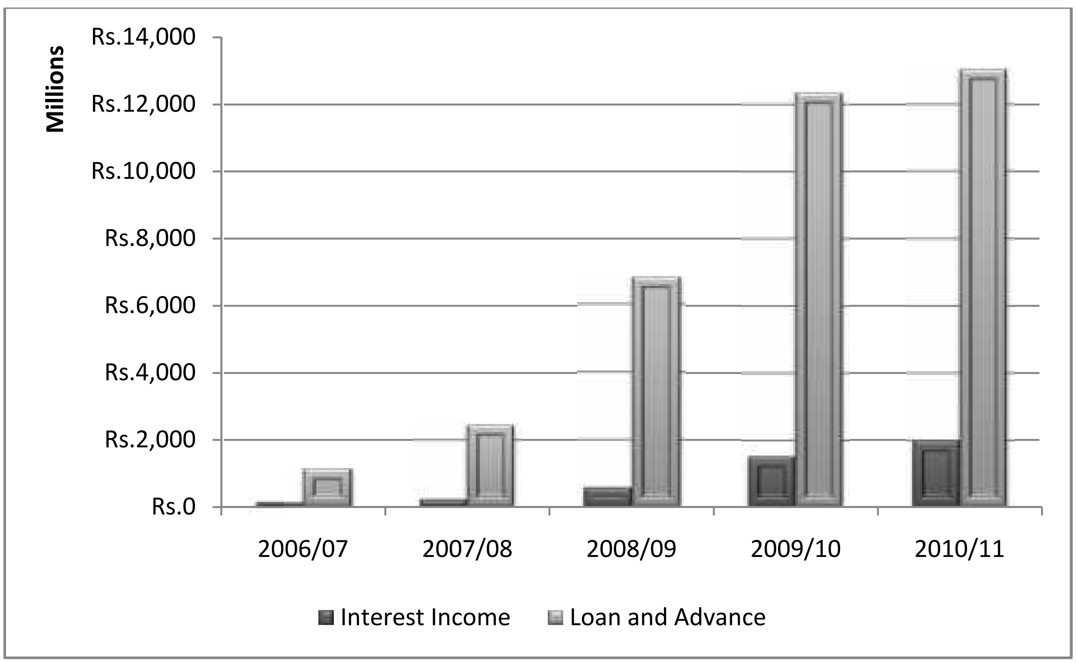
Table: 4.4

Total Interest to Net Loans & Advances

Particulars	2006/07	2007/08	2008/09	2009/10	2010/11
Interest Income	136,043,410	244,001,547	594,757,003	1,517,073,218	1,994,330,218
Loans and Advances	1,097,201,916	2,448,241,563	6,803,438,816	12,345,844,354	13,042,567,516
Interest Income To Loan & Advance Ratio (%)	**12.40**	**9.97**	**8.74**	**12.29**	**15.29**

Figure: 4.3

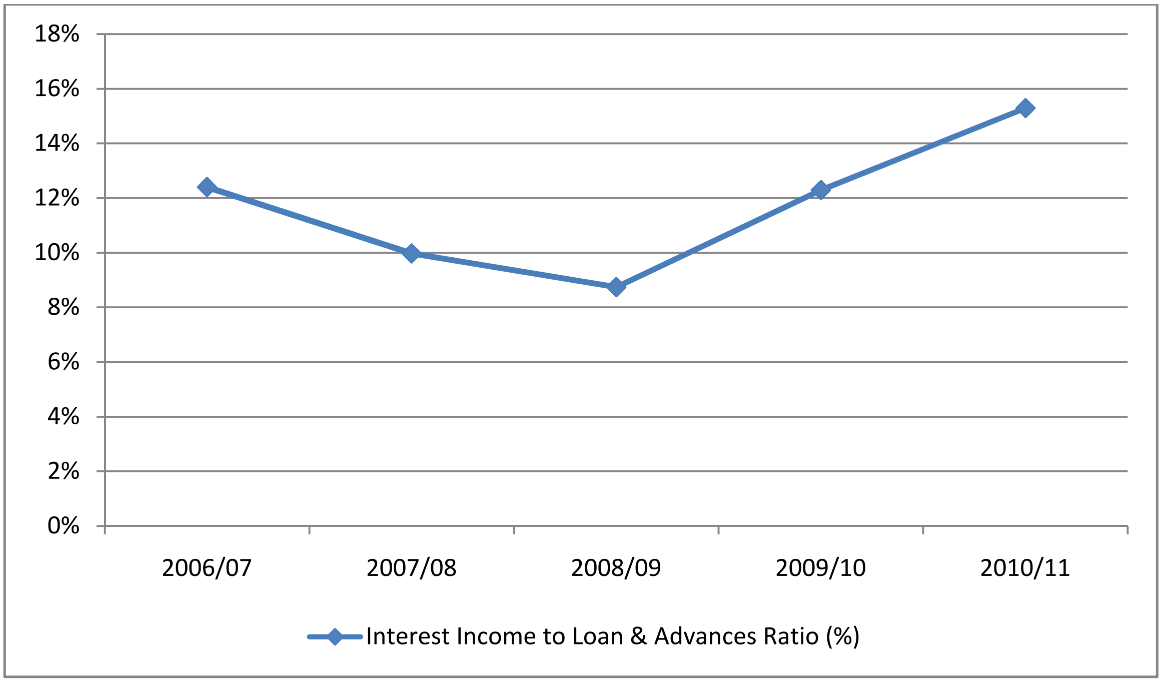
Total Interest to Net Loans & Advances



Interest income is directly proportional to Loan and Advances. If Loan & Advances increased, then interest income also increased and vice versa. In the case of Kist Bank Ltd., Loan & Advances are increasing and interest incomes are also increasing.

Figure: 4.4

Total Interest Income to Net Loans & Advances Ratio



The rate of interest income on Loan & Advances are in decreasing order till F/Y 2008/09 while both interest income and Loan & Advances are increasing. This implies loan was increased massively but while collecting the interest on such loan bank had been failed to recover them and thus had booked them in Interest Suspense account. In F/Y 2009/10 the rate of interest income on Loan & Advances had increased. This implies the bank has discouraged its trend of lending and had encouraged for recovery of interest. In F/Y 2009/10 and 2010/11, Loan & Advances and the rate of interest income both are in increasing order. This implies increasing in Loan & Advances and increasing in recovery of outstanding interest both.

iii. Net Loans and Advances to Total Assets Ratio:

Loans & advances is the major part of total assets for the bank. This ratio indicates the volume of Loan & Advances out of the total Assets. A high degree of the ratio indicates that the bank has been able to mobilize its fund through lending function. However lending always carries a certain risk of default. Therefore a high ratio represents low liquidity and low ratio represents low productivity with high degree for safety in terms of liquidity. Followings are the summarized picture of Net Loans and Advances and Total Assets of Kist Bank Ltd.

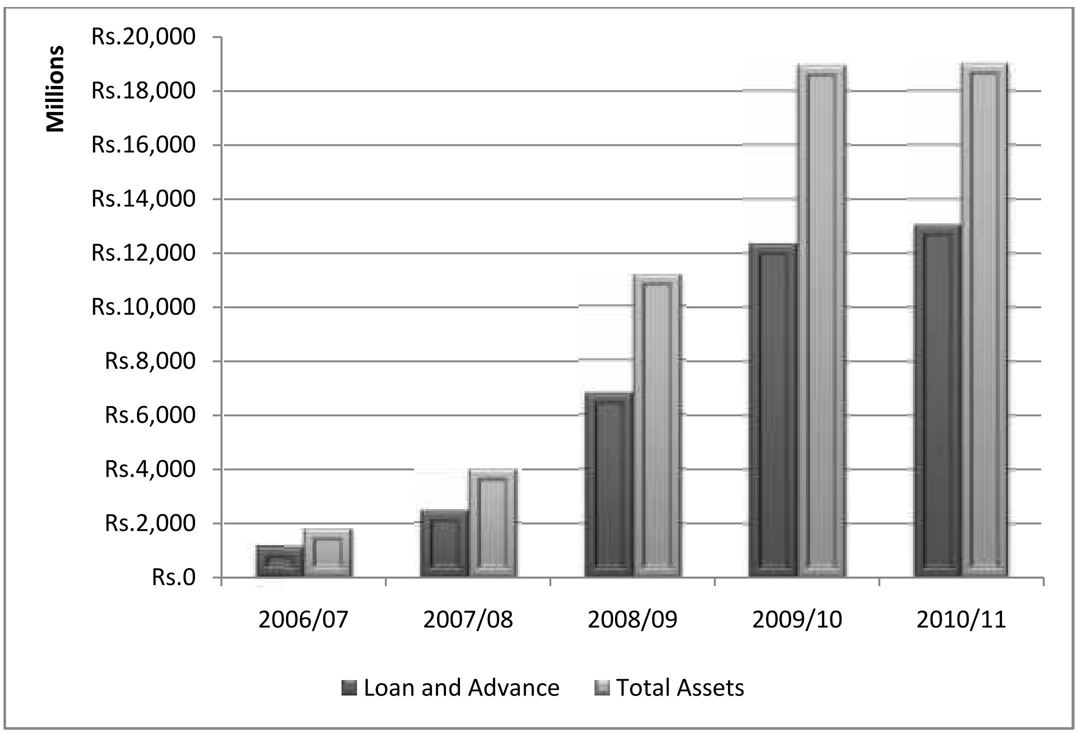
Table: 4.5

Net Loan and Advance to Total Assets

Particulars	2006/07	2007/08	2008/09	2009/10	2010/11
Loans and Advances	1,097,201,916	2,448,241,563	6,803,438,816	12,345,844,354	13,042,567,516
Total Assets	1,740,429,848	3,943,892,420	11,151,537,301	18,947,218,662	19,015,254,422
Loan & Advance To Total Assets Ratio (%)	**63.04**	**62.08**	**61.01**	**65.16**	**68.59**

Figure: 4.5

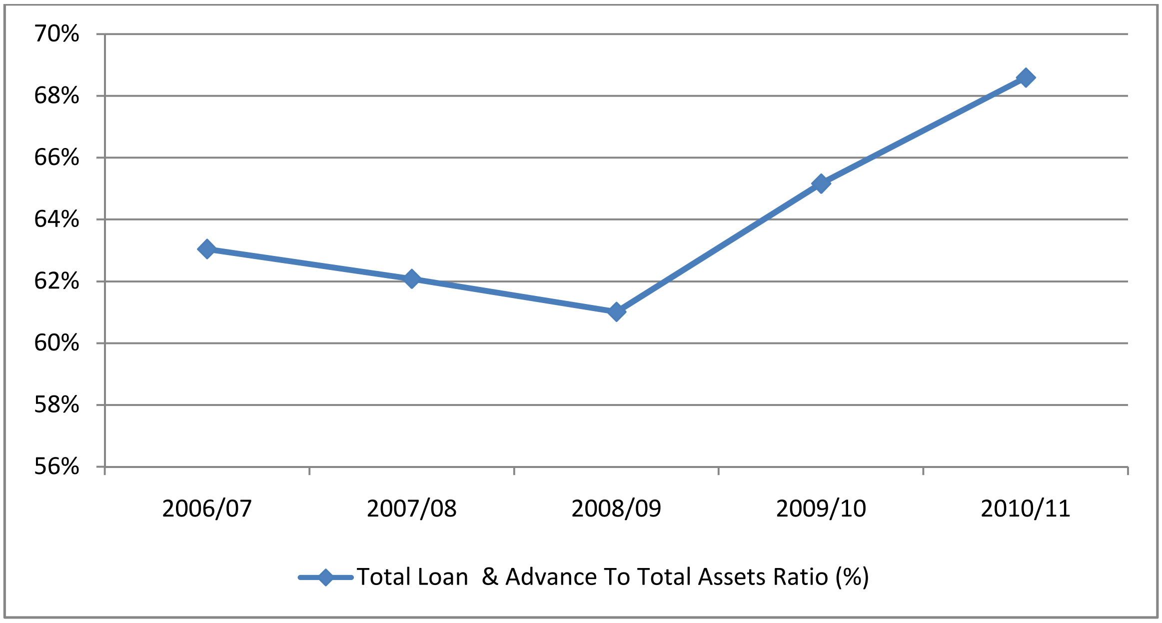
Net Loan and Advance to Total Assets



Loan and Advances is the part of Total assets. Thus there is direct relationship between total assets and loan and advances. The Loan and advances of KIST Bank are in increasing order thus its assets are also increasing. The good amount of loan and advances are really the good assets of the bank, but if the loan and advances turns into bad debts, then such will automatically turns into Non Performing Assets.

