CREDIT MANAGEMENT OF FINANCE COMPANY

(A CASE STUDY OF KASKI FINANCE LIMITED)

By:
Kesh Bahadur Gurung
Prithvi Narayan Campus
Roll No.: 61/064
T.U. Registration Number: 7-1-298-75-96

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RECOMMENDATION

This is to certify that the thesis:

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Kesh Bahadur Gurung

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Supervisor

Name: Prof. Keshar J. Baral, PhD

Signature:

Date:

Head of Department

Signature:

Campus Chief

Signature:

VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis

Submitted by:

Kesh Bahadur Gurung

Entitled

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Viva-Voce Committee

Chairperson, Research Committee: ……………………………………………

Member (Thesis supervisor): …………………………………………………

Member (External expert): ……………………………………………………

Member: ……………………………………………………………………………

Date:

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURE

ABBREVIATION

ABBS	:	Any Branch Banking Service
ADB	:	Agriculture Development Bank
ATM	:	Automatic Teller Machine
BAFIA	:	Banking & Financial Institutions Act
BFIS	:	Banking and Financial Statistics
CA	:	Current Assets
CAD	:	Credit Authority Delegation
CAMPARI	:	Character, Ability, Means, Purpose, Amount, Repayment
CD	:	Credit Deposit
CEO	:	Chief Executive Officer
CFR	:	Credit Facility Request
CIC	:	Credit Information Centre
CIT	:	Citizen Investment Trust
CL	:	Current Liabilities
CPG	:	Credit Policy Guideline
CRM	:	Credit Risk Management
CRR	:	Cash Reserve Ratio
DCBL	:	Development Credit Bank Limited
DCDG	:	Deposit & Credit Guarantee Corporation
DRT	:	Debt Recovery Tribunal
EBT	:	Earning Before Tax
EMI	:	Equal Monthly Installment
EMI	:	Equated Monthly Installment
EPF	:	Employee Provident Fund
EPS	:	Earning Per Share
FDR	:	Fixed Deposit Receipt
FIS	:	Financial Institutions
FY	:	Fiscal Year

HBL	:	Himalayan Bank Limited
HISEF	:	Himalayan Securities and Finance Limited
INGO	:	International Non Government Organization
KAFIL	:	Kaski Finance Limited
KAFL	:	Kathmandu Finance Ltd
KBL	:	Kumari Bank Limited
LC	:	Letter of Credit
LRSC	:	Land Reform and saving Corporation
MBL	:	Machhapuchhre Bank Limited
NBA	:	Non Banking Assets
NBL	:	Nepal Bank Limited
NEPSE	:	Nepal Stock Exchange Limited
NGO	:	Non Government Organization
NIDC	:	Nepal Industrial Development Corporation
NPA	:	Non-performing Assets
NRB	:	Nepal Rastra Bank
OPM	:	Other People Money
PE	:	Probable Error
RBB	:	Rastriya Banijya Bank
Rs.	:	Rupees
SEBON	:	Security Board of Nepal
SLR	:	Statutory Liquidity Ratio
SWOT	:	Strength, Weakness, Opportunity, Threat
TR	:	Trust Receipt
TU	:	Tribhuvan University

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The development of any country largely depends upon the economic health and conditions of the country. Nowadays the financial institutions are viewed as means in the process of the economic growth. The mobilization of the domestic resources is one of the key factors in the economic development of the country. Financial institutions collect immobilized money in the form of deposits from every corner and parts of the country. This will provide capital for the development of the industry, trade and business and other resources to deficit sectors. Financial institutions formulate sound credit management to make it more effective, which eventually contribute to the economic development of the country. Formulation of sound credit management and coordinated and planned efforts pushes forward the forces of economic growth.

Financial institutions are such type of institutions, which deal in money and substitute of money, or deal with credit and credit instruments. Good management of credit and credit instrument is very important for the financial institutions to collect funds and utilize it in good investment sector. Any way the goal of investment is the maximization of the owner's economic welfare. Intelligent investors always search for the project with minimum risk and higher return.

Financial institutions have played a vital role by accepting deposits and providing various types of credits. Credit affects the overall development of the country. The problem of lending has become a serious for developing country. Financial institutions give too many loans, advances, overdraft and many other facilities to encourage to their customer in business and they spend big amount of money as office operation expenses and staff expenses. Financial institutions are found to make loan only on short-time basis against moveable merchandise but they don't invest on long-term projects because of the safety minded and not considering the profit potential of the project. Another reason is that, they follow conservative credit policy, which is based on strong security even in this age. Because of this, they may not earn sufficient return and most of the joint venture financial institutions may have to be collapsed due to poor credit management or lack of credit strategy in future.

For the economic growth of a nation, proper utilization of available resources in efficient manner is highly necessary. The major problem of developing country like Nepal is the problem of economic growth with stability. Due to various factors, the economic activities have been highly fluctuating. In present situation of distortion of financial institutions have higher threats to run into credit risk. Major banking problems have been caused by weakness in credit management.

Credit is the most effective part of investment for the financial institutions. It is regarded as the heart of every financial institution. But the banking sector is far from this fact. Thus credit management is considered as the heart issue in Nepalese financial sector.

Kaski Finance Limited was established in 2063to provide financial support to different productive and needy sector by collecting the small and large savings all around the country for the overall development of the nation under the free economy policy of Nepal Government. Kaski Finance Limited is 'Ga' class financial institution licensed by Nepal Rastra Bank (NRB).The finance started its operation from Shrawan14, 2064. The Head office of Kaski Finance Limited is located in Newroad, Pokhara. Agriculture, Tourism, Business, Services and Industries are the major target areas for Lending. Besides these Kaski Finance Limited helps to find, establish, develop and finance productive sector which is base for nation building. Kaski Finance Limited provides easy, fast and convenient services to its valued customers using modern technology.

In a very short span of time, it has expanded 6 branches excluding its head office and 2 extension counters. Kaski Finance Limited is providing many modern services in recent years such as ATM Service, Any Branch Banking Service (ABBS), 365 days Banking service and evening counter service. Finance is using the PUMORI IV banking software enabling it to provide modern banking facilities. In the span of 5 years it has successfully opened 6 branches and 2 extension counters with successful track record in terms of deposit and profit. It is established with the aim of assisting economic environment of the country through collecting small scattered money throughout country and mobilizing it in the productive sector of the economy for the overall development of nation. Meeting its objectives it has collected small scattered money throughout the county from its outlets spread all major business hubs of the country.

The formation of board of directors includes 8 directors including chairman. 3 directors are from the public shareholders and remaining 5 are from the promoter shareholders. Similarly functional organization chart of KAFIL is headed by CEO and under it there are three important managerial bodies i.e. Credit and Marketing, Operation and Treasury, and Account and Administration who lead the department heads. All branches are liable to their concerned departmental heads (Kaski Finance Limited).

1.2 Focus of the Study

This study comprises the analysis of deposit collection, loan and advances and their trends during the study period FY 2064/065 to 2068/2069. A financial institution cannot earn good profit without effective credit management. This study focuses on whether the credit management procedure of Kaski Finance Limited is effective or not i.e. position of credit deposit ratio, quality of assets and also focuses sector wise distribution of loan, Net interest income of KAFIL. In essence, the current study highlights on the credit management of KAFIL to draw attention of new researchers and the management of the finance company in order to aware them in their vital activities.

1.3 Statement of the Problem

Nepalese financial institutions have not formulated their credit policy in an organized manner. They only depend upon the directions and guidelines of central bank but they don't have clear view and have not formulated their own organized credit policy. Furthermore, the implementation of credit policy is not in an effective and efficient way. Lack of foresightedness in policy formulation and absence of strong commitments towards its proper implementation has caused many problems to financial institutions. Profit is important to every financial institutions as well as shareholders and depositors point of view and it is possible when they invest on safe, sound and profitable projects. Every financial institution must earn profit to survive in the competitive market where a lot of money and very little investment opportunity exist. Therefore, appropriate credit policy is the basic function of all the financial institutions.

Credit management is the main factor for the every financial institution. A financial institution cannot achieve its predetermined goal and objectives without effective and proper credit management. It is the life-blood of any financial institution. Thus, the study will try to explain the following points specially related to the credit function of the Kaski Finance Limited.

1. Is KAFIL maintaining its credit deposit ratio with respect to NRB directive?
2. What is quality of Assets at KAFIL?
3. What is a percentage of credit in productive sector at KAFIL?
4. What is a trend in deposit & lending of KAFIL?

1.4 Objective of the Study

Investment decision is one of the major decision functions of financial management. The objective of the study is to assess and evaluate the credit policy and strategies followed by the KAFIL. Besides this, the following specific objectives are to support the evaluation and studies are as follows:

1. To analyze the credit deposit ratio of KAFIL with respect to NRB Directive.
2. To analyze quality of assets of KAFIL.
3. To analyze the percentage of loan in productive sector of KAFIL.
4. To analyze the trend in deposit and lending of KAFIL.

1.5 Significance of the Study

Financial institutions accept deposit from the public and provide the necessary amount to the investors as a loan from which the financial institutions earn the profit. In financial institutions credit management has become integral part of almost every banking operation. It is indisputable that the loans and advances are major sources for generating profit in case of financial institution. Domestic saving and foreign capital (growth & loans) are two principle sources of capital available for investment. Domestic saving is the most crucial and viable source of capital.

Financial institutions also attracts those domestic saving and grants loan and advances to business sectors as long term, mid-term and short term to accelerate economic activities.

In the context of Nepal, there is less availability of research work in credit management. There is enough research work on the other performance of financial institutions but this specific function does not seem given importance before. Hence fund collected by financial institutions should be cautiously allocated under loan and advance. This undertaken venture is key factor to know the real affairs and position of KAFIL in regard to management of disbursed loans and advances. This will also be a guideline for improving their performance to achieve their objectives. This study also helps to identify the hidden weakness regarding credit management of KAFIL and will be beneficial to its stakeholders. Shareholders are true owners of the company. This study will be useful to them for acquiring the answers like; how funds are utilized as loan and advances? To what extent they are gaining? Is the productivity of their limited resources satisfactory? Management side is one of the keen stakeholders of the bank and this study will be helpful to compare own with others regarding performances as success and failure, effectiveness and so forth. Similarly, customers, creditors, competitors, investors, financing agencies, stock exchange, and personnel can get information about performance of KAFIL loans and advances with the help of this analysis. They can make yes or no decision regarding investment. Policy makers are other important stakeholders who always keep an eye on the performance of the bank. Officers of government, ministry of finance, central bank, security exchange, and tax office can formulate appropriate policy regarding bank with the help of this study.

1.6 Limitations of the Study

Limitations are those conditions beyond the control of the researcher that may place restrictions on the conclusions of the study. Administrative polices the preclude using more than one class in an experiment, a data gathering instrument that has not been validated, or the inability to randomly select and assign subjects to experimental and control groups are examples of limitation.

The study has been subject to the following limitations.

- The study is focused only on credit management of KAFIL.
- The study is based on KAFIL's annual reports of 5 years data up to fiscal year 2068/69 and also based on information provided by KAFIL as well.

1.7 Organization of the Study

This section deals on how the whole thesis has been structured. This consists into five chapters such as introduction, review of literature, research methodology, presentation and analysis of data and summary, conclusion and recommendation. Introduction chapter contains the background of study, focus of the study, statement of the problem, objective of the study, significance of the study and limitation of the study. Review of literature chapter presented review of literature where some past related research works, Books, journals; articles, thesis and other related materials are reviewed. Methodology chapter explains the research methodology used in research to find the result for meeting the objectives set in the chapter one. Presentation and analysis chapter analyses the data related with study and present the finding of the study. While presenting the data, in order to make it attractive, charts and graph are used as of the necessary and finally summary, conclusion and recommendation chapter content whole study is summarized and the findings and conclusions are drawn. Recommendations based on analysis of data are made to solve the research problem.

Finally supplementary materials are given. Bibliography has made inbuilt attachment from Microsoft word 2007 by using APA method.

CHAPTER II

REVIEW OF LITERATURE

For review of study, the researcher uses different books and journal, reviews and abstracts, indexes, reports, and dissertation or research studies published by various institutions, encyclopedia etc. It is divided into two headings: (1) Conceptual Review and (2) Review of related Studies

2.1 Conceptual Review

2.1.1 Concept of Financial Institutions

The banking system is made up of commercial banks & financial institutions. Commercial banks are primarily in the business of accepting deposits and extending credits. The financial institutions comprise of development banks, finance companies, saving and credit unions, building societies, insurance companies, mortgaged companies, pension funds and provident funds. Some of these financial institutions are also engaged in the business of the accepting deposits from the general public. However the regulatory authority may impose certain restrictions on accepting deposit by these institutions. Regulatory authorities also are integral part of the financial system.

The financial institution can operate conditional or limited banking services, which may vary from country to country. Some others financial institutions such as insurance companies, pension and provident funds are categorized as contractual saving institutions and they mobilize saving on contractual basis.

Several sectors of economy like household, businesses, government and foreign sectors may not be in a surplus/deficit position simultaneously. Some sectors (or part) may be in surplus position while others in deficit position. Financial institutions, as intermediaries in the financial system, play a role of bridging the gap between surplus sector and deficit sector. When the two sectors interact together in the absence of financial intermediaries, the process of flow of funds is known as direct finance. Presence of financial institution in the system helps in channelizing the funds from surplus to deficit sector which is understood as indirect financing. Financial institutions, financial instruments and financial markets are the three interrelated aspects of the overall financial system. A wide verity of financial institutions may exist in the financial market. Each institution serves a variety of customers or deals with a various types of instruments. All these financial institutions collectively build up the financial market. A financial market is a place where all financial securities or instruments and financial services are transacted or exchanged. Financial institutions help to mobilize savings in the form of different types of financial instruments. People and organizations willing to borrow money are brought together with those having surplus funds in the financial market. Thus the financial institutions play the role of intermediaries between the surplus sector and deficit sector of an economy (Thapa & Rawal, 2012).

2.1.2 Types of Financial Institutions

Financial institutions can be classified into two categories i.e. depository institutions and non-depository institutions.

2.1.2.1Depository Institutions: A financial institution accepts deposits and channels the money into lending activities. There are several depository institutions. Some depository institutions are as follows.

Commercial Banks: Commercial Banks are depository institutions whose major assets are loans and whose major liabilities are deposits. Commercial banks' loans are broader in range, including consumer, commercial, and real estate loans, than are those are other depository institutions. Commercial banks' liabilities include more none deposit sources of funds, such as subordinate notes and debentures, than do those of other depository institutions.

Thrifts: Thrifts are depository institutions in the form of saving associations, saving banks, and credit unions, Thrifts generally perform services similar to commercial banks, but they tend to concentrate their loans in one segment, such as real estate loans or consumer loans.

2.1.2.2 Non-Depository Institutions: A financial institution funded by the sale of stock, insurance or other securities instead of through deposit. There are several types of non-depository institutions. Some non- depository institutions are as follows.

Securities firms and investment banks: Securities firms and investment banks are financial institutions that underwrite securities and engage in related activities such as securities brokerage, securities trading, and making a market in which securities can trade.

Finance Companies: Finance companies are financial intermediaries that make loans to both individual and business. Unlike depository institutions, finance companies do not accept deposits but instead rely on short and long term debt for funding.

Mutual Funds: Mutual funds are financial institutions that pool financial resources of individuals and companies and invest those resources in diversified portfolios of asset.

Pension Funds: Pension funds are financial institutions that offer saving plans through which fund participants accumulate savings during their working years before withdrawing them during their retirement years. Funds originally invested in and accumulated in a pension fund are exempt from current taxation (Saunders & Cornett, 2012).

2.1.3 Historical Development of Financial Institutions in Nepal

The History of the modern banking system of Nepal began in 1937 with the establishment of Nepal Bank Limited (NBL) as the first commercial bank of the country. It was established as a semi private commercial bank under Nepal Bank act. It was the only formal financial institution before the establishment of Nepal Rastra Bank (NRB) as the central bank of Nepal. NRB was established in 1956 under the NRB act 1955. Establishment of the NRB as a central bank of Nepal was another major step in the development Nepalese financial system during the formulating phase of the first five year development plan mid-1950s.

To provide industrial credit to industrialists and other entrepreneurs; the government established the Nepal Industrial Development Corporation (NIDC) in 1959 under the Nepal Industrial Development Corporation Act 1959. The Employees Provident Fund Act to collect provident fund of government employees. The government established the Co-operative Bank under the Co-operative Bank Act 1964 to provide agriculture credit to formers and primary cooperative societies in 1964 and Land Reform and saving Corporation (LRSC) in 1066. But the established of the Co-operative and LRSC could not provide the required agriculture credits and saving mobilization facilities to cooperatives and farmers of the country. As a result, the cooperative bank and the land Reform Saving Cooperation were later merged with agriculture Development Bank (ADB/N). The Ratriya Banijya Bank (RBB) was established as the second commercial bank of the country in 1966. It was established under the Rastriya Banijya Bank Act, 1966. The establishment of RBB as the fully government-owned commercial bank of the country greatly helped in the expansion of commercial banking services throughout the country. The National Insurance Corporation was established in 1967 and the Nepal Insurance Corporation in 1968 to provide insurance services to the Nepalese people. The credit Guarantee Corporation was established in 1974 to provide credit guarantee services to small/priority sector credit extended by NBL & RBB. The securities marketing center, which was established in 1977, was converted into the Securities Exchange Center in 1984. It was also later converted into the Nepal Stock Exchanged limited (NEPSE) in 1992 to develop capital market in Nepal. Till the decade of mid eighties, there were 2 commercial banks and 2 development banks with government ownership captured overall financial market of Nepal (Thapa & Rawal, 2012)

After mid-eighties, financial liberalization policy played a crucial role for the establishment and development of several commercial banks (both foreign joint ventures and private commercial banks) and financial institutions. This policy further led to the amendment of the commercial bank act in 1974, the enactment of finance Company Act, 1985 and Development Bank Act, 1992.

Nabil Bank was established as the first joint venture banks in 1984. After establishment of Nabil Bank as a private commercial bank, there has been a huge public attraction towards the opening of banking institutions in Nepal. After national political change on 2047 B.S., the pace of liberalization was further enhanced, economic activities widened up, international trade gradually increased. Due to this reason number of financial institutions gradually increased. (Thapa & Rawal, 2012)

During the decade of 2050 (B.S.), new political conflict came in to existence in the country. As a result several economic activities were adversely affected. Despite the prevailing conflict scenario, number of banks financial institutions kept on increasing. Banking & financial sector continued its pace of growth. The growth of number of financial institutions can be seen in the table below. Details of financial institutions licensed by NRB are listed in Appendix 1.

Table 2.1

Growth of Financial Institutions

Year	Com. Banks	Dev. Banks	Finance Co.	Cooperatives	NGOs	Others	Total
2039/40	2	2	-	-	-	-	4
2049/50	8	4	4	-	-	-	16
2053/54	11	7	41	19	29	-	107
2055/56	13	11	45	35	30	-	134
2057/58	15	16	48	34	15	-	128
2061/62	17	37	60	29	47	-	181
2063/64	20	50	74	19	47	-	210
Chaitra end 2069	32	117*	65	16	33	2	265

Source: NRB

* Includes class 'D' (Micro Finance Development Banks)

Nepalese financial system has grown significantly both in terms of business volume and the size of markets during the very short period of time. A number of financial institutions with varied nature of operation came into existence offering a wide range of financial services. Since the second half on the 1980s significant achievement have been made in the Nepalese financial system.

Although there has been a rapid growth in the number of banks and financial institutions, Nepalese financial system has not remained exceptional from problems. Some of the banks and financial institutions turned out problematic. Government owned banks (RBB & NBL.) faced as severe problem of weak credit management and poor corporate governance. Similar types of problems were observed in some of other private commercial banks. In the wake of these problems crisis financial sector reform program was initiated since together with introduction of Remedial corrective actions. In the meantime, the new Nepal Rastra Bank Act, 2002 was enacted. In place of various acts governing financial institutions (Commercial bank act, Finance company act, development bank act) an umbrella act "Banking and financial institutions act (BAFIA), 2006" was introduced. These efforts have turned out to be effective which have had significant impact for the development and improvement of the health of the financial sector of the country.

As of end of Ashad 2069 there are 32 commercial banks in the Nepalese financial system. These commercial banks are involved in full-fledged banking business. There are several types of financial institutions in the country such as finance companies, development banks, financial cooperatives, financial intermediary NGOs (FINGOs), contractual savings institutions, insurance companies, trust funds and pension funds cooperation etc. Among these financial institutions, finance companies are the largest group of Nepal. This banking and financial institutions are registered with the company Register's Office under the company Act, 1997 and operate under the BAFIA, 2006.

Similarly there is one Insurance Board that governs Insurance Companies, one Citizen Investment Trust (CIT), one Employee Provident Fund (EPF), one Deposit and Credit Guarantee Corporation (DCGC), one Nepal Stock Exchange (NEPSE), one Security Board (SEBON) and several postal saving banks in Nepal. (Thapa & Rawal, 2012)

2.1.4 Concept of Finance Company

Finance company is financial intermediaries that make loans to both individuals and businesses. Unlike depository institutions, finance companies do not accept deposits but instead rely on short and long term debts for funding.

Finance companies are engaged in the business of the accepting deposits from the general public. However the regulatory authority may impose certain restrictions on accepting deposit by these institutions. Regulatory authorities also are integral part of the financial system. The finance companies can operate conditional or limited banking services, which may vary from country to country. Several sectors of economy like household, businesses, government and foreign sectors may not be in a surplus/deficit position simultaneously. Some sectors (or part) may be in surplus position while others in deficit position. Finance companies can play a role of bridging the gap between surplus sector and deficit sector. When the two sectors interact together in the absence of financial intermediaries, the process of flow of funds is known as direct finance. Presence of financial institution in the system helps in channelizing the funds from surplus to deficit sector which is understood as indirect financing. Finance companies play vital role in meeting financial needs of productive units through generating saving from the surplus units of the economy (Thapa & Rawal, 2012)

2.1.5 Functions of Finance Companies

The primary function of finance companies is also to make loans to both individual and businesses. Finance companies provide such services as consumer lending, business lending, and mortgage financing. Some finance company loans (e.g., commercial and auto loans) are similar to commercial bank loans, but others are aimed at relatively specialized areas such as high risk (low credit quality) loans to small businesses and consumers. Finance companies are often willing to lend to riskier customers than are commercial banks, and thrifts, and they sometimes offer rates well below those offered by depository institutions. Thus, they compete directly with depository institutions for loan customers. Unlike banks and thrifts, finance companies do not accept deposits instead; they rely on short and long term debt financing (Saunders & Cornett, 2012)

2.1.6 Concept of Credit

Historically banks have preferred to make short term loans to businesses for non permanent additions to their working capital. These loans usually were used to finance the inventory raw material or finished goods to sell. Such loans take advantage of normal cash cycle in a business firm. While banks and financial institutions today make a far wider array of business loans than just simple liquidating credits, the short-term loan frequently displaying many of the features of self liquidation-continues to account for over half of bank loans to business firms. The extension of credit is one of the major functions of banking business. Major source of income for the bank and financial institution comes from their loans and advances. Credit management is the management of the loan and advances. Success of banking business depends on the efficient and effective management of credit. Poor credit management has proved to be one of the major causes of bank failures throughout the world. Loan uncollectible due to mismanagement, illegal manipulation for loan, misguided lending policies or unexpected economic downturn are main reasons for a bank getting into serious problem.

