CHAPTER-1
INTRODUCTION

1.1 Background of the Study

The prosperity of every developing country can be insured by its economic growth. Different profit and non-profit institutions are to be established for economic growth, for which the source of finance is very essential. Profit oriented institutions usually obtain these sources through ownership capital, public capital through the issues of shares and through financial institutions such as banks, in the form of credits, overdrafts etc.

Financial market is very essential for economic growth of the country. Bank, Finance Companies, Co-operative Societies, Insurance Co., Stock Exchange are the key elements for the economic development. Among these, bank is Major part of financing which deals with monetary transactions by accepting various types of deposit, distributing various types of loans and rendering other financial development by investing in industrial sector, commercial sector, production sector, and trade commerce by initiating a mediator on import and export.

Bank are those financial institutions that offer the widest range of financial services especially credit, saving, payment services and perform the widest range of financial functions of any business firm in economy. The most important functions are lending and investing money, making payments on behalf of customers for their purchases of goods and services, managing financial assets and real property for customers and assisting customers in investing and raising funds.

The Well organized financial system of the country plays a great role in economic growth. As a part of the financial institutions system, commercial banks occupy quite an important place in the framework of the every economy, trade and business and other resources deficit sectors contribute to the economic growth of the nation, Besides this, commercial banks render numerous services to their customers in view of facilitating their economic and social life.

Bank is emerging as a wonder of the modern world when we talk about the wonderful scientific inventions, its service with a smile, no queues and a consumer's paradise in the world of banking, with the number of private sector banks now in the business, the traditional concept of banking is being revolutionized. Today the world has become modernized. The standard of living of every country has changed drastically, as the economic prospectus of any country shows its financial position of the country which is very essential in the world of modern economy. The economic portfolio has to be adjusted according to the need and demand of the life standard of citizen with respect to time.

Now days, there is a lot of competition in banking market but less opportunity to investment. In this condition, bank can take initiation in search of new opportunities, so that they can survive in the competitive market and earn profit. But investment is very risky job. For a purposeful, safe, profitable investment, bank must follow sound investment policy. The sound investment policy help commercial bank maximized quality and quantity of investment and hereby achieve the own objective of profit maximization and social welfare. The banking sectors needs to play a vital role to boost the economy by adopting the growth oriented investment policy and building up the financial structure for future economic development. Formulation of sound investment policies and coordinated and planned efforts pushes forward the forces of economic growth. So obviously, investment of collected fund is the most important theme for the development of the country.

1.2 Origin of the Banks in Nepal

As in other countries, goldsmiths and landlords were the ancient bankers of Nepal. Banking on modern timer developed in Nepal recently. But this does not mean that there was a complete absence banking activities. From times immemorial, money lender existed before the establishment of modern bank. There is plenty of evidence to show that loan was borrowed in those days.

The history of banking in Nepal in the from of money lending can traced back in the reigning in period of Gunakama Dev, "The King of Kathmandu" (Nepal Bank Limited, Nepal Bank Limited Patrika,2037:31)

During the Prime Ministerial period of Ranodeep Singh, one financial institution was established to give loan facilities to the Government Staffs and Loan facilities to the public in general in the terms of 5% interest but "Tejarath" did not except money from public.(Nepal Bank Limited, Nepal Bank Limited Patrika, 2037:40)

The first bank in Nepal was established in 1937 A.D. (1994 B.S.) as Nepal Bank Limited under Nepal Bank Act to provide modern and organized facilities. Having felt the need of development of banking sector to the help the Government formulate monetary policies, Nepal Rastra Bank as a Central Bank was set up in 1956 A.D. (2013 B.S.). Since then, it has been functioning as Government's Bank and contributed to the growth of financial sectors. Through the Nepal Rastra Bank has adopted a deregulatory approach at present. It requires continues modification in view of fast changing world. Being the Central Bank, Nepal Rastra Bank has its own limitations and reluctance to go on profitable sectors. To cope with these difficulties, government set up Rastriya Banijiya Bank in 1966 A.D. (2022 B.S.) as a fully government owned commercial bank. Similarly, Agriculture Development Bank was established in 1968 A.D.(2024 B.S.), KBL come into existence as the fifteen commercial bank of Nepal by starting its banking operation from Chitra 21, 2057 B.S. April 03, 2001, NRB adopted liberal economic policy to promote the financial institutions. So many commercial banks, development banks and other financial institution are emerging day by day.

1.3 Focus of the Study

Every country has to give an emphasis on upliftment of the stable and sustainable economy. Until and unless a nation mobilize its own domestic resources, the nation cannot achieve economic growth. Financial institutions are currently viewed as catalyst in the process of economic growth of country. A key factor in the development of an economy is the mobilization of the domestic resources. As intermediaries, the financial institution help the process of resources mobilization. The importance of financial institutions in the economy has of late grown to an enormous extent. As main financial institution, banks are expected to support local community with an adequate supply of credit for all legitimate business and consumer needs to price that credit reasonably in line with competitively determined interest rates. Bank loan support the growth of new business and jobs within the banks trade territory and promote economic vitality.

Management is the system, which helps to complete the every job effectively. Credit Management is also the system, which helps to manage credit effectively. In other words, credit management refers management of credit exposures arising from loan, corporate bonds and credit derivatives. (Clemen; 1963:42)

Lending money is nowadays becoming main resources of revenue to the bank and also involves high risk too. Bank will not provide loan unless it has sufficient sources to the borrower that will be needed in case of future recovery. So, credit management strongly recommends analyzing and managing the credit risk. The goal of the credit risk management is to maximize a bank's risk adjusted rate of return by maintaining the credit risk exposures within acceptable parameters.

Since, exposure of to credit risk continues to be on leading source of problem in banks world wide, banks and their supervisors should be able to draw useful lessons from past experiences. Banks should now have a keen awareness of the need to identify, measure, monitor and control credit risk as well as to determine that they hold adequate capital against these risks and that they are adequately compensated for risks incurred. The Basel Committee is issuing this document in order to encourage banking supervisors globally to promote sound practices for applicable to the business of lending, they should be applied to all activities where credit risk is present. (Vaidya; 1999:182)

Power financial decision making is more important in banking transaction for its efficiency and profitability. For this proper credit policy is very essential. The credit policy of a firm provides the framework to determine whether or not to extend credit and how much credit to extend. The credit policy decision of a bank has two broad dimensions; credit standards and credit analysis. A firm has to establish and use standards in making credit decision, develop appropriate sources of credit and methods of credit analysis. (Cheney & Moses; 1988:169)

For most banks, loans are the largest and most obvious source of credit risk, however other sources of credit risk exist throughout the activities of a bank, including in the banking book and in the trading book, and both on and off the balance sheet. Banks are increasingly facing credit risk in various financial instruments other than loans, including acceptances, inter bank transactions, trade financing, foreign exchange transactions, financial futures, swaps, bonds, equities, option, and in the extension of commitments and guarantees and the settlement of transactions.

1.4.1 Introduction of Kumari Bank Limited

Kumari Bank Limited started its banking operations from 3 April 2001 (21 Chaitra 2057 BS) as the fifteenth commercial bank in Nepal. Since its inception, Kumari Bank has been providing competitive and modern banking services to all Nepali consumers, and has stood as one of the most trusted banks in Nepal with paid up capital of Rs.1,603,800,000 of which 70% is contributed from promoters and the rest 30% from the public. Kumari Bank Limited has extended its services far and wide across the nation with 29 points of representations – 20 outside the Kathmandu valley and 9 inside the valley. Kumari Bank has become one of the flexible banking service providers with a wide-range of modern banking services together with the latest and lucrative banking services like E-banking and SMS banking. With changing times, technological advances have made their way into Kumari Bank's internal system – modern Globus (T24) Software, developed by Temenos NV, Switzerland and arrangement of centralized database system – enabling the customers with not just prompt and easily accessible services but equally confident secured transaction from any branch of Kumari Bank. With these systems, customers of Kumari Bank can access to its services anywhere, everywhere. Kumari Bank has been providing banking services in all 365 days of the year, and with extended banking hours up to 7 pm. Customers can make utility bill payments, online remit services, inward and outward remittance and other banking services just according to their requirement. Kumari Bank has received national and international recognitions. The bank has been recognized for its innovative services conjoined with enhanced customer value via transparent business practices, professional management, corporate governance and total quality management. The mission of Kumari Bank is to provide quality services to all Nepalese – and whilst doing so, serve the customers to fulfill their needs, offer modernized banking services, bring innovative packages, newer and competitive banking products, and keep up with the global line of banking discoveries.

1.4.2 General Functions of KBL

As like in other business concern commercial banks are also very much concerned about making profit because profit is the major element of each every business endeavor for their survival, further development and fulfilling social expectations. In modern business, the effectiveness and efficiency of the business organization and their manager are measured from the profit earned by them. Banks deals with money and performs several financial monitory and economic activities that are essential for economic development of a country. It is a service industry there for its profit plans are of a different format than those in a manufacturing units as bank has resources mobilization and utilization plan and its aims at maximizing profit out of their activities.

Kumari Bank Limited being a commercial banks and also business concern perform various kind of profitable banking business activities which are under the control of the Nepal Rastra Bank Act 2012, commercial Act

2031, Foreign Exchange regularized Act 2019, and other specific law of Nepal. The main activities are:

Acceptance of deposit,

Providing loans and advances,

Providing overdraft,

Opening various types of customers A/C,

Remittance (Transfer of fund),

Opening letter of credit (L/C) on behalf of their customers,

Bills discounting or purchasing or collection on behalf of the customer,

Issuing guarantees against the bidding financial and performance of activities,

Obtaining mortgage of properties as collateral sector,

Safe custody of valuable,

Trading in securities, etc.

1.4.3 The Organization and Management of KBL

The success of business largely, depends on management quality. Generally, the management of body of any business organization has two fold major objectives, first to manage the firm well and second to maximize profit and enhance shareholder's wealth. Kumari Bank Limited is managed by Chief Executive Officer (CEO) under the supervision and control of board of directors. Board of directors appoints the chief executive officer. The board of directors of Kumari Bank limited is constituted by the body of 7 members. Altogether directors are appointed as follows:-

1. Chairman	Mr. Noor Pratap J.B. Rana
2. Director	Prof. Dr. Rajan Bahadur Poudel
3. Director	Dr. Shova Kant Dhakal
4. Director	Mr. Uttam Prasad Bhattarai

5. Director	Mr. Naresh Dugar
6. Director	Mr. Amir Pratap J.B. Rana
7. Director	Mr. Rishi Agrawal
8. Director	Mr. Rashindra Bahadur Malla.
9. Chief Executive Officer (CEO)	Mr. Udaya Krishna Upadhya

The management under the board is entrusted to nominate CEO under which corporate office at various branch operations. Currently there are 29 points of representation all around Nepal – 20 outside Kathmandu valley and 9 inside valley.

1.4.4 Personnel and Branch offices of KBL

1.4.4 a) Personnel

There are altogether 327 employed working in KBL as on 30th march 2012 at its head office, corporate and branch offices .The bank hires employees at five ranks within which the positions are fulfilled at various levels. Current status of manpower at KBL (level wise) is as shown below:-

1) Top Executive Level

This is the policy level position starting from Chief Executive Officer including high level committee.

Chief Executive officer (CEO)

High Level Committee

2) Low Executive Level

This level includes the high rank official responsible for policy, feedback and implementation. This level starts from assistant general manager at the top and deputy manager at the bottom. Current manpower in this level is as follows:

a. Assistant general manager

b. Manager

c. Deputy manager

3) Officer Level

There are three positions in this level starting from Assistant General Manager at the top of management trainee at the bottom. Generally, fresh officer level requirement are made as management trainee and positioned to officer upon completion of training. Current manpower in this level is as follows:

a. Assistant Manager

b. Officer

c. Management trainee

4) Clerical Level

This is the non-officer level including four positions starting from supervisor at top to trainee assistant at the bottom. Current manpower in this level is as follows:

a. Senior assistant

b. Assistant

c. Trainee Assistant

5) Sub-ordinate Staffs

These are the non-clerical position. Some are working in contract basis in this level. Current manpower status at this level in the bank is as follows:

a. Massager

b. Driver
c. Peon
d. Security Guard
e. Cleaner/Sweeper

1.4.4 b) Branches of KBL

Kumari Bank Limited has extended its services far and wide across the nation with 29 points of representations – 20 outside the Kathmandu valley and 9 inside the valley. Kumari Bank is expanding its branches so coming near future it has more staffs than existing.

Table No.:- 1

Branches of KBL (Inside Kathmandu Valley)

S. No.	Office Name
1.	Durbarmarg Branch, Durbarmarg, Kathmandu
2.	Gongabu Branch, Kantipur Mall, Gongabu, Kathmandu
3.	Putalisadak Branch, Govinda Bhawan, Putalisadak, Kathmandu
4.	Baneshwor Branch, Baburam Acharya sadak, old Baneshwor
5.	New Road Branch, Pratap Bhawan, New Raod, Kathmandu
6.	Chabahil Branch,Chuchepati, Chabahil, Kathmandu
7.	Koteshwor Branch, Koteshwor, Kathmandu
8.	Kumaripati Branch, Kumaripati, Lalitpur
9.	Budhanilkantha Branch, Narayanthan Milan Chowk, Budhanilkantha, Kathmandu

Table No.:- 2

Branches of KBL (Outside Kathmandu valley)

S. No.	Office Name

1.	Dhangadi Branch,Ratopul-2, Dhangadi
2.	Tulsipur Branch, Tulsipur, Dang
3.	Salyan Branch, Khalanga, Salyan
4.	Surkhet Branch,TalloBazzar, Birendra Nagar, Surkhet
5.	Biratnagar Branch, Biratnagar, Goshwara Road, Morang Byapaar Sangh Building
6.	Itahari Branch, Pathivara Market, Dharan Road, Itahari
7.	Birtamod Branch, Anarmani-3, Birtamod, Jhapa
8.	Urlabari Branch, Itahari Road, Urlabari
9.	Birgunj Branch, Adarshnagar, Birgunj
10.	Dryport Branch, Birgunj
11.	National Medical College, Birgunj (Extension counter)
12.	Pokhara Branch, New Road, Pokhara
13.	Damauli Branch, Damauli-2, Tanahun
14.	Baglung Branch, Baglung Muncipality-2, Baglung
15.	Butwal Branch, Butwal-6, Shreeram Tower, Rammandir line
16.	Bhairahawa Branch, siddharthanagar-8, Bhairahawa, Rupandehi
17.	Narayangadh Branch, Pulchowk, Narayangadh, Chitwan
18.	Sauraha Branch, Bacchauli, Ward No.2
19.	Kawasoti Branch, Kawasoti Bazar, Nawalparasi
20.	Nepalgunj Branch, Surkhet Road, Dhanabhoji, Nepalgunj

Sources of KBL 2068/069

1.4.4 c) Banking service of KBL

KBL has been providing different services such as accepting deposit, paying the amount of cheque drawn by the depositor by means of computerized and facilities counters through various branches offices. It also advances loan for short term to long term against commercial good, movable and immovable property. It also provides the facility of discounting bill of exchange, issuing travellers cheque, issuing letter of credit provide guarantee, sale and buy of foreign currency and remittance of many from one place to another. KBL has the most sophisticated GLOBUS banking software with modern banking facilities like late banking, internet banking and point of sale service, ATM facilities, mobile banking and many more. Anywhere banking by means of centralized data base and communication systems, person who has an account in any branch of KBL is allowed to conduct certain operation like deposit and withdrawer of cash and cheque from any other branch easily.

1.4.4 d) The main vision and objectives of KBL

KBL has defined its objectives and goals in its mission and vision statement which states as follows:

a) Vision

The vision of the bank is to be the preferred financial partner to the customers, a center of career growth to the employees, and to maximize the shareholder’s value, while contributing to the nation’s financial sector and to its economic welfare.

b) Mission

The mission is to deliver innovative products and services to the customers, use these innovative products to achieve financial inclusion, and do so by exemplifying good corporate governance, proactive risk management practices, and superior corporate social responsibility.

We at KBL, our goal is to aim and achieve the highest standard of professionalism and service to silent by providing customized financial products and services through practice management. In further states our team of innovative and dynamic master -minds marches across the geographical and cultural boundaries with contemporary competitively designed and differential quality financial products and services to achieve strategic advantages in a dynamic environment. Thus, the objective and goals set by bank can be noted from above statements as follows.

a. To aim and achieve highest standard of professionalism

b. To aim and achieve to provide highest standard of customized products and services to their clients

c. To create life long relationship with their customer

d. To achieve strategic advantage in the dynamic environment every their designed deferential qualified financial product

e. To maintain management proactively

c) Corporate philosophy

The objective of the bank has been further reflected in the corporate philosophy of the bank that sets as follows: our corporate values serve as the basic business principles, which set foundation to achieve sustainable development. Adoption of these values avail in protecting, sustaining and enhancing humn and financial capital of the bank for the future.

1.4.4 e) Time period in profit plan

As per NRB directives all the commercial banks identically to follow the accounting year of in months beginning from 1st of shrawan to the end of Asadh with over the list nine months of a (B.S.) to the first three months of seeding year (B.S.). KBL prepares the profit plans for 12 months of upcoming year which includes the business. Budget revenue and expenditure and profit plan for the year. This study covers for year period from fiscal year 206/64 to 2068/69 and the data of fiscal year.

1.4.4 f) Strategic profit plan of KBL

The strategic profit plan of KBL is reflected in its business budget the business budget is a reasonable estimation of business activities to be performed and the goal to be achieved by the bank with in the particular fiscal year for which the budget is prepared the practice of formulation formal business has been started only from 2059/2060 KBL in for the initial few year. The board used to set some broad target and used to be limited only up to the top management and was not public.