Figure: 4.6

Net Loan and Advance to Total Assets Ratio



Loan and advances was decreasing tremendously from FY 2006/07 till F/Y 2008/09 from 63.04% to 61.01%, which had leads to decrease its total assets massively. Considering the rate of loan and advances to total assets after F/Y 2008/09, the rate had increased in a huge manner. In F/Y 2010/11 the rate was reached to 68.59%. It implies huge amount was invested in lending only, considering to the portfolio management, it is a riskier job. It implies the higher amount of total assets was depending with its loan and advances. Loan and advances are good assets if they are managed properly, but if it is not managed in good manner, then it will hamper overall function of commercial bank. The rate was highest in F/Y 2010/11. This had thus given negative impact in upcoming year and is as clear by seeing its financial report and its amount of losses. In F/Y 2008/09, the rate had reached to 61.01% which is very sound because bank should not only focus on lending in aspect of increasing its assets, but should seek other investment to manage its portfolio.

iv. Net Loan and Advances to Current Assets Ratio:

Loans & Advances is the major component in Total Assets, which indicates the ability of banks to canalize its deposit in the form of Loan & Advances to earn high return. If sufficient Loan & Advances cannot be granted, it should pay interest on those utilized Deposit funds and may lose earnings. So commercial banks provide Loan & Advances in appropriate level to find out portion of Current Assets, which is granted as Loan & Advances. Followings are the summarized picture of Net Loans and Advances and Total Current Asset of the Kist Bank Ltd.

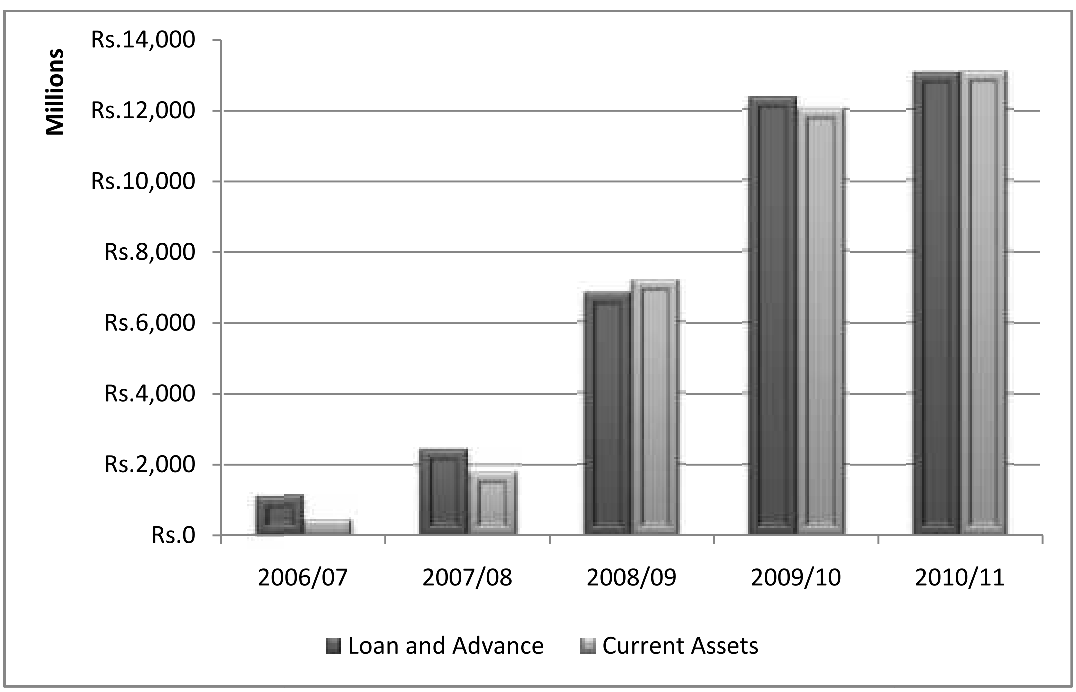
Table: 4.6

Net Loan & Advances to Total Current Assets

Particulars	2006/07	2007/08	2008/09	2009/10	2010/11
Loans and Advances	1,097,201,916	2,448,241,563	6,803,438,816	12,345,844,354	13,042,567,516
Total Current Assets	427,785,336	1,797,426,699	7,169,000,000	12,027,000,000	13,086,900,000
Loan & Advance To Total Current Assets Ratio (%)	**256.48**	**136.21**	**94.90**	**102.65**	**99.66**

Figure: 4.7

Net Loan & Advance to Total Current Assets

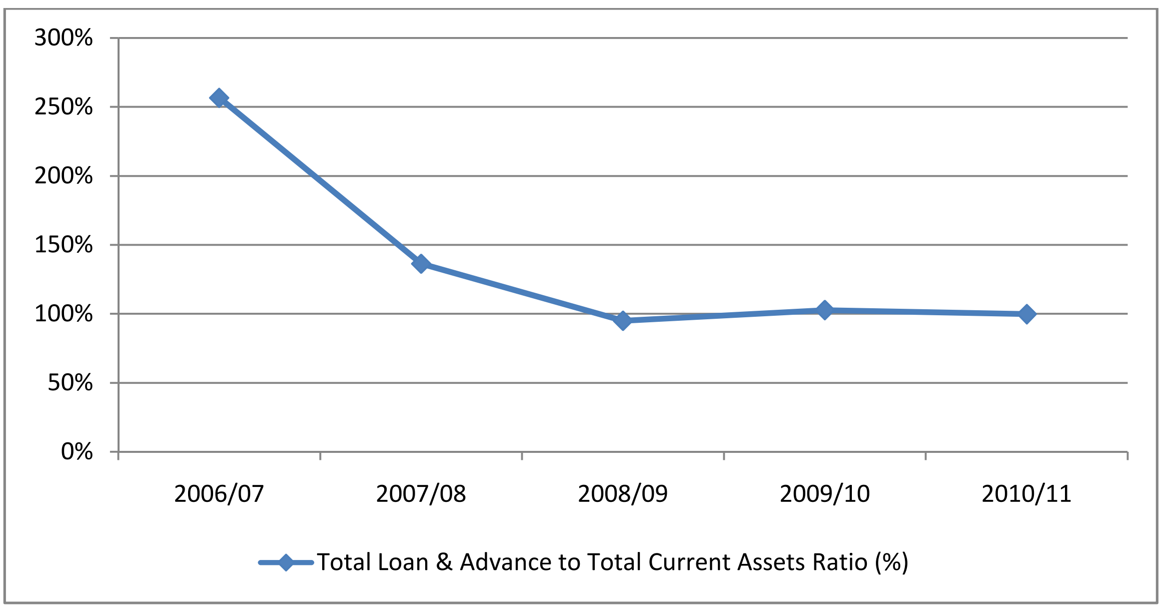


Current Assets typically include categories such as cash, marketable securities, short-term investments, accounts receivable, prepaid expenses, and inventory. Restricted cash (that is, cash that cannot be withdrawn or used for current operations), depreciable assets, receivables that are not due in 12 months or less, and land are examples of things that are not current assets. Current assets are important because they indicate how much cash a company essentially has access to within the next 12 months outside of third-party sources. It is indicative of how the company funds its ongoing, day-to-day operations, and how liquid a firm is. The ratio of current assets to current liabilities is particularly important in judging liquidity.

The ratio of Net Loan & Advances to Current Assets focus on the granted amount of Long Term Loan and short term loan. KIST Bank short term lending is increasing.

Figure: 4.8

Net Loan & Advance to Total Current Assets Ratio



The ratio of Loan and Advances to current assets was 256.48% in F/Y 2006/07. It had been highly decreased to 136.21% in the FY 2007/08 and subsequently also decreased to 94.90% in the FY 2008/09. However, this ratio has gone slightly up to 102.65% in the FY 2009/10 and FY 2010/11 and has reached to 99.66% at F/Y 2010/11.

v. Total Operating Income to Total Interest Income Ratio:

This ratio measures the volume of Total Operating Income in Interest Income. The high ratio indicates the high contribution made by lending and investment whereas low ratio indicates low contribution made by lending & investment and high contribution by other fee based activities in Total Income.

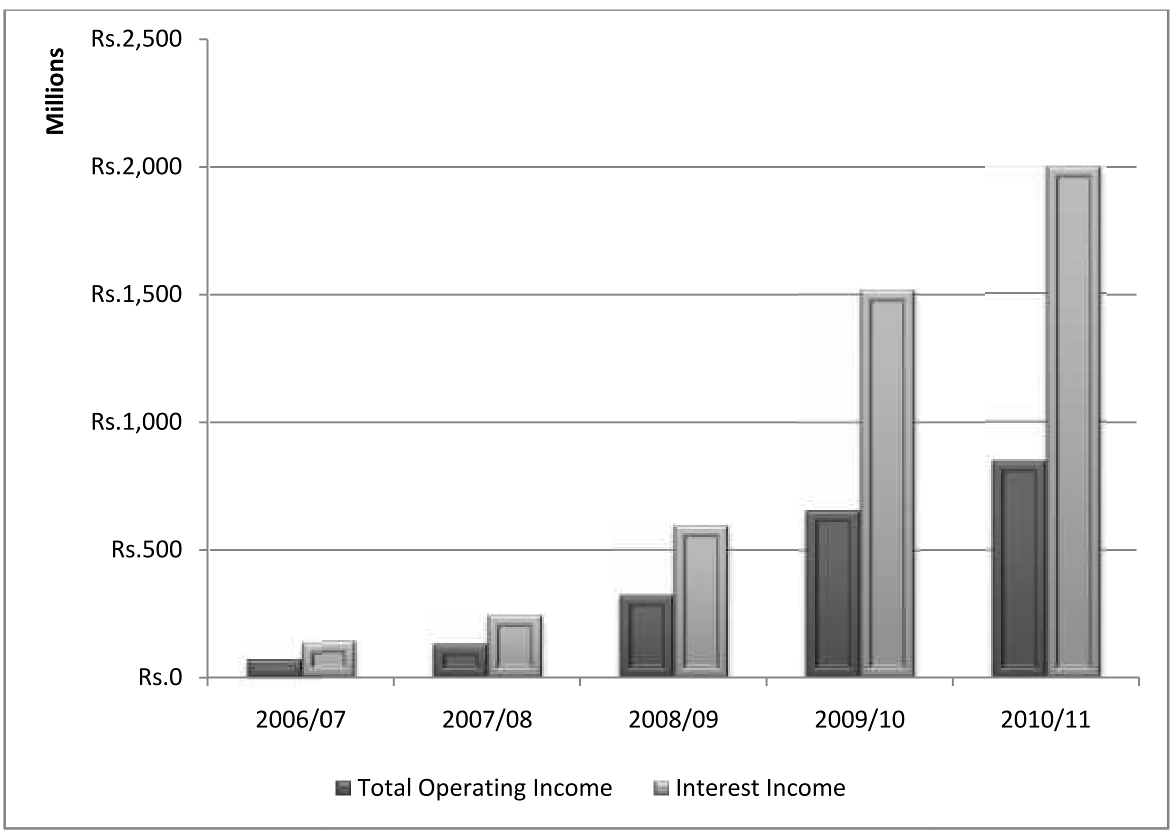
Table: 4.7

Total Operating Income to Total Interest Income

Particulars	2006/07	2007/08	2008/09	2009/10	2010/11
Total Operating Income	71,468,589	130,622,322	323,765,877	655,911,133	847,768,086
Interest Income	136,043,110	244,001,547	594,757,003	1,517,073,218	1,994,330,218
Total Operating Income to Interest Income Ratio (%)	**52.53**	**53.53**	**54.44**	**43.24**	**42.51**