Credit can be offered in a variety of types/categories as per the need of potential market. Credit management is always a challenging task in the banking business because there are several environmental influences and risk associated with the credit operation and administration. Credit risk is that risk which arises where the borrower fails to meet the obligation on agreed term. Lending function is significant for every bank as it yields substantial income by means of interest on loan and advances and fees on non funded based credit activities. Bank and financial institutions lending facilities the economic development of a country by extending financial support to industry, agriculture, trade, commerce and other sectors. Banks also invest certain part of their loan in social development in the form of deprived sector lending.

Credit management is the management of the credit portfolio of the bankers and financial institutions. The expression credit refers to short term loan and advances as well as medium/long term loans and off balance sheet transaction. Management includes within its preview pre-sanction appraisal, sanction, documentation, disbursement and post lending supervision and control.

Credit is one of the major functions of the banking business. There are several risks inherent in the credit process. Credit management deals with minimizing those risks which are directly or indirectly involved in a project.

Credit management is no longer "rule of thumb" game. In a highly competitive and deregulated environment, Banks and financial institutions have to involve better system and procedures to manage the credit needs of highly demanding customers, particularly in the corporate and retail sectors. Credit management includes all the activities related with credit such as; credit processing, credit marketing, portfolio management, concentration risk monitoring, risk hedging, capital required for the risks and credit reporting etc.

2.1.7 Types of Credit

Credit can be classified on several bases. The credit products may differ as per the financing requirement of any business. The credit products are determined on the basis of borrowing cause of customer. It can be classified as;

Funded or Non-funded: Funded loan refers to the loan which is disbursed in the forms cash or any other payments made on behalf of customers. Whenever a bank disburses a loan and cash goes out of the bank immediately, then it is classified as funded loan. Funded loans are recorded in the books of accounts and appear in the balance sheet under the heading of loan and advances. Some examples of funded loans are; Overdraft, Cash Credit, Importers Loan, Trust Receipt Loans, Exporters Loan, Packing Credit Loan, Short Term Loan, Demand Loan, Long Term Loan, Home Loan, Hire Purchase, Consumer loan, Mortgage Loan, Auto Loan, Credit Cards, Bills Purchase etc.

Bank's commitment for the future payment or any other conditional payment of behalf of its customer is known as non-funded facility. In non-funded facilities banks do not have to pay cash but need to commit a conditional payment. Non-funded facility involves the issuing bank's commitment to honor certain promises as per the letter of credit or guarantee or similar documents favoring a third party, without requiring any immediate outlay of funds by the bank at the time of making commitment. However outlay of the may take place in the event of development of commitment on the issuing bank. These commitments do not appear in the banks on balance sheet. It is presented as contingent liabilities outside the balance sheet hence they are also known as off balance sheet items. Some examples of non funded loans are; Letter of credit, Guarantee (performance bond& Advance payment etc.), Acceptance and endorsement, Commitments etc.

Fixed Term or Working Capital: The loans which are granted for the creation of longer term assets (Capital Expenditure) are known as fixed term loans. These types of loans are generally for more than one year and repaid on fixed installments over the loan tenor. These loans are secured mortgaging the specific fixed assets financed or the entire block or fixed assets of particular project. Some examples are; Project loan, Home loan, Hire purchase, other term loans etc.

Business requires working capital for its day to day operation. Working capital loans are granted to finance the working capital requirement of the business. The working capital requirement relate to processing, production, sale of goods and services which are granted for bridging the financial gaps in the production cycle of the business. Banks sanction a specified credit limit to the borrower against the security of stock, book debts or any other assets acceptable to banks which are pledged. Some examples are; Pledge, Overdraft, Demand Loan, Cash Credit etc.

Consumer or Corporate: Consumer loans are the loans which are granted for the consumption purpose. These loans are based on the security and the future cash flow (disposable income) of the borrower. Some examples are; Home Loan, Vehicle Loan, Education Loan, Personal Loan, Management Loan etc.

Corporate loans are the loans which are granted for big business houses. The corporate loans are appraised on the basis of detail analysis of the borrowers past performance, projected balance sheet, profit & loss account, cash flow statement etc. to determine financial viability of the project and its debt servicing capacity. The technical, managerial commercial viabilities of the project are also critically examined by the banker before granting these loans. For example; all the loans disbursed to the corporate sector.

2.1.8 Major Credit Product

Overdraft: A limit is assigned in the current account of the customer up to which the customer can overdraw his account. An overdraft account is a fluctuating type of account and therefore the customer can deposit when he has money and overdraw when he requires. The customer can deposit and withdraw as many times as he desire provided the total debit amount does not exceed the credit limit assigned.

Cash Credit: The credit is not given directly in cash but deposit account is being opened on the name of credit taker and the amount credited to that account. In this way, every credit creates deposit.

Trust Receipt Loans: Trust Receipt (TR) is a type of short-term import loan to provide the buyer with financing to settle goods imported under Letter of Credit where title of goods is held by the bank. Under a TR arrangement, the Bank retains title to the goods but allows the buyer to take possession of the goods on trust for resale before paying the Bank on TR due date. TR financing is applicable to goods imported under documentary credit.

Import Credit: Loan facility extended by a bank in the buyer's country.

Export Credit: Loan facility extended to an exporter by a bank in the exporter's country.

Packing Credit: A borrowing facility provided by a financial institution to help an exporter finance the costs of buying or making a set of products, and then packing and transporting them before shipment occurs. A packing credit loan will often be extended if a letter of credit has been issued by a purchaser of the products that is based in another country or a confirmed order for exporting the goods exists.

Short Term Loan: Usually one year or less, often used to refer to bonds or loans.

Demand Loan: Demand loan is a working capital loan provided for not more than a year. It is a revolving type of loan, which once settled is reinstated by the settled amount. This means the customer can settle and withdraw as many times as he pleases within the expiry period of the loan. When he needs the fund he must give a demand letter and for settlement as well he must give a request letter to settle the desired amount.

Term Loan: Bankers lend some portion of their fund for fairly long period of time to industries and agriculture against the security of fixed assets. Term loans are normally given for the purchase of fixed assets. Thus, this type of loan is paid in installments ranging from two years to fifteen years.

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

Real Estate Loan: A domestic office loans secured by real estate is considered as real estate loans. Generally real estate loans are classified into five subcategories: Construction and development loans, multifamily residential real estate, home equity, 1 to 4 families residential, farmland and other real estate loans. These loans are classified separately because such loans are subject to different risks and regulations in the USA. Real estate loan are amongst the most profitable type of loan at the time of prosperity and it represents the highest percentage of total loans in the commercial banks of the US. It builds up with the assumption that the lease rates and occupancy would quickly rise, and if this does not materialize banks end up with a property that can be disposed off at distress price only.

Hire Purchase Loan: In case of hire purchase loan, the article belongs to the owner (bank) and is given on hire to the customer. The hirer (borrower) will pay the owner (bank), the hire money agreed between them by installments normally on (EMI) i.e. on equal monthly installment basis over a period of time. If the hirer fails to pay any installments due, the owner (financier or bank) will have unrestricted and undisputed right to take over the possession of the article or vehicle given on hire. Banks entertain for vehicles and costly durable goods such as refrigerators and television on hire purchase agreements. Nowadays, machinery and equipment are also being financed under hire purchase scheme.

Consumer Loan: Consumer loans are extended to individual borrowers. The average size of consumer loans is relatively small. The maturities of such loans are 1 to 4 years. Consumer loans are provided to finance durable goods in hire purchase like car, freeze, washing machine etc. Nowadays, banks finance the education, medical care, traveling expenses etc. of individuals. The individual borrower's default risk is high compared to commercial loans. Consumer loans are considered risky because the goods financed through consumer lending cannot be sold in the face value and neither there exists a secondary market for such goods. Hence, the interest rates on such loans are high in comparison to other types of loans. Consumer loans are normally repaid in installments consisting of principal and interest on EMI (Equal Monthly Installment) basis. As the interest is also paid every month, the actual cost of fund to the borrower comes to be higher than other loans.

Mortgage Loan: Loans extended against the strength of fixed assets (mortgaged properties) like land and building is known as mortgage loan. Mortgage loan can be in the form of term loan as well as overdraft which entirely depends on the borrower's request. The main feature of this type of loan is that the borrower need not have a firm to borrow. His earning source and value of property will be sufficient to obtain such loans.

Project Loan: Project credit is granted to the customers as per project viability. The borrowers have to invest certain proportion to the project from their equity and the rest will be financed as project credit. Construction credit is short-term credits made to developers for the purpose of completing proposed projects. Maturities on developers for completing proposed projects. Maturities on construction credits range from 12 months to as long as 4 to 5 years, depending on the construction credits range from 12 months to as long as 4 to 5 years, depending on the size of the specific project . The basic guideline principle involved in disbursement policy is to advance funds corresponding to the completion policy is to advance funds corresponding to the completion stage of the project.

Agriculture Loans: Agriculture loans are provided to finance the planting and harvesting of crops. Such loans are quite similar to commercial and industrial loans because loan is provided to finance the short term seasonal credit need of the customers. The loan is utilized in purchase of seeds, pesticides, fertilizers, wages of farm workers and various other production costs. The loan is repaid when other crops are harvested and sold. Long term financing is extended for purchase of live stock, tractor, combine machines, equipment and land. Agriculture lending is considered extremely volatile because the price of agro products rises and falls depending on the demand and supply of national and international markets.

Education Loan: An education loan is a loan taken to help pay for an education, usually at a college or trade school, but may also be used to pay for private schools or prep schools as well.

Personal Loan: Consumer granted for personal (medical), family (education, vacation), or household (extension, repairs, purchase of air conditioner, computer, refrigerator, etc.) use, as opposed to business or commercial use. Such loans are either unsecured, or secured by the asset purchased or by a co-signor (guarantor). Unsecured loans (called signature loans) are advanced on the basis of the borrower's credit and ability to repay the loan from personal income. Repayment is usually through fixed amount installments over a fixed term. It is also called consumer loan.

Credit Cards: Limit assigned to the borrower and loaded in a card to make withdrawal or to pay the prices of goods and services. Repayment can be made after a fixed period time. The banks generally avail revolving types of limit for the credit card customers. Some brands of credit cards are Master Card, Visa Card etc.

Bills Purchase: Loans granted to the customer purchasing different types of commercial bills Viz. Travelers cheque, Bank cheques, Export/Import bills.

These types of limit are granted for very short (generally 90 days) period of time.

Loan against fixed deposit: Banks lend against the fixed deposit receipt of own banks as well as other banks.

Letter of credit: It is issued on behalf of the customer (buyer/importer) in favor of the exporter (seller) for the import of goods and services stating to pay certain sum of money on the submission of certain documents complying the stipulated terms and conditions as per the agreement of L/C. It is also known as importers letter of credit since the bank of importer do not open separate L/C for the trade of same commodities.

Performance bond: A written guaranty from a third party guarantor (usually a bank or an insurance company) submitted to a principal (client or customer) by a contractor on winning the bid. A performance bond ensures payment of a sum (not exceeding a stated maximum) of money in case the contractor fails in the full performance of the contract.

Advance payment: Guarantee supplied by a party receiving an advance payment to the party advancing the payment. It provides that the advanced sum will be returned if the agreement under which the advance was made cannot be fulfilled. Also called advance payment guarantee.

Commitments : Written assurance from a bank to a borrower that a specified amount of loan or line of credit will be made available at a certain rate and during a certain period.

2.1.9 Credit Process

Banks and financial institutions have to pass through a predetermined process of granting loan. Well defined process helps to minimize credit risk as well as other potential complexities of future**.** In general following steps are taken as credit processes;

Credit Appraisal: Credit appraisal is the process whereby the risks relating to the repayment of a loan by particular borrower are evaluated. There are no automatic/readymade procedures, formats or structures to follow in analyzing the creditworthiness of the borrowers. Every lending situation may vary case to case. But a complete credit appraisal has a generally standardized presentation and the process leading up to its conclusions are in effect, tailored to company and the particular lending situation. Before making the credit appraisal it is a must for the credit analyst to understand the situation of macro environment and the industry of the firm operation in. Overall credit analysis aims to maximize bank's profit by safe and secure lending practices. Banks and financial institution deals with other people money (OPM), so they need to careful while lending those funds to businesses. Main objective of the credit analysis is to create and maintain the good loans portfolio. Following key elements need to be analyzed in credit appraisal.

Macro Environment Analysis: Analysis of macro environment provides an understanding of opportunities and threats for the proposed business. Credit analyst should explore the area of opportunities as well as threats which help to facilitate in taking appropriate lending decision. The impact of the environment into the business need to be assessed in a proper way so as to minimize the risk involved in lending. Proper analysis can provide a guideline for decision making for the lending. While analyzing macro environment following points should be considered; Economic Environment, Demographics Environment, Socio-Cultural Environment, Technological Environment, Government/Political Environment, Labor Markets, Labor Relationship & Legal Environment

Micro Analysis

Industry Analysis: Industry refers to a group of similar types of business firms. It is necessary to classify the industry in which the proposed business operates in. A specific business can be generalized on the basis of its group performance since it acquires general characteristics of the industry. Industry analysis can be helpful for getting information on market size and growth rate, number of rivals, scope of competition, buyers' needs and requirements, economies of scale. The information related to the industry becomes relevant for credit analysis. For example, while analyzing the credit proposal of five stars hotel, credit officer or analyst should collect the various information related tourism industry. The information like foreign tourist inflow per year, trend of tourist inflow, average stay per visit, per day expenditure etc. becomes important for the industry analysis. After analyzing the industry it helps analyst to know about attractiveness as well as risk associated with the industry.

Firm Specific Analysis

Non-Financial Analysis: There are certain points that need to be assessed before making lending decision. Borrower's creditworthiness provides the assurance for the repayment loan on time. The credit worthiness of the borrower can be accessed on the following subject criteria. Generally 6 Cs model, CAMPARI model or other several models are used in the credit analysis. Usually analysis of following 6 Cs of the borrower provides the basis for analysis. All of these elements must be satisfactory for a loan to be a good one from the lender's point of view.

Character: Character indicates integrity, sincerity, honesty of the borrower. Customer's past track record, repayment history and good credit relationship with the bank provides a comfortable ground for the character analysis. In Nepalese context credit information is one of the source of information to assess financial character of the borrower. Furthermore, borrower's position/designation, social status, family background etc are the basis for assessing character. The loan officer must be convinced that the customer has a well-defined purpose for requesting bank credit and a serious intention to repay. If the officer is not sure exactly why the customer is requesting a loan, this purpose must be clarified to the bank's satisfaction. Once the purpose is known, the loan officer must determine if it is consistent with the bank's current loan policy. Even with a good purpose, however, the loan officer must determine that the borrower has a responsible attitude toward using borrowed funds; it is truthful repay what is owned. Responsibility, truthfulness, serious purpose and serious intention to repay all monies owned make up what a loan officer calls character.

Capacity: Repayment capacity is a major element of credit analysis. The loan granted must be returned after a specified period of time, it can be possible only when the borrower has the capacity to repay. Borrower repays the loan only when he has willingness to repay and ability to repay. Willingness to repay depends on the characteristics of the borrower. Ability to repay represents the borrower's capacity part. The loan officer must be ensured that the customer requesting credit has authority to request a loan and the legal standing to sign a binding loan agreement. This customer characteristic is known as the capacity to borrow money. In case of the company, it is necessary to obtain a valid representative having proper authority from the company's board of directors to negotiate a loan and sign a credit agreement. Usually this can be determined by obtaining a copy of the resolution passed by a corporate customer's board of directors, authorizing the company to borrow money, where a business partnership agreement to determine which individuals are authorized to borrow for the firm.

Cash Flow: This key feature of any loan application centers on questions: Does the borrower have the ability to generate enough cash, in the form of cash flow adequate to repay their loan? In general, borrowing customers have only three sources to draw upon to repay their loans: (a) Cash flows generated from sales and income, (b) the sale or liquidation of assets, or (c) funds raised by issuing debt or equity securities. Any of these sources may provide sufficient cash to repay a bank loan. Cash flows generated from sales and income is considered to be the most reliable sources of repayment of a loan. Moreover, shortfalls in cash flow are common indicators of falling businesses and troubled loan relationship. The loan officer's evaluation of a borrower's cash flow involves asking and answering such question as; is there a history of steady growth in earnings or sales? Is there a high probability that such growth will continue to support the loan? Borrower's income history and the current income are important pieces of evidence in answering such questions.

Collateral: Besides the borrower's strong character, capacity and cash flow, the loan may not be safe for future. Because all these attributes are based on historical analysis. In case of borrower's failure in the business, loan needs to be recovered by liquidating assets provided as collateral. Collateral may be primary or secondary. Primary collateral are those which are directly created by the loan account. Sometimes borrower may provide additional security as secondary collateral. Sufficient collateral to cover loan amount provides comfortable ground for lending decision. In assessing the collateral aspect of a loan request, the loan officer must ask, does the borrower possess adequate net worth or own enough quality assets to provide adequate support for the loan? Marketability and liquidity status of the collateral needs to be reviewed/ monitored at a regular interval.

Condition: The loan officer and credit analyst must be aware o recent trends in the borrower's line of work or industry. How does the changing economic condition affect the loan portfolio? To assess industry and economic conditions, most banks maintain files of information-newspaper clipping, magazine article, and research reports- on the industries represented by their major borrowing customers.

Control: The last factor in assessing a borrower's creditworthy status is control, which center on such questions as whether changes in law and regulation could adversely affect the borrower and whether the loan request meets the bank's and the regulatory authorities standard for loan quality. Furthermore bank needs to have strong control mechanism so as to minimize the risk associated with the loan. Regular monitoring mechanism can keep control on a particular credit portfolio.

Financial Analysis: Financial analysis consists of analysis of Balance sheet, Profit & loss account, Cash flow statement, Ratio Analysis. Projected financial are taken as basis because repayment will be from the future cash flows. Projections should be consistent with the past and present performance. These projected figures should be well justified.

Credit Approval: The loan is approved by competent authority after completion of the credit appraisal on the basis of the recommendation of credit analyst as well as credit risk officer. Approving authority may enquire and make addition in terms and conditions of the credit agreement during the stage of approval. Principally the approval process needs to be started after completion of the documentation process. But in practice, the competitive market has developed the trend of collecting initial document in the first stage for approval of loan. Final and original documentation are obtained only before disbursement of loan. Approval of credit facilities should be done only by the authorized officers of the bank within their representative authorized limits. In practice, "Principally agreed" type of pre-approved is also granted to the borrower subject to the condition of providing necessary documents (Securities) before disbursement of loan.

Credit Documentation: Credit documentation means obtaining and executing necessary legal documents in order to protect the interest of the Bank. Credit is an agreement between the bank and the borrower. The borrower must present the documents before being availed the loan as specified in the agreement. Documentation means the execution of credit documents in the proper form as required by bank's internal policies as well prevailing legal provisions. It establishes the contractual relationship between lending bankers and the borrowers. Documents are essential to avoids ambiguities and settlement of future disputes.

Once the approval of credit facility is received, the job of loan documentation starts. Normally there are two units within the credit department namely business development unit and credit administration unit. Business development unit is responsible for bringing business and relationship banking. They generally focus on marketing related jobs, making necessary credit appraisals and forwarding it to the competent authority for approval. Credit administration unit is responsible for documentation, monitoring follow-ups, supervision and control of the loans and advances.

The necessary of credit documents depend on the type of loan product. There are several credit departments which are required. Some of the documents may be compulsorily required as per bank's credit policy guideline while others may be needed to minimize credit risk. In general, following documents are used by banks and financial institutions (Appendix 2).

After approval of the various credit facilities, CAD prepares offer letter and property valuation letter from registered valuator of Bank. The offer letter should cover the approved credit facility, interest rate/cash margin, commission, management fee, purpose, maturity, security arrangement and other term and conditions. CAD must ensure that those documents received from the customer are dully signed /stamped by the concerned authorities.

Disbursement: After ensuring that all the documents have been obtained from the borrower, banks disburse the approved loan limits. The disbursement may be in full or in partial amount as per the approved term and conditions. In case of revolving credit banks provide limit to the customer and in case of long term financing the disbursement is guided by the terms and conditions specified in the offer letter.

Credit Monitoring: Credit monitoring is the process of ensuring the lent fund is utilized for the sanctioned purposes. Whether the borrower is complying with terms and condition specified in the credit agreement, is the main concern of credit monitoring. Regular monitoring process of credit provides important information, which can be the early warning; signal for future risk. The credit monitoring may be viewed from two aspects. First, regular credit supervision for good customers which includes stock/receivables/trading assets monitoring in case of working capital loan, construction progress monitoring in the case of project financing, and repayment of the interest as well as installment. Second, delinquent borrowers must be monitored with special care which includes follow up, issue of reminder letter, security observation etc.

Credit Recovery and Restructuring: All the borrowers may not serve interest as well as principal on time according to the agreed term and conditions. Some of them become delinquent in payment. In such case banks need to take recovery action. When borrower fails to meet obligation, banks take recovery action as per the recovery policy of the bank. The actions regarding recovery are; issue reminder notice, 7/15/35 days notice as per prevailing laws. The bank may go for recovery of its dues through selling of the mortgaged/pledged/lien assets when there is no chance of repayment by the borrower. Sometimes borrower may request for the continuation of credit agreement by restructuring the terms and conditions. In such case, if the bank is assured that the loan will be repaid once the loan us restructure/rescheduled, new agreement can be established which is known as restructuring of loan.

2.1.10 Principles of Lending

Bank & financial institutions have to follow the basic principle of lending for minimizing risk associated. There are various fundamental norms and principle for making good quality of loan which helps bank & financial institutions in honoring commitments to the depositors and earning some profit from their lending situation. Some principles are as follows:

Principle of Safety and Security: This principle is based on the assumptions that the bankers should lend their fund in such area where there is least probabilities of default. To follow this principle banks should develop an appropriate mechanism of credit appraisal system and good credit policy. While granting a loan, bank carefully examines the economic financial and commercial viability of the business, quality of its management (integrity, honesty, willingness to pay, reputation in market etc.) and the past track record. Bank should give priority to have possession or control over a cashable security for future precaution in adverse situation.

Principle of Liquidity: The banks should have best mechanism to manage the assets and liabilities in a sound manner. Banks have various sources of funds for conducting its lending business. During the course, it has to attune the maturities of its assets (loan) with the maturities of liabilities (deposit). Bank should not delay or default in making payment to its depositors or other liabilities, as this would result in loss of trust and faith of customers. Bank must comply the various regulatory requirements regarding liquidity like CRR (Cash Reserve Ratio), SLR (Statutory Liquidity ratio).