1.5 Statement of the Problem

Establishment of banks has contributed in the response to the economic liberalization policies of the government. The tendency to concentrate commercial banks only in the urban areas like Kathmandu, Biratnagar, Pokhara, Nepalgunj etc. has raised the certain questions. This state of affairs cannot contribute much to the socio-economic development of the country where 90% of the population lives in rural area and 81% of the population depends on agriculture. There are a lot of problems related to investment due to which most of the commercial bank in the Nepal are urban oriented.

Most of the banking problems have been caused by weakness in credit management. Despite the circular of NRB, the central bank of the country, regarding compulsory investment of 10% of their total investment in the rural areas, these banks are inclined to pay fines rather than investing these resources to such less profitable sectors. So, banks should now have keen awareness of the need to identify measure, ,monitor and control credit as well as to determine that they hold adequate capital against it. Thus risks that are adequately compensated for risks incurred. So, to establish creditability position is a major issue in commercial bank during these days.

Nepalese commercial bank are lacking scientific and imperial research that could identify the issues of credit management. Banks and financial institutions are investing in house loan, hire purchase loan for safe purpose. Due to lack of good lending opportunities, banks appear to be facing problem of excess liquidity. Due to unhealthy competition among the banks, the interest rate for the loan is in decreasing trend and the recovery of the banks credit is going towards negative trends. In this regard, the performance of Nepalese commercial bank is to be analyzed in terms of their credit. Some research questions regarding to the credit practices, credit efficiencies, liquidity position, industrial environment, management quality, organization climate are considered as a clear evident in present situation. Thus to know the problems faced by Nepalese commercial bank related to the investment, Kumari Bank Limited is selected for study and the specific research questions regarding credit management in Kumari Bank Limited are identified as follows:-

a) Are the credit practices adopted by Kumari Bank Limited in good position ?
b) Is bank in the right level of liquidity?
c) Is bank investing in good and profitable sectors?
d) Has bank been able to earn profits?
e) What is the credit efficiency of Kumari Bank Limited?
f) What is the impact of growth in deposit on liquidity and lending practices?
g) What is the position of non performing credit in Kumari Bank?
h) How far Kumari Bank Limited is able to use its resources in credit and advances?

1.6 Objectives of the Study

There is no doubt that commercial bank are the heart of the nation who mobilize and utilize scattered resources. Basic objective of this study is to have true insight of the credit management of Kumari Bank Ltd. It is also aimed to find credit practice efficiency and profitability situation. Moreover the study has specified the following objectives:-

a) To see the investment and loan & advance system of the Kumari Bank Limited.
b) To see the relationship of liquidity and lending with deposit increases.
c) To explore the relationship with loan and advances and net profit of the Kumari Bank Limited.
d) To provide suggestions and recommendations for the improvement based on the major findings of this study.

1.7 Significance of the Study

In this changing pace of time, most of the commercial banks are gaining a wide popularity through their efficient management and professional services and playing a great role in the economy. The main purpose of the commercial bank is to have effective credit management so that stakeholders get satisfactory. This study adds new idea and findings about the concerned bank.

This study is helpful for all the concerned parties which add new idea and findings about the Kumari Bank Ltd. The studies that will have importance to various groups but in particular is directed to a certain groups of people/ organizations are:

a) Important to the management of Kumari Bank Limited for self assessment of what they have done in the past and guide them in their future plans and program.
b) Important to the shareholders.
c) Important to the financial agencies, stock exchanges and stock traders, who are interested in the performance of the bank as well as the

customer, depositors and debtors who can identify the better bank to deal with in terms of profitability, safety and liquidity?

d) Important to the interested outsides parties like investors, competitors, personnel of the banks, dealers and market makers.

e) Important to the macro level policy makers like government and NRB for the formulation of further policies in regard to economic development.

1.8 Limitations of the Study

This study has been carried out with certain limitations. The major limitations are as follows:-

a) The study is concerned only with credit related financial performances of Kumari Bank Limited.

b) The scope of the study is to analyze Credit Management aspects.

c) In this study only selected statistical tools and techniques are used.

d) This research study largely depends on published documents such as Balance Sheet. Profit and Loss Account, which are circulated at the close of the financial year.

e) Research is done for the partial fulfillment of the Master of Business Studies (MBS) of the management faculty. Tribhuvan University and no comprehensive study.

f) This study is conducted only for suggestion not for directing.

g) This study is based on the latest five years data.

h) Time and financial constrains are also the major limitations of the study. The report to be submitted within the time period.

4.9 Organization of the Study

The study credit management of Kumari Bank Limited is presented in organized form. The whole study is divided into five different chapters and they are given as follows:-

Chapter-I : Introduction

This chapter describe the background of the study. It has served orientation for readers to know about the basic information of the research area, various problems of the study, objectives of the study, significance of the study, limitations of the study and organization of the study.

Chapter-II : Review of Literature

The second chapter of the study assures readers that they are familiar with important research that been carried out in similar areas. It contains conceptual framework of the credit, review of articles, past related thesis and research gap.

Chapter-III : Research Methodology

Research Methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. This chapter includes research design, data collection, data analysis technique and research variables.

Chapter-IV : Data Presentation and Analysis

This chapter analyzes the data related with study and presents the findings of the study and also commend briefly on them. Data processing, data analysis and interpretation are given in this chapter and there is use of techniques relating to analysis such a ratio, descriptive expression, diagrams and so forth.

Chapter-V : Summary, Conclusion and Recommendations

On the basis of the result from data analysis, the researcher concluders about the performance of the concerned organization in terms of credit management. This chapter is devoted to the summary of the research, conclusion derived on the basis of data analyzed and the recommendations for improvement to the concerned organization.

CHAPTER-II

REVIEW OF LITERATURE

2.1 Introduction

Every study is very much based on past knowledge; the past knowledge provides foundation to the present study. So in this present chapter, the reviews are done relating to credit management of Kumari Bank Limited. This chapter helps to take adequate feedback to broaden the information based and inputs to this study, therefore this chapter has its own important in this study. For this several journals, reports and articles published in different journals and newspapers are being reviews and are categorized in two heading.

- Conceptual Framework
- Review of related studies

2.2 Conceptual Framework

2.2.1 Meaning of Commercial Banks

Banks play an important role in the economic growth of a country. In genera, a bank is referred to as an institution that deals with money, currency and bullion. It collects the deposits in the form of currency and gold from the savers and supplies to the people in demand of money with different terms and conditions as to the money received and charges different levies in the form of processing fees, commissions, interest etc. from the people who have taken loan from it. In modern economy, banks are considered not as a dealer in money but as the leaders of development. Banks are not just the storehouse of the country's wealth but are the reservoirs of necessary for economic development. Now a day the function of banks are changing which has induced their principle competitors to change. The principle competitors such as other financial institutions including security dealers, brokerage firms and insurance companies are trying to be similar to bank in the services they offer.

Banking industry has acquired a key position in mobilizing resources for finance and social economic development of the country. No function is more important to the economy and it's constituted than financing. " Bank assists both the flow of goods and service from the products to the consumers and financial activities of the government banking provides the country with a monetary system of payment and is in important part of the financial system, which makes loans to maintain and increase the level of consumption and production in the economy "(American Institute of Banking, 1972:162)

"Commercial bank deals with other people's money. They have to find ways of keeping their liquid assets so that they could meet the demands of their customers. In this anxiety to make profit, the bank cannot afford to lock their funds in assets, which are not easily releasable. The depositors must be made to understand the bank is fully solvent. The depositor's confidence could be secured only if the bank is able to meet the demand for cahs promptly and fully. The banker has to keep a large possession of his assets in the form of cash. Cash brings in no income to the bank. Therefore, the banker has to distribute his assets in such a way that can have adequate profits without sacrificing liquidity (Radhaswamy;1979:42)

According to F.A. Braddford, "A bank is one who in the ordinary course of his business receives money which he repays by honoring cheques of persons from which of one whose account is receives it"(Bradford, 1974:453).

Commercial Bank Act 2031 B.S. of Nepal has defined that "A commercial bank is one which exchanges money, deposit money, accepts deposits, grant loans and performs commercial banking functions and which is no a bank meat for cooperative, agriculture, industries or for such specific purpose."(Commercial Bank Act, 2031 B.S.)

Commercial banks play the important role in the modern economic organization. Their business mainly consists of receiving deposits, giving loans and financing the trade of a country. They provide short-term i.e., lend money for short period. According to the American Institute of Banking, Commercial Bank is a corporation that accepts demand deposits subjects to check and makes short-term loans to business enterprises regarding of the scope of its other services.

2.2.2 Functions of Commercial Banks

Banks are financial institutions which perform its activities as an objective of profit maximization. To achieve this, the bank carries out functional activities, principally, commercial banks accepts deposits, provide loan, primarily to business firms thereby vacillating the transfer of funds in the economy. The business of commercial banks is primarily to hold deposit and make credits and investments with the object of securing profits for its shareholders. Although, in the yester years banks have to perform overall development of trade, commerce, industry, agriculture including supports for priority and deprived sectors. Due to the increment in the banking habit of people, competitive environment of banking business all over the world has made this sector very challenging. To meet its major objective, it performs various functions under the mandatory rules and regulations and directives of NRB and the Commercial Act 1974 A.D. The functions of commercial banks are categorized mainly as follows:-

2.2.3 Primary Functions

i) Accepting Deposits

Accepting a deposit is the most important function of commercial bank. Commercial banks collect money from those who want to deposit in different types of accounts such as: fixed deposit account, current deposit account, saving account.

ii) Advancing Loans

Commercial banks provide the required or credit to various sectors of economy such as industry, trade, agriculture, business-deprived sector etc. In this way bank creates credit facilities. It provides loans from various procedures in different form such as : overdraft, cash credit, direct loan with collateral, discounting of bills of exchange, loans of money at call and short notice.

iii) General Utility Functions

Commercial banks also perform general utility functions such as :

- Issuing of letter of credit to its customers.
- Issuing of bank draft and traveler's cheque etc., for transfer of fund from one place of another.
- Dealing in foreign exchange and financing foreign trade by accepting of collecting foreign bills of exchange.
- Serving as referred to the financial standing and credit worthiness of its costumers.
- Under writing loans to be raised by public bodies and corporations.
- Providing safety vaults of lockers for the safe custody of valuable and securities of the customers.
- Acting as a trustee and executing the will of the decease.
- Remittance of money.

iv) Agency Function

Apart from the above functions, commercial banks also perform agency functions for which they act as agent and claim commission on some facilities such as : collection of customer's money other banks, receipt and payment of dividend, interest, security brokerage service, financial advisory service, to understand the government and private securities.

2.2.3 Role of Commercial Banks in Changing Context

1. Role on economic development.
2. Role on development of financial market (National/Global)
3. Modern products and services; satisfying costumers needs.
4. Human relation; customers, stakeholder, government employees.
5. Tax payer to the government.
6. Social responsibilities.
7. Research and development
8. Technology adoption
9. Continuous development and managing the change

Normally, Banks confront different kinds of risks, which are categorized as follows:

i) Credit Risk

Credit risk arises whenever another party enters into an obligation to make payment or deliver value to the bank. The risk is mostly associated with the lending.

ii) Liquidity Risk

Liquidity risk arises when bank itself fail to meet its obligations. The bank required to make payments to the different parties at different times, when they fall due to other parties, it is the liquidity risk.

iii) Yield Risk

It is the risk that bank's assets may generate less income than expenses generated by its liabilities.

iv) Market Risk

The risk of loss resulting from movements in the market price of financial instruments in which the bank has position is the market risk. Such instruments include bonds, equities, and foreign exchange and associated derivatives products.

v) Operational Risk

The risk of failure in the banks procedures or controls whether from external of internal causes or as a result of error or fraud within the institution is the operational risk.

vi) Management Risk

The risk that shareholders directors or senior management be unfit for their respective positions of dishonest.

2.2.5 Credit Management

Credit is regarded as the most income generating assets especially in commercial banks. Credit is regarded as the heart of the commercial banks in the same sense that; it occupies large volume of transaction; it covers the main part of the investment activities based in credit; it is the main factor for creating profitability; it is the main source of creating profitability, it determines the profitability. It affects the overall economy of the economy. In today's context, it also affects on national economy to some extent. It is proved from very beginning that credit is the shareholder's wealth maximization derivative. However, other factors can also affect profitability and wealth maximization but the most effective factor is regarded as credit. It is most challenging job because it is the backbone in commercial banks. Thus, effective management of credit should seriously be considered.

Credit promotes economies growth and contributes the nation's wealth. People deposit their surplus money in the bank and may lend those collected funds to the various business and compani4es. There firms in return may invest in new factories and equipment to increase their production. As a result investment raises the nation's living standard. Now a day, most companies issues stocks and banks to raise the capital needed for business expansion instead of borrowing from the banks. Similarly government also issue bonds to obtain fund to invest in the project like construction of damps, roads, Bridges and schools etc. All such investment by individual business as ell as government involves a sacrifice of present value to get expect future benefits and income which is probably uncertain.

Credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The goal of credit risk management is to maximize a bank's risk adjusted rate of return by maintaining credit risk exposures within acceptable parameter. Banks need to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. Banks should also consider the relationship between credit risk and other risks. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long term success of any banking organization. For effective credit management, there is major role of sound credit policies and the practices of those policies. The sound practices address the following area:

a. Establishing an appropriate credit risk environment.
b. Operation under a sound credit granting process.
c. Maintaining an appropriate credit administration, measurement and monitoring process.

d. Ensuring adequate controls over credit risk.

Although specific credit risk management practices may differ among banks depending upon the mature and complexity of their credit activities, a comprehensive credit risk management program will address these four areas. Those practices should also be applied in conjunction with sound practices related to the assessment of assets quality, the adequacy of provisions and resources and the disclosure of credit risk all of which have been addressed in other recent Basel Committee document.

The income and profit of the bank depend upon the lending procedure applied by the bank and the lending policy and investment in different securities also affect the income and profit. In the investment procedures and policies, it is always taken in mind that the grater the credit created by the bank, the higher will be the profitability. A sound lending investment policy is not only pre-requisite for banks profitability but also crucially significant for the promotion of commercial saving of developing countries like Nepal.

The sound policies help commercial banks maximize quality and quantity of investment and there by achieving the objective of profit maximization and social welfare. Formulation of sound investment policies and co-coordinated and planned efforts pushes forward the forceps of economic growth.

2.2.6 Credit Risk Appraisal

Although specific risk management practices may differ among banks depending upon the mature and complexity of their credit advances, credit appraisal is art through which every practical banker master from out of experience and can never be reduced to an absolute science. Ins spite of several technical aids, such as ratio analysis of financial statements, cash flow and fund flow statements, Profit and Loss account, Balance Sheet available to the modern banker, the ability to make a correct loan decision very much depends on the critical judgment, common sense perceptive intelligence and discriminating sense of the lending banker. However, the usual steps involved in the appraisal of credit risks are:

- The Character, capacity, collateral and integrity of the borrower
- Repayment capacity of the borrower including a consideration of the sources of income.
- Prospects of the proposal-whether it will succeed.
- The purpose of the loan which is being requested is whether productive or unproductive.
- The collateral that is being offered as security must be investigated as to the following:
    - Whether it is easily marketable
    - Value of security at present
    - Whether the value is likely to be stable or it is the security such that its value fluctuates considerably
    - In case of default in payment, if it is easily transferable.

2.2.7 Credit Policy of Bank

The commercial bank is inspired with the goal of earning profit. How to scattering the loan in one of the most important things. There are many reasons after the goal of gaining profit. A bank is legal person. It can do nothing alone. A bank established without the aim of graining the profit is central bank. Other banks are inspired with the object of earning profit and helping the economic development and finally to take the social responsibility. The should have the ability to use the policy of banking investment and to implement it much more carefully otherwise a bank may be unsuccessful in its goal. It is essential to carryout the business of lending consistency. For effective credit management, following credit policy are very essential for every bank.

1. Principle of Liquidity

Liquidity means the whole money stock in the economy. The liquid property means cash stock of the commercial banks the amount of short term, current account and short term government and business security and the Treasury bill. A bank should not forget the principle of liquidity while it is following its investment policy. A bank should to able to returns the deposit when demanded by the depositors. A banker has to ensure that money will come as in demand or as per agreed terms of repayment. For this purpose bank need liquid cash.

2. Principle of Profitability

The objective of commercial bank is to earn profit. The bank should focus from which sectors it can earn much profit. The bank can earn more profit from safe and long term investment. If bank pays its attention only on profit, liquidity will be less and if it pays attention on the liquidity, it can't be a long-term investment and the bank doesn't earn profit. So it should maintain equality in it.

3. Principle of Safety

A bank should pay special emphasis on safety. If the investment area is unsafe it is not a good omen for the bank. There will be no doubt of loss whether it is greater of little, if the bank has not invested in a safe sector. The bank should think it with much sensibility. Before making any investment, the bank seriously study whether it is safe to invest or not.

4. Principle of Diversification

The principle of diversification means, to invest the money in the various sectors. The bank by studying and analyzing the different sectors where it is possible to earn more from little investment should extend its environment.

If bank invest in various sectors, it become successful to keep it in balance. As the statement, the bank should not keep all its eggs in the same basket and should invest in various fields.

5. Principle of Marketability

A bank should adopt the principle of marketability. The bank should invest by taking the security of high quality as far as possible. Bank should study the market evaluate the goods, which are taken as a security. There should not be investment by taking the securities of such goods which are not saleable in the market.

6. Principle of National Interest

The objective of bank should not go against the national interest. The banks should follow the rules and regulations as well as policy and directions given time to time by the Nepal Rastra Bank. The bank should make its investment. Which is suitable to the national interest and provides benefit to the society.