Figure: 4.9

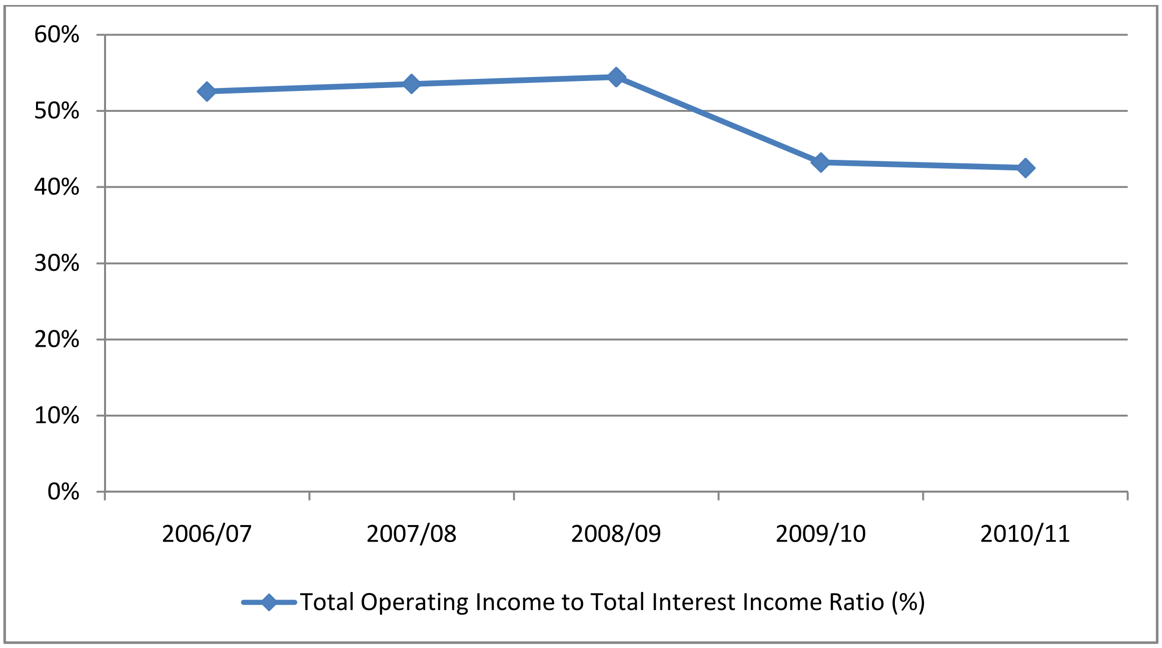
Total Operating Income to Total Interest Income



Interest Income is the major part of any Bank Income. The ratio holds an amount of interest income that is falling under the amount of Total Income. The Interest income of KIST Bank Ltd. was in increasing order. The Total Operating Income was likely been increased till F/Y 2009/10. It has been decreased in F/Y 2010/11.

Figure: 4.10

Total Operating Income to Total Interest Income Ratio



This ratio shows that interest income hold major portion of income over total income. Upto F/Y 2008/09 it is in increasing trend but after 2008/09 it is in decreasing trend. This ratio proves that Banks earning does not totally depends on Interest income.

vi. Net Profit to Net Interest Income:

Credit is the major sources of earning in every financial institution. Net interest income is the income earned from lending after providing the interest to the depositors. It is the net difference of Interest income and interest Expenses. This ratio measures the portion of Net Profit earned from Net Interest Income.

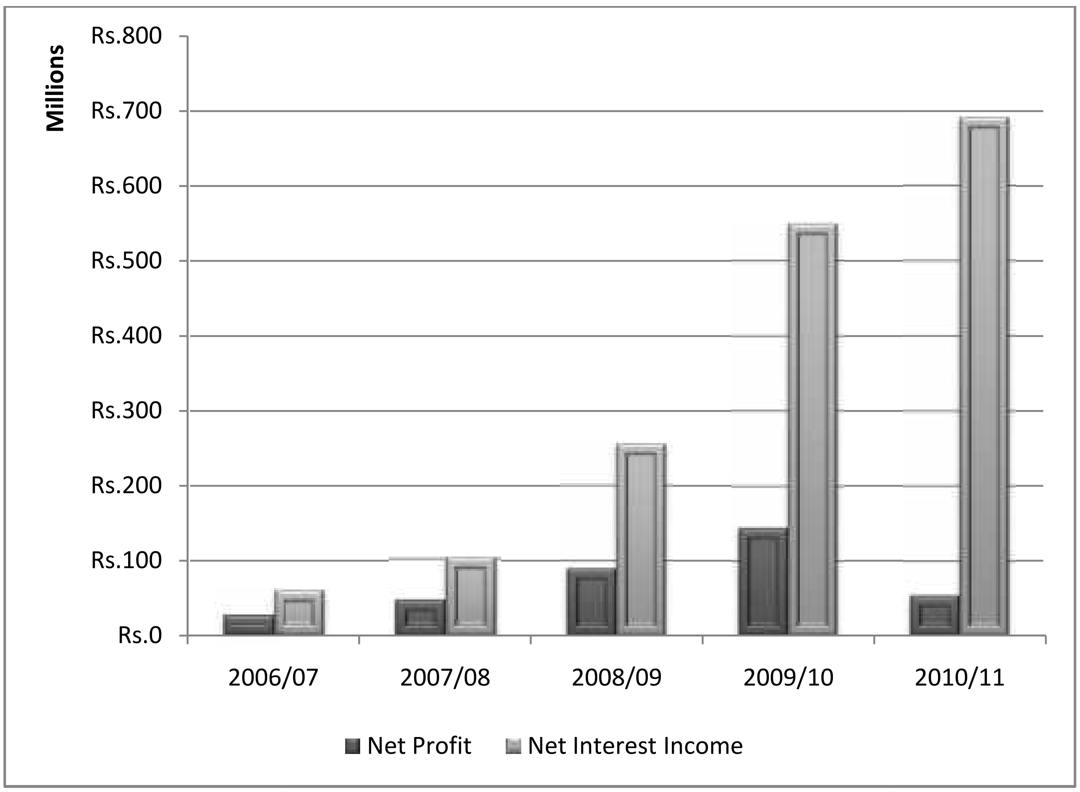
Table: 4.8

Net Profit to Net Interest Income

Particulars	2006/07	2007/08	2008/09	2009/10	2010/11
Net Profit	26,058,081	47,270,666	89,663,093	144,138,231	54,077,129
Net Interest Income	57,779,383	102,052,011	255,778,488	549,748,434	691,354,872
Net Profit to Net Interest Income Ratio (%)	**45.10**	**46.32**	**35.05**	**26.22**	**7.82**

Figure: 4.11

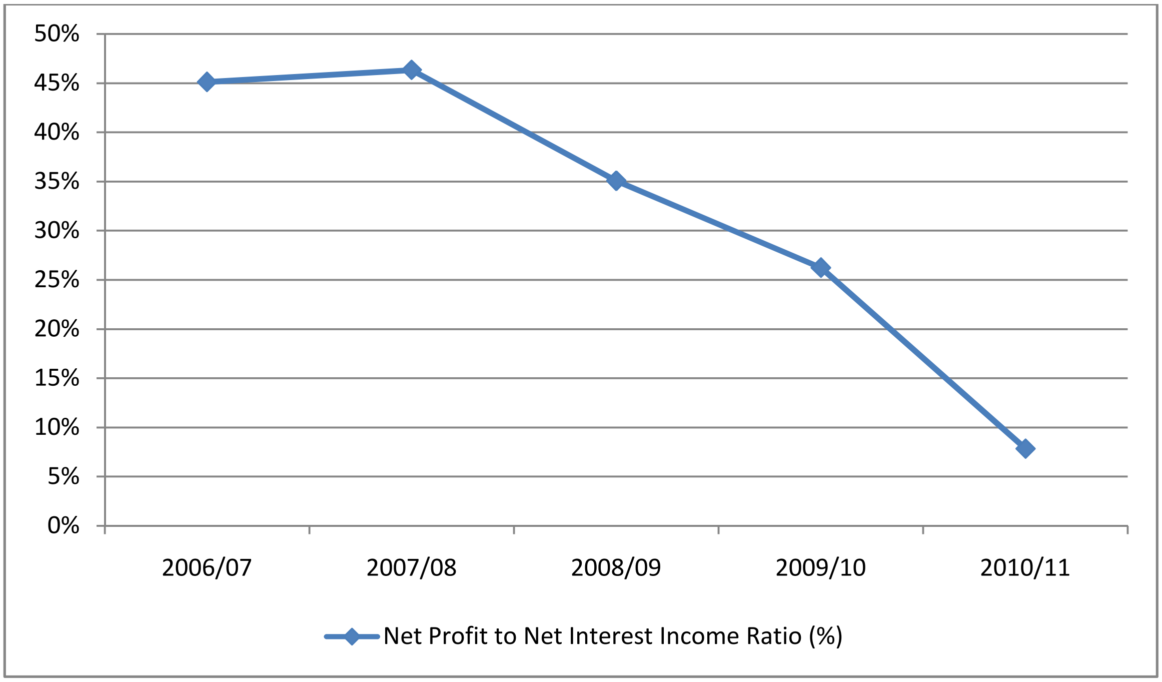
Net Profit to Net Interest Income



Net Profit to Net Interest Income will summarize the portion of interest income that is earned from credit on Net Profit. Net interest income is positive in every Fiscal Year. It means the bank has been able to grab income from granting credit even after paying interest to its depositors. Net interest incomes are fluctuating. By seeing the 5 years data table it can be said that net interest income are in increasing trend.

Figure: 4.12

Net Profit to Net Interest Income Ratio



During FY 2006/07 to FY 2007/08 it is in the increasing trend however that Fiscal year FY 2007/08 it is decreasing trend to till FY 2010/11. This ratio will give a clear picture of credit performance of any financial institution like the Profitability of this Kist Bank Ltd. The trend of the Profitability of this Bank is decreasing trends thought the Net Interest Income is increasing tread. From this figure, it clearly explains that the Net Profit does not only depend on Interest Income.

4.2.2. Credit Efficiency Ratio:

Following ratios have been made to analysis the credit efficiency of Kist Bank Ltd.

i. Loan Loss Provision to Loan & Advances Ratio:

The Loan Loss Provision reflects the increasing probability of Non-Performing Loan. Increase in Loan Loss Provision decreases its profit and result to decrease in dividends. But its positive impact is to strengthen the financial conditions of banks by controlling the credit risk and reduced the risks related to Deposits. The low ratio indicates the good quality of assets in total volume of Loan & Advances. High ratio indicates more risky assets in total volume of Loan & Advances.