Principle of Risk Diversification: There are various risks involved in lending business and bank can be away from such risk. This principle focuses on better credit risk management through tolerable credit limit in different sector and parties. The principle is based on the proverb "Do not pull all eggs in a single basket". So concentration risk should be monitored and managed through credit diversification. The credit risk can be minimized through diversification of credit portfolio that means prevention from excessive concentration of loans into few borrowers/industries/sectors.

Principal of profitability: Banks are commercial organizations and profit making is their main objective. Profit is necessary for the bank's sustainability and growth. They need to pay adequate return to the shareholder. Banks take risk for securing the reasonable level of return. This principle advocates that maximum possible return should be considered while lending decision made.

Principle of Loan Purpose: Banks always need to be careful about purpose and objective of the loan. Analysis of borrowing cause is very important aspect in credit analysis. If the disbursed loan from the bank is misutilized, there will be less chances of repayment by the borrower. Lending activities should be guided by bank's own credit policy and remained within the boundaries of legal framework. Banks need to be careful to prevent lending in money laundering, terrorist activities, conducting illegal business etc.

2.1.11 Ways to Make Loans

There are seven ways that financial institutions make loans.

Financial institutions Solicit Loans: Financial institutions actively solicit loans in person, by mail, and on the internet, offering loans and other services provided by their respective financial institutions. These sales efforts are typical of financial institutions seeking new customers and those trying to cross-sell their services. For example, a branch manager or loan officer may explain to a prospective borrower how the financial institutions cash management services, including lock boxes and cash concentration accounts, can improve the firm's cash flow. Lock boxes are mailboxes where retail customers send their payments for goods services purchased. The lock boxes are serviced by the bank, and funds can be consolidated and forwarded to the firm's treasury for investment.

Buying Loans: Financial institutions buy parts of loans, called participations, from other financial institutions. It is one way for a financial institution with slack demand for loans to increase its loan portfolio also allows all of the financial institutions involved to diversify their loan portfolios. Participation originates from small financial institutions too. Suppose that a small financial institutions wants to make a loan exceeds its lending limits. It can make the loan and sell participations "upstream' to financial institutions. Financial institutions also buy and sell securitized loans.

Commitments: About three fourths of all commercial and industrial loans are made under loan commitments. A loan commitment is an agreement between a financial institution and a firm lend from under terms that are agreed upon in writing. Loan commitments specify the amount of commitment fee and the amount of funds to be borrowed, but the cost of borrowing depend on the prevailing rates at the time the loan is made. The pricing on the loan is usually specified when the commitment is made. For example, the financial institution may charge the prime rate (base on corporate loans) plus 2 percentage points when the funds are borrowed.

Customer Request Loan: Customer as for a loan. A customer asks for a loan. Unfortunately, many potential customers are denied loans or do not get what they need because they do not know what information the finance needs in order to grant a loan request. Some customers do not know what types of loan will meet their financial needs, or what types of collateral is suitable for their loans. Good loan officers work with prospective borrowers who do not know the procedures, by explaining to them what information they must provide to the financial institution.

Loan Brokers: Loan brokers sell loans to financial institutions and other lenders. Loan brokers are individual or firms what act as agents or brokers between the borrower and the lender. For example, a loan broker may contract with a real estate developer to find financing for a particular project. The broker will seek out lenders and arrange for the loan. Once the loan is made and the fees are paid, the broker is out of the picture.

Overdraft: An overdraft occurs when a customer writes a check on uncollected funds, or when there are insufficient funds in the account to cover the withdrawal. If a financial institution pays on a check written against insufficient balances, it is extending an unsecured loan. Some overdrafts are written with prior permission of the bank, but most are not. In the latter case, the overdraft represents a loan that the financial institution may not want to make. The borrower did not ask the financial institution for the funds in advance. Overdraft can be for less than one day (daylight overdraft) when a check is written or funds transferred out by wire in the morning and the deposit to cover that check or wire transfer is not made until that afternoon.

Refinancing: Borrowers refinance loans. Suppose that interest rates on loan have declined from 10 percent to 6 percent, and that borrowers with high fixed rate loans want to take advantage the lower rates. They can make a new loan at the lower rate and pay off the high rate. The refinancing is at the borrower's option, and occurs only when it is to their advantage.

Collecting Loans: Making loans is the easy part of the lending process. There are two primary sources of repayment that lenders consider when they make loans. The primary sources of repayment of from (1) the borrower's cash flow (e.g. earning) (2) the sale of assets being financed (e.g. inventory). Collateral serves as a secondary source of repayment.

2.1.12 Credit Policy Guideline (CPG)

There are several directives, guidelines and circular from Nepal Rastra Bank (Central Bank of Nepal) on credit issues. The regulation imposed by statutory law and administrative regulation do not provide answer to all the question regarding safe, sound and profitable bank lending. There is no stable and readymade answer regarding loan portfolio, desirable maturities, loan types and other credit procedures. Market demand, taste and preference of the potential borrower are the basis for a creation of particular loan product. Thus it is required to have an explicit credit policy to establish the direction of the use of the fund received from stakeholders, depositors and others, to control the composition and size of the loan portfolio, to determine the general circumstances under which is appropriate to make a loan. Written credit policy serve a number of purposes and the most important is that they provide guidance for lending officers and thereby establish a greater degree of uniformity in lending practices.

2.1.13 Loan Pricing

The pricing of bank loans involve the setting of interest rates, the establishment of compensating balance requirement-especially for business firm and in some case the imposition of loan fees. Interest rates may be either fixed or variable. A fixed rate is one that remains the same during the loan contract. A variable rate is one that may change during the tenor of the loan. Banks and financial institutions generally charge two types of costs for the loan offered; interest rate and fixed service charge. Interest rates are charged on the basis of loan utilization for a certain period of time while service charges are charged during the loan processing at one time basis on total amount of loan approved.

Pricing has several objectives; profit optimization, survival of the firm, increasing and maintaining the market share, getting suitable cash inflows, stabilization of demand/supply balance. Some of the objectives are of short term nature and others of long term nature. There are three major components which have to be considered while pricing bank loan products viz.; (i) Cost of fund (ii) Operational Cost (iii) Spread. Out of these three elements cost of funds depends on the availability of funds in the market, public trust and confidence towards the bank. Operational costs depend on the operational efficiency of the bank management. Similarly spread depends on the level of competition in the market.

Loan pricing is generally determined on the basis of risk and return of the credit product. Where there is high risk, the price of loan may be higher. Bank customers having good past track record, long relationship, high creditworthiness, repayment history are known as prime customers. The banks may offer special rates to those prime customers, which are known as prime rate.

2.1.14 Credit Classification and Provisioning

As per Nepal Rastra Bank directives, loan has been classified as follows based on expiry of deadline of repayment of the principal interest of such loans/advances.

- **a.** **Pass:** Loans/Advances which not overdue and which are overdue by a period up to three months are categorized under pass category.
- **b.** **Sub Standard:** Loans/advances which are overdue by a period from three months to a maximum period of six months are categorized under sub standard.
- **c.** **Doubtful:** Loans/advances which are overdue by a period from six months to a maximum period of one year are categorized under doubtful.
- **d.** **Bad/Loss:** Loans/advances which are overdue by a period of more than one year.

Table 2.2

Credit Classification & Provisioning

Classification	Provision (in %)
Pass	1%
Sub Standard	25%
Doubtful	50%
Bad /Loss	100%

The Loans which are in pass class and which are been rescheduled/restructured are called as "the performing loan" and the substandard doubtful and loss categories are called non-performing loans.

2.1.15 Sectoral Credit Monitoring

Nepal Rastra Bank has issued directives regarding sectoral credit to minimize the concentration risk in a particular sector. For this purpose NRB provides certain guideline to segregate loan portfolio in different areas. Limit has not been specified but it has given discretion to bank management and apex body to decide what level of risk they can afford. The bank management should have their own policy to monitor concentration risk and they have to submit their periodic report to higher authorities as well as Nepal Rastra Bank after exceeding the prescribed level. Bank management should be aware about the high concentration areas and develop the specific strategy to manage them.

Table 2.3

Provision Relating to Sectoral Credit

Head	Mid-July 2011	Mid-July 2012
Real Estate Loans	Not exceeding 15% of the Total Loans	Not exceeding 10% of the total loans
Real Estate & residential Housing Loans both	Not exceeding 30% of the total loans.	Not exceeding 25% of the total loans.

2.1.16 Provisions to Lending to Deprived Sector

As per Nepal Rastra bank directives, financial institutions are required to extend in deprived sectorat least following percent of their total outstanding loan & advances for fiscal year 2070/071.

Table 2.4

Provisions to Lending to Deprived Sector

Institutions	Provision
"A" Class	4.50 % of total outstanding loan & advances
"B" Class	4.00% of total outstanding loan & advances
"C" Class	3.50% of total outstanding loan & advances

Table 2.5

Single Obligor Limit

Fund-based	25% of core capital
Non Fund-based	50% of core capital

NRB regulation has introduced to a single borrower or group of related borrowers the amount of fund-based loan and advances up to 25 percent of core capital fund and non fund-based balance sheet facilities like letters of credit, guarantees, acceptances, commitments up to 50 percent of core capital fund. The core capital includes paid up capital, share premium, non-redeemable preference share, general fund, and accumulated profit and loss.

2.1.18 Non Banking Assets (NBA)

Banks move onto auction of the mortgaged property for realization of loan when all over avenues fail to yield the desired outcome. However, it is not always necessary that the collateral is sold at the auction either because there are no interested buyers or the bid price is unreasonable. In such cases, banks may take over such properties as their own assets. These assets are called non-banking assets. Before taking over the property, banks should conduct a valuation of the property and the assets should be booked at that value or outstanding principal whichever is lower. The proceeds of the assets take-over should be utilized to settle the loan of the borrower. NRB directives clearly define the procedure and necessary guideline for accepting NBA. In case those assets are not disposed on time, provision should be made for the non-banking assets.

2.1.19 Blacklisting

Financial institutions can blacklist those borrowers who do not take responsibility to repay the loan. There is a predefined procedure for blacklisting. Credit information Center (CIC) keeps the record of all the borrowers of financial institutions. Financial institutions recommend for blacklisting and on the basis of that recommendation, CIC blacklists the borrower. Similarly banks can release those borrowers from black list, who pay/commits to pay their loan. The procedures of blacklisting have been defined by NRB Directives.

2.1.20 Loan Recovery

Recovery is integral part of credit management. Recovery is a process generally associated with problematic loans and advances. Every financial institution should have in place an efficient and an effective recovery mechanism. Cost of carrying problematic loans is high because of high volume of provisions and interest suspense. The recovery process is as follows (Appendix 3).

2.1.21 Loan Write-Off

Even after all the effort the financial institution fails to recover the loan, it can write off the loan which meets certain requirements. Loan write-off process should be as determined by the write-off policy and approved from NRB. Loans that are overdue by more than 5 years should be compulsorily written off. Similarly, unrecovered portion of loan after creation of NBA should also be written off. Banks should maintain a register of all cases of write- offs and maintain a record of recovers made since the write-off. The write-off is only a book cleaning exercise. Write-off of a particular loan does not mean the borrower is free from his/her liability to repay the loan.

2.2 Review of Related Studies

There are some journals, articles, dissertations and other relevant study concerned with the credit management. Some of the relevant studies, their objectives, finding and conclusion and other literature relating to the topic have been reviewed.

2.2.1 Review of Journals

Onaolapo, published the journal of Analysis of Credit Risk Management Efficiency in Nigeria Commercial Banking Sector in 2012 and it finds that to maximize shareholders wealth and ensure safety of depositor's fund, banks act as delegated monitors on behalf of lenders (depositors) using various innovations, technologies and procedures to enforce credit contracts. These measures not withstanding banking operations are still exposed to some inherent risks including borrower's outright default; unwillingness or inability to meet credit commitment due to the vagaries of the business activities or other environmental dynamics. Credit management framework therefore became imperative tools in decision making that relates to loan pricing, delegating lending powers, mitigating or migrating as well as managing incidences of credit risk on bank portfolio. CRM policies are designed and applied both internally as an operational tool by bank management and externally by bank regulatory authorities to manage the financial health of the banking sector. The focuses of such policies are the needs for diversification; maintenance of balance of between returns and risk, bank assets quality and ensuring safety of depositors fund.

The process of sound CRM commences with identification of the existing and potential risk inherent in a bank' lending activities as well as designing appropriate polices to control them. In the Nigerian banking system, individual bank management fashions out CRM system comprising policies that;

- Limit or reduce credit risk to certain industries, market or individuals (over-concentration)
- Ensures adequacy of asset classification (asset classification rule)
- Loan loss provisioning (Prudential codes)
- Stipulates borrower's key performance indexes (Conditionality rule)
- Undertake pre-lending assessment and post lending audit/monitoring.

Bekhet and Eletter published a journal "Credit Risk Management for the Jordanian Commercial Banks: A business intelligence Approach" in 2012.This paper finds that commercial banks in Jordan are regarded as vitally important and competitive financial organizations that seek profit by providing various financial services to customers while managing different types of risk. Risk taking is often viewed as the basic driver for financial behavior and profitability. However credit approval evaluation at the Jordanian banks is subjective in nature. This entails reviewing each loan application manually, imposing biases including personal insights, knowledge and intuition of the credit manager. The method has been replaced in a few banks by credit scoring models or a combination of subjective reviews to make proper credit decisions. On the other hand, banks score date about their customers in data warehouses which can be viewed as hidden knowledge assets that can be accessed and utilized through data mining tools. Therefore, credit managers at Jordanian banks need to develop more effective models to improve the predictive accuracy of credit risk decisions.

Credit forms a cornerstone of the banking industry as credit behavior impacts the profitability and stability of a bank. Therefore, loan decisions are important for financial institutions because they avert credit risk. Lending is at the heart of the banking industry. Often, bank managers are faced with the problem of trying to increase credit volume while decreasing the possibility of defaulting. On the other hand, credit scoring models enables bank managers to identify those accounts that are likely to be credit worthy (good credit risks) and those likely to default (bad credit risks) based on applicant's characteristics taken from the application form. Nowadays, the future of the banking industry is highly dependent on risk management dynamics. Banks are looking for more efficient risk management tools and decision support models supplemented by analytical tools to survive in uncertain business environments. The basis of risk management is to establish a framework that defines corporate priorities, loan approval, and credit risk rating system, risk-adjusted pricing system, loan-review mechanism and comprehensive reporting system.

Sepehrdoust and Berjisian published a journal "Credit Risk Management of Commercial Banks in Iran; Using logistic model" in January, 2013.This journal finds that the observed crisis and profitability decreases in banking system are mainly because of the inefficiency in credit risk control and that's why, utilization of customers' ranking system is the most important tool that is required for managing and controlling the risk. Credit risk is a risk resulted from inability of facility receiver in payment of the obligations to bank and or/risk of non-returning of original and profit amount of investment which caused decrease in current value of bank's assets. The origin of creation of risk may be observed in compilation of three risks that are respectively included: Default risk, recover risk and exposure risk. Default risk or non-default probability of debts by the loaner is a loss if occurred, threatens the bank. Therefore, credit risk rooted in probability in default or no-default of facilities by facility receiver and its occurrence probability fluctuate in the range of zero and one. Payment default informed by a bank institution when scheduled installments not to be paid within a certain duration after due date. Default may be economic and occurred when economic value of assets or the current value of expected future cash flows become less than the value of non-deposited debts. Loss resulted from default is pending or default definition and default definition is pending on estimating default probability.

The result of the journal indicates that for a sustainable growth in Iran, the banking sector of the country has to be effective and efficient to respond favorably to the need of the productive sectors of the economy. Commercial banks as institutions aiming at maximum profitability are required to examine credit status of customers before any payment to the applicants for the purpose of control, decrease of credit risk and increase in efficiency level of facility granting process. On the other hand, risks are events or conditions that may occur and has a harmful effect, which requires to be effectively adopted for minimizing its undesirable result.

Sharma Poudel published a journal "The Impact of Credit Risk Management on Financial Performance of Commercial Banks in Nepal" in 2012.This journal finds that the credit risk management is very important to banks as it is an integral part of the loan process. It maximizes bank risk, adjusted risk rate of return by maintaining credit risk exposure with view to shielding the bank from the adverse effect of credit risk. Bank is investing a lot of funds in credit risk management modeling. There is need to investigate whether this investment in credit risk management is viable to the banks. The objective of the journal was to establish the impact of credit risk management on financial performance of banks and specific objectives were to establish impact of default rate, cost per loan assets on bank financial performance. The result of the journal that credit risk management is an important predictor of bank financial performance thus success of bank performance depends on risk management. It also showed that default rate as one of the risk management indictors is a major predictor of the bank financial performance to the extent of 56% and followed by capital adequacy ratio at 25%. Credit risk management is crucial on the bank performance since it have a significant relationship with bank performance and contributes up to 22.6% of the bank performance. Among the risk management indicators, default rate management is the single most importance predictor of the bank performance whereas cost per loan assets is not significant predictor of bank performance.

2.2.2 Review of Thesis

This dissertation has been written after studying unpublished thesis. I here comprise the some previous thesis review, which are mainly concerned about lending practices and investment policy, credit management and loan management of bank & financial institutions.

Khatri conducted a study on "Loan Management of Commercial Bank" was to carry out the loan management of Machhapuchhre Bank Limited in 2012. He concludes deposit collection of MBL is satisfactory as there is positive increment in deposit year by year. Although is narrow area of investment and cut throat competition in banking sector, loan and advances of the MBL shows continuous increasing trend. In average 83% of total deposit is utilized in loan and advances. Cash and bank balance to total deposit ratio seems to be at satisfactory level in all study periods this ratio is quite similar to industry ratio which is at satisfactory level. The ratio of credit extended to deposit of MBL is above 80 percent which is not good symptom as bank needs to maintain less than 80 percent of CD ratio as per in NRB directives. Non-performing loan of MBL seems to be better than the industry level in all study periods, however if the government owned banks are excluded from the industry level the ratio of MBL is not good enough as healthy as to industry. Year by year the situation of non-performing loan is increased. It had begun with only 0.28 percent and ended in massive 2.32 percent.

Gurung conducted a study on "Lending Policy of Nepal Bank Limited" in 2012**.** She finds the deposit collection of NBL is satisfactory. Loan and advances of the NBL has shown continuous increasing trend. Growth rate of loan and advances of NBL is below industry level. In average 40 percent of total deposit is utilized in loan and advances. Sectors wise loan and advances of NBL is similar with industry in some sectors while there is difference in other sectors. In the field of Agriculture the contribution of NBL is lower than the average of the industry. The investment in Agriculture from NBL side is decreased every year while the industry has stood at similar condition. In the field of Manufacturing the ratio seems similar in all five years of study period; however the growth rate is decreased for both NBL as well as industry. Wholesalers and Retailers are the sector where both NBL and Industry have contributed almost 18 percent of the total portfolio in an average for five years. In an average 20 percent of total loan and advances of NBL is segregated for this field while the industry ratio is not more than 3.75 percent. The Other sector is another sector which has occupied almost 10 percent of total loan and advances in an average of NBL for five years of study period, whereas the percent of Industry is almost 15 percent. The ratio of credit extended to deposit of NBL is below 80 percent which is a very good symptom as bank is following NRB directive. NBL has been able to maintain this ratio in all five years of study period. In the field of Deprived Sector, NBL has been able to invest sufficient fund as required by NRB in all the study period of five years. The minimum investment of 3 percent is fulfilled by NBL.Non-performing loan of NBL is above the Industry average in all of the study periods except in FY 2066/67. However the NPL of NBL is decreased year by year. It was 18.18 percent in FY 2062/63 and reached to 2.28 percent in FY 2066/67.

Raymanjhi conducted a study on "Credit Management (A Case Study of Development Credit Bank Limited)" in 2012.He finds DCBL has been maintaining a steady growth rate over the study period. Loan loss provision to total loan and advances ratio of DCBL is in decreasing trend. Total non-performing assets to total assets ratio is also in decreasing trend. Ratios are decreasing trends it indicates the bank is decreasing the non-performing loan from total loan.

Baral has submitted a thesis on "Loan Management of Commercial Bank." in 2011. He concludes deposit collection & Loan and advances of the KBL shows continuous increasing trend. In average 89 percent of total deposit is utilized in loans and advances. It has maintained NRB directives. The higher risk of KBL is in credit risk. Profitability of the business and image of the business person is the main factors at loan disburse. To reduce the bad debt default loan should be rescheduled. Collateral is the main instrument of remedies of the recovery of loan. The government should established assets management office. Related specialist is appropriate for verification of the collateral before granting loan. Bank should received regular information about customers business.

Kunwar conducted a study on "Credit Management (A Comparative Study of Himalayan Bank Limited and Nabil Bank Limited)" in 2009. She finds Nabil is able to mobilize its resources in lending as loan and advances than HBL. HBL is able to invest its resources more in other company's shares, debentures, bond as well as government Treasury bill than Nabil. She finds Nabil has sound lending policy so that it is able to mobilize its resources more than HBL.Nabil has high return on loan & advances ratio as well as return on total assets ratio than that of HBL that means Nabil is able to earn more interest from total credit granting. HBL has kept high loan loss provision than Nabil because of high non performing to total lending ratio. Nabil and HBL has positive with significant relationship between total deposit collection and total lending. Nabil and HBL both has positive with significant relationship between total loan & advances and net profits.

Dhakal has submitted a thesis on "Credit Management (A Comparative Study of Himalayan Bank Limited and Nabil Bank Limited)" in 2011. She concludes the total loan and advances and net profit of both banks were found to be positive. It shows positive relationship between two variables. It reveals that the movement of the loan and advance and profit is found in similar directions. If the loan and advances increases, than profit also increases and vice versa. From the analysis, the return on loan and advance ratio of NABIL and HBL is fluctuating trend. The highest ratio is 4.93% of NABIL and 3.26% of HBL during the five years of study period. The coefficient of correlation between deposit and loan and advance of both banks were found to be positive. It shows positive relationship between the two variables. It reveals that the movement of deposit and loan and advance is found to be in similar direction. The ratio of HBL is in increasing trend where the ratio of NABIL is decreasing trend except the year of 2008/09. But the NABIL has highest ratio than HBL during the study period. The loan loss provision of both banks is good. NABIL has very low degree of this provision over the total lending than HBL. It indicates that NABIL has decreasing volume of non-performing loans during the study period than HBL. NABIL has better performance and effective credit policy than HBL.