7. Principle of Tangibility

Through it may be considered that tangible property does not yield on income apart form direct satisfaction of possession of property, many intangible securities may lost their value due to price level inflation. A commercial bank should prefer tangible security rather than intangible one.

8. Principle of Legality

Illegal securities will bring out many problems for the investor. A commercial bank must follow the rules and regulations as well as different directions issued by Nepal Rastra Bank, Ministry of Finance, and Ministry of Law and other while mobilizing its funds.

2.2.8 Factors Affecting Credit Policy of Banks

There are so many internal and external factors related to and internal external environment which affect the credit policy of banks. Generally, the following factors are to be considered to make effective credit management. It helps to get effective credit worthiness.

1. Industry Environment

It determines the nature of the industry, its attractiveness and the company's position within the industry. Structure weakness of a company does affect to its credit policy.

2. Financial Conditions

It depends upon the borrower's capacity to repay through cash flow as the first way out the strength of second way out i.e. through collateral liquidation is also assessed. Further the possibility of fall back on income of sister organization in case of financial crunch of the company.

3. Management Quality

It determines the integrity, competences and nature of alliances of the borrowers management team weakness in replacements needs to be evaluated.

4. Technical Strength

It determines the strength and quality of the technical support required for sustainable operation of the Company in terms of manpower and the technology used. Appropriate technical competence of the manpower, the viability of the technology uses. Availability of after sales services cost maintenance and replacements need to be evaluated.

5. Security Realization

It determines the control over various securities obtained by bank so serure the loan provided extractability of the security documents and present value of the properties mortgaged with the bank weakness in security threatens the bank's second way out.

2.3 Review of Nepal Rastra Bank Directives

Central bank NRB has established a legal framework by formulating various rules and regulations to mobilize or invest the deposit of the bank in different sectors of the different parts of the nation, to prevent them from the financial problems. These directives must have direct of indirect impact while making decisions. Those rules and regulations are discuss which are formulated by NRB in terms of investment and credit to priority sector, deprived sector, other institution, single borrower limit, CCR, loan loss provision, capital adequacy ratio, interest spread, productive sector investment etc. Commercial bank is directly related to the fact that how much fund must be collected as paid up capital while establishing the bank at certain place of the nation, how much fund is needed to expand the branch the counters. But we discuss only those which are related to credit management of the commercial bank. The directives given by NRB for effective credit management are as follows:-

1) Directives on Loan Classification and Loss Provision

With a view to improve the quality of assets of commercial bank , NRB has directed commercial bank to classify their outstanding loan and advances, investment and other assets into four categories. The classification is done in tow ways. The loans of more than one hundred thousands are to be classified as per debt services ratio, repayment situation and financial condition of borrower, management efficiency and quality of collateral. The loans of less than one hundred thousands have to be classified as per maturity period.

According to the circulars, the loans are classifies based on weakness and dependences on collateral securities into four categories and prescribed the provisioning rates on follows:-

Loan Classification	Criteria for provisioning	Provision Rate
Pass	Not past due and past due for a	1%

	period up to 3 months.	
Substandard	Past due for a period of 3 months to 6 months	25%
Doubtful	Past due for a period of 6 month to 1 year.	50%
Loss	Past due for a period of more than 1 year or advances which have least possibility of recovery.	100%

Source: NRB, Directives for Commercial Banks

2) Directives for investment in Productive Sector

Being a developing country, Nepal needs to develop its infrastructure and other primary productive sectors like agriculture, industrial etc. NRB has directed commercial banks to extend at least forty percent of its credit to productive sectors.

3) Directives for the Single Borrower Credit Limit

1. Fund based credit and advances can be issued up to 25% (upper limit) of core capital to a single customer, firm, company and a group of related customers.
2. Non-fund bases (off-balance items) can be issued up to 50% of core capital to a single customer, firm, company and group of related customer.

2.4 Review of Previous Thesis (Dissertations)

Khadka, Raja Ram (2006) *" A Study on investment policy of Nepal Rastra Bank Ltd in comparison to other joint venture of Nepal"* has compared investment policy of Nepal Bangladesh Bank(NBB) with Nepal Credit and Commerce Bank Ltd. (NCC) and Everest Bank Limited(EBL). Mr. Khadka has pointed out that the liquidity position of NBB is comparatively worst than that of NCC and EBL. It is also comparatively less successful in on-balance sheet utilization as well as off balance sheet operation than that of NCC and EBL. In case of profitability ration, he has concluded that of other joint venture banks, NBB is more successful in deposit utilization but fails to maintain high growth rate of profit in comparison with NCC and EBL.

He has concluded that NBB should increase bank and cash balance to meet loan demand. NBB's loan & advance ratio to deposit ratios are lower than other joint venture banks and to overcome this situation, NBB is strongly recommended to follow liberal lending policy and invest more and more percentage amount of total deposits in loan & advances.

He has focused his study on investment policy of NBB bank taken NCC and EBL average ratios as banking average. He has recommended to adopt liberal lending policy however has not explained regarding liberal lending and invest more and more percentage amount of total deposits in loan and advances. However, while adopting liberal policy in lending, he has not explained the consequences like bad debts, default loan, which may arise due to very flexible and liberal lending policy.

Sharma, Ram Prasad (2007) has conducted his study entitled *"Priority sector investment of commercial bank in Nepal"*. The main objective of his research is to highlight the priority sector investment and repayment states of commercial banks in through intensive banking program and to show the repayment position of the sector. Two commercial banks covered in his study have contributed the credit to priority sector. But efforts made by different banks are not in the same proportion. Himalayan Bank

Ltd. (HBL) has contributed highest amount of credit to agriculture and cottage industry and Nepal Bank Limited (NBL) has contributed highest amount to services sectors.

Major Findings:-

1. Loss repayment overdue loan have been observed more in agriculute.
2. Loan repayment from priority sector of HBL is satisfactory than that from agriculture sector of NBL.
3. Reinvestment is the available sources to increase in paying capacity of the borrower.
4. Reinvestment and right utilization of bank loan are the coat of commercial banks.

Recommendations

1. Commercial bank should improve the repayment loan by generating the income of rural farmers.
2. There is need to increase in assets by better arrangement of institution and organization.
3. The manager and loan staff of the branches should be provided with adequate training so that they could identify right borrowers, right project and ensure correct project appraisal."

Shrestha, Raju (2008) has submitted a thesis named *" A comparative study on investment policy of Nepal Investment Bank Ltd. and Everest Bank Ltd."*

Major Objectives :-

1. To determine the impact of deposit collection and its effect on lending practices.
2. To compare investment policy of concerned banks and discusses the fund mobilization of the sample banks.

3. To analyze the profitability of banks in receptiveness of liquidity assets and management efficiency.
4. To have comparative analysis on total investment, deposit and loan & advance and net profit and outside assets.
5. To analyze the deposit utilization trend and its projection for next five years of NIBL and EBL.

Major Findings:-

1. Profitability position of NIBL is comparatively better than EBL. It indicates that NIBL has maintained its high profit margin regarding profitability position.
2. Liquidity ratio of NIBL is greater in every year than EBL. It means NIBL has greater success to meet its current obligation.
3. NIBL has lower risk than EBL regarding various aspects of banking functions .
4. NIBL has successfully managed its assets towards different income generation activities where as EBL has made low portion of total working fund in investment on government securities and shares and debentures of other companies.
5. NIBL trend value of total deposit and loan and advances are increasing but trend values of EBL are increasing. The trend value in all cases of NIBL has lower in comparison to EBL.

Aryal, Pradip (2009) has submitted a thesis named, *" A evaluation of credit investment and Recovery of Financial public Enterprises in Nepal"* is a case study of ADB/N. His research statement of problem was as; because of high interest rate of non-institutional sources, people are unable to pay their credit at fixed time. These institutions compel them to transfer their property to the moneylender resulting himself or herself as a landless person. ADB/N is one of the major financial institutions supporting for the people for the different purpose like agro, industries, tea, coffee, livestock farming etc. ADB/N provides the credit for individual and cooperative sector to all region of the country. Credit outstanding amount is increasing day by day but the collection amount is not good. However, ADB/N has increased its effort to collect its credit. It is said that those people who really need to not receive sufficient amount of credit from ADB/N. So Mr. Aryal chose this bank to analyze the credit disbursement and recovery pattern of ADB/N.

Major Finding :-

1. Actual credit disbursement, collection and outstanding are increasing in decreasing rate.
2. Yearly increase in credit disbursement is higher then that of collection.
3. Positive relation between credit disbursement and collection that is 0.996.
4. Targeted credit collection and disbursement fixed by planning and project department is not significantly different then actual.
5. Most of the customers are unaware of the policy of the bank.

Recommendations:-

1. The borrowers should be informed about the credit, its use and its payment procedure and schedule.
2. Greater attention should be given to increase the credit collection and to collect old outstanding amount of credit and renewal of it.
3. To accelerate the collection, credit should be followed continuously in a regular interval of the time.
4. The behavioral of the personal should be strictly supervised in granting credit in proper investment proposal because of most of the bad credit disbursement is due to weak decision of the personnel.

Ghimire, Govinda (2010) entitled *"Non-performing Assets of Commercial Bank"* has tried to evaluate the impact of NPA on profitability of Commercial Banks. He also studied about internal and external factors that contributed to increase the level of NPA through loan and advances. The objectives of his study is also to find out the relationship between the non-banking assets and non-performing assets, in which he was able to find out the internal responsible factors that contribute turning good loans to bad loans, bad intentions, and weak management, are the most responsible factors. Similarly weak legal provision and credit concentration are also found least preferred factors in turning good loans into bad loans. Some factors such as lack of portfolio analysis, not having effective credit policy and shortfall on securities were identified as having average effect in NPA growth. In connection to the external factors, it has been that recession, political and legal issues are more relevant factors in turning good loans into bad one. Likewise legal provisions for recovery as a reason for increment of NPA in Nepalese Banks have been found the factors having less impact. Supervision and monitoring system have been identified as average factors. It is therefore, can be generalized that economic and industrial recession and not having strong legal provision for loan recovery are the major external factors that have major contribution for increment of NPA.

It has been concluded in the study that Nepalese commercial banks gave must priority to trade sectors for lending its resources, at the same time it is found that service sectors are not being given much emphasis. He has recommended to the sample banks, Nepal Bangladesh Bank Ltd. Nepal SBI Bank Ltd. and Bank of Kathmandu as on different headings subject matter such as financial strength, personal integrity and security, monitoring and control system, avoidance of credit concentration, strong legal system assets management company, avoidance of undue pressure etc.

2.5 Review of Journal & Articles

Pradhan, Dr. Radhe Shyam (2003), in his research paper " Role of Saving, Credit investment & Capital Formation in economic development a case of Nepal" has studied about the strong role & impact of saving, investment & capital formation on economic development of Nepal. This study is based on secondary data only. The necessary data on saving , investment, capital formation and gross domestic product has been collected for the period of 1974/75 to 2000/01. The role & impact of saving, investment and capital formation on economic development were analyzed by using various regression models. The regression equation used in the study have been estimated at current prices as well as in real term with the entire study period divided into different sub-period.

Shrestha, Min B (2009), in his article, " A study on deposit & credit of commercial bank in Nepal." Concluded that the credit deposit ratio would be 51.30% other things remaining same in 2008 A.D. which was the lowest under the period of review. So, it is strongly recommended that the commercial banks should try to give more credit earning field as far as possible. Otherwise, they might not be able to absorb even its total expenses.

Sharma, M.P. & Bhatt, M.P. (2011), in their article" Priority receiver sector" has present " The commercial banks should take care of board national interest & they showed not confine their lending activities only to commercial area providing quick interest if some proportion could be directed to the area conclusive to build economic infrastructures of the country if would create atmosphere conductive to their credit investment in future. In our society where ignorance & literacy is in wild scale, it is necessary that the banks search entrepreneurs instead of entrepreneurs searching book. So, they have opinioned that the priority sector program isa timely & opportunities there by increasing production & the general living standard or rural poor. But the success of the largely depends upon the interpreted operation with other program design for rural development. Further they agree that various programmers: Rural development land reform, back to the village national, champion audit literacy etc. couldn't materials their objectives despite their some theoretically philosophy & food objectives."

The results presented in this paper suggest that in all cases, GOP is significantly associated with saving. Investment and capital formation both at current prices and in real terms. The result of the empirical analysis led to three important conclusions: first, saving, investment & capital formation have positive impact on economic development. Second, the current values & past values of saving, investment & Capital formation have positive impact on economic development but the current values have the largest impact. Third, there is a strong role played by saving & capital formation on economic development while weak role-played by investment.

2.6 Research Gap

The purpose of this research is to develop some expertise in one's area, to see what new contribution can be made and to receive some ideas, knowledge and suggestions in relation to credit management of Kumari Bank Limited. Thus, the previous study can't be ignored because they provide the foundation to the present study. In other words, there has to continuity in research. This continuity in research in ensured by linking the present study with the past research studies. Here, it is clear that the new research cannot be found on that exact topic, i.e. Credit Management of Kumari Bank Limited. Therefore, to fulfill this gap, this research is selected. To complete this research work, many books, journals, articles and various published and unpublished dissertations are followed as guideline to make the research easier and smooth. In this regard, here we are going to analyze the different procedure of credit management, which is considered only on Kumari Bank Limited. Our main research problem is to analyze whether the Kumari Bank is able to utilize the resource effectively or not. To achieve this main objective, various financial and statistical tools are used. Similarly, trend analysis of investment and profit are reviewed to make this research complete. Therefore, this study is useful to concerned banks as well as different persons: such as shareholders, investors, policy markets, stockbrokers, state to government etc.

CHAPTER-III
RESEARCH METHODOLOGY

3.1 Introduction

Research Methodology helps to find out accuracy, validity and suitability. The justification on the present study cannot be obtained without help of proper research methodology. For the purpose of achieving the objectives of the study, the applied methodology will be used.

This topic presents the short outline of the methods applied in the process of analyzing the credit management of the selected joint venture bank. Research is a systematic method of finding out the solution to a problem whereas research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objective in view.

3.2 Research Design

Research design is a plan of structure and strategy of investigation conceived so as to obtain answer to research questions and to control variences' (Kerlinger, F.N., 1986:275).

Research design is that outline which configures the collection and of the research concerns with descriptive and analytical type of research design.

' Descriptive research is process of accumulating facts. It does not necessarily seek to explain relationship and test hypotheses make predictions or get at analysis style of the data and information. Whereas analytical type of research design in used to clear the situations by the help of various tools. According to the subject matter this research also clarified by using various tools.

The topic of the problem has been selected as " Credit Management of Kumari Bank". The sole objective of the this study is to make analysis of credit management of Kumari Bank with respect to the directors imposed by Nepal Rastra Bank. In order to reach and accomplish the objectives of the study, different activities are carried out and different stages are crossed during the study period. For this purpose, the chapter aims to present and reflect the method and techniques those are carried out and followed during the study period. The research methodology adopted for the present study is mentioned in this chapter which deals with research design, sources of data, data collection, processing and tabulation, procedures and methodology.

The research is to be based on the providing information of the Kumari Bank Limited i.e. secondary information from relevant sources of information and that information tries to analyze all the facts, which have been collected for the aim of the study. Hence, the researcher has mainly used analytical type of research design.

3.3 Population and Sampling

A population is a complete enumeration of each and every unit of the universe as a whole. It is related to the total study of the material in detail. There are 32 A class licensed banks in Nepal but this study considers only Kumari Bank Limited.

3.4 Nature and Sources of Data

Data is a collection of related raw materials on which decision is based. There are mainly two sources of data-primary data and secondary data. This study will be conducted mainly based on secondary data like financial/ annual statements of the bank, bulletins, bank articles and literature, economic survey reports etc. of the fiscal year with negligent amount of primary data like personal interview with the concerned authorities and departments, questionnaire etc. The major sources of secondary data for this study are as follows:

a) Annual reports of the bank
b) Previous studies and reports
c) Unpublished official records
d) Published and unpublished bulletins and reports of the bank
e) Reports published by Nepal stock Exchange.
f) Reports of Nepal Rastra Bank samachar and banking and financial statistics published by Nepal Rastra Bank.
g) Journal and other publish and unpublished related document and reports for Central Library of T.U., Library of Thakur Ram Multiple Campus, Library of Hari Khetan Multiple Campus and Library of Nepal Rastra Bank.
h) Various internet websites related to banking and finance.
i) Other materials published in daily, weekly, monthly newspaper and magazines.

3.5 Reliability of Data

There exits a king of skepticism regarding the bank personnel's interviews as the study does not make them compulsory to provide any sort of authentic data. However, data received through central bank's statistics and research departments, bank publications can be considered valid as they have already been audited. Similarly, analytical data and texts from the freelance sector can also be considered as valid and reliable because their analysis is independent and free of business purpose.

3.6 Data Analysis Tools

Presentation and Analysis of the collection is the core part of the research work. The collected raw data are first presented in systematic manner in tabular form and are then analyzed by applying different financial and statistical tools to achieve the research objectives. To make the study more specific and reliable, following tools are used for analysis:

- Financial Tools
- Statistical Tools

3.6.1 Financial Tools

For the sake of analysis, various financial tools are used. The basic tools used are ratio analysis. Ratio analysis is used to compare firm's financial performance and status to that of other firm's overtime.

1. Ratio Analysis

Ratio Analysis is the calculation and interpretation of financial ratio to assess the firm's performance and status. It is the relationship between two accounting figures expressed mathematically.

Ratio Analysis are the main tool of financial statement analysis. Ratio means the numerical or quantitative relationship between two items or variables. It can be expressed as percentage, fraction or stated or comparison between numbers.

Financial Ratio is the mathematical relationship between two accounting figures. Ratio Analysis is used to compare a firm's financial performance and status to that other firm of to it overtime.