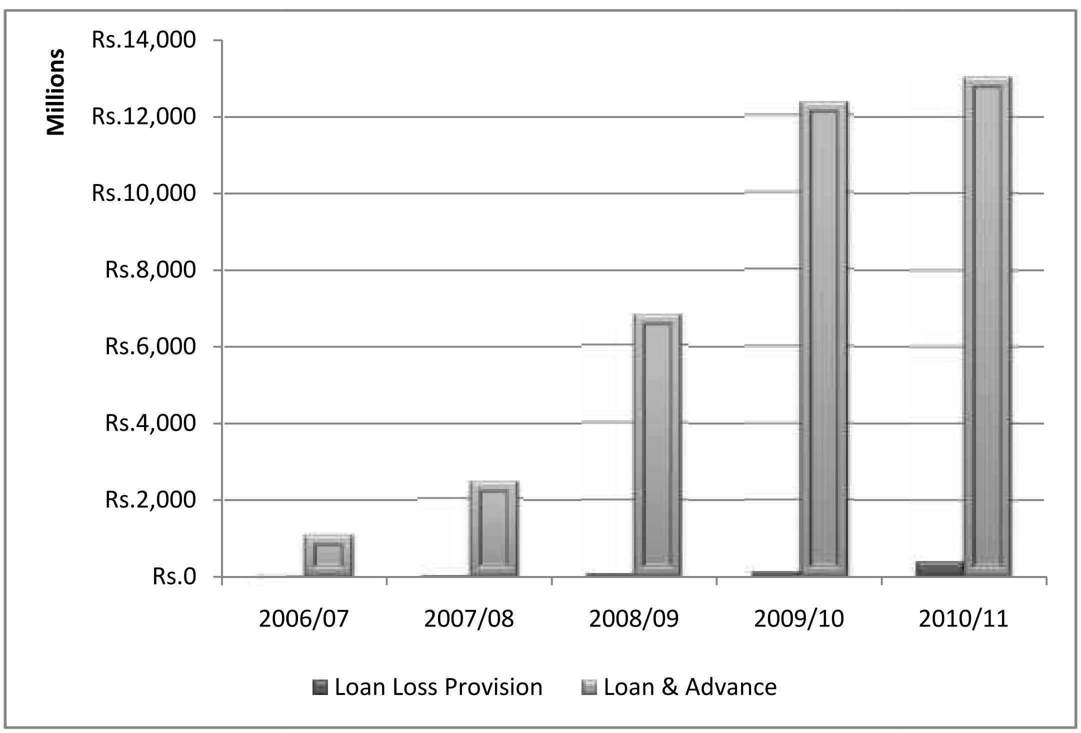
Table: 4.9

Loan Loss Provision to Loan & Advance

Particulars	2006/07	2007/08	2008/09	2009/10	2010/11
Loan Loss Provision	22,961,420	39,324,039	83,651,653	140,264,860	394,434,205
Loans and Advances	1,097,201,916	2,448,241,563	6,803,438,816	12,345,844,354	13,042,567,516
Loan Loss Provision To Loan & Advance Ratio (%)	**2.09**	**1.61**	**1.23**	**1.14**	**3.02**

Figure: 4.13

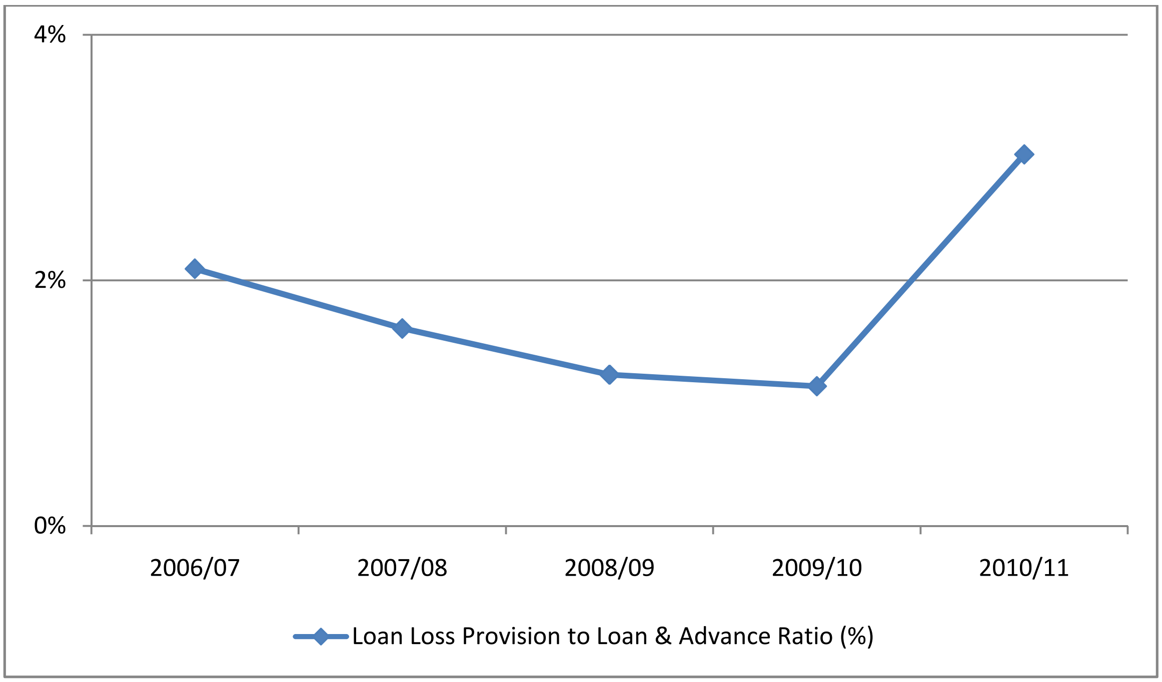
Loan Loss Provision to Loan & Advance



Interest income is directly proportional to Loan and advances. If Loan & Advances increased, then interest income also increased and vice versa. In the case of Kist Bank Ltd., Loan & Advances are increasing and interest incomes are also increasing.

Figure: 4.14

Loan Loss Provision to Loan & Advance Ratio



According to NRB provisioning Loan of each type due within 3 months (1 day - 90 Days) is categorized (**Pass / Performing Category**) the provisioning for 1% of Outstanding Loan amount, 3 months to 6 months (91 Days - 180 Days) due loan is categorized (**Sub-Standard Category)** the provisioning for 25% of Outstanding Loan amount. Similarly, 6 Months to 1 year (181 Days to 365 Days) due loan need to be provisioned under (**Doubtful Category**) for 50% of Outstanding Loan amount and for more than 1 year loan due 100% of outstanding balance is provisioned under (**Bad Category**) to Loan Loss Provision.

The Loan Loss Provision of KIST Bank was in decreasing order from FY 2006/07 (2.09%) till F/Y 2009/10 (1.14%). However, from FY 2009/10 it is started to increase from 1.14% to 3.02% at the end of FY 2010/11. The above ratio figure will be more clear to sum up the Loan Loss Provision to its' Loan & Advances of Kist Bank Ltd.

There was huge amount to be made for provision for loan losses in these Fiscal Years. The output was thus a huge Loss that had faced by KIST Bank Ltd. in those Fiscal Years. In F/Y 2009/10 it has been decreased, thus bank has been able to earn a profit. Provision cannot be eliminated because for every granted loan, from their outstanding balance 1% is to be provisioned as per NRB directives. However it can be managed and bring them below 5% by managing credit properly. KIST Bank has a challenge now to maintain its provision below 5% in the current market scenario.

ii. None Performing Loan to Loan & Advance Ratio:

Non Performing Loan is the greater challenges to any banks and which is quite avoidable however it is manageable with the continuous efforts and timely follow ups with the credit customers. If such Non Performing Loan (NPL) is high then it will direcly impact the total profitability of the bank. This ratio measures the portion of Non Performing Loan out of Loan & Advance of the bank.

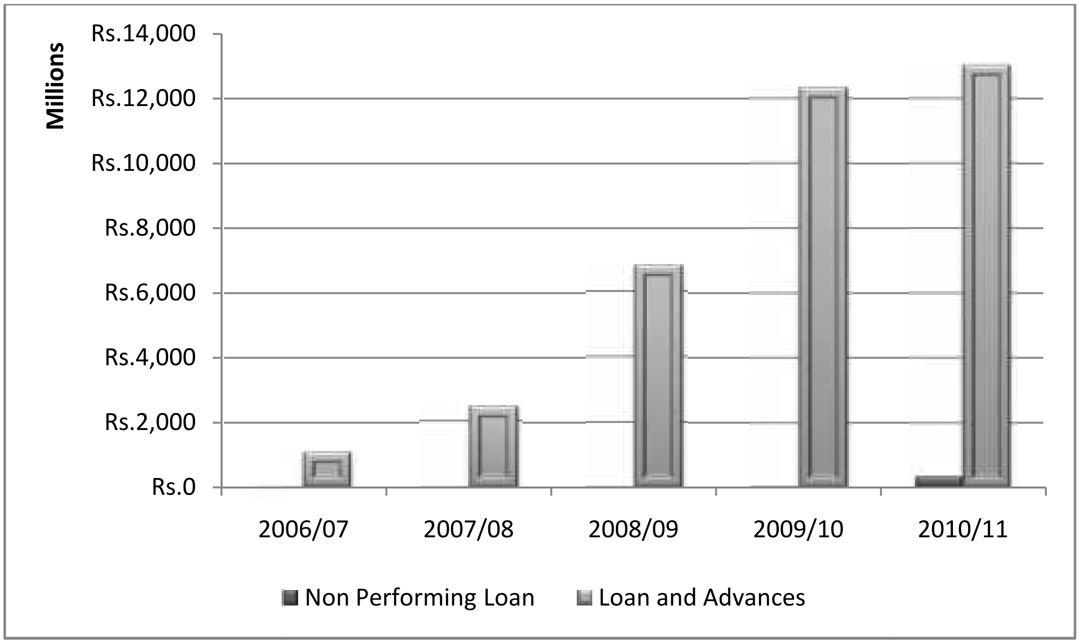
Table: 4.10

Non Performing Loan to Loan & Advance

Particulars	2006/07	2007/08	2008/09	2009/10	2010/11
Non Performing Loan	9,592,305	11,156,985	15,296,351	24,090,030	341,452,026
Total Loan & Advance	1,097,201,916	2,448,241,563	6,803,438,816	12,345,844,354	13,042,567,516
Non Performing Loan to Total Loan & Advance Ratio (%)	**0.87**	**0.46**	**0.22**	**0.20**	**2.62**

Figure: 4.15

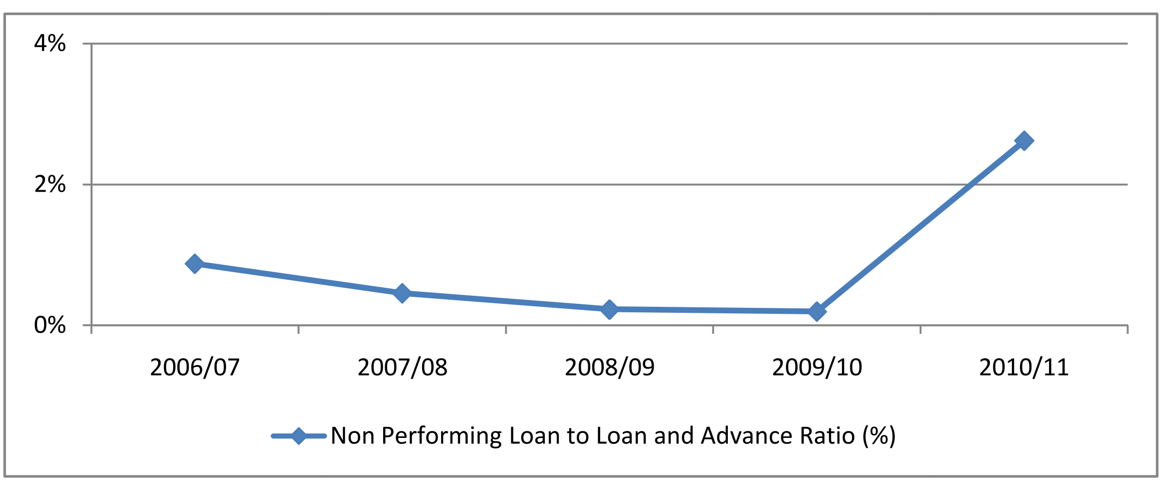
Non Performing Loan to Loan & Advance



None Performing Loan is need to be maintained as much less as the back can. Therefore, Kist Bank Ltd has been trying to minimize its' Non Performing Loan from the FY 2006/07 to till 2009/10 from 0.87% to 0.20% which is very positive signal to this bank. However, in the FY 2010/11 has gone up to 2.62%. However, this bank needs to downsize this figure in the coming days.