K.C. has submitted a thesis on "Investment Policy of Commercial Banks Comparison Between Nabil Bank Ltd. and Machhapuchhre Bank Ltd." in 2008. She finds the activity ratios of Nabil Bank like the mean ratio of loan & advances to total working fund, the mean ratio of loan & advances to total deposit & similarly mean ratio of loan & advances to total working fund ratios are found weaker than that of MBL. In the other hand, while comparising the credit risk ratio of Nabil Bank & MBL, it is found that Nabil has been maintained its mean ratio lower than that of MBL. It means that the position of Nabil is better in the matter of recovery of loan or simply it can be concluded that Nabil Bank has good loan loss recovery policy. The Nabil Bank is comparatively good than that of MBL. Nabil Bank has more proportion of non-performing loan than that of MBL. In the case of Nabil bank the NPL ratio is higher in the beginning of the study period & fall down in the next following years but on the other hand it has overall fluctuating trend in the case of MBL. The ratios of Nabil Bank are more consistent than of MBL from the above findings it can be concluded that though the mean value of NPL to total loan & advances ratio of Nabil seems higher but it has seemed more homogenous in keeping the NPL consistent & its decreasing ratio indicates more focused for NPL management than that of MBL. There is positive relationship between deposit & loan & advances in both banks. The trend analysis of deposit, loan & advances, investment & net profit of Nabil & MBL a conclusion can be drawn i.e. both the Nabil and MBL going uniformly in increasing trend. The MBL seems concentrating more in loan & advances than in others. The management of Nabil has tried its good efforts to make the good portfolio in the different risky as well as in the non risky assets but that is not seen in the case of MBL. From the overall pattern of investment of the study period the management of MBL is found risk averter. But in the other hand the management of Nabil bank is found risk taker as it has diversified its investment into the different risky as well as non risky sectors as per the weight of return.

2.3 Research Gap

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

In this study of credit management of Kaski Finance Limited (KAFIL) is measuring by various ratios, trend analysis and statistical tools as well and financial tools are used for analyzing survey data. Since the researcher have used data only five fiscal year but all the data are current and fact. Clearly these are the issues in Nepalese financial institutions that the previous scholar could not the present facts. This study tries to define credit management by applying and analyzing various financial tools like credit deposit ratio, non-performing assets ratio, loan loss provision ratio, and composition of assets (credit) as well as different statistical tools like coefficient of correlation and trend analysis. Probably this will be an appropriate research in the area of credit management of financial institutions.

CHAPTER III

REASEARCH METHODOLOGY

3.1 Introduction

It includes many techniques and is crucial for every research work. It helps to solve the research problem in a systematic way. The basic objective of this chapter is to guide next chapter for data presentation and analysis of the study. The main objective of this research work is to analyze the credit management procedure adopted by the Kaski Finance Limited. This chapter described research design, sources of data, selection of the unit, data collection procedure and data analysis tools.

3.2 Research Design

The crux of this chapter is to analyze the credit practice and credit efficiency of Kaski Finance Limited.

The research is a case study. Descriptive and analytical research designs are adopted as procedure under research design. Statistical analysis is also used here in:

Descriptive Analysis: This design has been adopted in fulfilling the objectives of this study. A case study of KAFIL has been carried out; under this descriptive and analytical techniques of research design are followed.

Statistical Tools Analysis: It throws light on the trend situation of deposit collection and loan disbursement from FY 2064/065 to 2068/2069 as far as possible. Karl Pearson's coefficient of correlation is used to analyze the relationship between total deposits and loan and advances. Percentage, graphs, and chart are used herein.

3.3 Sources of Data

Source of data have been collected in order to achieve the real and actual results. The sources of data are Annual Report of Kaski Finance Limited, NRB Directives, Journals and Magazines, Website, Published and Unpublished Reports.

3.4 Selection of the Study Unit

During the study period, there are 32 commercial banks, 117 development banks and 65 finance companies on operation in Nepal. Kaski Finance Limited is a national level finance company. The finance company is running in 7 years. It has been published 5 years data. It is new for research study. Therefore, it is selected to study the credit management of Kaski Finance Limited.

3.5 Data Collection Procedure

Basic information and some data have been collected from key staff of Kaski Finance Limited. Major data have been explored from annual report of Kaski Finance Limited. Besides this, some information and data have been collected from KAFIL website, NRB website and NRB directives.

3.6 Data Analysis Tools

For the purpose of the study, all collected primary as well as secondary data are arranged, scanned, tabulated under various heads and then after descriptive cum statistical analysis have been carried out to enlighten the study. Correlation, coefficient variation are being calculated under statistical analysis. Ratio analysis is used under financial analysis to attain the result after tabulating the data.

3.6.1 Ratio Analysis

Ratio analysis is a part of the whole process of analysis of financial statement of any business or industrial concerned especially to take output and credit management decision. To evaluate the financial condition and performance of a company, the financial analyst needs certain yardstick. The yardstick frequently used is a ratio, or index relating two pieces of financial data to each other. Analysis and interpretation of various ratios should give experienced, skilled analyst a better understanding of the financial condition and performance of the firm than they would obtain from analysis of the financial data alone. The following types of ratios have been used in this study.

Credit to Deposit Ratio: This ratio is calculated to find out how successfully the finance is utilizing their deposits on loan and advances for profit generating activities greater ratio indicates the better utilization of total deposits. It is calculated as:

$$\text{Total Loan to Total Deposit Ratio} = \frac{Total\ Loan \& Advances}{Total\ Deposits}$$

Non-Performing Assets Ratio: The non-performing loan ratio indicates the relationship between non-performing loan and total loan & advances. It measures the proportion of non-performing loan in total loan & advances. The ratio is used to analyze the asset quality of the bank & financial institutions. This ratio is calculated as follows:

Non Performing Assets to Total Loan & Advances Ratio =

$$\frac{\text{Non Performing Assets}}{\text{Total LoanL\& Advances}}$$

Product-wise credit ratio: Bank & financial institutions are offering credit to the customers by making different types of credit products. It is essential for the well portfolio management of the credit and requirement of the NRB. Every bank & financial institutions has to invest in different sector of the economy for the all round development of the country. This ratio is calculated to find out the percentage of product wise loan disbursement of KAFIL. It is calculated as.

Type of Credit Product to Total Loan & Advances =

$$\frac{\text{Type of Credit Product}}{\text{Loan \& Advances}}$$

Loans Loss Provision Ratio: This ratio describes the quality assets that KAFIL holding. The provision for loan loss reflects the increasing probability of non-performing loan. Increase in loan loss provision decreases in profit result to decrease in dividends. But its positive impact is that strengthens the financial conditions of banks by controlling the credit risk and reduced the risk related to deposits. The low ratio indicates the good quality of assets in total volume of loan and advances. High ratio indicates move risky assets in total volume of loan and advances. It is calculated as:

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

Sector Wise Credit Ratio: Sector wise loan disbursement is essential for the well portfolio management of the credit and requirement of the NRB. Every bank & financial institutions have to invest in different sector of the economy for the all round development of the country. The ratio calculated to find out percentage of sector wise loan disbursement of KAFIL. It is calculated as:

Sector wise loan to Total Loan & Advances = $\frac{\text{Sectorwise Loan}}{\text{Loan \& Advances}}$

Net Interest Ratio: Net interest means receive interest minus interest paid. It also known as interest spread. The high ratio indicates that profitability of the financial institutions. Similarly, the low ratio indicates that low profitability of the bank. It is calculated as:

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

Credit to Deposit Collection Ratio: To evaluate the lending performance of bank & financial institutions, it is important to know how much amount is disbursed out of total deposit collection. It is calculated as:

Loan & Advances to Deposit collection ratio = $\frac{\text{Loan\& Advacnes}}{\text{Deposit Collection}}$

3.6.2 Statistical Tools

Correlation (r): Correlation may be defined as the degree of linear relationship existing between two or more variables. These variables are said to be correlated when the change in the value of one results change in another variable correlation may be: Simple or partial or multiple correlations, Positive as negative or zero correlation, Linear or non linear correlation, Perfect or non perfect or zero correlation. It is calculated as:

$$r_{xy} \text{ X} \sqrt{xy} \; \frac{N \quad xy \text{ Z} \quad x \quad y}{\sqrt{N \quad y^2 \text{ Z}(\quad x)^2} \text{ Z} \sqrt{N \quad y^2 \text{ Z}(\quad y)^2}}$$

Where,

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

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

x y = Product of sum x and y

Coefficient of Determination (r^2): It explains the variation deprived in dependent variable due to the any one specific variable it denotes the fact that the independent variable is good predictor of the behavior of the dependent variable. It is square of correlation coefficient.

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

$$\text{P.E.X}0.6745\frac{1 \text{Z} r^2}{\sqrt{N}}$$

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

Time Series: When a series of data pertaining to series of containing periods are studied, characteristics and its future direction are best estimated by the time series. Time series analyses a series of data keeping in mind the various short term and long term fluctuation.

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

$$Y = a + bx$$

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

While analyzing the time series, the propensity of growth and growth rate have been examined based on the value of trend value of least square method. The growth rate has been measured from 2069/70 to 2073/74 to reveal the real status of the study period.

CHAPTER IV

DATA PRESENTATION AND ANALYAIS

4.1 Data Presentation and Analysis

In this chapter the relevant information available has been used by analyzing the credit management of KAFIL for the fulfillment of the research objectives. Five years data covering from the 2064/65 B.S. to 2068/69 B.S have been analyzed and interpreted as per the research methodology defined in chapter three. This study is based on secondary data. Sources of secondary data are the annual reports of KAFIL, NRB Directives, NRB website, published or unpublished reports etc.

For the purpose of analysis, data have been presented in the form of tables and charts. Data presentation and analysis is done to fulfill the objective of the study. This is an analytical chapter, where an attempt has been made to analyze and evaluate major financial items, which have an impact on lending and fund mobilization of Kaski Finance Limited.

4.1.1 Analysis of Credit Evaluation Process

Financial institutions do not want to make loans to borrowers who cannot repay them. Therefore, prior to making loans, financial institutions evaluate the credit risk of potential borrowers and their ability to repay loans. KAFIL has been using following procedure for credit evaluation of the loan applicants.

4.1.1.1 Background of the Customers

For analysis of the customer background, KAFIL carries out the analysis of applicant's family background, occupation, education, social networking, year of business operation, business ownership structure, nature of business etc.

4.1.1.2 Credit Information

KAFIL carries out the analysis of applicant's past credit behavior. The company carries out the initial credit information report from Credit information centre, Kathmandu. The company is also updating the credit history of the multiple banking customers.

4.1.1.3 Financial Analysis

Financial analysis represents borrower repayment capacity. For retail credit applicants; KAFIL carries out the analysis of source of income. The source of income includes salary, rental income, business income & others income etc. For corporate credit applicants, the company carries out the following financial analysis.

	Particulars	Optimum Value
	Liquidity Analysis	
a)	Quick Ratio	0.75 Times
b)	Current Ratio	2 Times
	Profitability Analysis	
a)	Gross Profit Ratio	Higher the better
b)	Net Profit Ratio	Higher the better
	Coverage Ratio	
a)	Interest Service Coverage Ratio	Must be more than 1 times
b)	Debt Service Coverage Ratio	Higher the better
	Capital Structure & Return	
a)	Debt equity Ratio	Less than 0.7 times
b)	Return on investment	More than interest rate

4.1.1.4 SWOT Analysis

KAFIL carries out SWOT analysis for credit applicants to meet the obligation. It helps to find out the applicant's strength, Weakness, opportunity and threat.

4.1.1.5 6C's Analysis

KAFIL also carries out 6C's analysis for credit applicants. The 6C's are character, capacity, collateral, conditions, cash flows and competence.

Character: From the analysis of applicant's character it helps to know applicant's integrity, sincerity, honesty, past track record, repayment history etc.

Capacity Repayment capacity is a major element of credit evaluation process. It represents willingness to repay and ability to repay. Willingness to repay depends on the characteristics of the applicants. Ability to repay represents the applicant's capacity part.

Collateral: Besides the applicant's strong character, capacity and the cash flow, the loan may not be safe for future. In case of borrower's failure in business, loan needs to be recovered by liquidating assets provided as collateral. KAFIL carries out the analysis of marketability and liquidity status of the collateral and also reviewed or monitored in regular basis.

Condition: For this analysis, KAFIL carries out the analysis of applicant's business, line of work or industry, trend of business & financial condition that helps to know the condition of the applicants.

Cash flow: KAFIL carries out the analysis of cash flow of credit applicants. Generally, the applicant have three sources to repay the loans (a) cash flow generated from sales and income (b) The sale and liquidation of assets, or (c) funds raised by issuing debt or equity securities. Cash flows generated from sales and income is considered to be the most reliable sources of repayment of a loan.

Competence: It Indicates sufficiency of knowledge and skills that enable someone to act in a wide variety of situations. KAFIL carries out the analysis of competency of the applicants.

4.1.1.6 Risk Analysis

KAFIL carries out three types of risk analysis i.e. business risk, management risk & financial risk of the applicants.

Business Risk: KAFIL carries out the analysis of various business risks while credit evaluation of the applicants like production risk, irregular supply of raw materials, machinery breakdown and labor unrest. Besides this, market price fluctuations, changing trends and fashions, error in sales forecasting. In addition, KAFIL carries out the analysis of loss of assets of the firm due to fire, earthquakes and political unrest etc.

Management Risk: KAFIL carries out the analysis of the applicant's quality of human resources, social network and financial status of shareholders to meet the obligations.

Financial Risk: KAFIL carries out the analysis of financial risk of the applicants that shareholders will lose money when they invest in a company that has debt, if the company's cash flow proves inadequate to meet its financial obligations.

4.1.2 Analysis of Ways to Make Loans

As per discussion with KAFIL's senior staff, the company carries out to make loans by offering, request on customers, references and SWAP etc.

4.1.2.1 By offering: KAFIL carries out to make loans to potential credit customers by visiting to their home and business houses. The company is offering the product and services through company's website www.kaskifinance.com.np. Besides, the company is offering the product and services by mailing to potential borrower's mail address. KAFIL is offering minimum interest rate and service charges among the financial industries which lure potential customers to the KAFIL.

4.1.2.2 Request on customers: KAFIL carries out to make loans on customer request. A customer asks for a loan. Unfortunately, many potential customers are denied loans or do not get what they need because they do not know what information the finance needs in order to grant a loan request. Some customers do not know what types of loan will meet their financial needs, or what types of collateral is suitable for their loans.

4.1.2.3 Loan on references: KAFIL also carries out to make loans on reference of existing customers, employee's relatives and other socially recognized persons.

4.1.2.4 By SWAP: In some cases KAFIL carries out to make loans by SWAP. SWAP means an agreement whereby two or more institutions exchange loans from their respective portfolio. The company carries out the customer's credit behavior and cash flows in loan SWAP. The finance company also lures interest rate and service charges in SWAP loans.

4.1.3 Analysis of Principal of Lending Activities

The principal lending activities include loans and leases. The types of loans are lines of credit, revolving loans, working capital loans, terms loans, bridge loans, assets based loans etc. As per NRB directives finance companies are not allot to sanction revolving loans. KAFIL has been disbursing two types of loans i.e. working capital loan for short term financing and term loan for long term financing.

4.1.3.1 Working Capital Loan: Working capital refers to the funds locked up in materials, work in progress, finished goods, receivables and cash etc. Working capital may be defined as capital investment in current assets. Current assets are those assets which can be converted into cash within a short period of time and the cash received is again invested into these assets. Thus it is constantly receiving or circulating. Hence working capital is also known as circulating capital or floating capital. During the study period, KAFIL has been extending following working capital loan to corporate customers.

Table 4.1

Working Capital Loan to Total Loan & Advances

(Rs. in millions)

Fiscal Year	Working Capital Loan	Loan & Advances	Ratio (%)
2064/65	-	335.22	-
2065/66	30.27	705.65	4.29
2066/67	160.11	910.54	17.58
2067/68	225.05	1,002.71	22.44
2068/69	308.10	1117.75	27.56

Source: KAFIL Annual Report.

Figure 4.1

Working Capital Loan to Total Loan & Advances

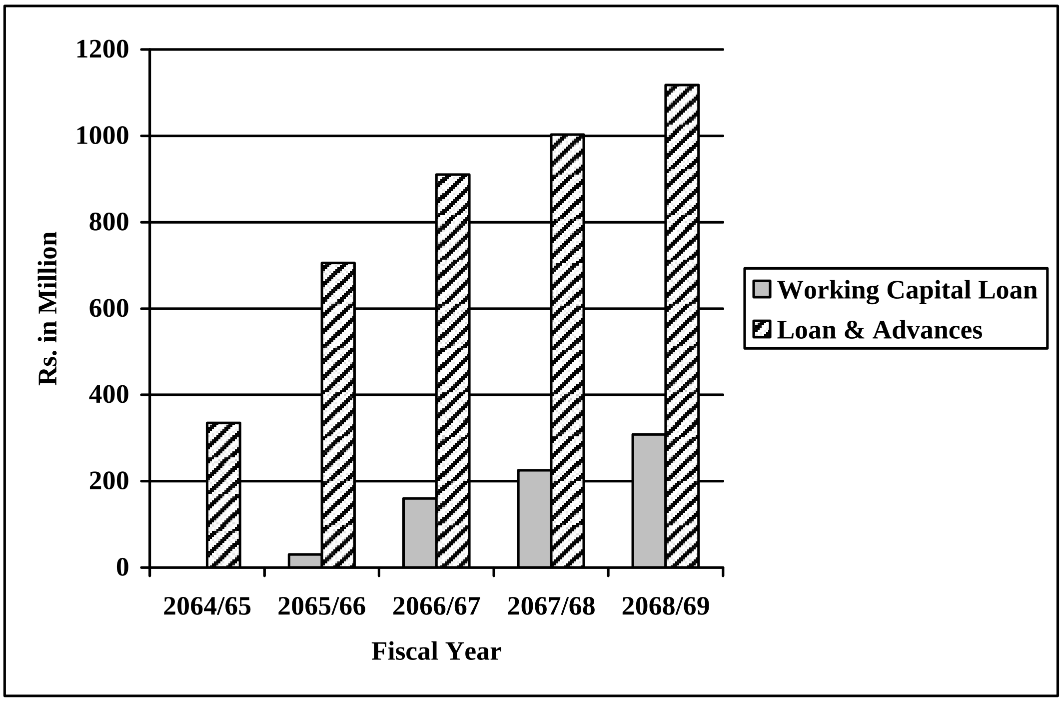


Table 4.1& Figure 4.1 show that the ratio of working capital financing to total loan & advances of KAFIL. KAFIL did not disburse the working capital loan in FY 2064/65. The ratio of disbursement of working capital loan

in FY 2065/66 was 4.29 percent. Then its growth of trend was high. It was increased to 17.58 percent in FY 2066/67 and it also increased to 22.44 percent in FY 2067/68. Lastly it was reached to 27.56 percent in FY 2068/69. It seems that the KAFIL has been increasing short term investment through working capital loan.

4.1.3.2 Term Loan: A term loan is usually a single loan for a stated period of time or a series of loans on specific dates. It used for a specific purpose, such as acquiring machinery, renovating a building, refinancing debt, and so forth. It should not be used to finance day to day operations. Term loan may have an original maturity of more than two years. The maturity of the loan should not exceed the economic life of the asset being financed if that asset is being used as collateral for the loan. Term loans are repaid on an amortized basis. KAFIL has been disbursing different types of term loans like; Home loan, Real Estate loan, Personal loan, Hire purchase loan, Deprived sector loan, Business term loan etc. During the study, KAFIL has been extending following term loan to retail as well as corporate customers.

Table 4.2

Term Loan to Total Loan & Advances

(Rs. in millions)

Fiscal Year	Term Loan	Loan & Advances	Ratio (%)
2064/65	335.22	335.22	100.00
2065/66	675.38	705.65	95.71
2066/67	750.43	910.54	82.42
2067/68	777.66	1,002.71	77.76
2068/69	809.65	1117.75	72.44

Source: KAFIL Annual Report

Figure 4.2

Term Loan to Total Loan & Advances

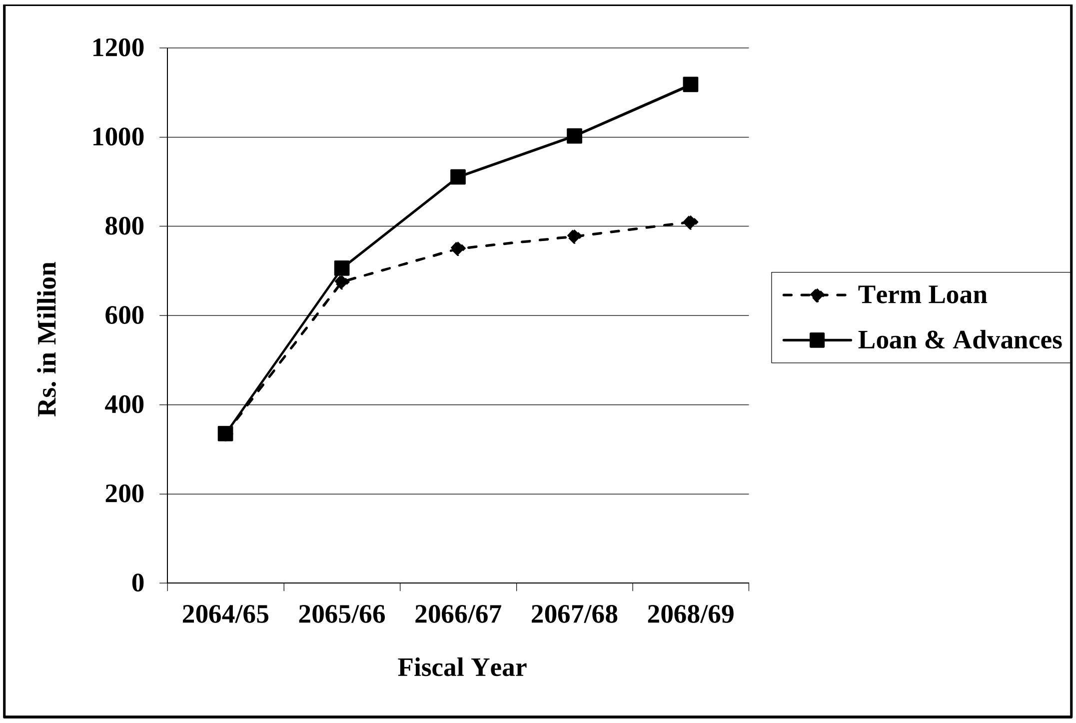


Table 4.2 and figure 4.2 show that the ratio of term loan financing to total loan & advances of KAFIL. The trend of disbursement ratio of term loan is getting down. As per the figure, the ratio of term loan in FY 2064/65 was 100 percent. The ratio of term loan was down to 95.71 percent in FY 2065/66. It was also decreased to 82.42 percent in FY 2067/68. Moreover, it decreased to 77.76 percent in FY 2067/68. Lastly, it was down to 72.44 percent in FY 2068/69. It shows that the KAFIL has been decreasing term financing year by year.

4.1.4 Analysis of Loan as the Type of Collateral

Sound Banking practices require that certain types of loans be backed by collateral. Collateral refers to an assets pledged against the performance of an obligation. If a borrower defaults on a loan, the bank takes the collateral and sells it. Therefore, it is frequently referred to as a secondary source of repayment. There are different types of collateral used in lending i.e. accounts receivable, inventory, marketable securities, fixed deposit receipt, real estate property, equipment and vehicle, individual & corporate guarantee etc.

During the study period, KAFIL used only three types of collateral for lending i.e. loan fixed deposit receipt, real estate property, equipment and vehicle.