From the help of ratio analysis, the quantitative judgment can be done regarding financial performance of a firm. In this study, different ratio are calculated and analyzed, which are given below:

A. Liquidity Ratios

Liquidity ratios measure the ability of the firm to meet its current obligation. The failure of a company to meet its obligation, due to lack of sufficient liquidity, will result bad credit image, loss of creditor's confidence, or even in lawsuits resulting in the closure of the company. A very high degree of liquidity is also bad, as idle assets earn nothing. The firm's funds will unnecessarily tie up in current assets. Thus it is the measurement of spped with which bank's assets can be converted into cash to meet deposit withdrawal and other current obligations. There are various ratios under liquidity ratio, which are calculated as follows:-

i) Current Ratio

The current Ratio is a measure of the firm's short-term solvency. It indicates the extend to which the claims of short-term creditors are covered by assets that could expect to be converted into cash in a period roughly corresponding to maturity of claims. Generally, it shows relationship between current assets and current liabilities. Current assets include cash, bank balance, money at called and those assets which can be converted into cash within the year such as investment in government securities, receivables, overdraft, loans, advance, purchased, discounted and miscellaneous current assets. Current liabilities include deposits and other short-term loan, bills payable, staff bonus, dividend payables and miscellaneous current liabilities.

The ratio is calculated by dividing current assets by current liabilities.

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

As a conventional rule, a current ration of 2:1 or more ins considered satisfactory. The higher the ratio, the grater will be the ability of the bank to pay to pay its current obligations. The current ratio represents a margin of safety, (i.e. a Cushion) of protection for creditors. However, an arbitrary standard of 2- to-1 should not be blindly allowed because current ratio is a test of quantity, not quality. Firms with less then 2-to-1 current may be doing well, while firms with 2-to-1 or even higher current ratios may be finding great difficulties in paying their bills.

ii) Cash and Bank Balance to Total Deposit Ratio

It is ability of to meet their daily requirements. Hence, cash and bank balance includes cash in hand, foreign cash on hand, cheques and other cash items, balance held in foreign banks. The deposit represents current deposits, saving deposits, fixed deposits, money at call and short notice and other deposits, Dividing cash & Bank balance calculate the ratio by total deposits.

It is stated as:

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

B. Assets Management Ratio of Activity Ratios

Activities ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. The ratio are also called turn over ratios because they indicate the speed with which assets are being converted or turnover. Thus ratios are used to measure the banks ability to utilize. These are following ratios, which falls in this category.

i) Loan and Advances to Total Deposit Ratio

This ratio shows how successfully the bank in utilizing its total deposits to loan and advance for generating profit. The ratio can be obtained by dividing loan and advances by total deposits. Higher ratio implies the better utilization of total deposits.

This can be stated as:

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

ii) Loan Advances and Investment to Total deposit Ratio

This ratio shows the utilization of firm's deposit to loan and advance for generating profit and in government securities and bonds, share debenture of other companies and mathematically it is expressed as :

$$\text{Loan Advances and investment to Total Deposit Ratio} = \frac{\text{Loan Advance and Investment}}{\text{Total Deposits}}$$

iii) Performing Assets to Non- Performing Assets Ratio

Performing assets are the main contributing assets of the bank. If the level of performing assets is high it results high profitability of bank where as if the level of non performing assets is high, it reduces its profitability. This ratio shows the percentage of performing assets to non performing assets of the bank. Mathematically it can be expressed as follows:

$$\text{Performing assets to non-performing Assets Ratio} = \frac{\text{Performing Assets}}{\text{Non Performing Assets}}$$

iv) Non performing Assets to Total Assets Ratio

It tells the percentage of non performing assets on total assets. It is useful to know that whether the bad credit is increasing or not. If bad credit is found increasing, it should be correctly analyzed. High level of non performing assets highly affects the profitability of the bank. This ratio is calculated as follows:-

$$\text{Non Performing Assets to total Assets Ratio} = \frac{\text{Non performing Assets}}{\text{Total Assets}}$$

v) Loan Loss Provision to Total Loan and Advance Ratio

This ratio shows the possibility of loan default of a bank. It indicates how efficiency it manages its loan and advances and makes effort for loan recovery. Higher ratio implies higher portion of non-performing loan portfolio. It is computed by dividing loan loss provision from total loan and advance derives this ratio.

This can be stated as :

$$\text{Loan Loss Provision to Total Loan and Advance Ratio} = \frac{\text{Total Loss Provision}}{\text{Total Loan and Advance}}$$

vi) Non performing Loan to Total loan and Advances Ratio

To measure the volume of non-performing loan to total loan and advances, this ratio has been used. This ratio shows the percentage of non-recovery loans in total loans and advances. This is calculated as follows:

$$\text{Non Performing Loan to Total Loan and Advances Ratio} = \frac{\text{Non Performing Assets}}{\text{Total Loan and Advance}}$$

vii) Provision for pass Loan to Total Pass Loan Ratio

This ratio measures the percentage of provision for pass loan to total pass loan. As per the Nepal Rastra Bank directives the provision for pass loan should be 1% of total pass loan. Excess provision for pass loan provision could tie up the capital which could other wise used for the investment purpose. Mathematically it is expressed as :

$$\text{Provision for pass Loan to Total Pass Loan Ratio} = \frac{\text{Provision for pass Loan}}{\text{Total Pass Loan}}$$

viii) Provision for doubtful debt to Total Doubtful Debt Ratio

This ratio measures the percentage of provision for doubtful debt to total doubtful debt. The high amount of doubtful debt and its provision is not good for the banks performance. However the bank should make a provision for doubtful debt as per the NRB standard. Nepal Rastra Bank has set the standard for the provision for doubtful debt at 50%. This ratio is calculated as follows:

$$\text{Provision for Doubtful Debt to Total Doubtful Debt Ratio} = \frac{\text{Provision for doubtful Debt}}{\text{Total Doubtful Debt}}$$

ix) Provision for Bad Debt (Loss) to Total Bad Debt Ratio

It is the percentage of provision for bad debt and total bad debt. Increasing bad debt means not the indication of good business. Bad debt should try to reduce as much as possible. There should be made provision for bad debt by each bank. As per the directive of Nepal Rastra Bank, the provision for bad debt should be 100% of the total debt. It is calculated by using the following formula:

$$\text{Provision for Bad Debt (Loss) to Total Bad Debt Ratio} = \frac{\text{Provision for Bad debts}}{\text{Total bad debt}}$$

C. Profitability Ratios

Any organization should earn profit to survive and grow over a long period of time. Profit is ultimate outputs of any organization, and it will have no future if it fails to make sufficient profits. Thus , the financial manager should continuously evaluate the efficiency of its organization in terms of profit. Profitability ratios are the best indicator to measure overall efficiency of operation any organization. As the management of organization, creditors & owners are also interested in the profitability of firm. Creditors want to get interested and repayment of principal regularly. Owners want to get a reasonable return on their investment. This is possible only when the organization earns enough profit. Profitability ratio implies that higher the profitability ratio, better the financial performance of the bank, Profitability position of the bank can be evaluated in terms of the relationship between net profit and assets.

The following rations are taken into account under this heading.

i) Interest Income to Loan and Advance and Investment Ratio

It tells the income as interest from total credit and advances. It is useful to know the facts that whether the credit has given good return or not. We can increases interest income by taking good issuing and recovery credit policy. High return shows the soundness of credit policy. It is calculated by using the following formula:

Interest income to Total Loan and Advances and Investment Ratio

$$= \frac{\text{Interest Income}}{\text{Total Loan, Advance and investment}}$$

ii) Interest Expenses to Total Expenses Ratio

This ratio measures the percentage of interest paid against total expenses. The high ratio indicates the low operational expenses and vice versa. The ratio indicated the costly sources of funds. It is calculated by using following formula:

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

iii) Interest Expenses to Interest Income Ratio

This ratio shows the relationship between interest expenses and interest income. The percentage of interest expenses that is subject to interest income is measured by this ratio. Interest expenses mean the cost of bank where as interest income means incomes that is derived from loan and investment. Mathematically, it is derived by using the following formula :

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

iv) Return on Total Assets Ratio

The ratio is useful to measure how well management uses all the assets in the business to generate an operating surplus. Higher the ratio indicated the higher efficiency in the utilization of total assets and vice-versa. The ratio is how due to low profit. In other words, it is low utilization of bank assets and over use of higher interest bearing amount of debt and vice-versa.

In the study, net profit/loss assets ratio is examined to measure the profitability of all the financial resources in bank assets and is calculated by applying the following formula:

$$\text{Return on Total Assets Ratio} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}}$$

v) Return on Equity Ratio

It indicates the generation of net profit after tax for the contribution towards net worth (without deducing intangible assets). An increasing ratio may indicate better control of production and other costs. It may also be the result of higher prices due to inflation. A decreasing ratio may indicate problems with cost control or production efficiency. It is calculated by using following formula :

$$\text{Return on Equity Ratio} = \frac{\text{Net Profit After Tax}}{\text{Net Worth}}$$

vi) Return on Net Loan and Advances

It indicates the generation of profit by utilizing loan and advances. Higher the ratio indicates the higher efficiency in the utilization of loan and advances and vice-versa. Loan and advances generate the major portion of profit. Hence this ratio measures how efficiency the banks have employed their loan and advances. This ratio is calculated as follows:

$$\text{Return on Loan and Advances} = \frac{\text{Net Profit After Tax}}{\text{Net Loan and Advances}}$$

vii) Earning per share

Earning per share is one of the most widely quoted statistics when there is discussion of a company's performance or share value. It is the profit after tax figure that is divided by the number of common shares to calculate the value of earning per share. This figure tells us what profit the common shareholders for every share held have earned. A company can decide whether to increase or reduce the number of shares on issue. The decision will automatically affect that earning per share. The profits available to the ordinary shareholder are represented by net profit after taxes and performances dividend. Symbolic expression of EPS is given below :

$$\text{Earning per Share} = \frac{\text{Net Profit After Tax}}{\text{No. of Common Stock Outstanding}}$$

3.6.2 Statistical Tools

Some of the statistical tools which show the highlight of Kumari Bank Limited are used to achieve objective of the study. The main statistical tools used in this research are as follows

i) Arithmetic Mean

Arithmetic means of given set observation is their sum divided by the number of observation. It represented the entire data by a single value. It provides the gist and gives the bird's eyes view of the huge mass of unwieldy numerical data. Out of the various central tendencies a mean is one of the

$$\frac{\phi X}{N}$$

useful tools to find out the average of the given data. It is calculated in the following way:

$\overline{X}$ =

Where,

$\overline{X}$ = Arithmetic Mean

N = Number of Observation

ϕX = Sum of Observation

ii) Correlation co-efficient (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 changes in the values of one results change in another variable. Correlation is of there types. They are Simple, Partial and Multiple correlations. Here we study simple correlation. Two variables are said to have correlation when the values of one variable is accompanied by the change in the value of the other. It is calculated as follows :

$$\text{Correlation Co-efficient (r)} = \frac{N\phi X_1X_2 - \phi X_1\phi X_2}{\sqrt{[\,N\phi X_1^2 - (\,\phi X_1^2)]}\quad\sqrt{[\,N\phi X_2^2 - \phi X_2^2]}}$$

Where,

r = Correlation between X_1 and X_2

$N\phi X_1X_2$ = Product of sum of N and Product of observation X_1 and X_2

ϕX_1X_2 = Sum of Product X_1 and Sum of Product X_2

iii) Probable Error

It is the measure of testing the reliability of the calculated value of correlation. The probable error of the coefficient of correlation helps in interpreting its value. With the help of probable error, it is possible to determine the reliability of the value of the coefficient in so far as it depends on the conditions of random sampling. The probable error of the coefficient of correlation is defined.

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

Where,

r = Correlation coefficient

N = Number of pairs of observations

If the value of r is less than the probable error, there is no evidence of correlation, i.e. the value of r is not at all significant. Then, if the value of r is more than six times of the probable error, the coefficient of correlation is practically certain, i.e. the value of r is significant.

CHAPTER-IV
ANALYSIS AND PRESENTATION OF DATA

4.1 Introduction

This chapter deals with presentation, analysis and interpretation of relevant data of Kumari Bank Limited in order to fulfill the objectives of this study. The purpose of the chapter is to introduce the mechanics of data analysis and

Interpretation. Calculated financial ratios are analyzed and evaluated after their interpretation is made. The calculated secondary data have analyzed and presented in table form. For this purpose, analysis and interpretation are categorized into two headings. They are analysis of financial and statistical tools.

4.2 Analysis of Financial Tools

Under this topic various financial ratios are calculated to evaluate and analyze the performance of Kumari Bank Limited. Study of all types of ratios is not done. Only those ratios that are important from the point of view of the fund mobilization and investment are calculated. The important ratios that are studies for this purpose age given below.

4.2.1 Ratio Analysis

Ratio Analysis enable the business owner/manager to spot trends in a business and to compare its performance and condition with the average performance of similar business in the same industry. To do this compare own ratios with the average of business similar to owns and compare own ratios for several successive years, watching especially for any unfavorable trends that may be starting. Ratio analysis may provide the all important early warning indications that allow us to solve business problems before our business is destroyed by them

A. Liquidity Ratios

These ratios indicate the ease of turning assets into cash. Liquidity refers to the ability of a firm to meet its short term or current obligations. So liquidity ratios are used to measure the ability of a firm to meet its short term obligations. In the worst case, inadequate Liquidity can lead to the liquidity insolvency of the institution. To find out the ability of the bank, to meet their short term obligations which are likely to mature in the short period, the following ratios are developed under the liquidity ratios to identify the liquidity position.

i) Current Ratio

Table :- 4.1

Current Assets and Current Liabilities

(Rs. In million)

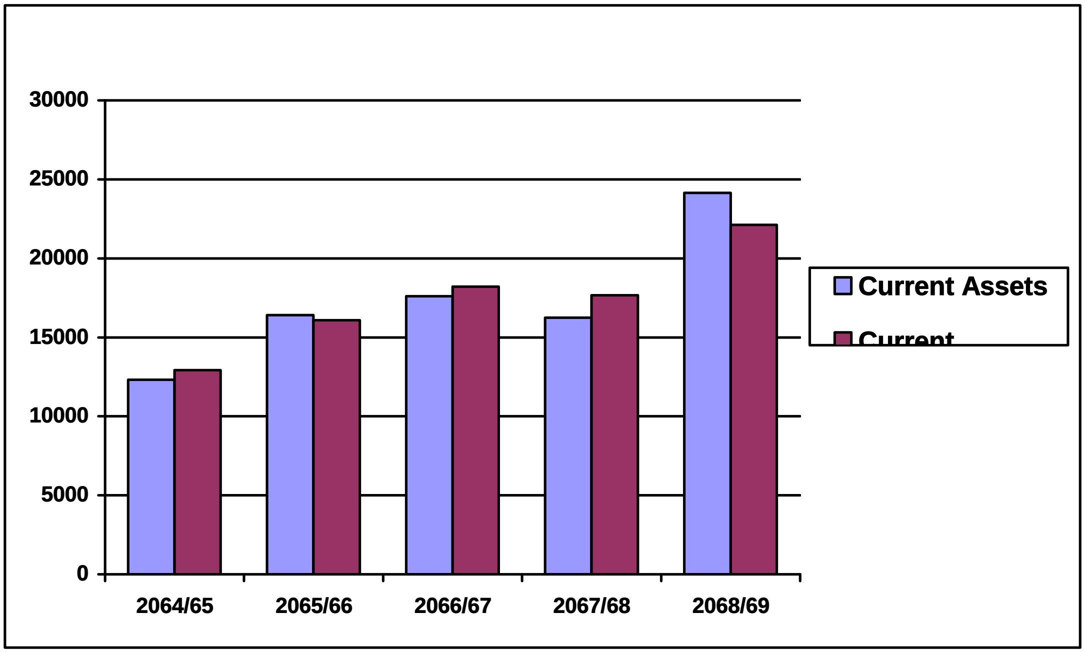
Fiscal Year	Current Assets	Current Liabilities	Ratio
2064/65	12324.28	12929.92	0.95
2065/66	16399.64	16081.25	1.02
2066/67	17609.74	18217.94	0.97
2067/68	16246.11	17661.90	0.92
2068/69	24138.21	22123.56	1.09
Average ($\overline{X}$)			0.99

Source: Kumari Bank Annual Reports

Figure: - 4.1

Current Assets and Current Liabilities

(Rs. In million)



The main question of current ratio address "Does your business have enough current assets to meet the payment schedule of current debts with a margin of safety for possible losses in current assets, such as inventory shrinkage or collectable accounts?"