Figure: 4.16

Non Performing Loan to Loan Loss Provision Ratio



In KIST Bank Ltd the ratio are respectively in decreasing trend up to 2008/09 but in incresing trend after 2009/10. This has changes the periphery of earlier credit procedure. It can be assume that KIST Bank has been doing good in Credit management. However, this bank needs to focus more on the recovery in order to minimize the percentage of the Non Performing Loan.

iii. None Performing Loan to Loan Loss Provision Ratio:

Loan loss provision is the compulsion factor in lending practices and Non Performing Loan is the evil factor in banks. If they are high then they will decrease the amount of profit which the banks target to receive. This ratio measures the portion of provisioned loan with Non Performing Loan. Since, all loan are needed to made provision, it is the compulsion part. Rather the difference part as compare to Non Performing loan is not so good to result a sound profit.

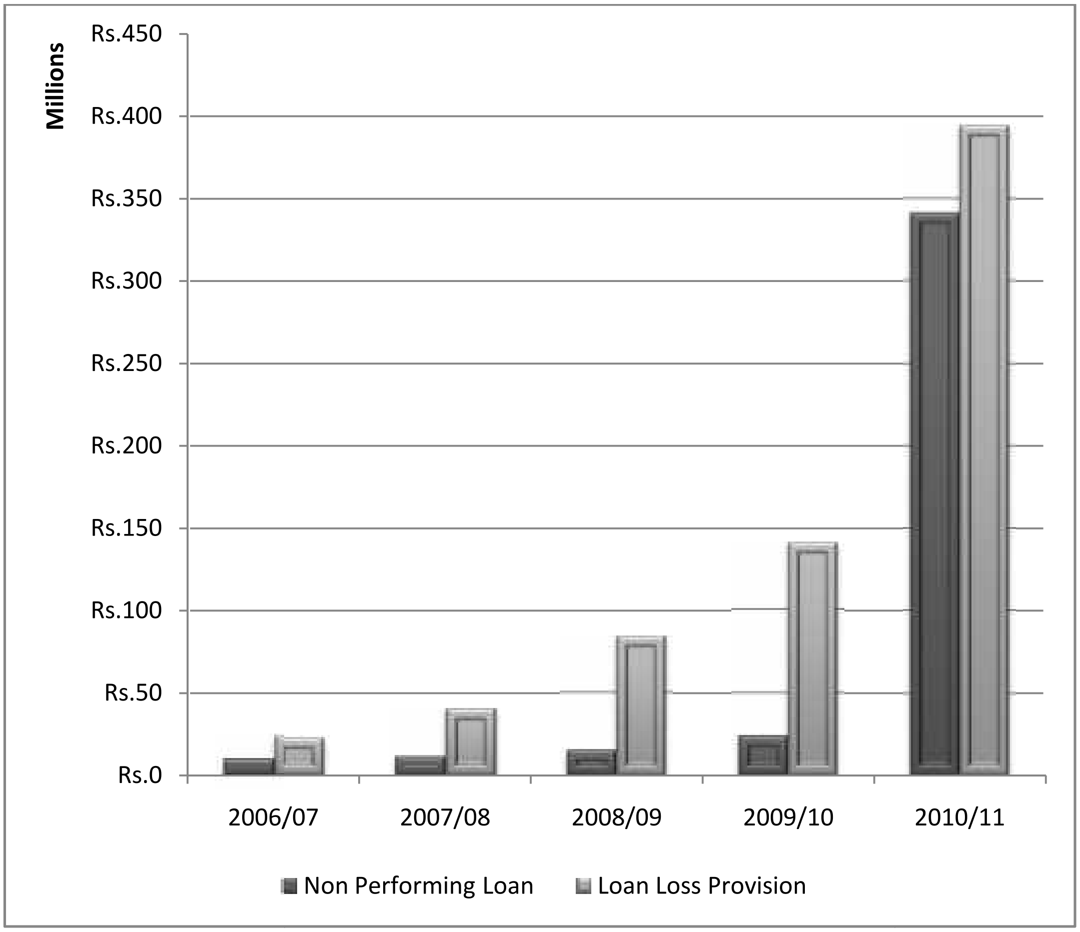
Table: 4.11

Non Performing Loan to Loan Loss Provision

Particulars	2006/07	2007/08	2008/09	2009/10	2010/11
Non Performing Loan	9,592,305	11,156,985	15,296,351	24,090,030	341,452,026
Loan Loss Provision	22,961,420	39,324,039	83,651,653	140,264,860	394,434,205
Non Performing Loan to Loan Loss Provision Ratio (%)	**41.78**	**28.37**	**18.29**	**17.17**	**86.57**

Figure: 4.17

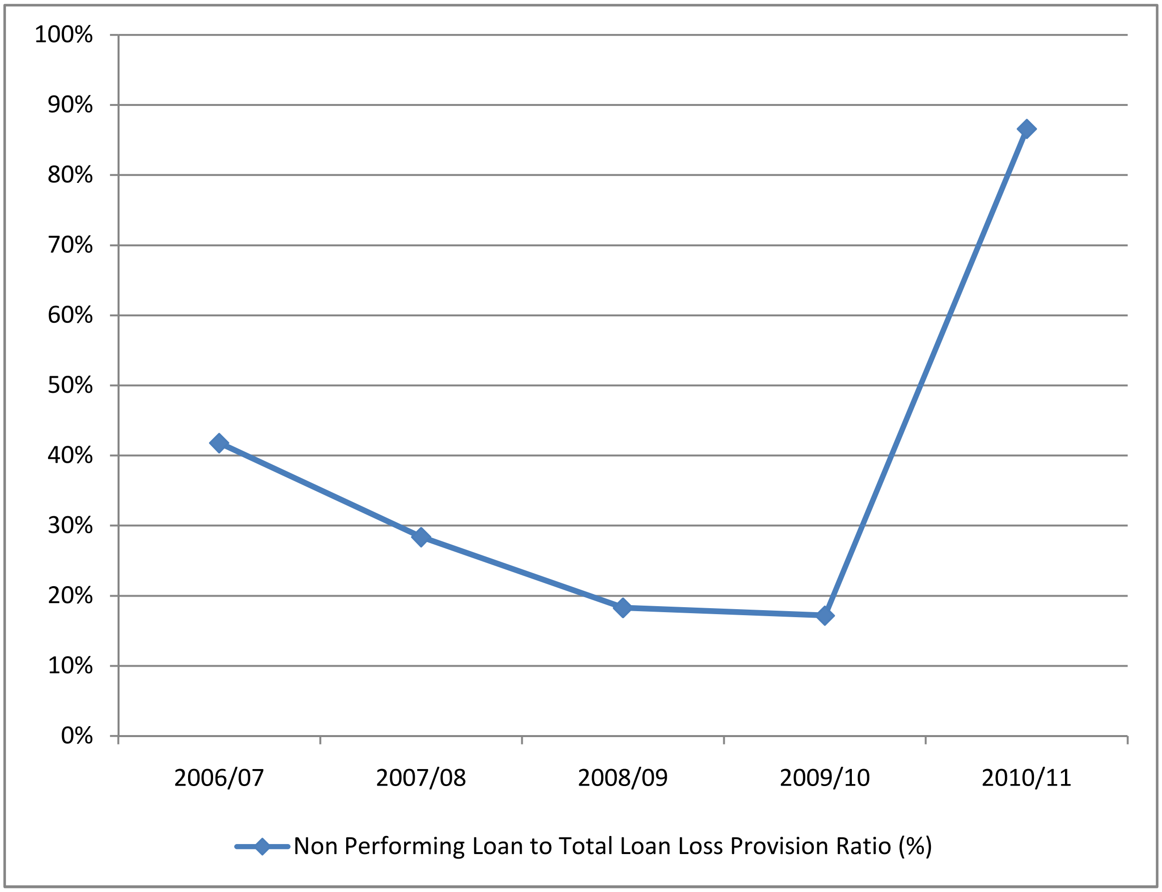
Non Performing Loan to Loan Loss Provision



Loan Loss provision is the compulsory part for commercial bank since they had to maintain at least 1% as a provision from the outstanding balance of any type of loan. The Non Performing Loan holds only the portion of Loan Loss Provision amount. If Loan Loss Provision = None Performing Loan, then there is no more other non performing assets in commercial banks. The ratio is good if they are found exactly 100%.

Figure: 4.18

Non Performing Loan to Loan Loss Provision Ratio



In KIST Bank Ltd the ratio are respectively in increasing trend up to 2008/09 but in decreasing trend after 2009/10. This has changes the periphery of earlier credit procedure. It can be assume that KIST Bank is really doing well in Credit management.

CHAPTER-5

SUMMARY, CONCLUSION & RECOMMENDATIONS

In this conclusive part, summary, finding & recommendation have been dealt with for the benefit of the selected commercial bank.

5.1 SUMMARY:

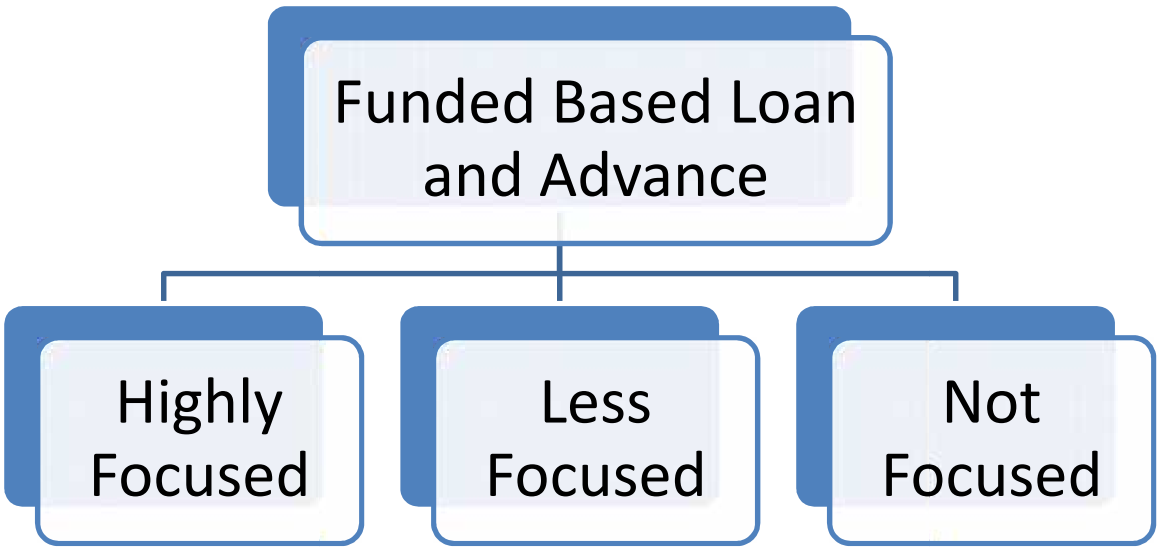
Nepal has 31 Commercial banks competing with each other in their lending, borrowing and other banking activities. Commercial Banks in Nepal had established with some specific objectives when the government adopted liberal economic policy. These banks were established with the objectives of bringing foreign investment in the country in form of JVB's Capital, to mobilize the idle resources in a most effective way to maximize the wealth of the stakeholders, to develop Nepalese Banking sectors by sharing technical foreign service and management agreement and ultimately to produce the bankers in Banking Industries and to develop the capital market in the country, with the expectation, that these JVB put their money in the shares of other companies operating within the countries.

he present study has selected Kist Bank for the research. This bank was initially established as a JV bank and was established as Nepal Bank of Ceylon. After transfer the Sri Lankan shares, this bank was renamed to Kist Bank Ltd and now has made a recognized name in banking industries. This present study mainly focus on the performance of Kist Bank Ltd. in terms of Credit Management.