4.1.4.1 Loan against Fixed Deposit: Loan against fixed deposits is a facility offered by financial institutions to domestic customers against their fixed deposit amount held with bank. As per customer request, to fulfill their immediate liquidity requirement, KAFIL has extended advances to the customers up to 90% value of their deposit amount. KAFIL's five year data has presented for analysis. The total loan against fixed deposit to total loan & advances ratio are as follows.

Table 4.3
Loan against Fixed Deposit to Total Loan & Advances

(Rs. in millions)

Fiscal Year	Loan Against Fixed Deposit	Total Loan & Advances	Ratio (%)
2064/65	0.65	335.22	0.19
2065/66	7.98	705.65	1.13
2066/67	22.43	910.54	2.46
2067/68	23.96	1,002.71	2.38
2068/69	16.10	1117.75	1.44

Source: KAFIL Annual Report.

Figure 4.3

Loan against Fixed Deposit to Total Loan & Advances

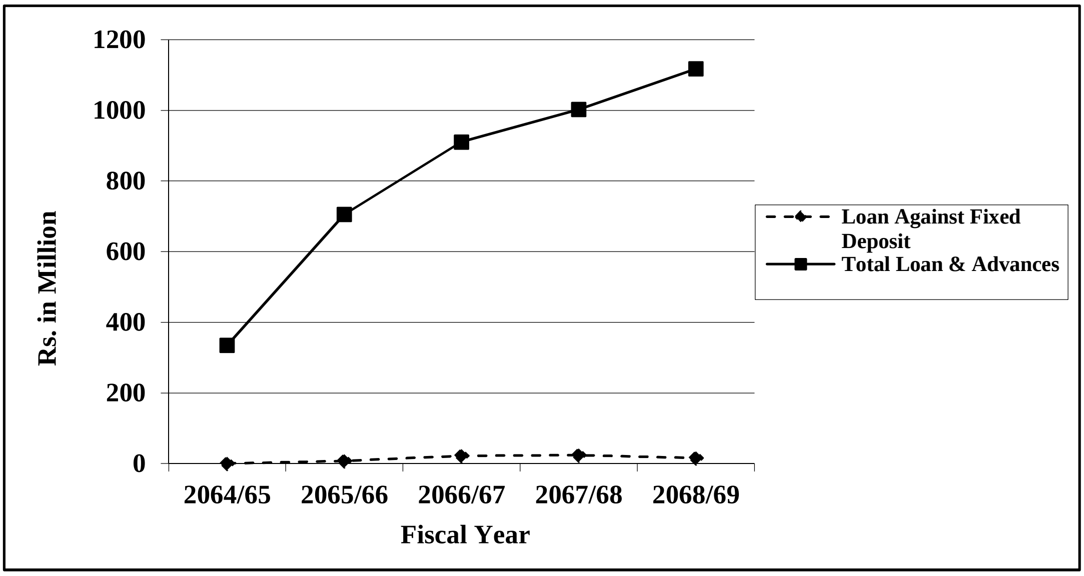


Table 4.4& figure 4.4 show that the loan against fixed deposit to total loan & advance ratio of KAFIL's five year data was 0.19%, 1.13%, 2.26%, 2.38% & 1.44% respectively. In overall comparison, the higher ratio is in F/Y 2066/67 i.e. 2.46 % whereas the lowest ratio is in F/Y 2064/065 with 0.19%.

4.1.4.2 Loan against Real Estate Property: Real estate property refers to real estate that includes houses, office building, shopping centers, factories, and so on. Such property is widely used as collateral. Appraisals by qualified real estate re essentials before the loan is made. KAFIL's five year data has presented for analysis. The total loan against real estate property to total loan and advances ratio are as follows.

Table 4.4

Loan against Real Estate Property to Total Loan & Advances

(Rs. in millions)

Fiscal Year	Loan against Real Estate	Total Loan & Advances	Ratio (%)
2064/65	301.35	335.22	89.90
2065/66	602.64	705.65	85.40
2066/67	710.02	910.54	77.98
2067/68	746.43	1,002.71	74.44
2068/69	872.78	1117.75	78.08

Source: KAFIL Annual Report.

Figure 4.4

Loan against Real Estate Property to Total Loan & Advances

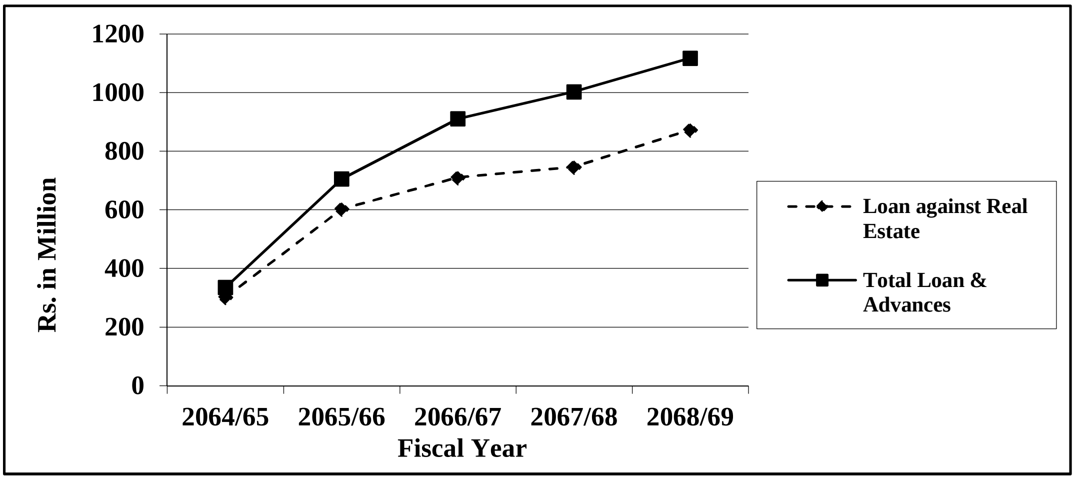


Table 4.5 and Figure 4.5 show that the loan against Real Estate Property to total loan and advance ratio of KAFIL was 98.90%, 85.40%, 77.98%, 74.44% & 78.08% respectively. In overall comparison, the higher ratio is in F/Y 2064/065 i.e. 89.90 % whereas the lowest ratio is in F/Y 2067/068 with 74.44%. It shows the company has carried out most of the credit against real estate property.

4.1.4.3 Loan against Equipment & Vehicle: Equipment includes trucks, forklifts drill presses, robotics, and other items. Vehicle refers commercial and private vehicles. Appraisals by qualified vehicle appraisers and equipment appraisers are essentials before the loan is made. KAFIL's five year data has presented for analysis. The total loan against equipment and vehicle to total loan and advances ratio are as follows.

Table 4.5

Loan against Equipment & Vehicle to Total Loan & Advances

(Rs. in millions)

Fiscal Year	Loan against equipment & Vehicle	Total Loan & Advances	Ratio (%)
2064/65	33.22	335.22	9.91
2065/66	95.03	705.65	13.47
2066/67	178.09	910.54	19.56
2067/68	232.32	1,002.71	23.17
2068/69	228.87	1117.75	20.48

Source: KAFIL Annual Report.

Figure 4.5
Loan against Equipment & Vehicle to Total Loan & Advances

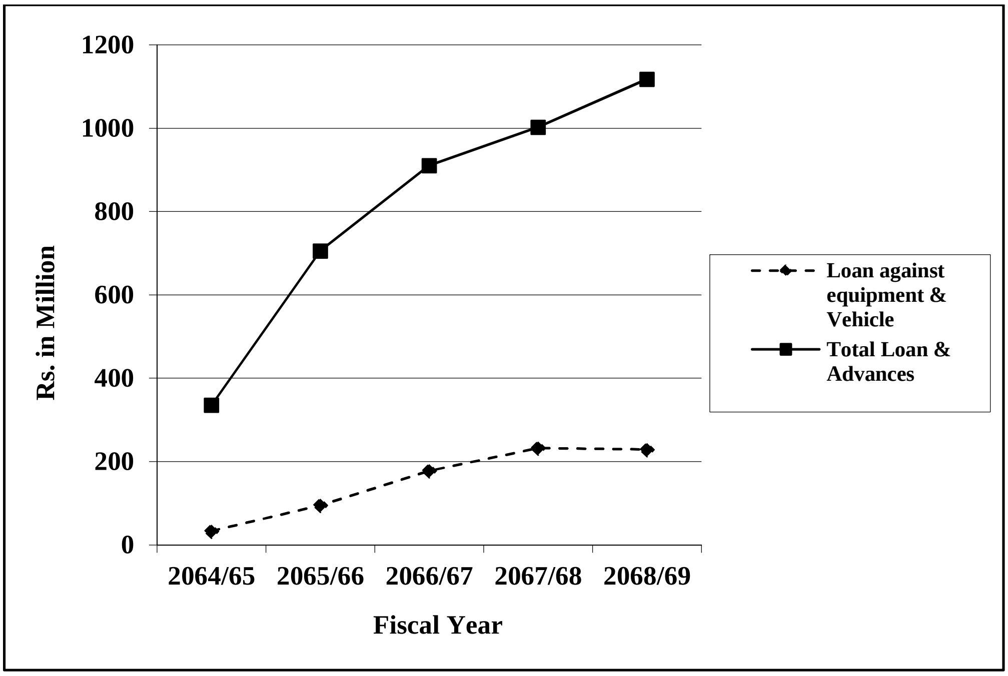


Table 4.6 and figure 4.6 show that the ratio of loan against equipment & vehicle to total loan and advance ratio of KAFIL was 9.91%, 13.47%, 19.56%, 23.17% & 20.48% respectively. In overall comparison, the higher ratio is in F/Y 2067/068 i.e.23.47 % and the lowest ratio is in F/Y 2064/065 with 9.91%.

Table 4.6

Composition of Loan as the Type of Collateral

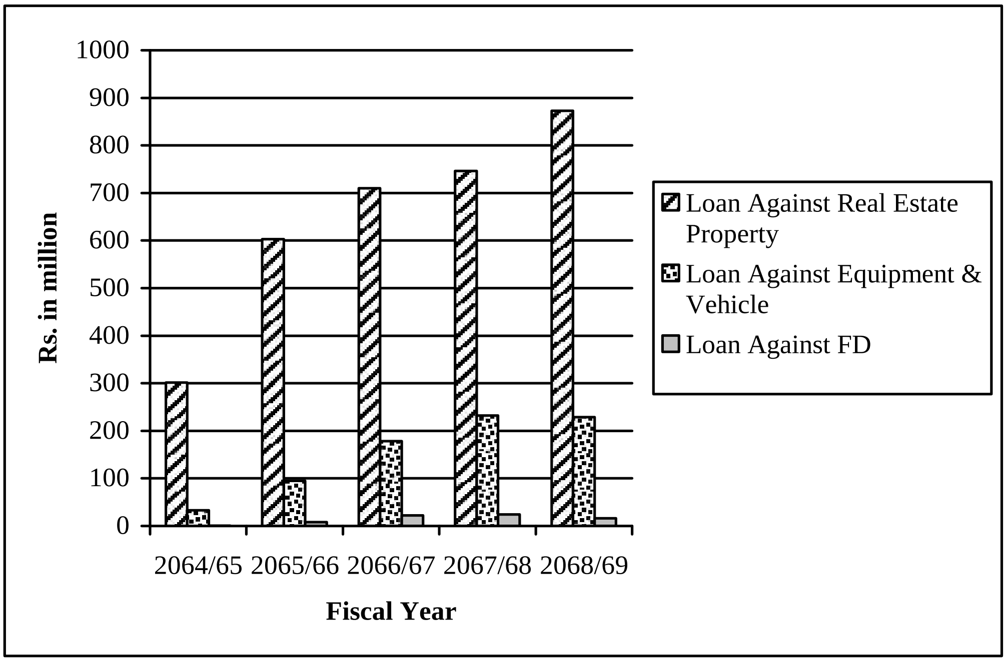
(Rs. in millions)

Fiscal Year	Loan against Real Estate Property	Ratio (%)	Loan Against Equipment & Vehicle	Ratio (%)	Loan Against FD	Ratio (%)
2064/65	301.35	89.90	33.22	9.91	0.65	0.19
2065/66	602.64	85.40	95.03	13.47	7.98	1.13
2066/67	710.02	77.98	178.09	19.56	22.43	2.46
2067/68	746.43	74.44	232.32	23.17	23.96	2.38
2068/69	872.78	78.08	228.87	20.48	16.10	1.44

Source: KAFIL Annual Report.

Figure 4.6

Composition of Loan as the Type of Collateral



4.1.5 Analysis of Effectiveness of Credit Management

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

4.1.5.1 Analysis of Credit to Deposit Ratios

A financial institution's lending depends on its deposit. This ratio is calculated to find out how successfully the bank & finance companies are utilizing their deposits on loan and advances for profit generating activities. Greater ratio indicates the better utilization of total deposits. The ratios are presented in the following table.

Table 4.7

Total Credit to Deposit Ratio

Fiscal Year	Credit/Deposit ratio (%)	NRB Standard (%)
2064/65	80.79	80.00
2065/66	79.89	80.00
2066/67	73.77	80.00
2067/68	76.03	80.00
2068/69	74.10	80.00

Source: KAFIL Annual Report

Figure 4.7

Total Credit to Deposit Ratio

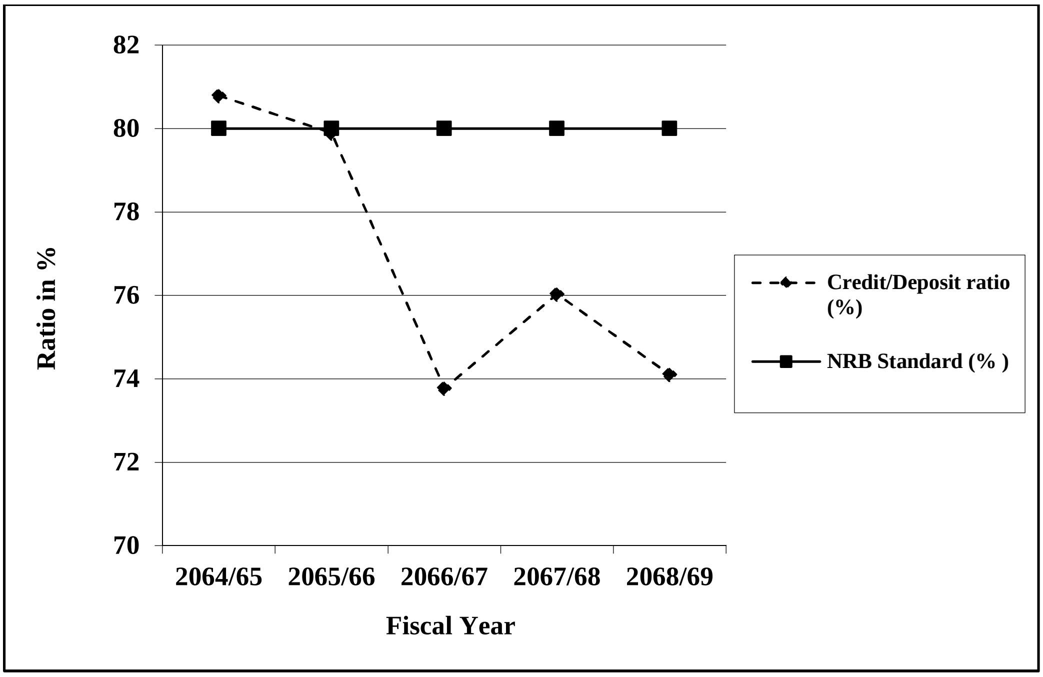


Table 4.7 and figure 4.7 show that the credit deposit ratio of KAFIL was 80.79%, 79.89%, 73.77%, 76.03% & 74.10% respectively. In overall comparison, the higher ratio is in F/Y 2064/065 i.e. 80.79 % and the lowest ratio is in F/Y 2066/067 with 73.77%. As per NRB directives, in F/Y 2064/065 KAFIL could not maintain NRB Standard whereas in rest of the F/Y it succeeded to maintain NRB standard.

4.1.5.2 Analysis of Quality of Assets

Analysis of quality of assets is one of the most critical areas of in determining the overall condition of the bank & financial institutions. In this analysis, non-performing loan ratio, loan loss provision to total loan & advances, compositions of different types of assets, Product wise distribution of loan, sector wise distribution of loan, net interest income & trend of loan growth are used to examine.

Ratio of Non-Performing Assets: NRB has carried out all the financial institutions create loan loss provision against doubtful & bad debts. The ratio indicates the quality of assets of the financial institutions. The ratio shows the percentage of non recovery loans in total loans & advances. The ratios are presented in the following table.

Table 4.8

Non-Performing Assets to Total Loans and Advances Ratio

Fiscal Year	Substandard	Doubtful	Bad/ Loss	Total NPA	Total Loan & Advances	NPA Ratio (%)	NPA Standard (%)
2064/65	-	-	0.11	0.11	335.22	0.05	5.00
2065/66	-	-	0.15	0.15	705.65	0.02	5.00
2066/67	-	-	0.43	0.43	910.54	0.05	5.00
2067/68	-	-	2.73	2.73	1,002.71	0.27	5.00
2068/69	-	-	5.43	5.43	1117.75	0.49	5.00

Source: KAFIL Annual Report

Figure 4.8

Non-Performing Assets to Total Loans & Advances Ratio

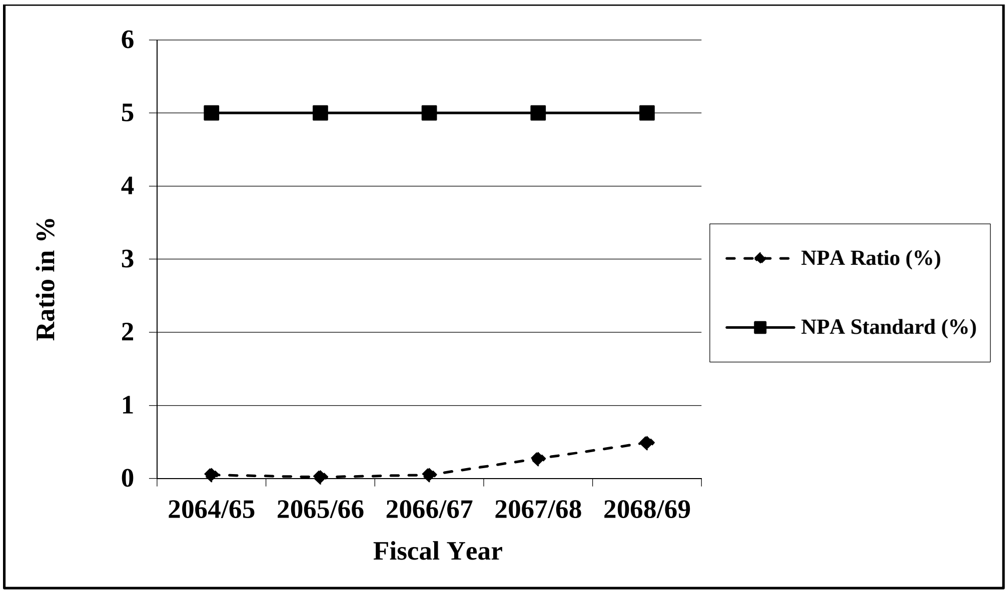


Table 4.8 and figure 4.8 show that the ratio of KAFIL in five years is 0.05%, 0.02%, 0.05%, 0.27% & 0.49% respectively. In overall comparison, the lowest non-performing assets to loan and advances ratio is in F/Y 2065/066 i.e. 0.02 and the highest ratio is in F/Y 2068/069 i.e. 0.49. Financial institutions are seriously affected by the non-performing loan. If non-performing loan increases, the overall banking business will be affected and

profit decreases. It shows that the quality asset of KAFIL seems very encouraging as it has not reached even to 0.50 % of the NPA standard.

Composition of Different Types of Assets: Financial institutions are offering credit to the customers by making different types of credit products. It is essential for the well portfolio management of the credit and requirement of the NRB. Every bank and financial institutions has to invest in different sector of the economy for the all round development of the country. For the convenience of research the data of last five year is taken for the study of sector wise loan disbursement. Under this product wise loan disbursement the status of KAFIL loan portfolio. As the objective of research study is to find out the percentage of product wise loan disbursement of KAFIL. The five years data of KAFIL has been presented below.

Table 4.9

Composition of Different Types of Assets

(Rs. in millions)

Fiscal Year	**2064/65**		**2065/66**		**2066/67**		**2067/68**		**2068/69**	
Product	**Amt**	**%**	**Amt**	**%**	**Amt**	**%**	**Amt**	**%**	**Amt**	**%**
Hire Purchase	33.22	9.91	95.03	13.47	178.09	19.56	232.32	23.17	228.87	20.48
Housing Loan	184.17	54.94	350.11	49.62	331.64	36.42	222.66	22.21	155.93	13.95
Real Estate Loan	-	-	30.14	4.27	43.07	4.73	44.19	4.40	44.13	3.95
Business Loan	46.82	13.97	123.88	17.56	197.70	21.71	247.68	24.70	328.37	29.38
Personal Loan	-	-	87.94	12.46	116.14	12.76	201.36	20.08	308.09	27.56
Deprived Sector Loan	-	-	-	-	14.75	1.62	21.16	2.11	31.41	2.81
Loan Against FD	0.65	0.19	7.97	1.13	22.43	2.46	23.96	2.39	16.11	1.44
Others Loan	70.36	20.99	10.58	1.49	6.72	0.74	9.38	0.94	4.84	0.43
Total	**335.22**	**100.00**	**705.65**	**100.00**	**910.54**	**100.00**	**1002.71**	**100.00**	**1117.75**	**100.00**

Source: KAFIL Annual Report

Figure 4.9

Composition of Different Types of Assets

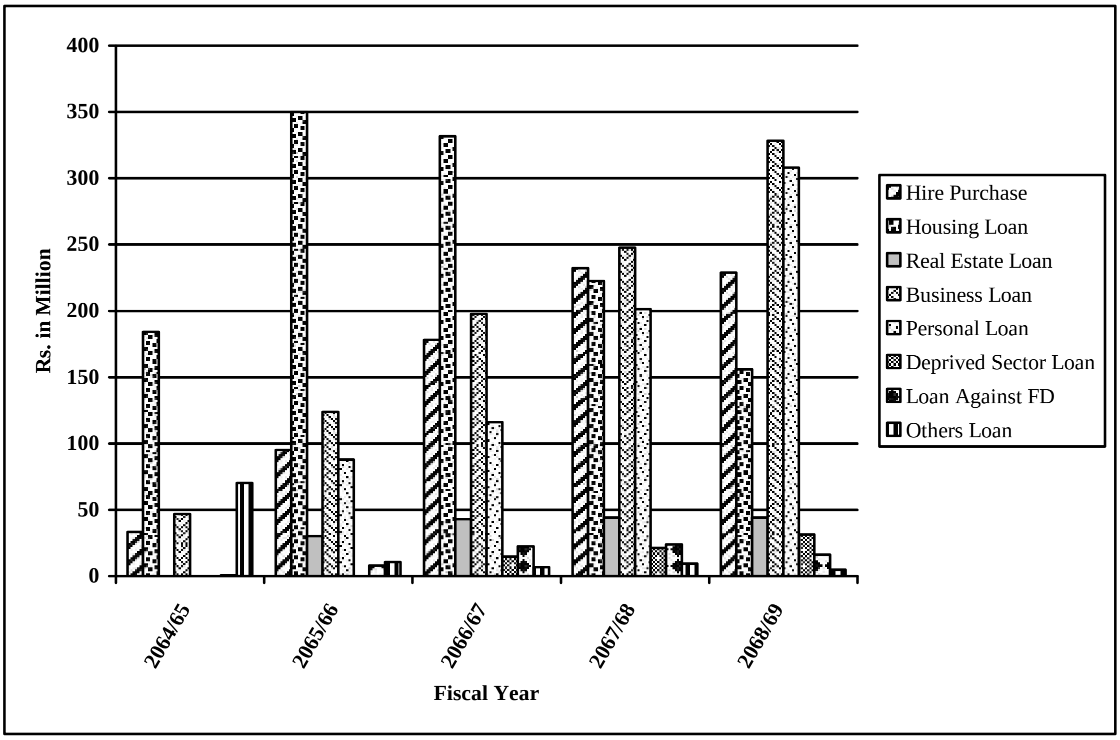


Table 4.9 and Figure 4.9 show that the product of investment has been divided into eight categories according to KAFIL report. Hire purchase loan is in increasing trend. Disbursement of Hire purchase loan out of total loan was 9.91 percent in FY 2064/65, 13.47 percent in the FY 2065/66, 19.56 percent in F/Y 2066/67 and finally reached to 23.17 percent in FY 2067/68. However, it slightly decreased in FY 2068/69 and reached to 20.48 percent.