Above table and diagram exhibit the current ratio of Kumari Bank Limited for the study period of 2064/65 to 2068/69. The average ratio of five year period is 0.99. The ratios were 0.95,1.02,0.97,0.92,and 1.09 respectively. Comparing to five years average, only in the fiscal year 2065/66 and 2068/069 the ratio is more than the average i.e. 0.99 and less than average 0.95,0.97,0.92 in the year 2064/65, 2065/66, 2066/67 and 2067/68. The trend of current liabilities is increasing one where as current assets is in fluctuating trend. The standard value for the current ratio is 2:1 but in case of Nepal Rastra Bank, it is not meeting the standard, all ratios are less than the standard.

ii) Cash and Bank Balance to Total Deposit Ratio

Table:- 4.2

Cash & Bank Balance and Total Deposit

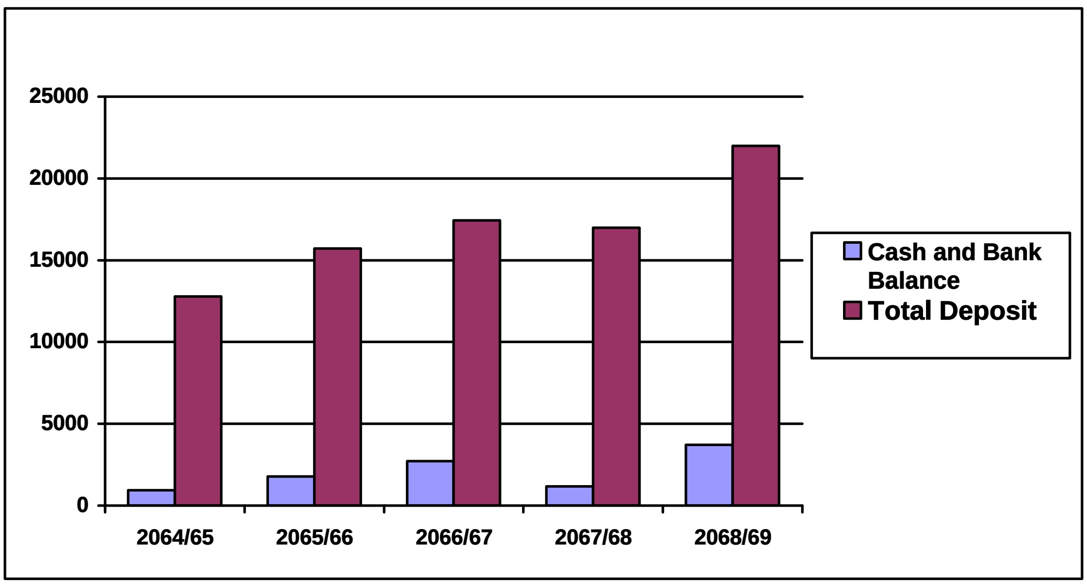
(Rs. In million)

Fiscal Year	Cash and Bank Balance	Total Deposit	Ratio
2064/65	933.84	12774.28	0.073
2065/66	1776.29	15710.40	0.113
2066/67	2723.82	17432.25	0.156
2067/68	1168.52	16986.28	0.069
2068/69	3722.62	21985.20	0.169
Average($\overline{X}$)			0.116

Source: Kumari Bank Annual Reports

Figure:- 4.2
Cash & Bank Balance and Total Deposit

(Rs. In million)



The table and figure presents the cash and bank balance to total deposit ratio of Kumari Bank Limited for the study period 2064/65 to 2068/69. Cash & Bank Balance to Total Deposit ratio of this bank has been observed as 0.073,0.113,0.156,0.069 and 0.169 respectively throughout the study period. The average ratio for the study period is 0.116. The means the bank has 11.6% of cash and bank balance of the total deposit. Adequate cash and bank balance in necessary to maintain the liquidity position. Too much of it can make the excess money useless and too less will reduce the capacity of a bank to pay its customers principal and interest. Comparing to five year average, only in the fiscal year 2066/67 and 2068/69 ratio is more than average ratio 0.116 and less than average ratio 0.073, 0.113 and 0.69 in the year 2064/65, 2065/67 and 2067/68 so the above ratio of cash and Bank balance is below the standard i:e. 5 to 10 percentage of liquidity. From this, it is obvious that the bank has enough cash and bank balance to cover its deposit demand.

B. Activity/ Efficiency Ratios

It is also known as turnover or efficiency ratio or assets management ratio. It measure how efficiency the firm employs the assets. Turnover means, how many numbers of times the assets flow through a firm's operations and into sales (Kulkarni : 1994:26).

Greater rate of turnover or conversion indicated more efficiency of a firm in managing and utilizing its assets, being other things equal. Various ratios are examined under this heading.

i) Loans and Advance to Total Deposit Ratio

Table:- 4.3

Loans and Advance to Total Deposit Ratio

(Rs. In million)

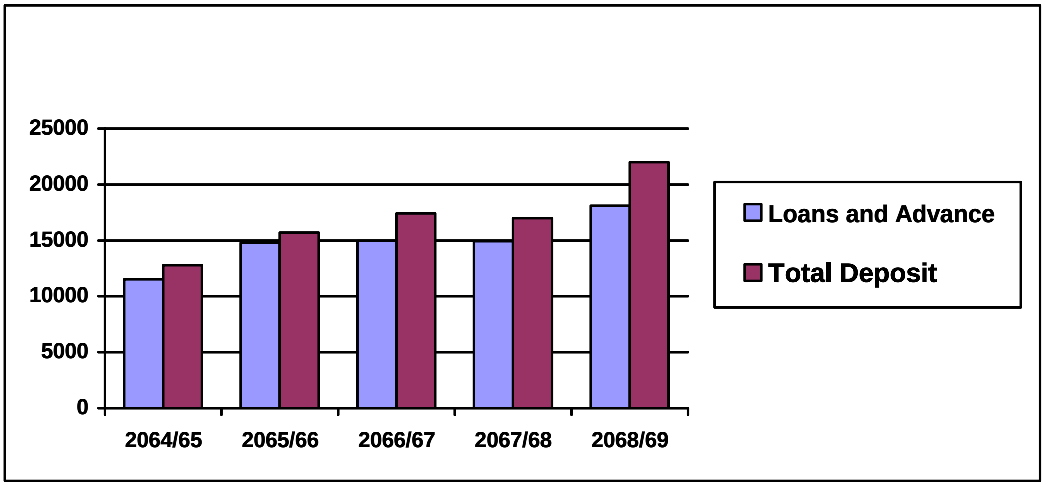
Fiscal Year	Loans and Advance	Total Deposit	Ratio
2064/65	11522.40	12774.28	0.90
2065/66	14795.30	15710.40	0.94
2066/67	14966.10	17432.25	0.86
2067/68	14926.20	16986.28	0.88
2068/69	18101.30	21985.20	0.82
Average($\bar{X}$)			0.88

Source: Kumari Bank Annual Reports

Figure:- 4.3

Loans and Advance to Total Deposit Ratio

(Rs. In million)



From the above table and diagram, the average ratio of loans and advances to total deposit is 0.88 the fluctuation in the ratio is not too high. Under the study period, starting from 2064/65 to 2068/69, the ratio goes from 0.90,0.94,0.86,0.88 and 0.82 respectively. The mobilization of total deposit is increasing and the main reason behind this increasing trend could be the high lending on credit by the management. Total deposit are the main sources of bank to provide credit and advances. Only small portion of deposit goes as Loans and Advances.

ii) Loan, Advance and Investment to Total Deposit Ratio

Table:- 4.4

Loan, Advance and Investment to Total Deposit Ratio

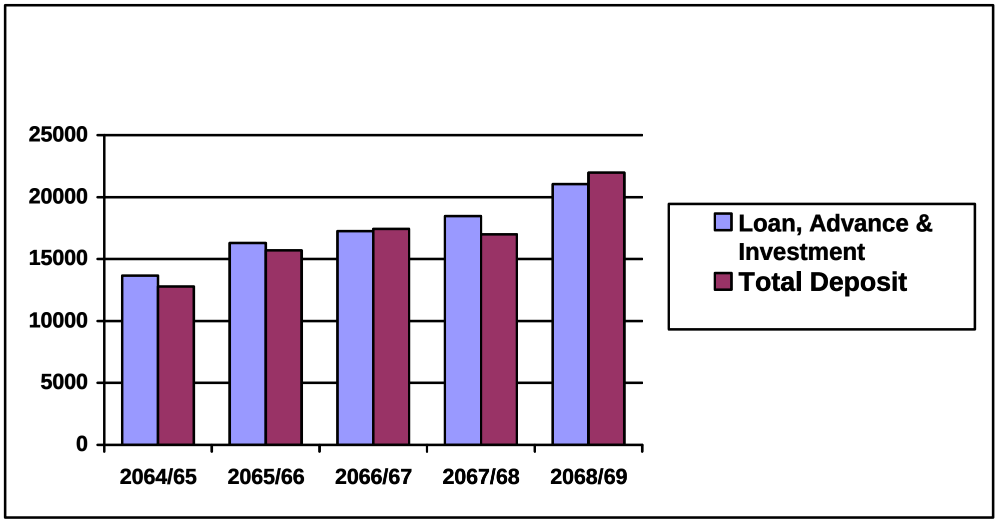
(Rs. In million)

Fiscal Year	Loan, Advance & Investment	Total Deposit	Ratio
2064/65	13661.20	12774.28	1.07
2065/66	16306.13	15710.40	1.04
2066/67	17262.97	17432.25	0.99
2067/68	18459.82	16986.28	1.09
2068/69	21041.86	21985.20	0.96
Average($\bar{X}$)			1.03

Source: Kumari Bank Annual Reports

Figure:- 4.4
Loan, Advance and Investment to Total Deposit Ratio

(Rs. In million)



From the above table, it is visualized that the loan, advance & investment to total deposit ratio of Kumari Bank Limited for study period 2064/65 to 2068/69 do not very much. The average ratio is 1.03 meaning about 103% of the total deposit is mobilized in the loan, advance and investment. The trend of total deposit is more or less stable. The trend of loan and advances can be said as increasing one. The increase in the loan and advance can be attributed to the margin loan in case of Kumari Bank Limited. Kumari Bank Limited has hugely invested in the loan that's against the shares of banks.

iii) Performing Assets (Loan) to Non-performing Assets Ratio

Table:- 4.5
Performing Assets (Loan) to Non-performing Assets Ratio

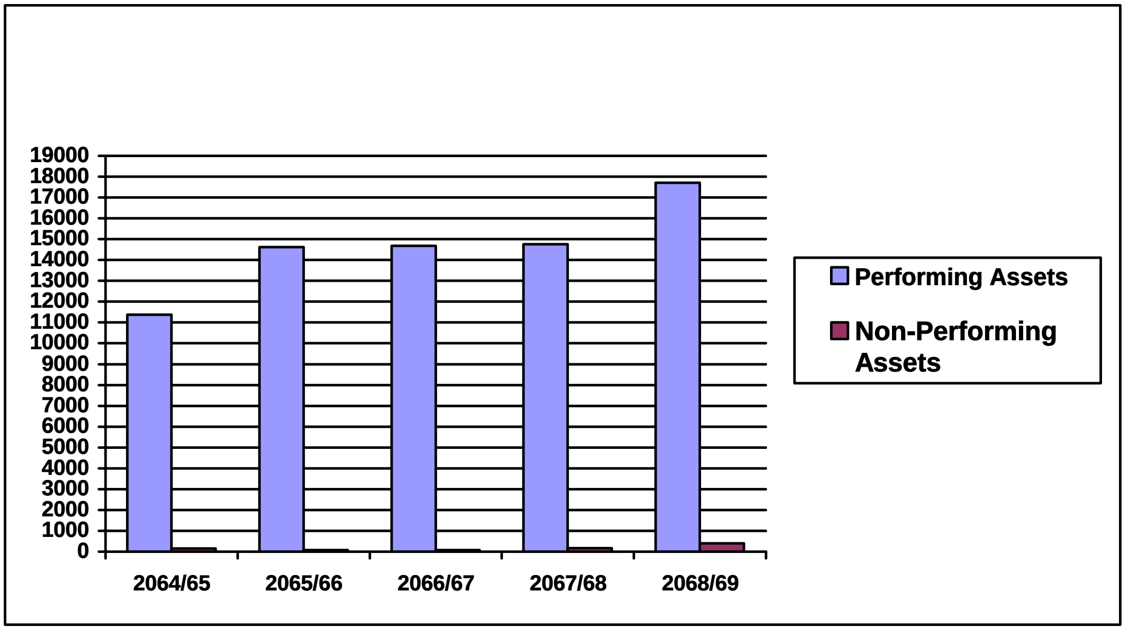
(Rs. In million)

Fiscal Year	Performing Assets	Non-Performing Assets	Ratio
2064/65	11369.91	152.48	74.57
2065/66	14613.72	70.54	207.17

2066/67	14674.53	79.44	184.73
2067/68	14758.34	167.89	87.91
2068/69	17701.14	399.96	44.26
Average($\bar{X}$)			119.73

Source: Kumari Bank Annual Reports

Figure:- 4.5
Performing Assets (Loan) to Non-performing Assets Ratio
(Rs. In million)



Higher ratio between the performing assets to non performing assets better the banks efficiency would be. The ratio of performing to non-performing assets of Kumari Bank Limited is 74.57,207.17,184.73,87.91 and 44.26 in the financial year 2064/65 to 2068/69 respectively. The average ratio is 119.73 times more than the non-performing assets in the study period. The ratio in the fiscal year 2065/66 and 2066/67 is much larger than the average ratio. This shows that the bad loan is slowly being recovered but in the fiscal year 2068/69. It has been increased more. This is not the positive indication. The management of Kumari Bank Limited have too focus on recovery of loan then non-performing assets is decreasing much for the relief.

iv) Non-Performing Assets to Total Assets Ratio

Table:- 4.6
Non-Performing Assets to Total Assets Ratio

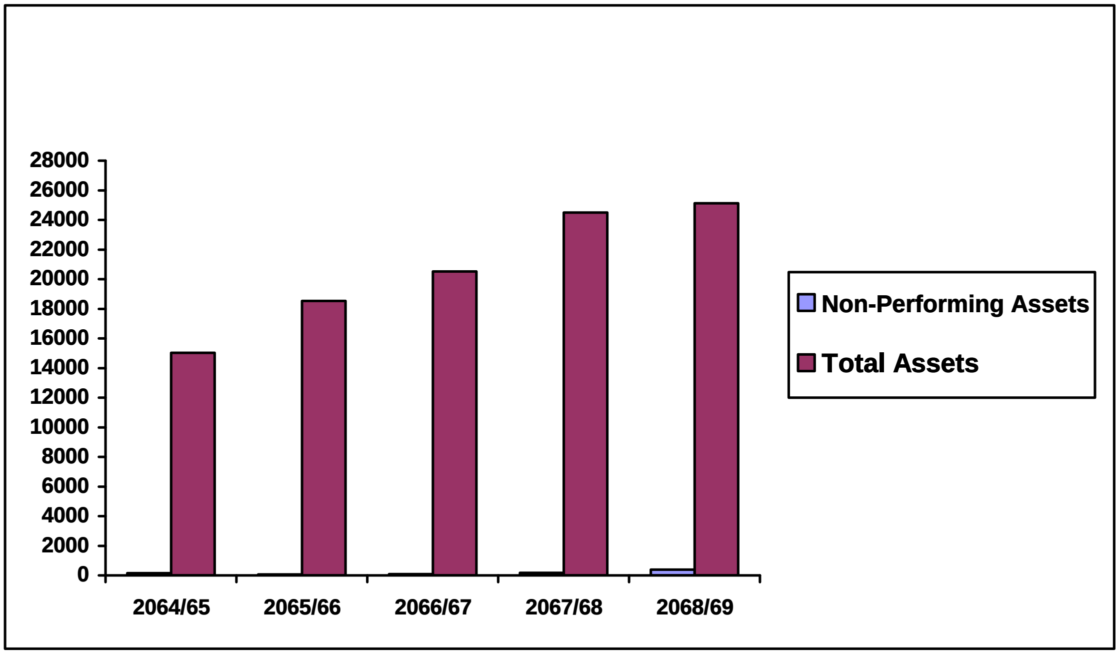
(Rs. In million)

Fiscal Year	Non-Performing Assets	Total Assets	Ratio
2064/65	152.48	15026.59	0.010
2065/66	70.54	18538.57	0.04
2066/67	79.44	20522.47	0.004
2067/68	167.89	24491.78	0.007
2068/69	399.96	25131.40	0.016
Average($\bar{X}$)			0.008

Source: Kumari Bank Annual Reports

Figure:- 4.6
Non-Performing Assets to Total Assets Ratio

(Rs. In million)



The non-performing assets to total assets ratio of Kumari Bank for five years were 1.010,0.004,0.004,0.007 and 0.016 respectively throughout the study period. The average ratio is 0.008 meaning that the non-performing assets are 0.08% of total assets. Analyzing this ratio, Kumari Bank Limited was able to maintain the non-performing assets to total deposit ratio in initial stage of research period because Nepal Rastra Bank has directed all the commercial banks to have non-performing assets not to exceed 10% of total assets. Higher non-performing assets to total assets show the low performance of bank. Up to fiscal year 2068/69 of Study period, the ratio is less than the average ratio in 2064/65, 2065/66, 2066/67, 2067/68 and 2068/068 respectively. It seems to be good position because the ratios which are under the standard of NRB directives. It is because of recovery of some of the non-performing loan through new rules and regulations.

v) Loan Loss Provision to Total Loan and Advances Ratio

Table:- 4.7

Loan Loss Provision to Total Loan and Advances Ratio

(Rs. In million)