The lending policy may identify specific types of loans that the bank views as desirable or undesirable. For example, many banks do not finance business start-ups, and others avoid loans to gambling concerns. These guidelines should be based on the expertise of the lending staff, anticipated credit demands of the community, and the deposit structure of the bank.

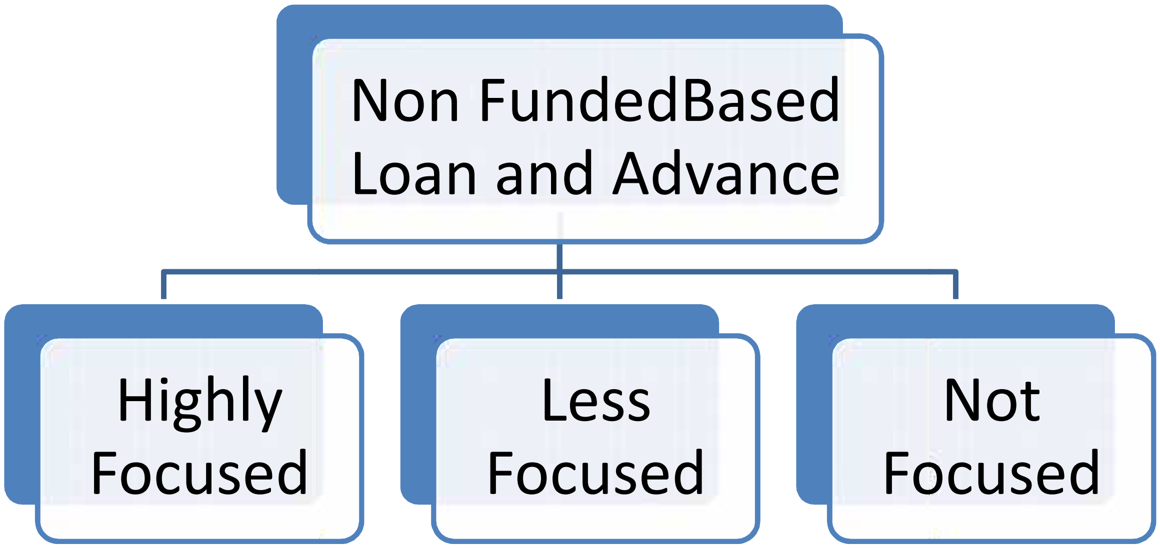
KIST Bank Ltd. has highly focused on following kinds of Loan.

Fund based loan and advances:



- Overdraft	-Loan against gold	-Loan against share
- Cash Credit	-Pledge loan	-Consortium Loan
- Demand Loan	-Bridge Loan	
- Hire Purchase Loan		
- Housing Loan		
- Personal Loan		
- Term loan		
- Loan against Fixed Deposit Receipt		

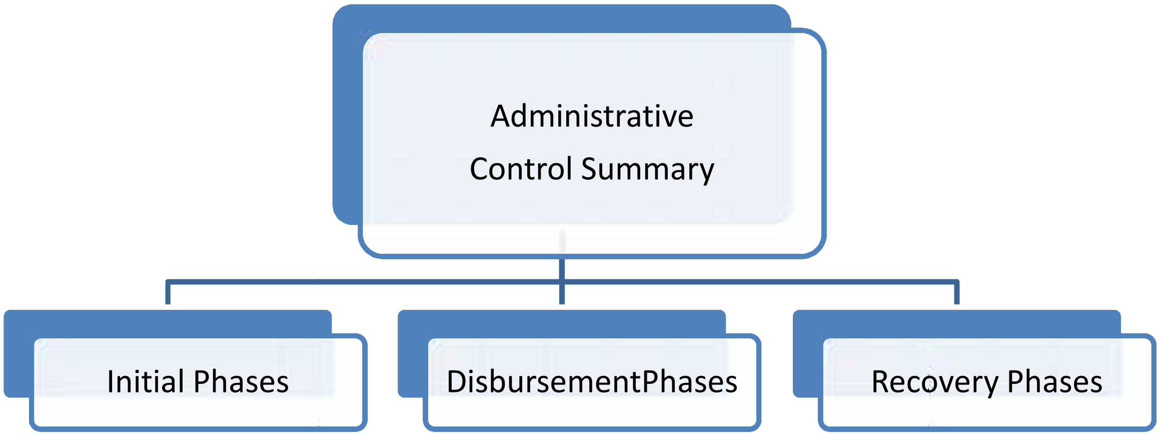
Non Funded Based loan and advances:



- Bank Guarantee	- Bank Guarantee	- Bank Guarantee
i) Bid bond Guarantee	i) Retention Guarantee	i) Maintenance Guarantee
ii) Performance Bond G'tee	ii) Financial Guarantee	ii) Custom Guarantee
iii) Advance Payment G'tee	iii) Judicial Guarantee	

b. Letter of Credit:

The responsibilities of credit administration will vary widely from bank to bank. Credit administration is the operations arm of the lending function. For purposes of this booklet, "credit administration‖ includes the "backroom" functions of loan disbursement, loan processing and collateral documentation. The administration and documentation control of Kist Bank starts with initial phases starts with the approach of the client, then move on to disbursement process and ends with recovery as shown in diagram below:



- Interviews with customer
- Analysing CAMPARI
- Initial Documentation
- Site Visit
- CIB Report
- Credit Appraisal Memo
- Loan Approval Process

- Documentation
- Loan Deed
- Mortgage Deed
- Personal Guarantee
-General Indemnity Form
- Letter of Continuity
- Letter of Disbursement
- Letter of Arrangement
- Authority to Debit account.
- Insurance
- Offer Letter

- Telephone call
- Direct contact

In Case of Default

- Call to guarantors
-Letter to notify client
- 35 days notice
- Auction

By seeing the fluctuating performance in financial result, this bank has been chosen. KIST Bank has given no more good performance as compare with other commercial bank. All established bank are enjoying profit rather only KIST Bank is facing loss till last year. The reason for it was identified from its credit part. Because credit is the task by which banks can make its more profit. And the interest earned from credit holds major portion in its Net Profit. So, the research has tried to scrutinize to the terms related to credit and has find out the main cause for the bank getting loss. The main reason for facing huge loss by KIST Bank Ltd. is due to lending higher amount of loan. The bank was centralized in lending more rather than making portfolio of investment. The short income was generated from the service charge on loan amount, but for long period it has totally affected overall financial activities of the bank. Credit was sanctioned by poor judgment. The amount of credit granted in F/Y 200/09 is too much high. The amount of loan leads to make a huge amount of provisioning. Recovery process was not actively taken. Thus, the bank has to make huge amount of provisioning that year. Some portion of loan due to lack in effective recovery process turns into bad loan. The loan has turned into non performing assets. Bank was able to raise its bad loan. This has minimized the amount of Non Performing assets and Loan loss provision. Thus the bank at last was able to earn profit in F/Y 2007/08. This is a good job founded in Kist Bank Ltd. But the job is still to be done since there are still Non performing loan and high amount of Loan loss provision. So, recovery should be as strong as it was done in F/Y 2009/10 and should remain same for ever for sound performance of the bank.

The lending policy following CAMPARI model was found very effective. This model is to be maintained properly forever. Thus bank can minimize its Risk weighted assets. Risk Weighted Assets was found higher in every Fiscal year. Bank was hardly able to meet its capital adequacy in F/Y 2009/10.

5.2 CONCLUSION:

Besides the loan policy, the primary controls over a bank's lending activities are its credit administration, loan review, and audit functions. Independent credit administration, loan review, and audit functions are necessary to ensure that the bank's risk management process, MIS, and internal and accounting controls are reliable and effective. The bank's control functions can also provide senior management and the board with a periodic assessment of how the bank's employees understand its credit culture and whether their behaviors conform to the bank's standards and values. The previous management team has not emphasized credit policies effectively. It was found the consciousness on a new management team who are giving focus on followings.

Limit on Aggregate Loans and Commitments:

The loan policy establishes guidelines on the size of the loan portfolio relative to other balance sheet accounts. Previously, KIST Bank was not focusing on limit. But now, KIST Bank is developing limit for the aggregate volume of outstanding loans as well as for total commitments. Traditionally, limits have been set relative to deposits, capital, or total assets. As risk management is adopted more widely, KIST bank is developing limits on an activity's risk to earnings, capital, or both. A benefit of this approach is that limits are more closely tied to risk. The credit demands of the community, the volatility of the bank's funding, and the relative level of risk in the loan portfolio is also being considered when limiting the size of the loan portfolio.

Distribution by Loan Category and Product:

Credit Policy establishes guidelines on the percentage of total loans that can be allocated to a particular loan category or concentration (e.g., commercial, real estate, and consumer). Limits are placed on individual loan products within a loan category. A new management of KIST Bank is focusing on such distribution of loan.

Financial Performance Standards:

Financial performance standards usually are based on the purpose and type of loan. At a minimum, KIST Bank is establishing repayment requirements that stipulate acceptable primary and secondary sources of repayment, their relative adequacy, and circumstances in which guarantors are required.

This effort has turned the financial performance of KIST Bank Ltd. A new management is really doing well. Their effort has resulted to have better performance on KIST Bank Ltd. The bank is able to maintain Capital Adequacy Ratio. It has decreased its Risk Weighted Assets. The loan Loss provision and Non Performing Loan are decreasing.

5.3 RECOMMENDATION:

Credit management is responsible for the day-to-day supervision of the loan policy. The unit decides whether the policy provides adequate guidance for lending activities, determines whether employees are following loan policy, reports policy violations, and administers policy and underwriting exceptions. If management needs to be supplemented or modified, credit policy administration drafts the changes. This unit may also assist the account officers with routine account maintenance such as monitoring covenant compliance and ensuring that financial statements are received, spread, and analyzed in a timely manner. Credit policy administration is responsible for the body of written documents

Lending Practice:

In earlier days of Kist Bank Ltd, it was some apprehensive in terms of lending. The rate of lending was too high and credit was not granted in proper judgment. KIST Bank is recommended to grant the loan by making effective CAMPARI Model. KIST Bank is recommended to:

- Decrease its volume of lending and invest the portion in other sectors of investment too.
- Make a loan portfolio and diversify the risk.
- Minimize and maintain Capital Adequacy Ratio as per NRB Directives or follow the BASEL approach.
- Reduce the amount of Loan Loss Provision and Non Performing Assets.

- Lending is possible only when there is availability of sufficient amount of deposit. So bring the scheme to uplift the amount of deposit too.