The disbursement in Housing Loan is in decreasing trend. In FY 2064/65 the disbursement of Housing loan was 54.94 percent and it decreased to 49.62 percent in FY 2065/66. The trend continued decreasing each year since then. It reached to 36.42 percent in FY 2066/67, 22.21 percent in FY 2067/68 and finally to 13.95 percent in FY 2068/69.

The disbursement in real estate loan is in decreasing trend. In FY 2064/065 KAFIL did not disburse any real estate loan. The portfolio of real estate loan out of total loan was 4.27 percent in FY 2065/66 and it slightly increased to 4.73 percent in the fiscal year 2066/67. After that it has decreased to 4.40 percent in FY 2067/68. Lastly ratio of the real estate loan has gone down to 3.95 percent in FY 2068/69. It shows that KAFIL has maintained the NRB standard. As per the NRB Directives the portfolio of real estate loan which should be below 10% up to mid July 2012.

The business loan disbursement of KAFIL is in increasing trend year by year. In initial phase, disbursement of business loan was 13.97 percent and it increased to 17.56% in FY 2065/66, to 21.71 percent in FY 2066/67, to 24.70 percent in FY 2067/68 and finally it reached to 29.38 percent in FY 2068/69. The figure shows that KAFIL has been disbursing huge percentage of loan in business sector.

The portfolio of the personal loan is increasing year by year. KAFIL did not disburse the personal loan in FY 2064/65. The Portfolio of personal loan of KAFIL was12.46 percent in FY 2065/66 and it increased to 12.76 percent in FY 2066/67. It again increased to 20.08 percent in FY 2067/68 and finally reached 27.56% in FY 2068/69. The figure shows that KAFIL has disbursed huge amount in personal loan.

In FY 2064/65 and FY 2065/66 KAFIL was not lending in deprived sector. After that KAFIL has been successful to meet the standard fixed by NRB of lending on this sector. In FY 2066/67 KAFIL disbursed 1.62 percent loan to deprived sector and the ratio of disbursement reached to 2.11 percent in FY 2067/68 and it increased in F/Y 2068/69 and reached to 2.81 percent. The lending on deprived sector of KAFIL has increased and it has been able to maintain the ratio of investment in deprived sector set by NRB. NRB has fixed ratio for finance companies to disburse loan in deprived sectors by 1.50 percent in FY 2066/67, 2.00 percent in FY 2067/68 and 2.50 percent in FY 2068/69. KAFIL has been successful to maintain the NRB directives related to disbursing loan in deprived sectors.

Loan against fixed deposit loan was increased in FY 2064/65 to FY 2066/67 and in FY 2067/68 to FY 2068/69 was slightly decreased. The trend of growth was mixed. In FY 2062/63 the proportion was 0.19 percent and reached to 1.13 in FY 2065/66. It also increased to 2.46 percent in FY

2066/67. It was down to 2.39 percent in 2067/68 and at the end of the study period 2068/69 it has down to 1.44 percent.

The last product or sector of loan and advances is others. This sector has mix growth trend over the study period of five years. In FY 2064/65 the proportion of it was 20.99 percent and has down to 0.43 percent by the end of FY 2068/69.

Loan Loss Provision: The provision for loan loss reflects the increasing probability of non-performing loan. Increase in loan loss provision decreases in profit result and to decrease in dividends. But it positive impact is that strengthens the financial conditions of bank & financial institutions by controlling the credit risk and reduced the risk related the 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 the loan & advances.

Table 4.10

Loan Loss Provision to Total Loan & Advances

(Rs. in millions)

Fiscal Year	Good	Substandard	Doubtful	Bad/Loss	Total Provision	Total Loan & Advances	Ratio (%)
2064/65	3.35	-	-	0.11	3.36	335.22	1.00
2065/66	7.05	-	-	0.15	7.20	705.65	1.02
2066/67	9.10	-	-	0.43	9.53	910.54	1.05
2067/68	9.99	-	-	2.73	12.72	1,002.71	1.27
2068/69	11.12	-	-	5.43	16.55	1117.75	1.49

Source: KAFIL Annual Report.

Figure 4.10

Loan Loss Provision to Total Loan & Advances

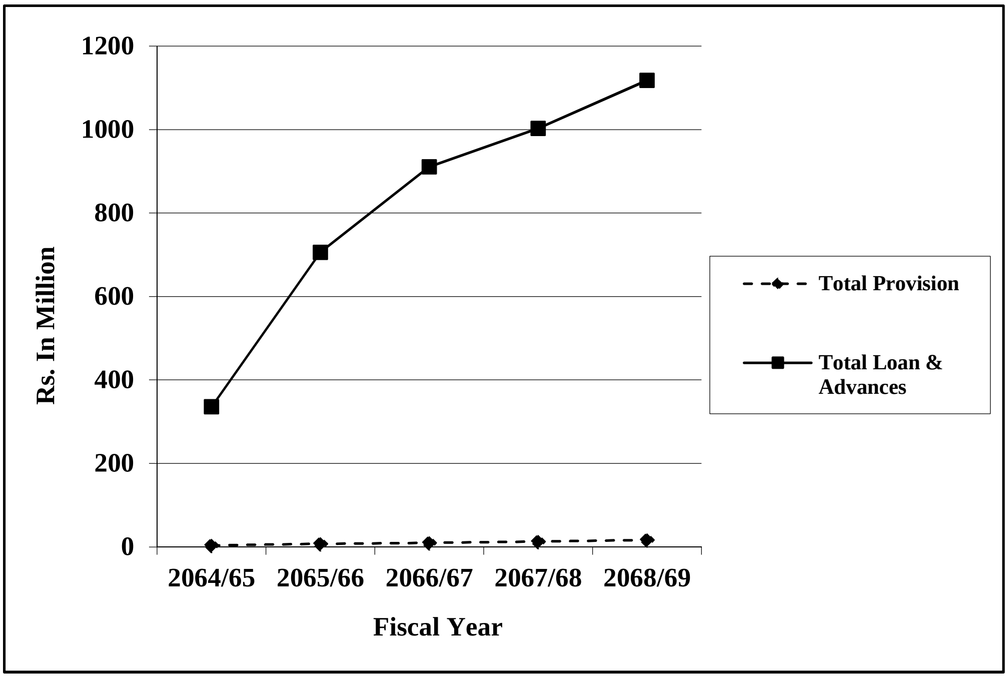


Table 4.10 and figure 4.10 show that the ratio of loan loss provision to loans and advances ratio in five years was 1.00%, 1.02%, 1.05%, 1.65% & 1.14% respectively. In overall, KAFIL has the highest loan loss provision to total loan and advances ratio in F/Y 2067/068 i.e. 1.65% and the lowest ratio in F/Y 2064/065 i.e. 1.00%. From the above calculation, it can be said that the increase ratio indicates the increased volume of non-performing loans. The increasing loan loss ratio indicates the poor and ineffective credit policy and poor performance of the economy.

Analysis of Sector Wise Loan and Advances: Sector wise loan disbursement is essential for the well portfolio management of the loan and requirement of the NRB. Every bank and financial institutions have to invest in different sector of the economy for the all round development of the country. For the convenience of research the data of latest fiscal year 2068/69 is taken for the study of sector wise loan disbursement. The total sectors have been divided into fifteen major sectors and proportion of each sector with percentage has been presented under this analysis. Under this sector wise loan disbursement the status of KAFIL is presented below.

Table 4.11

Composition of Sector Wise Loan and Advances

(Rs. in millions)

Sector	Loan Amount	Ratio (%)
Agriculture and Forest Related	28.24	2.53
Fishery Related	-	-
Mining Related	-	-
Agriculture, Forestry and Beverage Production Related	32.47	2.90
Non-Food Production Related	22.99	2.06
Construction	159.09	14.23
Electricity, Gas and Water	-	-
Metal Products, Machinery and Electronic Equipment and Assemblage	-	-
Transport, Communication and Public Utilities	228.86	20.48
Wholesaler and Retailer	272.47	24.38
Finance, Insurance and Real Estate	44.13	3.95
Hotel and Restaurant	0.43	0.04
Other Services	2.22	0.19
Consumption Loans	16.11	1.44
Others	310.72	27.80
Total	**1,117.75**	**100.00**

Source: KAFIL Annual Report.

Table 4.11 shows sector wise loan disbursement of KAFIL for latest fiscal year 2068/69. Other fiscal years data has not available for the study. There are fifteen sectors of investment directed by NRB and KAFIL has been able to invest in 11 sectors only. Remaining four sectors have not able to invest in fiscal year 2068/69. The major portion of investment of KAFIL is in others sector i.e. 27.80%. The huge contribution of KAFIL on above sectors is at construction, transport, communication and public utilities, wholesaler and retailer and others. These four sectors cover the 86.89 percent of the total loan disbursement.

Analysis of Net Interest Income: Net interest means receive interest minus interest paid. It also known as interest spread. The high ratio indicates high profitability and the low ratio indicates low profitability of the bank and financial institutions.

Table 4.12

Net Interest (Spread Rate) Ratio

(Rs. in millions)

Fiscal Year	Interest Income	Total Loan &Advances	Cost of Lending (%)	Interest Expenses	Total Deposit	Cost of Deposit (%)	Spread Rate (%)
2064/65	22.77	335.22	6.79	15.39	367.82	4.18	2.61
2065/66	65.92	705.65	9.34	43.30	805.90	5.37	3.97
2066/67	138.66	910.54	15.23	85.66	1,065.24	8.04	7.19
2067/68	179.69	1,002.71	17.92	119.09	1066.06	11.17	6.75
2068/69	196.48	1117.75	17.57	128.04	1,245.78	10.28	7.29

Source: KAFIL Annual Report.

Figure 4.11

Net Interest (Spread Rate) Ratio

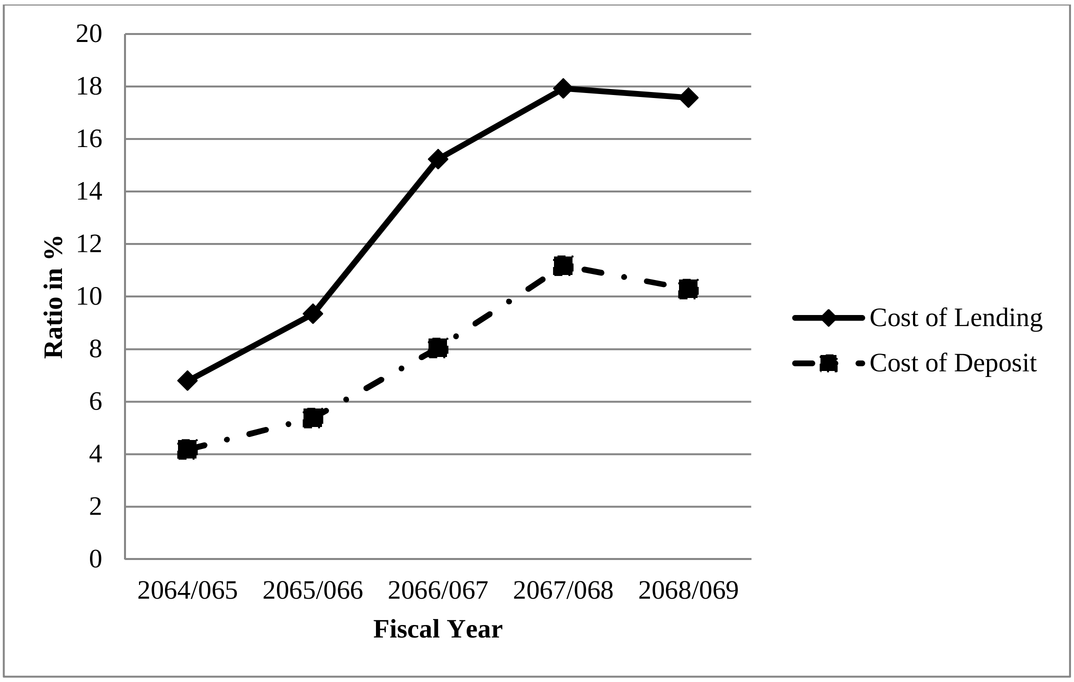


Table 4.12 and figure 4.12 show that the ratio of net interest income of KAFIL. The ratio of five years was 2.61%, 3.97%, 7.19%, 6.75% & 7.29% respectively. The ration of trend has found mixed. The highest ratio is in F/Y

2068/069 i.e. 7.29% and the lowest ratio is in F/Y 2064/065 i.e. 2.61% respectively. From the above analysis, it has been found that the KAFIL has maintained good net interest (spread rate) ratio. It helps the profitability of the company as well overall growth.

4.1.6 Loan and Advances to Deposit Collection

To evaluate the lending performance of bank & financial institutions, it is important to know how much amount is disbursed out of total deposit collection. Loan and advances to total deposit collection of KAFIL has been presented in the table below:

Table 4.13

Loan Disbursed to Deposit Collection

(Rs. in millions)

Year	Loan & Advances	Deposit	% of Loan and Advances to Total Deposit
2064/65	335.22	367.82	91.14%
2065/66	705.65	805.90	87.56%
2066/67	910.54	1,065.24	85.48%
2067/68	1,002.71	1066.06	94.05%
2068/69	1117.75	1,245.78	89.72%

Source: KAFIL Annual Report.

Figure 4.12

Loan Disbursed to Deposit Collection

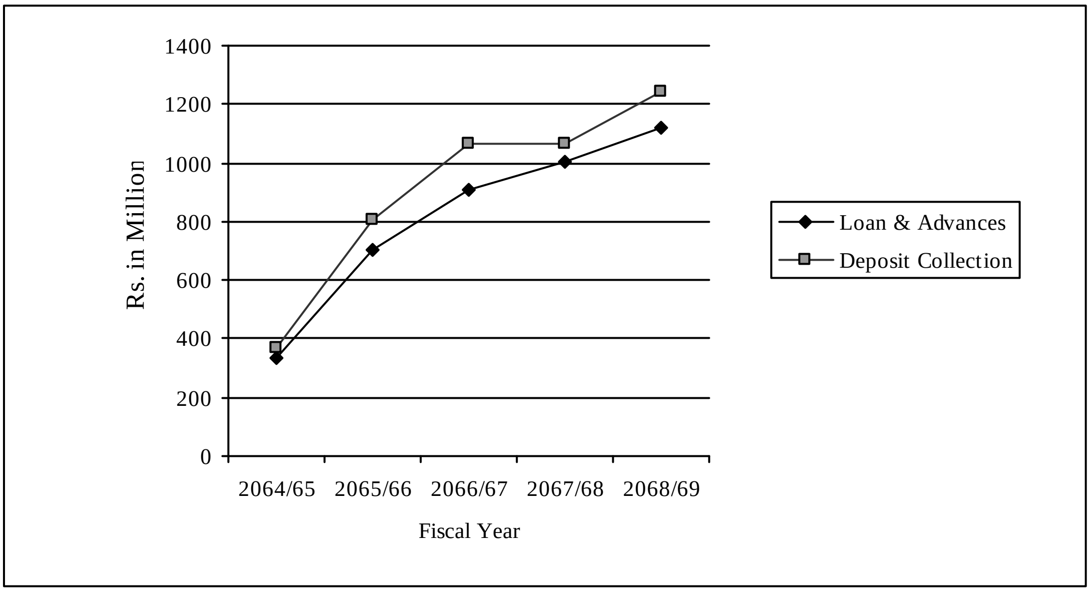


Table 4.12 and figure 4.12 show the amount of loan disburse in comparison to the amount of deposit collected. In fiscal year 2064/65 the amount of deposit collection was Rs. 367.82 million out of which Rs 335.22 million was advanced as loan which represents the 91.14 percent of credit deposit ratio. It decreased to 87.56 percent in the FY 2065/66 where Rs. 705.65 million was advanced against the total deposit of Rs. 805.90 million. Similarly it was decreased to 85.48 percent in the FY 2066/67 where Rs. 1,002.71 million was advanced against the total deposit of Rs. 1066.06. It has increased to 94.05 percent in FY 2067/68 and it has decreased to 89.72 percent in the FY 2068/69 where Rs. 1117.75 million was advanced against the total deposit of Rs.1, 245.78. Observing five years data it can be concluded that most of the deposit amount has been used as loan and advances.

4.1.7 Analysis of Trend in Deposit Growth

The trend of deposit in the coming year is analyzed using trend analysis. The following trend line shows the projection of deposit of KAFIL up to the Fiscal Year 2073/74. The calculation of trend forecast has been presented in Appendix-1

Table 4.14

Analysis of Trend in Deposit Growth

(Rs. in millions)

Fiscal Year	Trend Values
2064/65	367.82
2065/66	805.90
2066/67	1,065.24
2067/68	1,066.06
2068/69	1,245.78
2069/70	1,515.16
2070/71	1,716.76
2071/72	1,918.36
2072/73	2,119.96
2073/74	2,321.56

Source: Appendix-4

Figure 4.13

Analysis of Trend in Deposit Growth

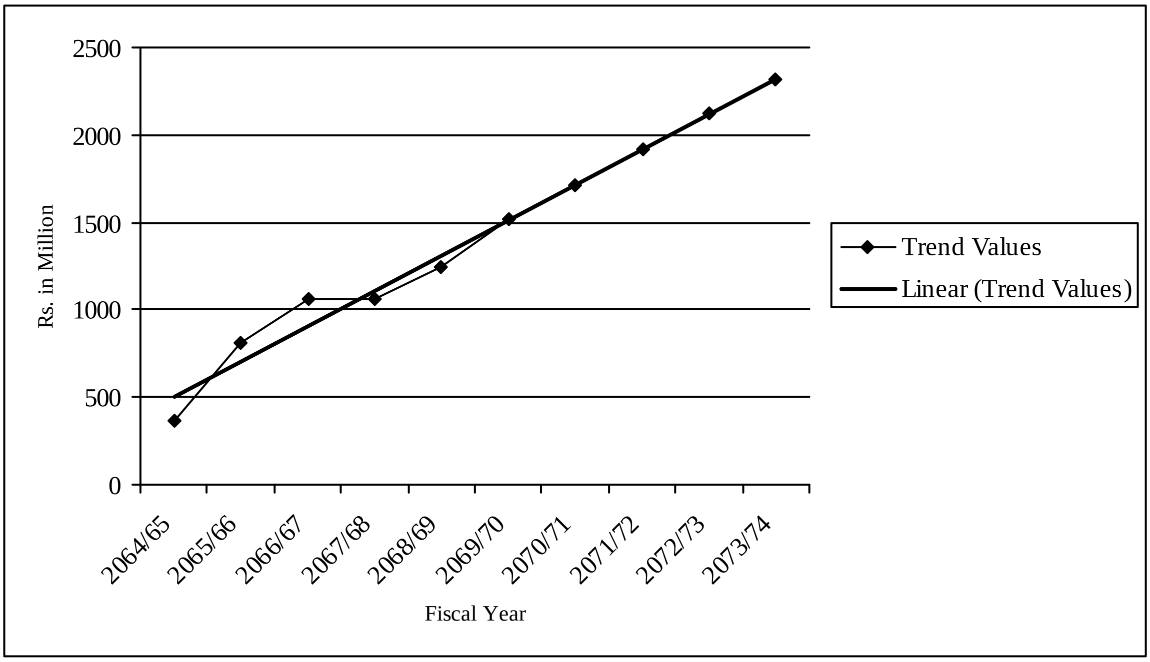


Table 4.14 and figure 4.14 show that the deposit of KAFIL is in increasing trend if other things remain constant. According to forecast, it has been calculated that the amount of deposit will reach to Rs. 1,515.16 million in the FY 2069/70, it will further jump to Rs.1,716.76 million in FY 2070/71. Similarly it reaches to Rs.1,918.36 million, Rs.2,119.96 million and Rs.2,321.56 million in FY 2071/72, FY 2072/73 and FY 2073/74 respectively.

4.1.8 Analysis of Trend in Loan Growth

The trend of loan and advances in the coming year is analyzed using trend analysis .The following trend line shows the projection of total loan and advances of KAFIL up to the Fiscal Year 2073/74. The calculation of trend forecast has been presented in Appendix 2.