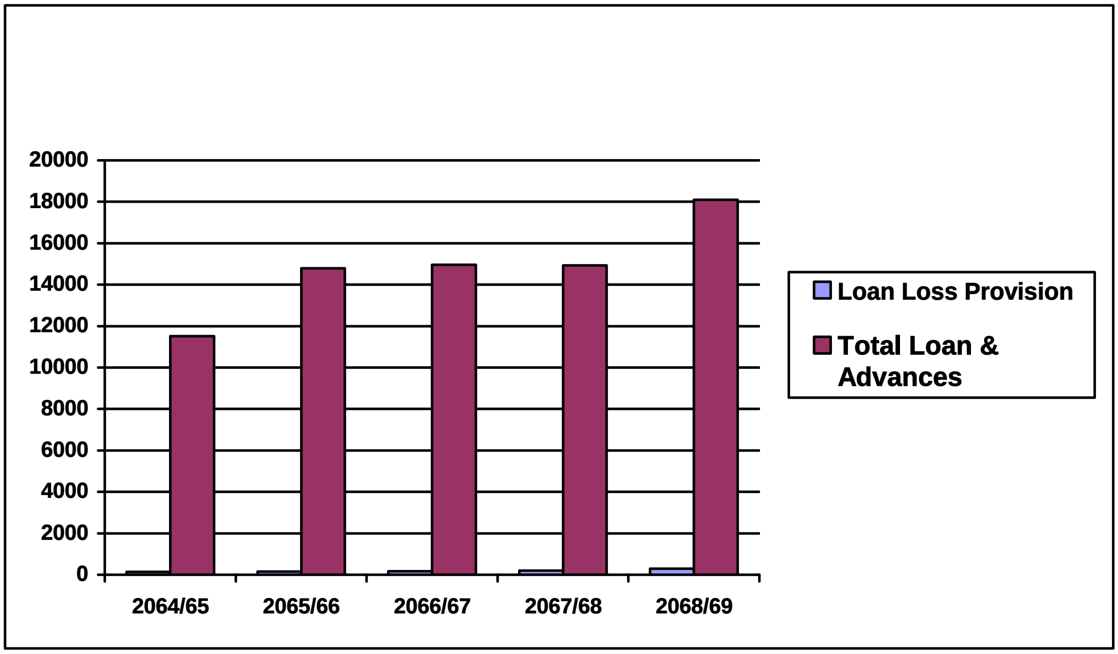
Fiscal Year	Loan Loss Provision	Total Loan & Advances	Ratio
2064/65	133.40	11522.40	0.012
2065/66	153.67	14795.30	0.010
2066/67	167.32	14966.10	0.011
2067/68	200.17	14926.20	0.013
2068/69	300.16	18101.30	0.017
Average($\bar{X}$)			0.032

Source: Kumari Bank Annual Reports

Figure:- 4.7

Loan Loss Provision to Total Loan and Advances Ratio

(Rs. In million)



Loan loss provision to total loan and advance ratio of Kumari Bank Limited for the study period of 2064/65 to 2068/69 is 0.012, 0.010, 0.011, 0.013 and 0.017 respectively. The loan loss provision is below that total loan and advance from the fiscal year 2064/65 and 2068/69 which indicate that the loan and advance created by NRB is in good condition of Kumari Bank in the study period. Study period have low and gradually decreasing loan loss provision than total loan and advance created by NRB is less risky and in decreasing trend in the riskiness of loan and advance. According to the general standard, the banks should make higher percentage of provision for the non-performing loan so that the unnecessary burden of non-performing assets in the future is overcome. Kumari Bank has been very careful salectioning in the loan and advances with new rules and regulations, so it may be the reasons behind decreasing the loan loss provision.

vi) Non-performing Assets to Total Loan & Advances Ratio

Table:- 4.8
Non-performing Assets to Total Loan & Advances Ratio

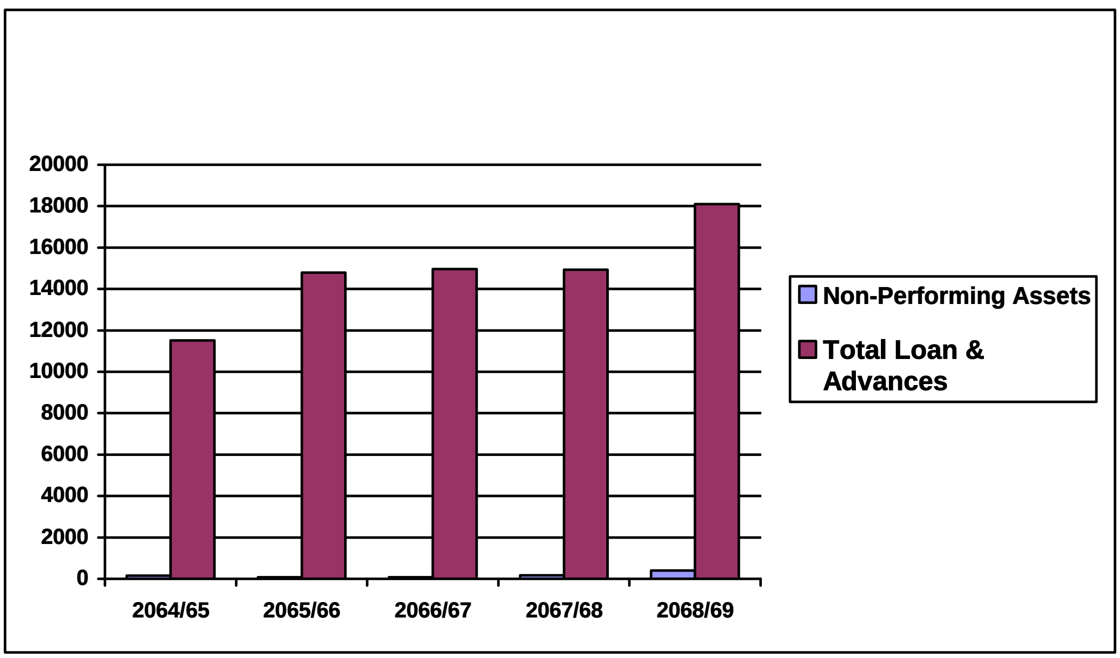
(Rs. In million)

Fiscal Year	Non-Performing Assets	Total Loan & Advances	Ratio
2064/65	152.48	11522.40	0.013
2065/66	70.54	14795.30	0.010
2066/67	79.44	14966.10	0.010
2067/68	167.89	14926.20	0.011
2068/69	399.96	18101.30	0.022
Average($\bar{X}$)			0.013

Source: Kumari Bank Annual Reports

Figure:- 4.8
Non-performing Assets to Total Loan & Advances Ratio

(Rs. In million)



Analyzing the non performing assets to total loan and advances ratio of Kumari Bank Limited in the aboe table, the ratios are 0.013, 0.010, 0.010, 0.011 and 0.022 for fiscal year 2064/65 to 2068/69 respectively. The bank has 1.3% bad loan in average out of total loan and advances as its mean ratio is 0.013. For all years of the study period except fiscal year 2068/69, the ratio is higher than the average. The performance and efficiency of the bank is better if this ratio is low. One to four or five percent non-performing assets are fined but when it exceeds that limit, it's really worrisome. NRB has directed to all commercial banks that the ratio of non-performing assets to total loan and advance should be about 5% and the ratio maintained by Kumari Bank Limited seems to be very much lower than the standard directed by Nepal Rastra Bank , which is a sign of progress in term of total loan and advances.

vii) Provision for Pass Loan to Total Pass Loan Ratio

Table:- 4.9

Provision for Pass Loan to Total Pass Loan Ratio

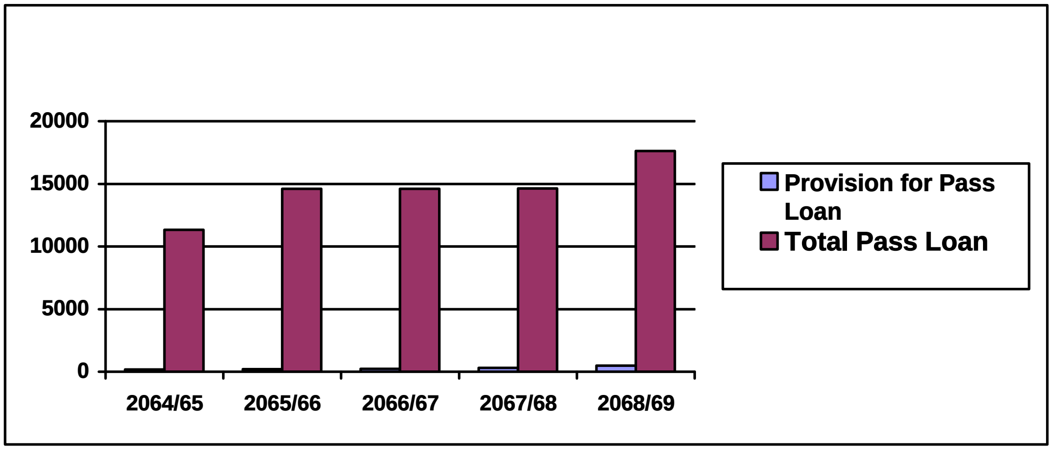
(Rs. In million)

Fiscal Year	Provision for Pass Loan	Total Pass Loan	Ratio
2064/65	187.29	11335.51	0.017
2065/66	201.91	14593.35	0.014
2066/67	234087	14600.71	0.016
2067/68	300.16	14626.07	0.021
2068/69	486.99	17614.35	0.028
Average($\bar{X}$)			0.019

Source: Kumari Bank Annual Reports

Figure:- 4.9

Provision for Pass Loan to Total Pass Loan Ratio (Rs. In million)



The above table and figure show the comparative analysis of the provision for pass loan to total pass loan of Kumari Bank Limited for the study period 2064/65 to 2068/69. The average ratio for the five year is 0.019 that means the bank has maintained a provision for pass loan at 1.9% of total pass loan in the study period. As per the Nepal Rastra Bank directives, the provision for pass loan should be 1.9% of total pass loan. For the all the study period, the bank has maintained it quite strictly as per the directives.

C. Profitability Ratios

A company should earn profit to survive and to grow over a long period of time. It is the different between revenues and expenses over a period of time. It shows the overall efficiency of the business concern. The following ratios are calculated under the profitability ratios:

i) Interest Income to Loan and Advances and Investment Ratio

Table:- 4.10
Interest Income to Loan and Advances and Investment Ratio

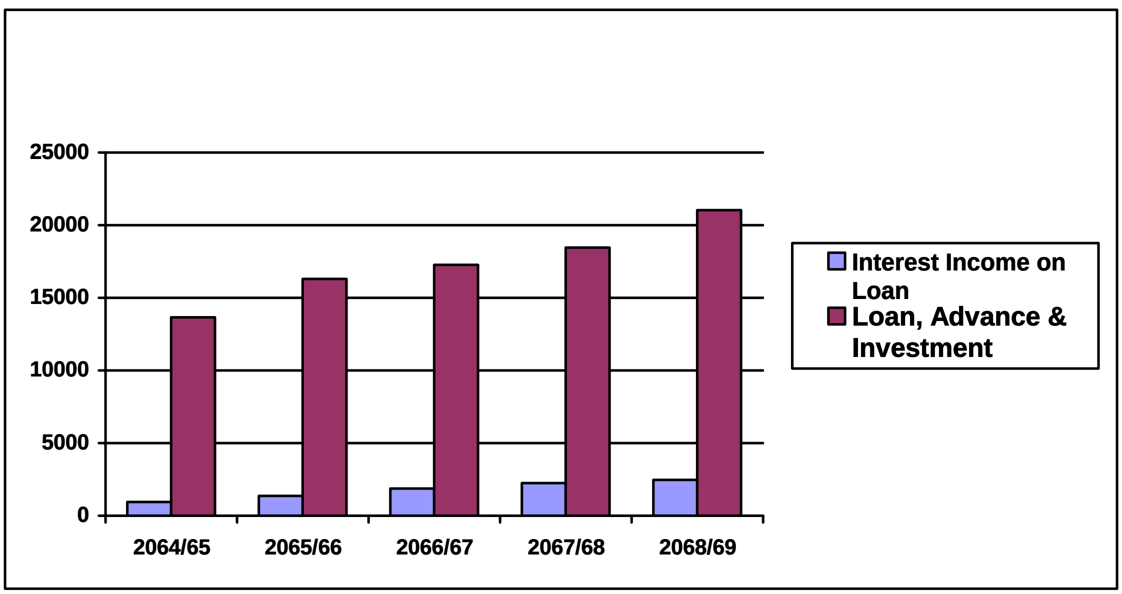
(Rs. In million)

Fiscal Year	Interest Income on Loan	Loan, Advance & Investment	Ratio

2064/65	957.25	13661.20	0.07
2065/66	1374.72	16306.13	0.08
2066/67	1871.07	17262.97	0.11
2067/68	2251.79	18459.82	0.12
2068/69	2441.58	21041.86	0.12
Average($\overline{X}$)			0.10

Source: Kumari Bank Annual Reports

Figure:- 4.10
Interest Income to Loan and Advances and Investment Ratio
(Rs. In million)



The average ratio of interest income on loan in subject to loan and advance and investment of Kumari Bank Limited is 0.10%. It means that the bank is earning the interest in credit and investment on average of 10% in five years period. The year wise income for the study period 2064/65 to 2068/69 is

0.07, 0.08, 0.11, 0.12 and 0.12 respectively. Viewing above ratios, the earning ratio is higher in the 2067/68 and 2068/69 of study period than in the initial years. From fiscal year 2064/65 and 2065/66, it is in increasing trend. To have the high profitability position of bank, there should be high interest income ratio. Bank should balance between risky loan and safety loan and investment.

ii) Interest Expenses to Total Expenses Ratio

Table:- 4.11
Interest Expenses to Total Expenses Ratio

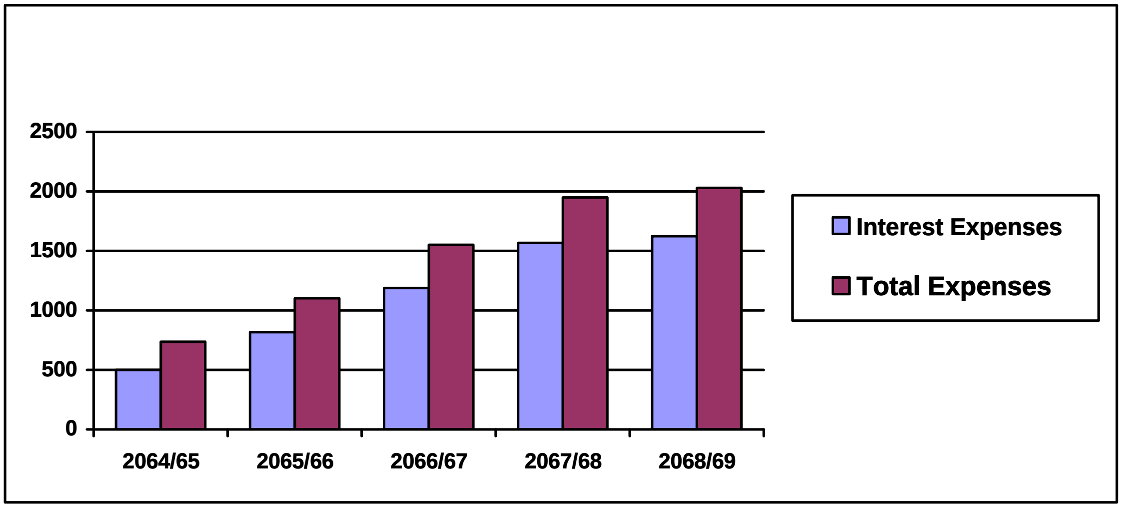
(Rs. In million)

Fiscal Year	Interest Expenses	Total Expenses	Ratio
2064/65	498.73	736.45	0.68
2065/66	816.20	1100.98	0.74
2066/67	1188.92	1549.80	0.77
2067/68	1566.55	1947.84	0.80
2068/69	1622.49	2029.33	0.80
Average($\overline{X}$)			0.76

Source: Kumari Bank Annual Reports

Figure:- 4.11
Interest Expenses to Total Expenses Ratio

(Rs. In million)



Higher the ratio of interest expenses to total expenses, the more interest bearing deposit that the bank has. Reviewing interest expenses to total expenses ratio table of Kumari Bank Limited for the study period of 2064/65 to 2068/69, average ratio for five years is 0.76 which means on an average Kumari Banki is maintaining the level of interest expenses to 76%. The ratios of Kumari Bank are in increasing order in the study period. The ratios are substantially higher than the average in the fiscal years 2066/67 2067/68 and 2068/69. This clearly means that the efforts by the bank are towards increasing the interest bearing on deposit. And also that given the liquidity in the market, banks are paying only very nominal interest. This has saved bank from interest expenses.

iii) Interest Expenses to Interest Income Ratio

Table:- 4.12
Interest Expenses to Interest Income Ratio

(Rs. In million)

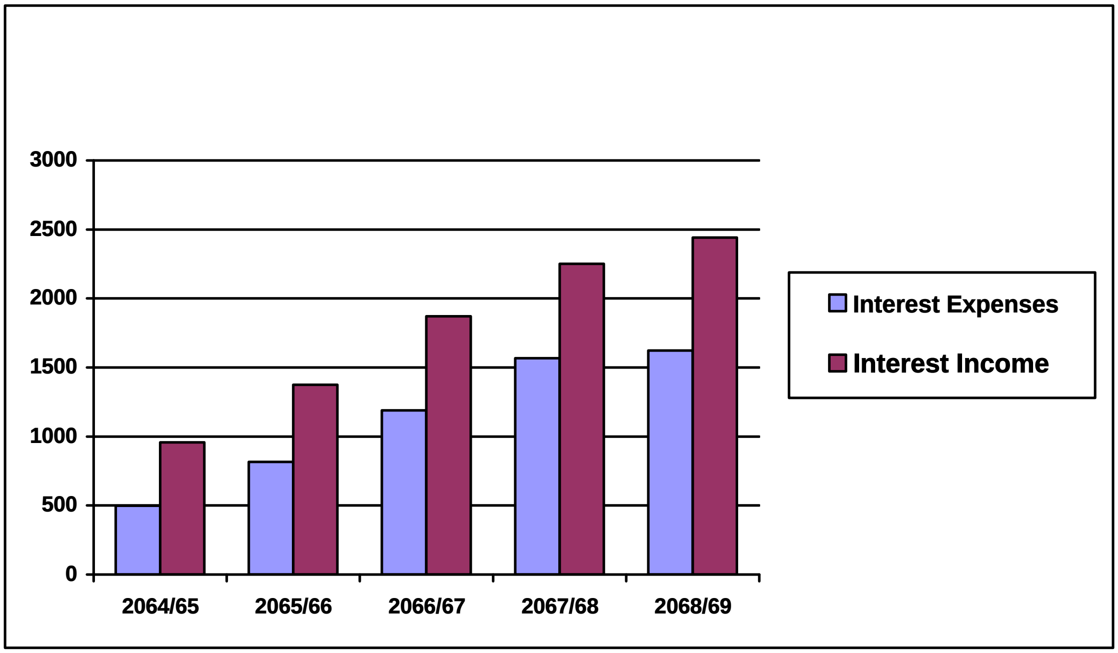
Fiscal Year	Interest Expenses	Interest Income	Ratio
2064/65	498.73	957.25	0.52
2065/66	816.20	1374.72	0.60
2066/67	1188.92	1871.06	0.64