Loan Review:

KIST Bank Ltd is recommended to review its previous loan. Loan review is a mainstay of internal control of the loan portfolio. Periodic objective reviews of credit risk levels and risk management processes are essential to effective portfolio management. To ensure the independence of loan review, the unit should report administratively and functionally to the board of directors or a standing committee with audit responsibilities. The board or committee approves the unit's operating budget, prepares the performance evaluation for the division's head, approves the unit's strategic and operating plans, acts on the unit's findings, and ratifies administrative matters. While it is not as critical that loan review's administrative lines have independence, the functional lines should not be compromised.

Audit:

Audit activities in lending departments usually focus on the accounting controls in the administrative support functions. While loan review has primary responsibility for evaluating credit risk management controls, audit will generally be responsible for validating the lending-related Audits should be done at least annually and whenever models are revised or replaced. Administrative and functional reporting lines for the audit function should be similar to those for the loan review function.

Collateral and structure requirements:

Credit Policies usually describe acceptable credit structures and establish permissible collateral types and loan-to-value limits. They also establish limits for the amount financed, which may vary by loan type. Maturity scheduling should be based on a realistic assessment of the anticipated source of repayment, the purpose of the loan, and the useful life of the collateral.

Documentation Standards:

Policies should establish guidelines for the internal and legal documents on various type loans. Internal documents include such items as borrowing resolutions, credit memoranda, financial analysis, appraisals, insurance, and processing documents; common legal documents are mortgages, security agreements etc KIST Bank is recommended for documentation standards.

Reporting:

The lending policy may describe the types, contents, and frequency of reports provided to senior management and the board of directors. Common management reports include summaries of the level and trends of loans that are delinquent, non-accrual, nonperforming,

or charged off. It should also include reports on portfolio composition such as concentrations and policy exceptions. Reports on larger problem credits should include information on the level of risk, loss potential, and alternative courses of action. KIST Bank is recommended to prepare following report:

- Risk rating reports.
- Problem loan and watch list reports.
- Nonperforming asset reports.
- Portfolio size stratification report.
- Written policy and procedures manuals.

Analyzing External Factors:

KIST Bank should review the local, regional, and national economic trends and assess their impact on loan portfolio risk levels. The bank must evaluate the results of any stress testing of the loan portfolio or portfolio segments. It should include review of testing for changes in interest rates, commodity prices, collateral valuations or product pricing declines due to competition or statutory rate controls. Assess the bank's exposure to any pending legislative, regulatory, or accounting changes that will materially affect the loan portfolio. Further, KIST Bank is recommended to analyze the following factors affecting in the market. The analysis should consider:

- Growth and acquisitions.
- New products, services, lines of business.
- Management changes.
- Policy and underwriting changes.
- Changes in risk limits.
- Changes in National, regional, and local economy.
- Industry outlook.
- Regulatory framework.
- Technological change.

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Appendices

Appendix - 1

Balance Sheet of Kist Bank Limited for the Fiscal Year 2006/07 to 2010/11

BALANCE SHEET					
Capital & Liabilities	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**
1. Share Capital	200,000,000	800,000,000	2,000,000,000	2,000,000,000	2,000,000,000
2. Reserve & Surplus	19,051,845	25,455,788	45,118,881	89,257,112	143,334,241
3. Debentures & Bonds	-	-	-	-	-
4. Borrowings	262,147,775	250,263,337	130,000,000	600,000,000	910,042,857
5. Deposit Liabilities	1,178,793,223	2,744,729,320	8,684,077,599	15,962,630,909	15,808,486,437
6. Bills Payable	-	-	16,010,619	9,030,316	1,343,622
7. Proposed and Dividend Payable	20,957,116	42,259,746	77,117,584	100,000,000	-
8. Income Tax Liability	19,573,045	12,763,610	3,356,583	7,674,815	-
9. Other Liabilities	39,906,844	68,420,619	195,856,035	178,625,510	152,047,265
Total Capital & Liabilities	**1,740,429,848**	**3,943,892,420**	**11,151,537,301**	**18,947,218,662**	**19,015,254,422**
Assets					
1. Cash Balance	8,865,065	79,240,532	383,620,377	563,285,761	762,964,671
2. Balance with NRB	106,416,365	210,560,657	638,941,296	1,027,273,950	1,152,429,262
3. Balance with Banks/Financial Institut	205,235,059	296,496,192	205,597,542	84,769,826	72,957,444
4. Money At Call and Short Notice	-	362,263,832	1,184,504,371	1,366,278,666	413,058,403
5. Investments	197,177,000	315,631,796	1,085,100,224	2,057,665,832	1,874,110,454
6. Loans, Advances & Bills Purchased	1,097,201,916	2,448,241,563	6,803,438,816	12,345,844,354	13,042,567,516
7. Fixed Assets	80,450,548	160,325,909	714,439,187	1,149,484,432	1,225,108,153
8. Non-Banking Assets	-	-	-	-	-
9. Other Assets	45,083,895	71,131,939	135,895,488	352,615,841	472,058,519
Total Assets	**1,740,429,848**	**3,943,892,420**	**11,151,537,301**	**18,947,218,662**	**19,015,254,422**

Appendix - 2

Profit & Loss Account of Kist Bank Limited for the Fiscal Year 2006/07 to 2010/11

PROFIT & LOSS ACCOUNT					
Particulars	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**
1. Interest Income	136,043,110	244,001,547	594,757,003	1,517,073,218	1,994,330,218
2. Interest Expense	78,263,727	141,949,536	338,978,515	967,324,784	1,302,975,346
Net Interest Income	**57,779,383**	**102,052,011**	**255,778,488**	**549,748,434**	**691,354,872**
3. Commission and Discount	2,608,783	3,725,990	4,326,371	16,765,899	68,037,524
4. Other Operating Income	11,080,423	24,844,321	63,616,626	86,607,112	80,706,114
5. Exchange Fluctuation Profit	-	-	44,392	2,789,688	7,669,576
Total Operating Income	**71,468,589**	**130,622,322**	**323,765,877**	**655,911,133**	**847,768,086**
6. Staff Expense	7,280,539	16,243,464	42,549,602	142,973,538	193,638,808
7. Other Operating Expense	17,646,267	32,975,988	97,769,112	236,495,814	291,212,165
8. Exchange Fluctuation Loss	-	-	-	-	-
Operating Profit Before Prov. For Loss	**46,541,783**	**81,402,870**	**183,447,163**	**276,441,781**	**362,917,113**
9. Provision For Possible Loss	9,081,396	16,509,192	46,583,756	58,890,417	273,204,997
Operating Profit	**37,460,387**	**64,893,678**	**136,863,407**	**217,551,364**	**89,712,116**
10. Non-operating Income/Loss	4,384,706	11,208,664	505,088	2,405,257	3,595,683
11. Loss Provision Written Back	-	-	-	-	-
Profit From Regular Operation	**41,845,093**	**76,102,342**	**137,368,495**	**219,956,621**	**93,307,799**
12. Profit/Loss From Extra-ordinary Activities	-	-	-	-	-
Net Profit After considering All Activities	**41,845,093**	**76,102,342**	**137,368,495**	**219,956,621**	**93,307,799**
13. Provision For Staff Bonus	3,804,099	6,918,396	12,488,045	19,996,056	8,482,527
14. Income Tax Provision	11,982,913	21,913,280	35,217,357	55,822,334	30,748,143
-Current Year	11,982,913	21,792,943	34,556,175	60,310,067	34,182,389
-Up to Previous Year	-	120,337	(1,286,563)	1,267,032	(265,200)
Current Year Differed Tax income/expenditure	-	-	1,947,745	(5,754,765)	(3,169,046)
Net Profit/Loss	**26,058,081**	**47,270,666**	**89,663,093**	**144,138,231**	**54,077,129**

Appendix - 3

Classification of Loans & Advance and Provision

Particulars	*2006/07*	*2007/08*	*2008/09*	*2009/10*	*2010/11*
1. Performing Loan	**1,110,571,031**	**2,476,408,617**	**6,871,794,118**	**12,462,019,184**	**13,095,549,695**
A. Pass Loan	1,110,239,601	2,476,408,617	6,865,794,118	12,462,019,184	13,095,549,695
B. Restructured Loan	331,430	-	6,000,000	-	-
2. Non Performing Loan	**9,592,305**	**11,156,985**	**15,296,351**	**24,090,030**	**341,452,026**
2.1 Sub Standard Loan	-		7,269,606	13,327,822	104,664,561
2.2 Doubtful Loan	694,202	-	3,785,491	5,997,571	12,087,242
2.3 Loss (Bad)	8,898,103	11,156,985	4,241,254	4,764,637	224,700,223
Total Loans (A)	**1,120,163,336**	**2,487,565,602**	**6,887,090,469**	**12,486,109,214**	**13,437,001,721**
3. Loan Loss Provision					
3.1 Pass Loan	11,102,396	24,771,318	68,657,941	124,620,192	130,955,497
3.2 Restructured Loan	41,429	-	750,000	-	-
3.3 Sub Standard Loan	-	-	1,817,401	3,331,956	26,166,140
3.4 Doubtful Loan	347,101	-	1,892,746	2,998,785	6,043,622
3.5 Loss (Bad)	8,898,103	11,156,985	4,241,254	4,764,637	224,700,223
3.6 Additional Loan Loss Provision	2,572,391	3,395,736	6,292,311	4,549,290	6,568,723
Total Provision (B)	**22,961,420**	**39,324,039**	**83,651,653**	**140,264,860**	**394,434,205**
4. Provision upto Previous year					
4.1 Pass Loan	6,507,645	11,102,396	24,771,318	68,657,941	124,620,192
4.2 Restructured Loan	87,861	41,429		750,000	-
4.3 Sub Standard Loan	-	-		1,817,401	3,331,956
4.4 Doubtful Loan	-	347,101		1,892,746	2,998,785
4.5 Loss (Bad)	5,905,075	8,898,103	11,156,985	4,241,254	4,764,637
4.6 Additional Loan Loss Provision	1,379,443	2,572,391	3,395,736	6,292,311	4,549,290
Total Provision upto Previous year (C)	**13,880,024**	**22,961,420**	**39,324,039**	**83,651,653**	**140,264,860**
Write back from Last Year Provision (D)	-	-	-	-	-
Additional Provision during this year (E)	9,081,396	16,362,619	44,327,614	56,613,207	254,169,345
Net Changes in this Year	9,081,396	16,362,619	44,327,614	56,613,207	254,169,345
Net Loan (A-B)	**1,097,201,916**	**2,448,241,563**	**6,803,438,816**	**12,345,844,354**	**13,042,567,516**

Appendix - 4

4A Summary of Classified Current Assets based on Maturity

Particulars of Assets	2006/07	2007/08	2008/09	2009/10	2010/11
Cash Balance	8,865,065	79,240,532	384,000,000	563,000,000	763,000,000
Balance with Banks	116,088,966	351,607,192	169,000,000	278,000,000	306,300,000
Investment in Foreign Banks	-	-	-	-	3,500,000
Money at Call	-	-	-	1,366,000,000	413,100,000
Nepal Government Securities	-	-	382,000,000	1,578,000,000	1,577,700,000
Nepal Rastra Bank Bonds	-	-	-	-	-
Inter Bank Lending	-	-	937,000,000	309,000,000	10,000,000
Loans, Advances & Baills Purchased	40,000,000	164,199,940	5,127,000,000	7,781,000,000	8,734,700,000
Accrual Interest Receiable	-	-	-	-	109,500,000
Reverse Repo	-	-	-	-	-
Receiable from Underwriting Commitm	-	-	-	-	-
Net Borrowing	262,831,305	1,202,379,035	-	-	1,019,100,000
Others	-		170,000,000	152,000,000	150,000,000
Total Assets	**427,785,336**	**1,797,426,699**	**7,169,000,000**	**12,027,000,000**	**13,086,900,000**