Table 4.15

Analysis of Trend in Loan & Advances Growth

(Rs. in millions)

Fiscal Year	Trend Values
2064/65	335.22
2065/66	705.65
2066/67	910.54
2067/68	1,002.71
2068/69	1,117.75
2069/70	1,373.00
2070/71	1,559.21
2071/72	1,745.42
2072/73	1,931.63
2073/74	2,117.84

Source: Appendix-5

Figure 4.14

Analysis of Trend in Loan & Advances Growth

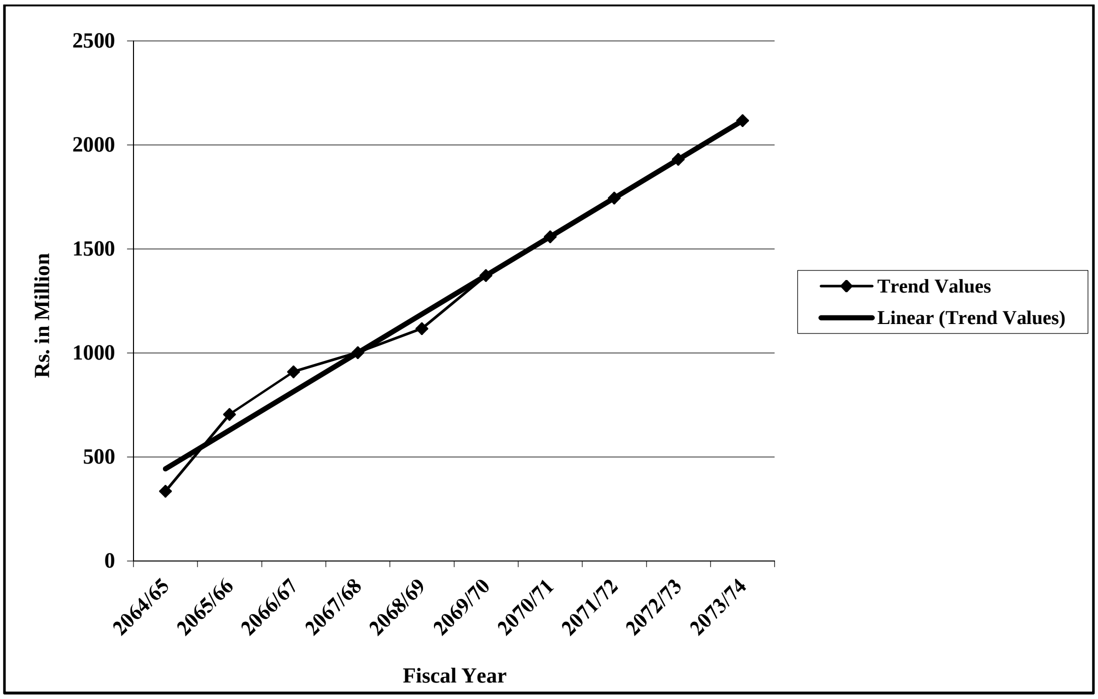


Table 4.15 and Figure 4.15 show that the loan and advances of KAFIL is in increasing trend if other things remain constant. According to forecast the amount of loan and advances will reach to Rs.1,373.00 million in the FY 2069/70, it will further jump to Rs. 1,559.21 million in FY 2070/71. Similarly

it reaches to Rs.1,745.42 million, Rs. 1,931.63 million and Rs.2,117.84 million in FY 2071/72, FY 2072/73 and FY 2073/74 respectively.

4.1.9 Coefficient of Correction between Deposit Collection and Loan Disbursement

The relationship between deposit and loan must be optimum to gain profit. This tool measures the degree of relationship between these variables.

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

Table 4.16

Coefficient of Correlation between Deposit Collection and Loan Disbursement of KAFIL

Coefficient of Correlation (r)	r^2	Probable error	6P.E.
0.9941	0.9882	0.0018	0.0108

Source: Appendix-6

Table 4.16 show that the coefficient of correlation between deposit collection and loan disburse is 0.9941 which shows that there is highly positive relationship between these two variables. It also shows that there is optimum utilization of collection deposit by the finance. The coefficient of determination is 0.988. This show that 98.8 percent of the total variation in deposit is explained by loan, loans disburse and deposit collection is positively correlated which shows that an increase in total deposit leads to increase in loan disburse. Normally, a higher coefficient of correlation between deposit and loan is a good sign. It indicates that the efficient management of the company. KAFIL is successful in mobilizing its collected deposit.

Probable error (P.E.) is calculated to be 0.0018 and 6P.E. is 0.0108. The value of r is more than 6P.E. which indicates that there is significant relationship between total deposit collections and total loan disbursement.

4.2 Major Findings

4.2.1 KAFIL has evaluated background, credit information, financial analysis, SWOT analysis, 6'cs and risk analysis for credit applicants.

4.2.2 KAFIL has made loans through offering, request on customers, references and SWAP.

4.2.3 KAFIL has disbursed only two types of loans i.e. working capital loan for short term financing and term loan for long term financing, where ratio of term loan is higher than working capital loan.

4.2.4 KAFIL has disbursed loans against three types of collateral i.e. real estate property, equipment and vehicles and fixed deposit receipt where ratio of loan against real estate property is higher than others.

4.2.5 KAFIL has maintained credit deposit ratio below 80 percent as per NRB directives except fiscal year 2064/65.

4.2.6 KAFIL has been maintaining good quality of assets. As a supporting fact it has been found that the highest ratio of Non-Performing assets is 0.49% in FY 2068/069 and the lowest ratio is 0.02% in FY 2065/066.

4.2.7 The portfolio of real estate loan is 0%, 4.27%, 4.73%, 4.40% and 3.95% respectively during the fiscal year 2064/065 to 2068/069 which shows that KAFIL has complied with NRB standard (i.e. the portfolio of real estate loan should be below 10% up to mid July 2012).

4.2.8 The portfolio of business loan is 13.97%, 17.56%, 21.71%, 24.70% and 29.38% respectively for five years study period. Business loan has been increasing year by year.

4.2.9 KAFIL has been successful to meet the standard fixed by NRB (i.e. 1.50%, 2% and 2.5% for last three fiscal years) of lending on deprived sector. The ratio of deprived sector loan of KAFIL was 1.62%, 2.11% and 2.81% respectively for last three fiscal years.

4.2.10 KAFIL has been disbursing loan to all sectors except fishery related, mining related, electricity, gas and water related and metal product, machinery.

4.2.11 Ratio of net interest were 2.61%, 3.97%, 7.19%, 6.75% and 7.29% respectively for five years study period. It featured the profitability of the company as well as overall growth.

4.2.12 Ratio of loan and advances to deposit collection is 91.14%, 87.56%, 85.48%, 94.05% and 89.72% respectively during the whole study period, which shows that most of the cash inflows from deposit amount were out flowed as loan and advances.

4.2.13 Trend of deposit collection and loan and advances of KAFIL is in increasing trend if other things remain constant.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Most of the developing countries are involved in the development of the economic activities to uplift the standard living of their people. Many business organizations should be established to promote economic development. The major objective of bank and financial institutions is to support and facilitate development, expansion and increase in the productivity of business sector. Kaski Finance Limited was established in 2064 B.S. to do such activities as a national level finance company. Bank and financial institutions collect scattered money from various persons and institutions with those who have surplus of money and provide this to the needy individuals and institutions as a loan and advances. In other words financial institutions are the intermediary who links the savers of money and users of money. One of the major functions of financial institutions is to play the role of bridge between depositors and loan takers.

Credit management is one of the most important functions in any financial institution. Without effective and efficient credit management no financial institution can achieve its goal. Success of any bank and financial institutions basically depends on the effective and systematic credit management. Credit management is most important part of the bank and financial sector. Failure and success of the bank & financial institutions heavily rely on the effective credit management. It is very obvious that money lending is very risky and sensitive thing which is easy to grant but may not be recovered if the situation go adverse of the borrowers. Management of credit is the toughest work to do in the current scenario of competitive banking environment. The banking business heavily relies on the effective management of credit which ultimately helps to achieve its target. In the current scenario of competitive banking environment bank and financial institutions should follow the approach of proactive policy which not only solves the aroused problem but also helps to solve the emerging challenges of banking industry. Most of the deposit collected by the KAFIL is utilized under loan and advances; almost 80 percent of total deposit is utilized in loan and advances of KAFIL over the study period of five years. Due to the lack of investment opportunities, pressure in interest rates, increasing in non-performing assets, stagnant economy and changing business environment, the banking sector is becoming more and more competitive and challenging. These factors have impacted on the profitability of the bank and financial institutions as well. In such circumstance, to maintain sustainable growth and profit have become challenging job for every bank and financial institutions.

The main objective of this study is to identify the credit management system of KAFIL. In this study, an attempt has been made to Credit evaluation process of KAFIL, ways to make loan, principal of lending activities, analysis of loan as the type of collateral, analysis of effectiveness of credit management and analysis of trend in loan growth. The performance of the finance company is evaluated with focusing ratios of non-performing loans, composition of different types of assets, ratio of loan loss provision, product wise distribution of loan, ratio of sector wise loan & advances, spread rate ratio & interest income to total loan & advances ratio. This study has tried to know the views of employees regarding various aspects of credit management. Overall credit management aspects of the finance company are analyzed using secondary data. Major data are taken from the KAFIL website, KAFIL annual report, NRB website and basic information and some data are collected from the key staff of Kaski Finance Limited. The selected Finance company, KAFIL, is found to be strong in terms of deposit collection and loan disbursement. In all study periods the deposit collection and loan disbursement rate is in increasing trend, which is positive symptom. In terms of maintaining Credit Deposit ratio, bank has been able to meet NRB standard of 80% almost in all study periods. The condition of non-performing loan status is good. The sector wise loan disbursement of KAFIL is found to be satisfactory. Employees have given opinion of emphasizing credit risk, collateral offered by the borrower, profitability of borrower's business etc before granting loan and advances. In other hand, finance needs to obtain regular information of its borrower business to continue its credit limit and grants. Finally, successful operation of banking should be fully backed by the effective and efficient management of loan and advances which ensures sustainable growth and development of banking sector.

5.2 Conclusions

The credit management of financial institution is not only necessary but also compulsory for the better performance of the organization. This study is just a small part to fulfill the partial requirement of MBS. Therefore, it helps to improve and draw attention to bring some qualitative yardsticks in credit management of KAFIL.

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

5.2.1 Trend of working capital loan is increasing whereas term loan is increasing in declining order. It implies KAFIL is focusing on short term financing objectives and making itself as a part of industrialization for the development of economic growth as well.

5.2.2 The ratio of loan against real estate property (i.e. immovable assets) as collateral is higher than others; which reflects that real estate property are more secure and reliable than any other collateral security.

5.2.3 The ratio of credit to deposit of KAFIL is below 80 percent except in fiscal year 2064/65 which is good standard as finance needs to maintain for CD ratio as per directives circular by NRB.

5.2.4 The ratio of non-performing assets of KAFIL was good enough in whole study period. It is slightly increasing beyond the figure of decimals accordingly year after year, but KAFIL has succeeded to maintain NPA standard as per NRB standard (i.e. less or up to 5%), which featured the quality of assets KAFIL to be in healthier state.

5.2.5 All in all lending composition between 2064/065 to 2068/069, the business loan portion is gradually rising throughout the five fiscal years (ref. Fig. 4.9). It figure out KAFIL is more concerned to extend credit facility in productive sector.

5.2.6 The portion of real estate loan has been decreasing year by year. The figure shows that KAFIL has succeeded to maintain NRB standard. NRB has fixed the portfolio of real estate loan less or up to 10% of total loan and advances.

5.2.7 KAFIL has been successful to comply NRB directives related to loan disbursement in deprived sectors.

5.2.8 Deposit mobilization of KAFIL is satisfactory as there is positive increment in deposit and lending year by year.

5.2.9 Although there is narrow area of investment and cut throat competition in banking sector, loan and advances of the KAFIL shows continuous increasing trend.

5.2.10 Sector wise loan disbursement of KAFIL is quite satisfactory. KAFIL has granted loan to all sectors except fishery related, mining related, electricity, gas and water related and metal product, machinery.

5.2.11 Deposit collection and loan disbursement relation is highly positive.

5.2.12 Collateral of the borrower is taken as main factor while disbursing the loan.

5.2.13 KAFIL does not have separate recovery department required for effective management of loan recovery.

5.2.14 Most of the deposit amounts are utilized in loan and advances 85.48 percent to maximum 94.05 percent of deposits are utilized in loan and advances. It indicates positive sign as volume of deposits counts the investment.

5.3 Recommendations

For the better improvement of the credit management of the KAFIL following suggestions and recommendations have been portrayed on the basis of analysis and conclusion of the entire research study.

5.3.1 Since non-performing assets of KAFIL is slightly increasing year by year, strict credit policy must be adopted in order to break increasing trend of NPA.

5.3.2 Sector wise loan disbursement of KAFIL is quite satisfactory, for the better improvement KAFIL is suggested to increase the portfolio in productive sector.

5.3.3 KAFIL is required to minimize its credit risk in order to secure healthy financial position.

5.3.4 KAFIL is required to concentrate more on collateral offered by the borrower while disbursing loan.

5.3.5 KAFIL should collect borrowers' business information on regular basis in order renew and enhance limit to the borrowers.

5.3.6 It is recommended to establish separate recovery department for effective management of credit recovery.

5.3.7 To remain competitive, healthy and leader, it is recommended to strictly follow the directives published by NRB and amend its policy which meets the standard fixed by the regulating authority.

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APPENDIX 1

List of Banks and Financial Institutions
As of Mid April, 2013 (Licensed by NRB)

Class: "A" (Commercial Banks)

(Rs in Million)

S.No	Name	Operation Date(A.D.)	Head Office	Paid up Capital
1	Nepal Bank Ltd.	1937/11/15	Dharmapath,Kathmandu	1772.83
2	Rastriya Banijya Bank Ltd.	1966/01/23	Singhadurbarplaza,Kathmandu	5497.61
3	Nabil Bank Ltd.	1984/07/12	Kantipath, Kathmandu	2436.84
4	Nepal Investment Bank Ltd.	1986/03/09	Durbarmarg, Kathmandu	3768.01
5	Standard Chartered Bank Nepal Ltd..	1987/02/28	Nayabaneshwor, Kathmandu	1853.90
6	Himalayan Bank Ltd.	1993/01/18	Thamel, Kathmandu	2760.00
7	Nepal SBI Bank Ltd.	1993/07/07	Hattisar, Kathmandu	2355.74
8	Nepal Bangladesh Bank Ltd.	1994/06/06	Nayananeshwor, Kathmandu	2009.40
9	Everest Bank Ltd.	1994/10/18	Lazimpat , Kathmandu	1761.13
10	Bank of Kathmandu Ltd.	1995/03/12	Kamaldi, Kathmandu	1684.40
11	Nepal Credit and Commerce Bank Ltd.	1996/10/14	Siddharthanagar, Rupandehi	1400.00
12	Lumbini Bank Ltd.	1998/07/17	Narayangadh, Chitawan	1601.60
13	Nepal Industrial & Commercial Bank Ltd.	1998/07/21	Biaratnagar, Morang	1311.55
14	Machhapuchhre Bank Ltd.	2000/10/03	Prithwichowk, Pokhara, Kaski	2478.79
15	Kumari Bank Ltd.	2001/04/03	Durbarmarg, Kathmandu	1603.80
16	Laxmi Bank Ltd.	2002/04/03	Adarsanagar, Birgunj, Parsa	1694.08
17	Siddhartha Bank Ltd.	2002/12/24	Kamaladi, Kathmandu	1619.24
18	Agriculture Development Bank Ltd.	1968/01/21	Ramshahpath, Kathmandu	9474.30
19	Global IME Bank Ltd.	2007/01/02	Birgunj, Parsa	2184.86
20	Citizens Bank International Ltd.	2007/04/20	Kamaladi, Kathmandu	2101.84
21	Prime Commercial Bank Ltd	2007/09/24	Newroad, Kathmandu	2342.72
22	Bank of Asia Nepal Ltd.	2007/10/12	Tripureshwor, Kathmandu	2000.00
23	Sunrise Bank Ltd.	2007/10/12	Gairidhara, Kathmandu	2015.00
24	Grand Bank Nepal Ltd.	2008/05/25	Kamaladi, Kathmandu	2000.00
25	NMB Bank Ltd.	2008/06/02	Babarmahal, Kathmandu	2000.00
26	Kist Bank Ltd.	2009/05/07	Anamnagar, Kathmandu	2000.00
27	Janata Bank Nepal Ltd.	2010/04/05	Naya Baneshwor, Kathmandu	2000.00
28	Mega Bank Nepal Ltd.	2010/07/23	Kantipath, Kathmandu	1631.00
29	Commerz & Trust Bank Nepal Ltd.	2010/09/20	Kamaladi, Kathmandu	1400.00
30	Civil Bank Ltd.	2010/11/26	Kamaladi, Kathmandu	2000.00
31	Century Commercial Bank Ltd.	2011/03/10	Putalisadak , Kathmandu	1080.00
32	Sanima Bank Ltd.	2012/02/15	Nagpokhari, Kathmandu	2016.00

Class: "B" (Development Banks)
(Rs. in million)

1	NIDC Development Bank Ltd.	1959/06/15	Durbar Marg, Kathmandu	415.82
3	Malika Development Bank Ltd.	1999/11/11	Dhangadhi, Kailali	204.83
2	Siddhartha Development Bank Ltd.	2000/06/26	Tinkune, Kathmandu	645.00
4	Manakamana Development Bank Ltd.	2001/06/19	Durbar Marg, Kathmandu	1000.00
5	Narayani Development Bank Ltd.	2001/10/17	Ratna Nagar, Chitawan	55.57
6	United Development Bank Ltd.	2001/05/06	Jeetpur, Bara	80.40
7	Pashimanchal Development Bank Ltd.	2003/04/03	Mitrapark, Rupandehi	336.52
8	Sahayogi Bikas Bank Ltd.	2003/10/23	Janakpurdham, Dhanusha	90.00
9	Axis Development Bank Ltd.	2004/01/15	Hattisar, Kathmandu	718.17
10	Karnali Bikash Bank Ltd.	2004/02/18	Nepalgunj, Banke	80.00
11	Triveni Development Bank Ltd.	2004/08/13	Narayangadh, Chitawan	248.06
12	Bhrikuti Bikas Bank Ltd.	2004/09/03	Butwal, Rupandehi	321.09
13	Suprim Development Bank Ltd.	2004/09/05	Tinkune, Kathmandu	772.00
14	Shubhechchha Bikas Bank Ltd.	2004/09/26	Narayangadh, Chitawan	118.68
15	Bageshowri Development Bank Ltd.	2004/10/29	Nepalgunj, Banke	242.20
16	Gaurishankar Development Bank Ltd.	2004/12/02	Kawasoti, Nawalparasi	211.92
17	Gorkha Develpoment Bank (Nepal) Ltd.	2004/12/05	Putalisadak, Kathmandu	660.82
18	Gandaki Development Bank Ltd.	2005/01/25	Pokhara, Kaski	250.00
19	Infrastructure Development Bank Ltd.	2005/05/09	Ghantaghar, Kathmadu	827.53
20	Business Universal Development Bank Ltd.	2005/05/10	Anamnagar, Kathmandu	842.06
21	Biratlaxmi Bikas Bank Ltd.	2005/05/11	Biratnagar, Morang	173.36
22	Excel Development Bank Ltd.	2005/07/21	Birtamod, Jhapa	100.00
23	Western Development Bank Ltd.	2005/09/15	Ghorahi, Dang	60.00
24	H & B Development Bank Ltd.	2005/11/07	Kamaladi, Kathmandu	897.93
25	Arniko Development Bank Ltd.	2006/07/06	Dhulikhel, Kavre	200.00
26	NDEP Development Bank Ltd.	2006/07/17	Laldurbarmarga, Kathmandu	582.45
27	Clean Energy Development Bank Ltd.	2006/09/07	Sitapaila, Kathmandu	1088.00
28	Miteri Development Bank Ltd.	2006/10/13	Dharan, Sunsari	108.35
29	Tinau Bikas Bank Ltd.	2006/11/01	Butwal, Rupandehi	100.00
30	Rising Development Bank Ltd.	2006/12/18	Gaidakot, Nawalparasi	200.00
31	Muktinath Bikas Bank Ltd.	2007/01/03	Pokhara, Kaski	245.00
32	Sewa Bikas Bank Ltd.	2007/02/25	Butwal, Rupandehi	138.00
33	Kankai Bikas Bank Ltd.	2007/05/03	Damak, Jhapa	91.21

34	Public Development Bank Ltd.	2007/06/07	Birjunj, Parsa	150.00
35	Ace Development Bank Ltd.	2007/08/15	Narayanchaur, Kathmandu	797.82
36	Mahakali Bikas Bank Ltd.	2007/08/18	Mahendranagar, Kanchanpur	40.00
37	Sangrila Development Bank Ltd.	2007/08/26	Newroad Pokhara, Kaski	320.00
38	Bhargab Bikas Bank Ltd.	2007/08/30	Nepalgunj, Banke	100.00
39	Kamana Bikas Bank Ltd.	2007/10/29	Pokhara, Kaski	200.00
40	Diyalo Bikas Bank Ltd.	2007/10/14	Banepa, Kavre	100.00
41	Country Development Bank Ltd.	2007/10/04	Banepa, Kavre	320.00
42	Vibor Bikas Bank Ltd.	2007/10/04	Tripureshwor, Kathmadu	776.17
43	Alpine Development Bank Ltd.	2007/10/05	Hetauda, Makawanpur	100.00
44	Rara Bikas Bank Ltd.	2007/10/12	Birendranagar, Surkhet	200.10
45	Nilgiri Bikas Bank Ltd.	2007/10/12	Beni, Myagdi	50.00
46	Kasthamandap Development Bank Ltd.	2007/10/12	New Road, Kathmandu	651.93
47	Corporate Development Bank Ltd.	2007/11/07	Birgunj, Parsa	200.00
48	Professional Bikas Bank Ltd.	2007/10/17	Banepa, Kavre	100.00
49	City Development Bank Ltd.	2007/10/19	Pokhara, Kaski	253.73
50	Biswo Bikas Bank Ltd.	2007/12/20	Pokhara, Kaski	252.00
51	Pathibhara Bikas Bank Ltd.	2007/11/21	Urlabari, Morang	100.00
52	Garima Bikas Bank Ltd.	2007/11/04	Pokhara, Kaski	220.00
53	Kabeli Bikas Bank Ltd.	2007/12/16	Hulaktole, Dhankuta	20.00
54	Purnima Bikas Bank Ltd.	2008/05/20	Siddharthanagar, Rupandehi	100.00
55	Jyoti Development Bank Ltd.	2008/07/24	Kamalpokhari, Kathmandu	740.00
56	Shine Resunga Development Bank Ltd.	2009/02/22	Tamghas, Gulmi	319.86
57	Bagmati Development Bank Ltd.	2009/03/23	Hariwon, Sarlahi	50.00
58	Hamro Bikas Bank Ltd.	2009/04/19	Battar, Nuwakot	21.00
59	Kakre Bihar Bikas Bank Ltd.	2009/05/15	Birendranagar, Surkhet	30.00
60	Pacific Development Bank Ltd.	2009/07/26	Beshishahar, Lamjung	60.00
61	Civic Development Bank Ltd.	2009/08/13	Dhadingbesi, Dhading	40.00
62	International Development Bank Ltd.	2009/09/04	Teku, Kathmandu	640.00
63	Gulmi Bikas Bank Ltd.	2009/09/24	Tamghas, Gulmi	25.00
64	Kanchan Development Bank Ltd.	2009/09/19	Mahendranagar, Kanchanpur	100.00
65	Bright Development Bank Ltd.	2009/10/08	Panauti, Kavre	140.00
66	Matribhumi Bikas Bank Ltd.	2009/10/09	Sindhulimadi, Sindhuli	28.60
67	Innovative Development Bank Ltd.	2009/11/13	Siddharthanagar, Rupandehi	100.00
68	Jhimruk Bikas Bank Ltd.	2009/12/14	Bagdula, Pyuthan	12.00
69	Metro Development Bank Ltd.	2009/12/16	Pokhara, Kaski	106.00

70	Raptibheri Bikas Bank Ltd.	2010/01/15	Nepalgunj, Banke	75.01
71	Gaumukhi Bikas Bank Ltd.	2010/01/25	Bijuwar, Pyuthan	28.00
72	Nepal Consumer Development Bank Ltd	2010/02/05	Pokhara, Kaski	200.00
73	Khandbari Development Bank Ltd.	2010/03/05	Khandbari, Sankhuwasava	50.00
74	Tourism Development Bank Ltd.	2010/03/18	Thamel, Kathmandu	640.00
75	Mission Development Bank Ltd.	2010/06/15	Butwal, Rupandehi	70.00
76	Surya Development Bank Ltd.	2010/07/18	Charikot, Dolkha	15.00
77	Mount Makalu Development Bank Ltd.	2010/07/21	Basantapur, Terathum	14.00
78	Sindhu Bikas Bank Ltd.	2010/09/09	Barhabise, Sindhupalchowk	51.00
79	Social Development Bank Ltd.	2010/10/13	Naxal, Kathmandu	382.65
80	Sahara Development Bank Ltd.	2010/10/27	Malangawa, Sarlahi	14.00
81	Nepal Community Development Bank Ltd.	2010/11/03	Butwal, Rupendehi	70.00
82	Cosmos Development Bank Ltd.	2010/11/17	Shaktichok, Gorkha	17.50
83	Manasalu Bikash Bank Ltd.	2010/12/14	Buspark, Gorkha	72.04
84	Samabriddhi Development Bank Ltd.	2010/12/31	Gajuri, Dhading	70.00
85	Ekata Bikash Bank Ltd.	2011/10/24	Rupandehi , Butwal	60.00
86	Kalinchowk Development Bank Ltd.	2011/11/21	Charikot, Dolkha	51.00
87	Kailsh Bikash Bank Ltd.	2012/04/24	Putalisadak, Kathmandu	707.62
88	Salapa Bikash Bank Ltd.	2012/07/16	Diktel, Khotang	14.00
89	Saptakoshi Development Bank Ltd.	2012/10/02	Tankisunuwari, Morang	60.00

* Shine Development Bank Ltd. and Resunga Development Ltd. is merged and named Shine Resunga Development Bank Ltd.