2067/68	1566.55	2251.79	0.70
2068/69	1622.49	2441.58	0.67
Average($\overline{X}$)			0.63

Source: Kumari Bank Annual Reports

Figure:- 4.12
Interest Expenses to Interest Income Ratio

(Rs. In million)



Analyzing the above table and figure, the ratio of interest expenses to interest income of Kumari Bank Limited are 0.52, 0.60, 0.64, 0.70 and 0.67 respectively for the study period of 2064/65 to 2068/69. The average ratio is 0.63 meaning that out of total interest income 63% is taken by interest expenses. High level of this ratio shows that bank has to bear high interest expenses out of interest income. In the first two years of study period, the bank has bared lower amount of interest expenses. In the fiscal year 2066/67 to 2068/69 interest expenses is more than average ratio i.e. 63%.

iv) Return of Equity Ratio

Table:- 4.13
Return of Equity Ratio

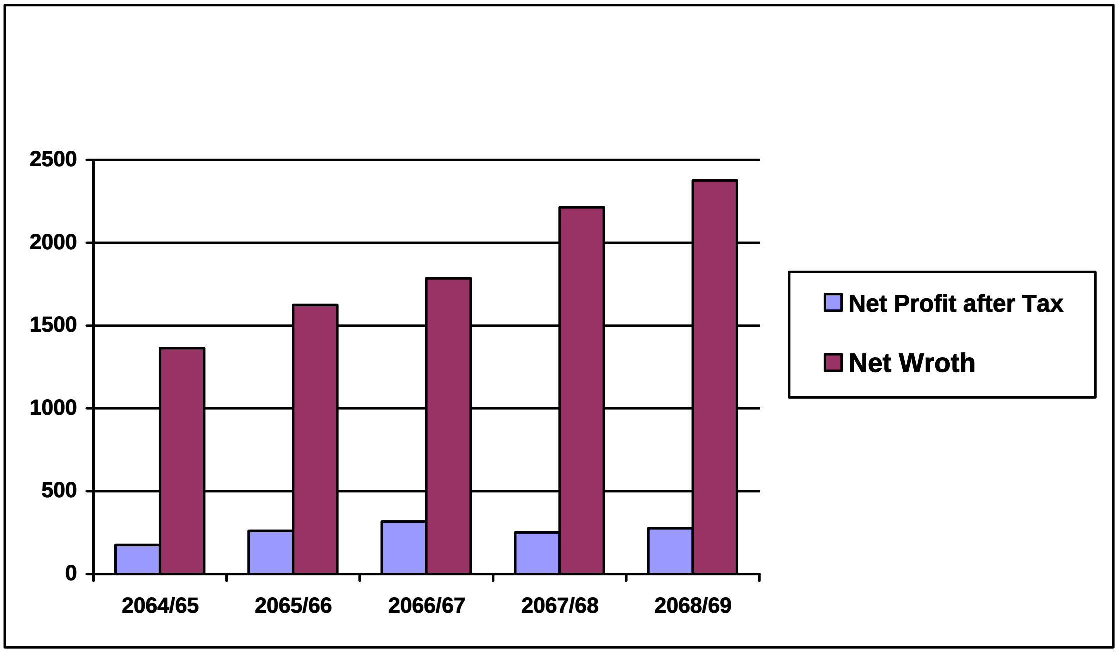
(Rs. In million)

Fiscal Year	Net Profit after Tax	Net Wroth	Ratio
2064/65	174.93	1364.89	0.13
2065/66	261.44	1624.85	0.16
2066/67	316.54	1785.76	0.18
2067/68	251.24	2213.84	0.11
2068/69	275.50	2377.08	0.12
Average($\overline{X}$)			0.14

Source: Kumari Bank Annual Reports

Figure:- 4.13
Return of Equity Ratio

(Rs. In million)



In the above table and figure, the ratio of net profit after tax and net worth of Kumari Bank Limited are 0.13, 0.16, 0.18, 0.11 and 0.12 respectively for the study period of 2064/65 to 2068/69. For the financial year 2064/65 to 2068/69 shows that the situation of return on equity is healthier. The average ratio is 0.14 that means profit is not good from the fiscal years 2064/65 to 2068/69.

v) Return on Total Assets Ratio

Table:- 4.14
Return on Total Assets Ratio

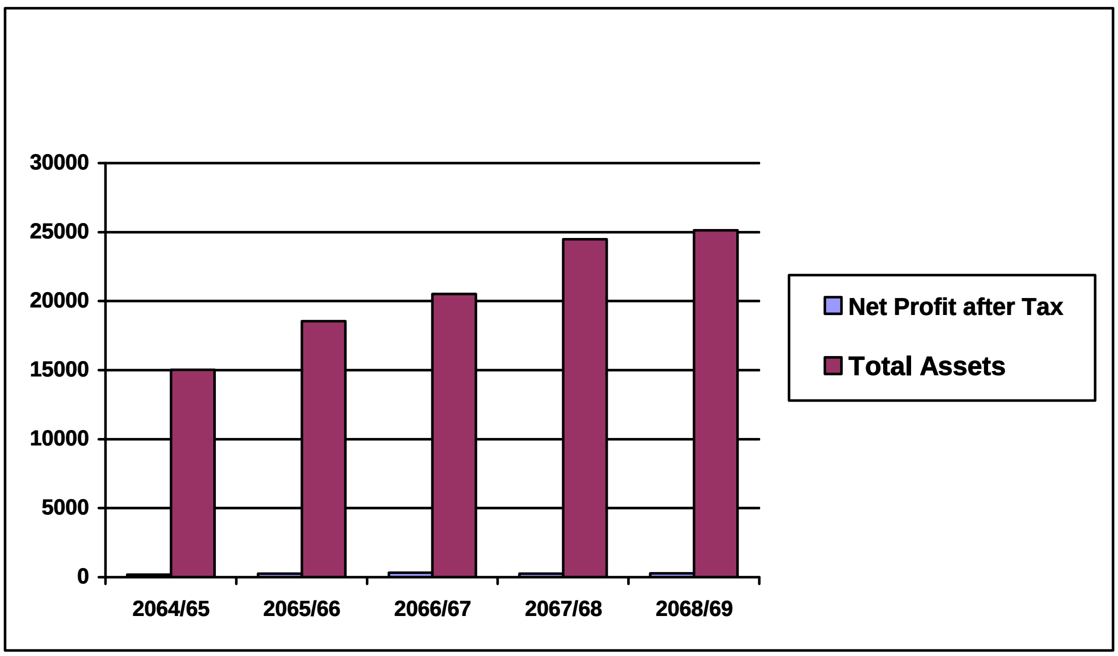
(Rs. In million)

Fiscal Year	Net Profit after Tax	Total Assets	Ratio
2064/65	174.93	15026.59	0.012
2065/66	261.44	18538.57	0.014
2066/67	316.54	20522.47	0.015
2067/68	251.24	24491.78	0.01
2068/69	275.50	25131.40	0.011
Average($\overline{X}$)			0.012

Source: Kumari Bank Annual Reports

Figure:- 4.14
Return on Total Assets Ratio

(Rs. In million)



Kumari Bank has good performance it terms of profitability viewing the return on total assets ratios for the study period 2064/65 to 2068/69. The average ratio of return on total assets for the study period is 0.012 meaning that the bank is in profit 1.2% on average. This indicates that the bank is not being able to manage the assets in efficient way.

i) Return on Net Loan and Advance

Table:- 4.15
Return on Net Loan and Advance

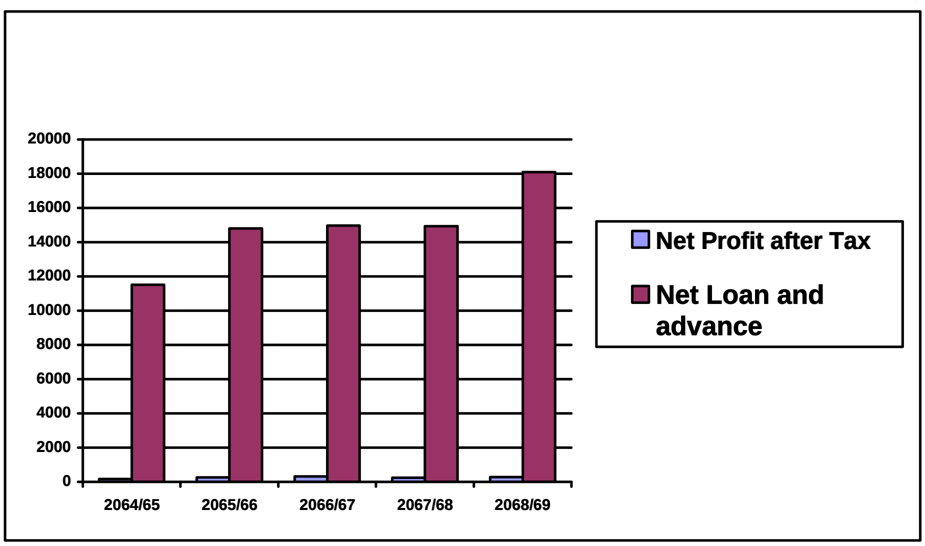
(Rs. In million)

Fiscal Year	Net Profit after Tax	Net Loan and advance	Ratio
2064/65	174.93	11522.40	0.02
2065/66	261.44	14795.30	0.02
2066/67	316.54	14966.10	0.02
2067/68	251.24	14926.20	0.02
2068/69	275.50	18101.30	0.02
Average($\overline{X}$)			0.02

Source: Kumari Bank Annual Reports

Figure:- 4.15
Return on Net Loan and Advance

(Rs. In million)



Return on net loan and advance of Kumari Bank Limited are 0.02, 0.02, 0.02, 0.02 and 0.02 respectively for the study period of 2064/65 to 2068/69. The average ratio for the study period is 0.02. That means the bank's return on net loan and advance is positive with 2% in the five years period. The trend of net loan and advance is decreasing in the 2067/68 but increasing in year 2068/69. The higher the positive ratio, the better bank's profitability is, after analyzing this table, we can conclude that Kumari Bank Limited has low performance in terms of return on loan and advance except fiscal year 2064/65 and 2068/69.

vii) Earning per Share

Table:- 4.16

Earning per Share

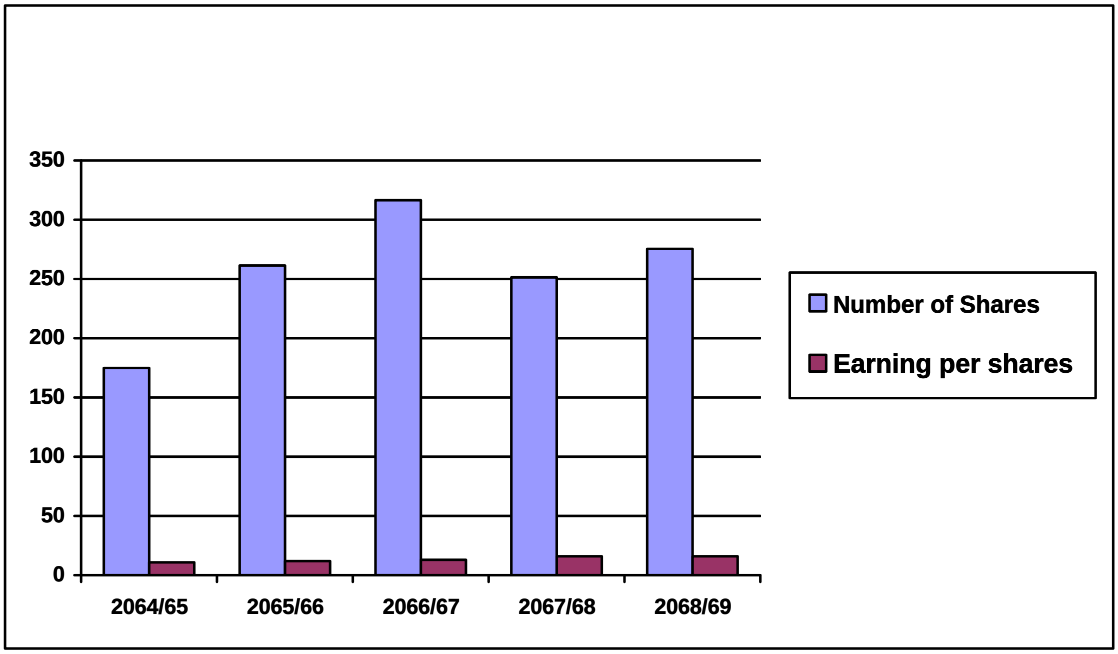
(Rs. In million)

Fiscal Year	Net Profit after Tax	Number of Shares	Earning per shares
2064/65	174.93	10.70	16.35
2065/66	261.44	11.86	22.04
2066/67	316.54	13.06	24.24
2067/68	251.24	16.04	15.66
2068/69	275.50	16.04	17.18
Average($\overline{X}$)			19.09

Source: Kumari Bank Annual Reports

Figure:- 4.16
Earning per Share

(Rs. In million)



The average ratio of earning per share of kumari Bank Limited for the study period is Rs. 19.09. The ratio is higher than the average in fiscal year 2065/66 and 2066/67. But in fiscal year 2064/65,2067/68 and 2068/69, the net profit has increases but no of share also increases so the earning per share has also reduced highly. This indicates that the bank is not being able to raise capital through the issuance of equity shares. At present, the shares of Kumari Bank Limited are not in good position in stock exchange. Despite all these drawbacks, the positive earning per share can be regarded as an indication of good performance.

4.3 Statistical Analysis

4.3.1 Coefficient of Correlation Analysis

The statistical tool, coefficient of correlation has been studies to find out whether the two available variables are inter-correlated or not. If the result falls with in the correlated point, the two variable are inter-correlated otherwise not. Now to find out the correlation coefficient between total lending and total assets, the widely used method of Karl Pearson's Coefficient of Correlation has been adopted.

$$\text{Coefficient of Correlation } (r) = \frac{N\phi X_1X_2 - \phi X_1\phi X_2}{\sqrt{[N\phi X_1^2 - (\phi X_1^2)]} \quad \sqrt{[N\phi X_2^2 - \phi X_2^2]}}$$

Where,

N = Number of Pairs of X and Y observed

X = Values of first type of variable

Y = Value of second type of variable

r = Karl Pearson's Coefficient of correlation

i) Computation of Correlation coefficient of Non performing Assets and Total Loan

Here,

Non performing Assets = X_1

Total Loan = X_2

Table: 4.17

Correlation coefficient of non performing assets and total loan

(Rs. In Billion)

Fiscal Year	**NPA (X_1)**	**TL (X_2)**	**X_1^2**	**X_2^2**	**X_1X_2**
2064/65	0.15	11.52	0.023	132.71	1.73
2065/66	0.07	14.80	0.005	219.04	1.04
2066/67	0.018	14.97	0.006	224.10	1.20
2067/68	0.17	14.93	0.029	222.91	1.54
2068/69	0.40	18.10	0.160	327.61	7.24
N = 5	**$pX_1 = 0.87$**	**$pX_2 = 74.32$**	**$p X_1^2 = 0.223$**	**$p X_2^2 = 1126.37$**	**$p X_1X_2 = 13.75$**

$$\text{Coefficient of Correlation } (r) = \frac{N\phi X_1X_2 - \phi X_1\phi X_2}{\sqrt{[N\phi X_1^2 - (\phi X_1^2)]} \quad \sqrt{[N\phi X_2^2 - \phi X_2^2]}}$$

$$= \frac{5 \times 13.75 - 0.87 \times 74.32}{\sqrt{[5 \times 0.22 - (0.87)^2]} \quad \sqrt{[5 \times 1126.37 - (74.32)^2]}}$$

$$= \quad 0.064$$

$$\text{Computation of probable Error (P.E)} = 0.6745 \times \frac{1 - r^2}{\sqrt{N}}$$

$$= 0.6745 \times \frac{1 - 0.064^2}{\sqrt{5}}$$

$$= 0.46$$

The correlation coefficient and probable error between non-performing assets and total loan in Kumari Bank remained 0.064 and 0.46 respectively. Since r is less than + 0.5 and also less than 6 times of probable error i.e. 0.064< 0.46. It indicated that there was Negative correlation between non performing assets and total loan. This means there is decreasing of non-performing assets with respect to the increasing in the total loan. In other words, there is not significant correlation between non performing assets and total loans.

ii) Computation of Correlation Coefficient of Total Loan and Total Assets

Here,

Total Loan = X_1

Total Assets = X_2

Table: 4.18

Correlation coefficient of Total Loan and Total Assets

(Rs. In Billion)

Fiscal Year	**TL (X_1)**	**TA (X_2)**	**X_1^2**	**X_2^2**	**X_1X_2**
2064/65	11.52	15.03	132.71	225.90	173.15
2065/66	14.80	18.54	219.04	343.73	274.39

2066/67	14.97	20.52	224.10	421.07	307.18
2067/68	14.93	24.50	222.91	600.25	365.79
2068/69	18.10	25.13	327.61	631.52	454.85
N = 5	**$pX_1 = 74.32$**	**$pX_2 = 103.72$**	**$p\,X_1^2 = 1126.37$**	**$p\,X_2^2 = 2222.47$**	**$p\,X_1X_2 = 1575.36$**

Coefficient of Correlation (r) = $$\frac{N\phi X_1X_2 - \phi X_1\phi X_2}{\sqrt{[\,N\phi X_1^2 - (\phi X_1^2)]}\;\sqrt{[\,N\phi X_2^2 - \phi X_2^2]}}$$

$$= \frac{5 \times 1575.36 - 74.32 \times 103.72}{\sqrt{[\,5 \times 1126.37 - (74.32)^2]}\;\sqrt{[\,5 \times 2222.47 - (103.72)^2]}}$$

$$= 0.86$$

Computation of probable Error (P.E.) = $0.6745 \times \frac{1 - r^2}{\sqrt{N}}$

$$= 0.6745 \times \frac{1 - 0.86^2}{\sqrt{5}}$$

$$= 0.12$$

The correlation coefficient and probable error between total loan and total assets in Kumari Bank Limited remained 0.86 and 0.12 respectively. Since r is more than +0.5, and less than 6 times of probable error i.e. 0.12 > 6 x 0.86. it indicates that there was significance correlation between total loan and total assets. In other words, the total loan and total assets of Kumari Bank Limited in the study period of 2064/65 to 2068/69 are significance correlation.