Note - Current Assets is being considered only the Assets which is below 1 Year from the above figures of Total Assets

4B Classified Current Assets based on Maturity in the FY 2006/07

Particulars of Assets	1 - 90 Days	91 - 180 Days	181 - 270 Days	271 - 365 Days	Total Below 1 Year	Over 1 year	Total
Cash Balance	8,865,065	-	-	-	8,865,065	-	8,865,065
Balance with Banks	37,955,716	16,999,995	22,417,195	38,716,060	116,088,966	195,562,458	311,651,424
Investment in Foreign Banks	-	-	-	-	-	-	-
Money at Call	-	-	-	-	-	-	-
Nepal Government Securities	-	-	-	-	-	-	-
Nepal Rastra Bank Bonds	-	-	-	-	-	7,500,000	7,500,000
Inter Bank Lending	-	-		-	-		-
Loans, Advances & Baills Purcha	10,000,000	10,000,000	10,000,000	10,000,000	40,000,000	149,677,000	189,677,000
Accrual Interest Receiable					-		-
Reverse Repo					-		-
Receiable from Underwriting Commitment					-		-
Net Borrowing	56,304,332	73,104,036	72,164,498	61,258,439	262,831,305	857,332,031	1,120,163,336
Others					-		-
Total Assets	**113,125,113**	**100,104,031**	**104,581,693**	**109,974,499**	**427,785,336**	**1,210,071,489**	**1,637,856,825**

Note - Current Assets is being considered only the Assets which is below 1 Year from the above figures of Total Assets

4C Classified Current Assets based on Maturity in the FY 2007/08

Particulars of Assets	1 - 90 Days	91 - 180 Days	181 - 270 Days	271 - 365 Days	Total Below 1 Year	Over 1 year	Total
Cash Balance	79,240,532	-	-	-	79,240,532	-	79,240,532
Balance with Banks	65,568,956	49,048,594	51,365,988	185,623,654	351,607,192	517,721,489	869,328,681
Investment in Foreign Banks		-	-	-	-	-	-
Money at Call		-	-	-	-	-	-
Nepal Government Securities					-		-
Nepal Rastra Bank Bonds	-	-	-	-	-	7,500,000	7,500,000
Inter Bank Lending	-	-		-	-		-
Loans, Advances & Baills	27,500,000	63,452,070	45,678,923	27,568,947	164,199,940	144,078,428	308,278,368
Accrual Interest Receiable					-		-
Reverse Repo	-	-	-	-	-	-	-
Receiable from Underwri	-	-	-	-	-	-	-
Net Borrowing	104,495,549	77,765,794	496,754,909	523,362,783	1,202,379,035	1,285,186,567	2,487,565,602
Others							-
Total Assets	**276,805,037**	**190,266,458**	**593,799,820**	**736,555,384**	**1,797,426,699**	**1,954,486,484**	**3,751,913,183**

Note - Current Assets is being considered only the Assets which is below 1 Year from the above figures of Total Assets

4D Classified Current Assets based on Maturity in the FY 2008/09

FY 2008/009 *Amount in Rs. Million*

Particulars of Assets	1 - 90 Days	91 - 180 Days	181 - 270 Days	271 - 365 Days	Total Below 1 Year	Over 1 year	Total
Cash Balance	384	-	-	-	384	-	384
Balance with Banks	169	-	-	-	169	676	845
Investment in Foreign Banks	-	-	-	-	-	-	-
Money at Call	-	-	-	-	-	-	-
Nepal Government Securities	118	114	-	150	382	93	475
Nepal Rastra Bank Bonds	-	-	-	-	-	-	-
Inter Bank Lending	813	80	32	12	937	832	1,769
Loans, Advances & Baills Purchased	680	1,280	1,462	1,705	5,127	1,676	6,803
Accrual Interest Receiable	-	-	-	-	-	-	-
Reverse Repo	-	-	-	-	-	-	-
Receiable from Underwriting Commitn	-	-	-	-	-	-	-
Payment Facilities of S.N. 20, 21 & 22	-	-	-	-	-	-	-
Others	170				170	706	876
Total Assets	**2,334**	**1,474**	**1,494**	**1,867**	**7,169**	**3,983**	**11,152**

Note - Current Assets is being considered only the Assets which is below 1 Year from the above figures of Total Assets

4E Classified Current Assets based on Maturity in the FY 2009/10

FY 2009/010							*Amount in Rs. Million*
Particulars of Assets	**1 - 90 Days**	**91 - 180 Days**	**181 - 270 Days**	**271 - 365 Days**	**Total Below 1 Year**	**Over 1 year**	**Total**
Cash Balance	563	-	-	-	563	-	563
Balance with Banks	278	-	-	-	278	834	1,112
Investment in Foreign Banks	-	-	-	-	-	-	-
Money at Call	1,366	-	-	-	1,366	-	1,366
Nepal Government Securities	223	321	449	585	1,578	69	1,647
Nepal Rastra Bank Bonds	-	-	-	-	-	-	-
Inter Bank Lending	287	20	2	-	309	63	372
Loans, Advances & Baills Purchased	2,566	2,946	855	1,414	7,781	4,565	12,346
Accrual Interest Receiable	-	-	-	-	-	-	-
Reverse Repo	-	-	-	-	-	-	-
Receiable from Underwriting Commitm	-	-	-	-	-	-	-
Payment Facilities of S.N. 20, 21 & 22	-	-	-	-	-	-	-
Others	152	-	-	-	152	1,389	1,541
Total Assets	**5,435**	**3,287**	**1,306**	**1,999**	**12,027**	**6,920**	**18,947**

Note - Current Assets is being considered only the Assets which is below 1 Year from the above figures of Total Assets

4F Classified Current Assets based on Maturity in the FY 2010/11

FY 2010/011							Amount in Rs. Lakhs
Particulars of Assets	**1 - 90 Days**	**91 - 180 Days**	**181 - 270 Days**	**271 - 365 Days**	**Total Below 1 Year**	**Over 1 year**	**Total**
Cash Balance	7,630	-	-	-	7,630	-	7,630
Balance with Banks	3,063	-	-	-	3,063	9,190	12,253
Investment in Foreign Banks	35	-	-	-	35	-	35
Money at Call	4,131	-	-	-	4,131	-	4,131
Nepal Government Securities	851	3,424	3,767	7,735	15,777	2,175	17,952
Nepal Rastra Bank Bonds	-	-	-	-	-	-	-
Inter Bank Lending	-	-	100	-	100	450	550
Loans, Advances & Baills Purchased	27,722	20,018	15,502	24,105	87,347	47,023	134,370
Accrual Interest Receiable	740	209	110	36	1,095	9	1,104
Reverse Repo	-	-	-	-	-	-	-
Receiable from Underwriting Commit	-	-	-	-	-	-	-
Payment Facilities of S.N. 20, 21 & 22	6,765	2,273	502	651	10,191	4,932	15,123
Others	1,350	50	50	50	1,500	3,259	4,759
Total Assets	**52,287**	**25,974**	**20,031**	**32,577**	**130,869**	**67,038**	**197,907**

Note - Current Assets is being considered only the Assets which is below 1 Year from the above figures of Total Assets

Appendix - 5

5A Calculation of Net Loan and Advance to Total Deposit Ratio

Particulars	2006/07	2007/08	2008/09	2009/10	2010/11
Loans and Advances	1,097,201,916	2,448,241,563	6,803,438,816	12,345,844,354	13,042,567,516
Deposits	1,178,793,223	2,744,729,320	8,684,077,599	15,962,630,909	15,808,486,437
Total Loan To Deposit Ratio (%)	**93.08**	**89.20**	**78.34**	**77.34**	**82.50**

5B Calculation of Total Interest to Net Loans & Advances Ratio

Particulars	2006/07	2007/08	2008/09	2009/10	2010/11
Interest Income	136,043,410	244,001,547	594,757,003	1,517,073,218	1,994,330,218
Loans and Advances	1,097,201,916	2,448,241,563	6,803,438,816	12,345,844,354	13,042,567,516
Interest Income To Loan & Advance Ratio (%)	**12.40**	**9.97**	**8.74**	**12.29**	**15.29**

5C Calculation of Net Loan and Advance to Total Assets Ratio

Particulars	2006/07	2007/08	2008/09	2009/10	2010/11
Loans and Advances	1,097,201,916	2,448,241,563	6,803,438,816	12,345,844,354	13,042,567,516
Total Assets	1,740,429,848	3,943,892,420	11,151,537,301	18,947,218,662	19,015,254,422
Loan & Advance To Total Assets Ratio (%)	**63.04**	**62.08**	**61.01**	**65.16**	**68.59**

5D Calculation of Net Loan and Advances to Current Assets Ratio

Particulars	2006/07	2007/08	2008/09	2009/10	2010/11
Loans and Advances	1,097,201,916	2,448,241,563	6,803,438,816	12,345,844,354	13,042,567,516
Total Current Assets	427,785,336	1,797,426,699	7,169,000,000	12,027,000,000	13,086,900,000
Loan & Advance To Total Current Assets Ratio (%)	**256.48**	**136.21**	**94.90**	**102.65**	**99.66**

5E Calculation of Total Operating Income to Total Interest Income Ratio

Particulars	2006/07	2007/08	2008/09	2009/10	2010/11
Total Operating Income	71,468,589	130,622,322	323,765,877	655,911,133	847,768,086
Interest Income	136,043,110	244,001,547	594,757,003	1,517,073,218	1,994,330,218
Total Operating Income to Interest Income Ratio (%)	**52.53**	**53.53**	**54.44**	**43.24**	**42.51**

5F Calculation of Net Profit to Net Interest Income Ratio

Particulars	2006/07	2007/08	2008/09	2009/10	2010/11
Net Profit	26,058,081	47,270,666	89,663,093	144,138,231	54,077,129
Net Interest Income	57,779,383	102,052,011	255,778,488	549,748,434	691,354,872
Net Profit to Net Interest Income Ratio (%)	**45.10**	**46.32**	**35.05**	**26.22**	**7.82**

5G Calculation of Loan Loss Provision to Loan & Advance Ratio

Particulars	2006/07	2007/08	2008/09	2009/10	2010/11
Loan Loss Provision	22,961,420	39,324,039	83,651,653	140,264,860	394,434,205
Loans and Advances	1,097,201,916	2,448,241,563	6,803,438,816	12,345,844,354	13,042,567,516
Loan Loss Provision To Loan & Advance Ratio (%)	**2.09**	**1.61**	**1.23**	**1.14**	**3.02**

5H Calculation of Non Performing Loan to Loan & Advance Ratio

Particulars	2006/07	2007/08	2008/09	2009/10	2010/11
Non Performing Loan	9,592,305	11,156,985	15,296,351	24,090,030	341,452,026
Total Loan & Advance	1,097,201,916	2,448,241,563	6,803,438,816	12,345,844,354	13,042,567,516
Non Performing Loan to Total Loan & Advance Ratio (%)	**0.87**	**0.46**	**0.22**	**0.20**	**2.62**

5I Calculation of Non Performing Loan to Loan Loss Provision Ratio

Particulars	2006/07	2007/08	2008/09	2009/10	2010/11
Non Performing Loan	9,592,305	11,156,985	15,296,351	24,090,030	341,452,026
Loan Loss Provision	22,961,420	39,324,039	83,651,653	140,264,860	394,434,205
Non Performing Loan to Loan Loss Provision Ratio (%)	**41.78**	**28.37**	**18.29**	**17.17**	**86.57**