Class: "C" (Finance Companies)
(Rs. in million)

1	Nepal Aawas Finance Ltd.	1992/08/03	Bijulibazar, Kathmandu	176.10
2	Nepal Finance Ltd.	1993/01/06	Kamaladi, Kathmandu	135.86
3	NIDC Capital Markets Ltd.	1993/03/11	Kamalpokhari, Kathmandu	233.56
4	Narayani National Finance Ltd.	1993/05/07	Kalikasthan, Kathmandu	647.48
5	Nepal Share Markets and Finance Ltd.	1993/10/19	Ramshahapath, Kathmandu	2034.29
6	Peoples Finance Ltd.	1994/04/15	Mahabauddha, Kathmandu	289.01
7	Kathmandu Finance Ltd.	1994/11/10	Dillibazar, Kathmandu	154.66
8	Himalaya Finance Ltd.	1994/11/11	Sundhara, Kathmandu	140.00
9	Union Finance Ltd.	1994/12/12	Kamaladi,Kathmandu	176.58
10	Paschhimanchal Finance Co.Ltd.	1995/04/09	Butawal, Rupandehi	237.68
11	Nepal Housing & Merchant Finance Ltd.	1995/04/11	Dillibazar, Kathmandu	220.30
12	Samjhana Finance Co. Ltd.	1995/05/03	Banepa, Kavre	
13	Goodwill Finance Ltd.	1995/05/15	Dillibazaar, Kathmandu	310.50
14	Siddhartha Finance Ltd.	1995/05/25	Siddarthanagar, Rupandehi	154.43
15	Shree Investment & Finance Co. Ltd.	1995/06/01	Dillibazar, Kathmandu	160.00
16	Lumbini Finance & Leasing Co. Ltd.	1995/06/26	Thamel, Kathmandu	294.94
17	Yeti Finance Ltd.	1995/07/17	Hetauda, Makawanpur	201.96
18	International Leasing & Finance Co. Ltd.	1995/10/31	Naya Baneshwor, Kathmandu	2008.80
19	Mahalaxmi Finance Ltd.	1995/12/01	Putalisadak, Kathmandu	420.00
20	Lalitpur Finance Co. Ltd.	1995/12/14	Lagankhel, Lalitpur	187.95
21	United Finance Co. Ltd.	1996/01/26	Durbarmarg, Kathmandu	350.80
22	General Finance Ltd.	1996/02/01	Chabahil, Kathmandu	132.23
23	Progressive Finance Co. Ltd.	1996/02/26	Newroad, Kathmandu	120.00
24	Nava Durga Finance Co.Ltd.	1997/02/09	Itachhe, Bhaktapur	165.95
25	Janaki Finance Co. Ltd.	1997/03/07	Janakpurdham, Dhanusha	146.25
26	Pokhara Finance Ltd.	1997/03/16	Pokhara, Kaski	312.00
27	Central Finance Ltd.	1997/04/14	Kupondole, Lalitpur	168.36
28	Premier Finance Co. Ltd.	1997/06/08	Kumaripati, Lalitpur	127.01
29	Arun Finance Ltd.	1997/08/17	Dharan, Sunsari	150.00
30	Multipurpose Finance Co. Ltd	1998/04/15	Rajbiraj, Saptari	25.00
31	Synergy Finance Ltd.	1998/06/21	Butawal, Rupandehi	474.41
32	Shrijana Finance Ltd.	1999/12/14	Biratnagar, Morang	28.00
33	Om Finance Ltd.	2000/09/17	Pokhara, Kaski	271.43
34	World Merchant Banking & Finance Ltd.	2001/08/10	Hetauda, Makawanpur	181.98

35	Capital Merchant Banking & Finance Co. Ltd.	2002/02/01	Battisputali, Kathmandu	935.07
36	Crystal Finance Ltd.	2002/03/13	Thapathali, Kathmandu	70.00
37	Royal Merchant Banking & Finance Ltd.	2002/03/14	Durbarmarg, Kathmandu	329.12
38	Guheshwori Merchant Banking & Finance Ltd.	2002/06/13	Pulchowk, Lalitpur	155.68
39	Patan Finance Co. Ltd.	2002/06/23	Pulchowk, Lalitpur	110.00
40	Fewa Finance Ltd.	2003/04/30	Pokhara, Kaski	300.30
41	Everest Finance Ltd.	2003/07/02	Siddharthanagar, Rupandehi	84.21
42	Prudential Finance Company Ltd.***	2004/06/06	Dillibazar, Kathmandu	322.39
43	ICFC Finance Ltd.	2004/07/15	Bhatbhateni, Kathmandu	356.19
44	Sagarmatha Merchant Banking and Finance Ltd.	2005/08/29	Maanvawan, Lalitpur	165.00
45	Civil Merchant Bittiya Sanstha Ltd.	2005/09/18	Kuleshwor,Kathmandu	149.50
46	Prabhu Finance Co. Ltd.	2006/02/16	Lainchur, Kathmandu	548.96
47	Imperial Finance Ltd.	2006/03/08	Thapathali, Kathmandu	149.73
48	Kuber Merchant Finance Ltd.	2006/03/24	Kamalpokhari, Kathmandu	150.00
49	Nepal Express Finance Ltd.	2006/05/04	Sundhara, Kathmandu	178.48
50	Valley Finance Ltd.	2006/05/11	Maharajgunj, Kathmandu	143.36
51	Seti Finance Ltd.	2006/05/18	Tikapur, Kailali	40.00
52	Hama Merchant & Finance Ltd.	2006/06/16	Tripureshwor, Kathmandu	200.00
53	Reliable Finance Ltd.	2006/09/24	Sundhara, Kathmandu	241.93
54	Api Finance Ltd.	2007/04/25	Pokhara, Kaski	137.34
55	Namaste Bitiya Sanstha Ltd..	2007/07/09	Ghorahi, Dang	15.00
56	Kaski Finance Ltd.	2007/07/30	Pokhara, Kaski	240.74
57	Zenith Finance Ltd.	2007/10/08	Newroad, Kathmandu	205.31
58	Unique Financial Institution Ltd.	2007/10/12	Putalisadak, Kathmandu	200.00
59	Manjushree Financial Institution Ltd.	2007/10/17	Nayabaneshwor, Kathmandu	225.00
60	Subhalaxmi Finance Ltd.	2007/11/01	Naxal, Kathmandu	200.00
61	Jebil's Finance Ltd.	2009/10/28	Newroad, Kathmandu	102.00
62	Reliance Finance Ltd.	2009/12/03	Pradarsani Marg, Kathmandu	200.00
63	Lotus Investment Finance Ltd.	2010/04/15	Newroad, Kathmandu	120.00
64	Baibhab Finance Ltd.	2011/01/24	Nayabaneshwor, Kathmandu	147.00
65	Bhaktapur Finance Ltd.	2011/02/08	Chyamsing , Bhaktapur	125.00

In the process of liquidation * Prudential Finance Company Ltd. and Gorkha Finance Ltd. is merged

Class: "D" (Micro Finance Development Banks)
(Rs. in million)

1	Purbanchal Grameen Bikas Bank Ltd.	1993/02/28	Biratnagar, Morang	60.00
2	Sudur Pashimanchall Grameen Bikas Bank Ltd.	1993/02/28	Dhangadhi, Kailali	58.50
3	Pashimanchall Grameen Bikas Bank Ltd.	1995/04/01	Butawal, Rupandehi	100.00
4	Madhya Pashimanchal Grameen Bikas Bank Ltd.	1995/04/01	Nepalgunj, Banke	73.57
5	Madhymanchall Grameen Bikas Bank Ltd.	1996/07/08	Janakpur, Dhanusha	100.00
6	Nirdhan Utthan Bank Ltd.	1999/04/13	Siddharthanagar, Rupandehi	192.46
7	Rural Microfinance Development Centre Ltd.	1996/12/06	Putalisadak, Kathmandu	334.00
8	Deprosc Microfinance Development Bank Ltd.	2001/07/03	Ratnanagar, Chitwan	106.14
9	Chhimek Microfinance Development Banks Ltd.	2001/12/10	Hetauda, Makawanpur	157.62
10	Shawalamban Laghu Bitta Bikas Banks Ltd.	2002/02/22	Janakpur, Dhanusha	124.78
11	Sana Kisan Bikas Bank Ltd.	2002/03/11	Subidhanagar, Kathmandu	140.00
12	Nerude Laghu Bitta Bikas Bank Ltd.	2007/06/15	Biratnagar, Morang	56.00
13	Naya Nepal Laghu Bitta Bikas Bank Ltd.	2009/03/20	Dhulikhel, Kavre	14.00
14	Summit Microfinance Development Bank Ltd	2009/05/20	Anarmani, Jhapa	25.00
15	Sworojagar Laghu Bitta Bikas Bank Ltd	2009/12/01	Banepa, Kavre	10.99
16	Frist Microfinance Development Bank Ltd	2009/12/28	Gyaneshwor, Kathmandu	100.00
17	Nagbeli Microfinance Development Bank Ltd	2010/02/04	Anarmani, Jhapa	10.01
18	Kalika Microcredit Development Bank Ltd.	2010/07/21	Waling, Syangja	12.00
19	Mirmire Microfinance Development Bank Ltd.	2010/09/23	Banepa, Kavre	14.00
20	Janautthan Samudayik Microfinance Dev. Bank Ltd.	2010/11/09	Butwal, Rupandehi	11.00
21	Mithila Laghu Bitta Bikas Bank Ltd.	2009/04/29	Dhalkebar, Dhanusha	16.50
22	Womi Microfinance Bittiya Sanstha Ltd.	2012/03/08	Khanikhola, Dhading	10.20
23	Laxmi Microfinance Bittiya Sanstha Ltd.	2012/06/04	Nayabaneshwor, Kathmandu	70.00
24	ILFCO Microfinance Bittiya Sanstha Ltd.	2012/07/05	Chuchepati , Kathmandu	60.00
25	Mahila Sahayatra Microfinance Bittiya Sanstha Ltd.	2012/12/25	Chitlang, Makwanpur	70.00
26	Vijaya Laghubitta Bittiya Sanstha Ltd.	2013/03/28	Rajhar, Nawalparasi	70.00
27	Kisan Microfinance Bittiya Sanstha Ltd.	2013/01/16	Kamalbajar, Achham	14.00
28	Clean Village Microfinance Bittiya Sanstha Ltd.	2013/03/31	Hemja, Kaski	14.00

Savings and Credit Co-operatives (Limited Banking)
(Rs. in Thousand)

1	Shree Nabajivan Co-operative Ltd.	1993/12/15	Dhangadi, Kailali	61800.00
2	Sagun Co-operative Society Ltd.	1994/10/9	Kathamandu	12100.00
3	Nepal Co-operative Society Ltd.	1994/12/30	Kathamandu	31900.00
4	The Sahara Loan,Savings Co-op.Soc. Ltd.	1995/04/15	Sarlahi	56200.00
5	Bindabasini Saving & Credit Co-operative Society Ltd.	1995/06/21	Khopasi, Kavre	54500.00
6	Mahila Co-operative Society Ltd.	1995/09/27	Kathmandu	18600.00
7	Nepal Bahooddeshya Co-operative Society Ltd.	1995/12/25	Jhapa	70700.00
8	Sahakari Bittiya Sanstha Ltd.	1996/6/16	Nepalgunj, Banke	17100.00
9	Shree Manakamana Sahakari Sanstha Ltd.	1997/02/18	Banepa, Kavre	12200.00
10	Very Co-operative Sanstha Ltd.	1997/12/25	Nepalgunj, Banke	9900.00
11	Viccu Saving & Loan Co-operative Sanstha Ltd.	1997/02/18	Gaidakot, Nawalparasi	30200.00
12	Kisan Bahoo-uddesyiya Co-op. Sanstha Ltd.	1997/08/11	Lamki, Kailali	19200.00
13	Himalaya Co-operative Ltd.	1998/12/29	Puranobaneshwor, Kathmandu	40300.00
14	Star Bahoo-Uddesyiya Saving & Credit Co-op Ltd.	1998/02/13	Biratnagar, Morang	10900.00
15	Upakar Savings & Credit Co-operative So. Ltd.	1998/04/14	Walling, Syangja	34800.00
16	Rastriya Sahakari Bank Ltd.	2010/07/20	Baneshwor, Kathmandu	210300.00

Non-Government Organizations (NGOs)

1	Nepal Sikara Grameen Bikas Karyakram	2000/06/05	Chitwan
2	Chartare Yuba Club	2000/06/05	Baglung
3	Mahuli Samudyik Bikas Kendra	2000/06/12	Saptari
4	Unique Nepal	2000/06/29	Bardiya
5	Samudayik Mahila Bikas Kendra	2000/07/14	Saptari
6	Grameen Jagaran Manch	2000/09/11	Baglung
7	Dhaulagiri Community Researh Dev. Centre	2000/10/21	Baglung
8	Society of Local Volunteers Efforts Nepal (Solve)	2001/07/10	Dhankuta
9	Center for Women's Right and Development	2002/04/30	Kathmandu
10	MANUSHI	2002/05/03	Kathmandu
11	Life Development Society	2002/06/18	Morang
12	Mahila Adarsha Sewa Kendra	2002/07/02	Kathmandu
13	Patan Buisiness and Professional Women	2002/07/02	Lalitpur
14	Womens Self -Relient Society	2002/07/14	Chitwan
15	Women Development Centre of Nepal	2002/07/12	Lalitpur
16	Bhagawan Youth Club	2002/07/23	Kathmandu
17	Creative Women Environment Development Association.	2002/07/24	Kathmandu
18	Shreejana Development Center	2002/08/22	Kaski
19	Cottage & Small Industries Organization	2002/09/02	Kathmandu
20	Adarsha Yuba Club	2002/09/06	Bhaktapur
21	Social Upgrade in Progress of Education Region (SUPER)	2002/10/29	Dang
22	Nepal Women Community Service Center	2002/10/30	Dang
23	Gramin Mahila Bikash Sanstha	2003/04/23	Dang
24	Gramin Mahila Utthan Kendra	2003/06/18	Dang
25	Gramin Sewa Nepal	2003/09/18	Kailali
26	Mahila Upakar Manch	2003/10/29	Banke
27	Sawabalamban Bikash Kendra	2004/11/01	Kathmandu
28	Bikash Aayojana Sewa Kendra	2004/11/01	Kathmandu
29	Gramin Swayam Sewak Samaj	2005/11/20	Hariwon, Sarlahi
30	Srijana Community Development Center	2012/11/18	Choharwa, Siraha
31	Rastriya Shaichhik Tatha Samajik Bikas Sanstha	2012/11/18	Kusma, Parbat
32	Nepal Grameen Bikas Sanstha	2012/12/13	Kathmandu
33	Women Enterprises Association of Nepal	2013/01/04	Kathmandu

Other Institutions

1	Mashreq Bank PSC	2010/10/12	Thapathali, Kathmandu
2	Hydroelectricity Investment & Development Company Ltd.	2012/07/10	Babarmahal ,Kathmandu

APPENDIX 2

Major Credit Documents

- Approved Credit Appraisal (Memo)/Approved Credit Facility Request (CFR)
- Offer Letter/Sanction Letter
- Evidence of Income Sources & Financial Statements
- Evidence of Identification and Business Incorporation Certificates & Tax Registration Certificate
- Mortgage deed with all necessary legal documents.
- Loan deed
- Personal guarantee/cross guarantee/corporate guarantee
- Promissory notes
- Hypothecation of stocks & supplementary agreement to hypothecation
- Hypothecation of books debts & power of attorney
- Insurance documents
- Transfer of ownership of vehicle
- Subordinate agreement from other creditors
- Hire purchase agreement etc.

APPENDIX 3

Credit Recovery Process

- Regular monitoring of accounts
- Information to the borrower about the performance of his account.
- Ensure that the charge documents are in order
- Assess the value of the security
- Dialogue with the borrower to derive possible solution
- Convey the consequences of the recovery action
- Try to reach an amicable settlement with the borrower
- In the borrower still fails to respond, move onto an auction process to liquidate the security provided
- Blacklisting of the borrower and the guarantor
- File case at Debt Recovery Tribunal(DRT)

APPENDIX 4

Trend of Deposit Collection of KAFIL

FY	Year(X)	Deposit (Y)	XY	X^2
2064/65	1	367.82	367.82	1
2065/66	2	805.90	1,611.80	4
2066/67	3	1,065.24	3,195.72	9
2067/68	4	1,066.06	4,264.24	16
2068/69	5	1,245.78	6,228.90	25
Sum	**15**	**4,550.80**	**15,668.48**	**55**

Here, actual trend equation of the linear trend is:

$y = a + bx$

Two normal equations are:

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

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

Putting the value of normal equations from the above table:

4,550.80 = 5a + 15b …………………. (i)

15,668.48 = 15a + 55b …………………. (ii)

Multiplying equation (i) by 3 and subtracting equation (ii) from (i)

13,652.40 = 15a + 45b

15,668.48 = 15a + 55b

-2,016.08 = - 10b

b = 201.60

Substituting the value of b in equation (i)

4,550.80 = 5a + 15 x 201.60

5a = 4,550.80 – 3,024

5a = 1,528.80

a = 305.36

Thus, the required trend of y = 305.36 + 201.60X

The trend of deposit collection will be:

In 2069/70 = 305.56 + 201.60 x 6 = 1,515.16

In 2070/71 = 305.56 + 201.60 x 7 = 1,716.76

In 2071/72 = 305.56 + 201.60 x 8 = 1,918.36

In 2072/73 = 305.56 + 201.60 x 9 = 2,119.96

In 2073/74 = 305.56 + 201.60 x 10 = 2,321.56

APPENDIX 5

Trend of Loan & Advances of KAFIL

FY	Year (X)	Loan & Advances (Y)	XY	X^2
2064/65	1	335.22	335.22	1
2065/66	2	705.65	1,411.30	4
2066/67	3	910.54	2,731.62	9
2067/68	4	1,002.71	4,010.84	16
2068/69	5	1,117.75	5,588.75	25
Sum	**15**	**4,071.87**	**14,077.73**	**55**

Here, actual trend equation of the linear trend is:

$y = a + bx$

Two normal equations are:

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

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

Putting the value of normal equations from the above table:

4,071.87 = 5a + 15b …………………. (i)

14,077.73 = 15a + 55b …………………. (ii)

Multiplying equation (i) by 3 and subtracting equation (ii) from (i)

12,215.61 = 15a + 45b

14,077.73 = 15a + 55b

-1,862.12 = - 10b

b = 186.21

Substituting the value of b in equation (i)

4,071.87 = 5a + 15 x 186.21

5a = 4,071.87 – 2,793.15

5a = 1,278.72

a = 255.74

Thus, the required trend of y = 255.74 + 186.21X

The trend of deposit collection will be:

In 2069/70 = 255.74 + 186.21 x 6 = 1,373.00

In 2070/71 = 255.74 + 186.21 x 7 = 1,559.21

In 2071/72 = 255.74 + 186.21 x 8 =1,745.42

In 2072/73 = 255.74 + 186.21 x 9 = 1,931.63

In 2073/74 = 255.74 + 186.21 x 10 = 2,117.84

APPENDIX 6

CALCULATION OF COEFFICIENT OF COORELATION

FY	Deposit(X)	Loan & Advances(Y)	X^2	Y^2	XY
2064/65	367.82	335.22	135,291.55	112,372.45	123,300.62
2065/66	805.90	705.65	649,474.81	497,941.92	568,683.34
2066/67	1,065.24	910.54	1,134,736.26	829,083.09	969,943.63
2067/68	1,066.06	1,002.71	1,136,483.92	1,005,427.34	1,068,949.02
2068/69	1,245.78	1,117.75	1,551,967.81	1,249,365.06	1,392,470.60
Sum	**4,550.80**	**4,071.87**	**4,607,954.35**	**3,694,189.87**	**4,123,347.20**

We know,

Coefficient of Correlation (r)

$$r = \frac{n\sum xy - \sum x.\sum y}{\sqrt{n \times \sum x^2 - (\sum x)^2}\sqrt{n \times \sum y^2 - (\sum y)^2}}$$

$$= \frac{5 \times 4,123,347.20 - 4,550.80 \times 4,071.87}{\sqrt{5 \times 4,607,954.35 - (4,550.80)^2}\sqrt{5 \times 3,694,189.87 - (4,071.87)^2}}$$

$$= \frac{2,086,470.00}{1,526.43 \times 1,375.07}$$

$$= \frac{2,086,470.00}{2,098,948.10}$$

$= 0.9941$

Where,

x = Total Deposit Collection of the year

y = Total Loan Disbursement of the year

n = Number of year

P.E. = Probable Error

The Correlation Coefficient of total deposit and total loan disbursement (r) = 0.9941 r > 0 i.e.; 0.9941 > 0 the relationship between two variables, total deposits and loan disbursement are positively correlated.

Calculation of Probable Error

$$P.E. = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1 - 0.994}{\sqrt{5}} = 0.0018$$