4.4 Major Finding of the study

1. At the time of financial reengineering process of Kumari Bank Limited, new policy of lending focuses on cash flow lending by passing out collateral based lending.
2. The credit information Bureau was established in 1989 A.D. Nepal Rastra Bank started to control the financial institution with strengthening the supervision and monitoring system.
3. Liquidity position of Kumari Bank Limited seems strong. It is obvious that in the present situation of the country, investment potential is not favorable, so the liquidity is sufficient in the bank.
4. Under the structure adjustment programmed, of the IMF, the financial sector was further liberalized in 1987. The focus of Nepal Rastra Bank was placed on indirect monetary control.
5. Most of the banks of Nepal now days are focusing on consumer lending. Kumari Bank Limited is also falls on the same category. This is because of load shading. Industrial development in Nepal is not good due to load shading at this time. So it has directly affected the lending policy of commercial banks.
6. Kumari Bank Limited has invested money in growing credit and advances but the recovery process of the bank is slow. Efficiency in the management is not satisfactory.
7. Most of the credit customers of Kumari Bank Limited are satisfied with the banks. Customers said that the main strength of Kumari Bank Limited is its lending interest rate. In the comparison of other banks, the lending rate of Kumari Bank Limited is found low. Due to which customers are interested to borrow loan from Kumari Bank Limited.
8. The non performing assets with respect to total assets of Kumari Bank Limited is found with standard volume i.e. 0.08 or 0.08%. As per

Nepal Rastra Bank direction, all the commercial bank to have non-performing assets not to exceed 10% of total assets.

9. The EPS fo Kumari Bank Limited was positive as it has huge profit in fiscal year 2064/65 to 2066/ 67. From fiscal year 2067/68 and 2068/69, the EPS is positive which is on the average of Rs. 19.09.
10. At the time of re-engineering process, the bank was able to make large amount of profit as management got focus on recovery of bad loans. The bank incurred loss for the first three fiscal years of the study period. From fiscal year 2065/66 and 2066/67, it has started to in creased no of Share in 2067/68 and 2068/69.
11. The trend of deposit utilization of Kumari Bank Limited is found very poor. During the study period, loan, advances & investment to total deposit ratios of Kumari Bank Limited was 103%.
12. Kumari Bank Limited operated as full fledged commercial bank. The bank is providing services to clients such as credit and advances , consortium finance, working capital credit, term credit, demand credit, trade finance, hire purchase credit, letter of credit, bills purchase, bank guarantee and others.
13. The bank is fully computerization with new technology. All branches of Kumari Bank have been already computerized and rest new upcoming branches are in the process of computerization. The bank has already started Web Remit, Any Branch Banking etc. and is preparing for the installation of Automatic Teller Machine.
14. By analyzing the market demand and trend. Kumari Bank Limited has brought retail banking facilities like Home Loan, Margin Lending whose market performance at present seems satisfactory.
15. For effective credit management and customer's service, Kumari Bank Limited has been making great effort for the development and

empowerment of employees by conducting various training related to credit management and customer services so that they could provide the best services to the customers as well as credit risk could be reduce.

CHAPTER-V

SUMMARY, CONSLUSION AND RECOMMENDATIONS

5.1 Summary

A commercial bank means the bank which deals with exchanging currency. Accepting deposit, giving loans doing other various commercial transactions. Therefore, the major function of commercial bank is to accept deposits and provide loans.

Kumari Bank Limited started its banking operations from 3 April 2001 (21 Chaitra 2057 BS) as the fifteenth commercial bank in Nepal. Since its inception, Kumari Bank has been providing competitive and modern banking services to all Nepali consumers, and has stood as one of the most trusted banks in Nepal with paid up capital of Rs.1,603,800,000 of which 70% is contributed from promoters and the rest 30% from the public.

The assets of commercial bank indicate the manner in which the funds entrusted to the bank employed. The successful working of the bank depends on ability of the management to distribute the fund among the various kinds of investment known as assets outstanding loan advance of the bank. These assets constitute primary sources of income to the bank. As being a business unit a bank aims at making huge profit since loan and advances are more profitable than any other assets of the bank, it is willing to lend as much as its fund as possible. But the bank has to be careful about the repayment of loan and interest giving loan. If the bank is too timid, it may fail to obtain the adequate return on the fun, which is confined to it for use. Similarly, if the bank is too liberal, it may easily impair its profits by bad debts therefore, bank should not forget the reality that most of the bank failures in the world are due to shrinkage in the value of the loan and advances.

Despite of being loan and advances, more profitable than other assets, it creates risk of non repayment for the bank. Such risk is known as credit risk or default risk. Therefore, like other assets, the loan and advances are classified into performing and non – performing assets on the basis of overdue aging schedule. If the dues in the form of principal and the interest are not paid, by borrower within a maturity period, that amount of principal and interest is called non performing loan or assets. Performing assets have multiple benefits to the company as well as to the society while non performing assets erode even existing capital of the bank. So, the proper management of credit in commercial bank is a key for the success.

Credit administration involves the creation and management of credit and advances. Portfolio management helps to minimize or manage the credit risks by spreading over the risk to various portfolios. Bank earns interest on credits and advances , which is one of the major sources of income for bank.

5.2 Conclusion

1) Kumari Bank has sufficient liquidity. It shows that bank has not got investment sectors to utilize their liquid money. Now, in Nepal, many banks and other financial institutions are functioning to collect deposits and invest money somewhere in invest able sectors. Therefore, miniaturizations have been increased since liberalization policy taken by the government. Heavy remittance has also help to increase the amount of deposits in bank. On the other hand, due to political crisis, economic sectors have been fully damaged. Most of the projects have been withdrawn due to security problem. Therefore, bank has maximum liquidity due to lack of safety investment sectors.
2) Due to economic crisis in the country, credit takers are not getting good return from their investment sectors. On the situation, credit customers do not return money of the bank in the stipulated time

period, therefore, the non-performing credit of the bank increases. As the non-performing credit increases, bank should increase its provision for credit loss.

3) Credit related financial indicators demonstrate the quite poor situation in Kumari Bank Limited. Therefore, Financial sector reform program is below the level and still much needs to be done. It can also be concluded that there has been almost similar procedures and policies while granting the loan, not much change from the its conventional methods.

5.3 Recommendation

The present study can be a valuable piece of research works in credit management. It explored the existing situation and identified the various components for further improvement in credit management. Secondary sources of information are used for fulfilling the objective. Based in the findings of the study, the researcher recommended highlighting the guidelines to put forward for further improvement.

Corporate structure of bank play key role in the effective loan management. Being loan a risky asset, efforts should be made to have proper control in every steps of loan management. The banks should established separate department for credit appraisal, documentation, disbursement, inspection and recovery of loan which have possibility of finding mistakes of one department by the others so that the effectiveness can be achieved.

1) Loan must be given if the banker is satisfied that the borrower can repay money from the cash flow generated from operating activities. However, the banks want to ensure that their loan in repaired even in case of failure of business. To prevent banks from such happenings, the bank take collateral is disposed for the recovery of loan. Therefore, the bank should take proper valuation

of collateral so that the bank at least will be able to recover its principle and interest amount in case of failure of the borrower to repay the loan.

2) Lack of proper financial analysis of the borrower by the banks, is one of the major cause behind increasing NPA of Nepalese commercial bank. Therefore, proper financial analysis should be performed before giving loan to the borrower.

3) Competition in increasing day by day in banking industry. Again complete foreign bank can be established after 2012 B.S. So the bank should adopt efficient and modern management concept to make their activities quick and moving there by fulfilling the growing demand of current financial services.

4) Nepal Rastra Bank should regulate all the deposit accepting financial institution under the supervision and regulatory activity so that general people can feel the security of their deposits.

5) The customers are seeking different innovative products with quality. So, banks should modify their products. The banks should come out with new products in retail banking. Hence, to retain the customer's banks have to come out with competitive products satisfying the desire to the customer at the click of a button.

6) Banks may go for detail market research, which will help them in knowing what their competitors are offering to their clients. This will enable them to have an edge over their competitors and increase their credit management pie by offering better products and services.

7) Credit related financial indicators in Kumari Bank Limited seem irrelevant in comparison with the specified standard of Nepal Rastra Bank. Therefore, more focus should be given to improve the credit management of Kumari Bank Limited such as credit granting procedures, updating the credit files, value of collateral and maintaining the loan loss provisions adequately.

8) New commercial banks are arising day by day with modern banking systems. Lending procedures have been made surprisingly short. And customers can get the loan with in a maximum of a week days. So Kumari Bank Limited should also compete with them in lending procedures and other banking systems.

9) Cash and bank Balance of Kumari Bank Limited is high. Bank's efficiency should be increased to satisfy the depositors at low level of cash and bank balance. Unused cash and bank balance do not provide return to the bank. Therefore, some percentage of the cash and bank balance should be investment somewhere in profitable sectors.

10) Bank should regularly follow the credit customer to confirm that whether the customers have utilized their credit for same purpose or not, committed at the time of taking credit from the bank.

11) Bank should strictly band the policy of nepotism and favoritism. On the basis of capability and efficiency, recruitment, placement and promotion should be executed.

12) Bank should carefully examine the principle of safety as well as sources of repayment, capital structure and credit worthiness of a borrower before providing loans. In other word, credit and risk must be evaluated by considering well-known five C's of credit viz. Character, capacity, capital, collateral and condition so that the bank is able to mobilize and utilize the resources.

13) The economic liberalization policy adopted by Government of Nepal has created environment of cutthroat competition even in the banking sector. In this context, Kumari Bank Limited bank is suggested to formulate and implement some should and effective financial and non-financial strategies to minimize their operational expenses to meet required level of profitability.

14) Nepal Rastra Bank should tighten the supervision and inspection activity towards the commercial banks and financial institution so that

the accounting manipulation can be avoided. It is because; there are huge decreases in the net profit in Kumari Bank Limited for the lack of quality credit.

15) The loss incurred by Kumari Bank Limited has decreased significantly after the implementation of financial sector reform programmed but at the same time the volume of non-performing assets is increasing, This indicates that credit management is not sufficient. So the Kumari Bank Limited Management should generate the real profit through credit disbursement.

16) Kumari Bank Limited has one more advance of getting income from government transaction and other private's organizations. It receives huge amount of commission from the government and other private organization's in return of doing transaction. So bank is suggested to handle government and other private organization's transaction properly so that no other banks get this chance continually in future.

17) Due to poor credit administration, the credit recovery process in slow as well as legal process in the recovery of credit is lengthy and ineffective. Clear-cut objective and policy of the credit management if lacking so that non-performing credit is going upward. To get better result in the coming future, bank should reduce the volume of non-performing credit.

18) The banks should adopt efficient and modern management concept to make their activities quick and moving there by fulfilling the growing demand of current financial services.

19) Total deposit it not correlated with the loan and advances. This is very serious matter and the main reason is the case of over liquidity that the bank has maintained so far. Thus, the bank should mobilize the deposit and try to bring the correlation between total deposit and loan advance in an appropriate level.

20) To meet customer's requirement the bank should focus on value added tasks like making front line decisions, making actions palns, improving process reviewing progress, analyzing success and failures, providing feedback to suppliers, reducing cost etc.

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Appendix – I

KUMARI BANK LIMITED

BALACE SHEET

As on end of Ashadh 2069

Capital and Liabilities	**Amount**
1. Share Capital	1,603,800,000
2. Reserve and Fund	773,275,338
3. Debentures and Bonds	400,000,000
4. Borrowing Outstanding	5,403,000
5. Deposits	21,985,198,276
6. Bills Payable	20,698,657
7. Proposed and Dividend Payables	112,266,000
8. Income Tax Liabilities	-
9. Other Liabilities	230,759,700
Total Capital and Liabilities	**25,131,400,971**
Assets	
1. Cash Balance	584,140,254
2. Cash Balance with NRB	2,862,923,783
3. Balance with Banks/ Financial Institutions	275,563,556
4. Money at call and short notices	321,243,141
5. Investment	2,940,556,674
6. Loan Advances and Bills Purchase	17,614,348,989
7. Fixed Assets	277,268,923
8. Non Banking Assets	-
9. Other Assets	255,355,651
Total Assets	**25,131,400,971**

Source : Kumari Bank Limited Annual Report 2068/69

Appendix – II

KUMARI BANK LIMITED

PROFIT AND LOSS ACCOUNT

As on end of Ashadh 2069

Particulars	Amount
1. Interest Income	2,441,580,226
2. Interest Expenses	1,622,491,760
Net Interest Income	**819,088,466**
3. Commission and Discount	110,865,509
4. Other Operating Income	48,812,311
5. Exchange Income	44,205,749
Total Operating Income	**1,022,972,035**
6. Staff Expenses	194,295,522
7. Other Operating Expenses	212,542,554
8. Exchange Loss	-
Operating Profit Before Provision for Possible Losses	**616,133,959**
9. Provision for possible loss	187,044,796
Operating Profit	**429,089,163**
10. Non Operating Income/ (Expenses)	3,477,443
11. Loan Loss Provision written back	133,156
Profit from regular Activities	**432,699,762**
12. Profit / loss From Extra- ordinary Activities	(342,296)
Net Profit after all Activities	**432,699,762**
13. Provision for Staff Bonus	39,336,342
14. Provision for income tax a. Current Tax 116,808,100 b. Prior Period Tax - 3,023,417 c. Deferred Tax 1,050,650	117,858,750
Net Profit/ Loss	**275,504,670**

Source : Kumari Bank Limited Annual Report 2068/69

Appendix – III

KUMARI BANK LIMITED

PROFIT AND LOSS APPROPRIATION ACCOUNT

As on end of Ashadh 2069

Particulars	Amount
Income	
1. Accumulated Profit up to Last year (Restated Balance)	2,903,170
2. Current Year's Profit	275,504,670
3. Exchange Equalization Fund	-
4. Capital Adjustment Reserve	-
5. Deferred Tax Reserve	-
6. Investment Adjustment Reserve	-
7. Dividend Equalization Fund	-
Total Income	**278,407,840**
Expenses	
1. Accumulated Loss up to Last Year	-
2. Current Year's Loss	-
3. General Reserve	55,100,934
4. Contingent Reserve	-
5. Institutional Development Fund	-
6. Dividend Equalization Fund	-
7. Employees Related Reserve	-
8. Proposed Cash Dividend	112,266,000
9. Proposed Issue of Bonus Shares	118,800,000
10. Special Reserve Fund	-
11. Exchange Fluctuation Fund	2,894,750
12. Bond Redemption Reserve fund	95,000,000
13. Capital Adjustment Fund	-
14. Deferred Tax Reserve	(1,050,650)
15. Investment Adjustment Reserve	30,000
Total Expenses	**264,211,033**
Accumulated Profit / Loss	**14,196,807**

Source : Kumari Bank Limited Annual Report 2068/69

Appendix - IV

Financial look at the bank's past 5 yeas performance

Fiscal year	2064/65	2065/66	2066/67	2067/68	2068/69
Particulars					
Paid - up Capital	1,070.00	1,186.09	1,306.01	1,603.80	1,603.80
Deposit	12,780.15	15,710.93	17,432.25	16,986.28	21,985.20
Loan	11,522.38	14,795.26	14,966.08	14,926.23	18,101.34
Fixed Assets	222.00	247.83	285.64	306.28	277.27
Interest Income	957.25	1,374.72	1,871.07	2,251.79	2,441.58
Interest Expenses	498.73	816.20	1188.92	1,566.55	1,622.49
Net Interest Income	458.51	558.52	682.15	685.24	819.09
Other Income	108.12	157.85	164.35	190.06	203.88
Other Expenses	237.71	302.49	345.36	380.93	406.84
Operating Profit Before Loan loss provision	328.91	413.89	501.14	494.38	616.13
Net Profit / (loss)	174.93	216.44	316.54	251.24	275.50

B -Websites

Kumari Bank Limited	www.kumaribank.com
Ministry of Finance	www.mof.gov.np
Nepal Rastra Bank	www.nrb.org.np
Central Bureau of Statistics	www.cbs.gov.np
Inland Revenue Department	www.ird.gov.np
The Institute of Chartered Accountants of Nepal	www.ican.Org.np
Nepal Telecom	www.ntc.net.np
T.U.	www.tuexam.edu.np
Educational Organization	www.educationsansar.com
Economy watch	www.economywatch.com
Business Link	www.businesslink.gov.uk
Thakur Ram Multiple Campus	www.TRMC.edu.com