

***A STUDY ON ASSETS MANAGEMENT PRACTICE OF  
COMMERCIAL BANKS***

***(WITH REFERENCE TO EBL & SBI BANK LIMITED)***

**A Thesis**

**Submitted to:**

**Office of the Dean**

**Faculty of Management**

**TRIBHUVAN UNIVERSITY**

**In Partial Fulfillment of the Requirement for the**

**Master of Business Studies (MBS)**

**Submitted by:**

**NASIM KHAN**

Roll No: 746/065

Shanker Dev Campus

T.U. Regd. No. 7-3-39-538-2008

**Birtamode, Nepal**

August, 2012

# RECOMMENDATION

This is to certify that the Thesis

Submitted by

**NASIM KHAN**

Entitled:

***A STUDY ON ASSETS MANAGEMENT PRACTICE OF  
COMMERCIAL BANKS***

***(WITH REFERENCE TO EBL & SBI BANK LIMITED)***

*Has been prepared as approved by this Department in the prescribed format of the  
Faculty of Management. This thesis is forwarded for examination.*

.....  
Associate Prof. Prakash Singh Pradhan  
(Thesis Supervisor)

.....  
Prof. Bisheshwor Man Shrestha  
(Head of Research Department)

.....  
Associate Prof. Prakash Singh Pradhan  
(Campus Chief)

# VIVA-VOCE SHEET

We have conducted the viva-voce of the thesis presented

By

**NASIM KHAN**

Entitled:

***A STUDY ON ASSETS MANAGEMENT PRACTICE OF  
COMMERCIAL BANKS***

***(WITH REFERENCE TO EBL & SBI BANK LIMITED)***

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the

**Degree of Master's in Business studies (M.B.S.)**

## Viva-Voce Committee

Head, Research Department .....

Member (Thesis Supervisor) .....

Member (External Expert) .....

## DECLARATION

I, hereby, declare that the work reported in this thesis entitled “*A Study On Assets Management Practice Of Commercial Banks (With Reference To EBL & SBI Bank Limited)*” submitted to office of the Dean, Faculty of Management, Tribhuvan University, is my original work done for the partial fulfillment of the requirement for the Masters of Business Studies (MBS) under the supervision of **Associate Prof. Prakash Singh Pradhan** of Shanker Dev Campus, Putalisadak, Kathmandu.

.....

**NASIM KHAN**

Researcher

Roll No: 746/065

Shanker Dev Campus

T.U. Regd. No. 7-3-39-538-2008

Date: - August, 2012

## ACKNOWLEDGEMENT

This research work entitled “*A Study On Assets Management Practice Of Commercial Banks (With Reference To EBL & SBI Bank Limited)*” is prepared to submit in Office of the Dean, Faculty of Management, T.U. in partial fulfillment of requirement of the Master Degree of Business Studies (M.B.S.)

It is my great opportunity to complete this thesis under the supervision of **Associate Prof. Prakash Singh Pradhan** of Shankar Dev Campus for generous encouragement and undertaking of the supervision of my entire research work. This form of the report is the outcome of this continuous encouragement, helpful suggestions and comments.

At this moment I cannot forget teaching and non-teaching staffs of Shankar Dev Campus, T.U. who inspired me by showing keen interest in my work. The help of my friends is also unforgettable to me. I would like to thank my family members for their valuable suggestions, continuous encouragement and help through the research work. There are other compatriots who have been supportive, directly or indirectly. I thank all of them.

I owe great intellectual debt for support and immense contribution to Administrative of EBL and SBI. I am thankful to library staffs of Shanker Dev Campus, Nepal Commerce Campus and T.U. library for their cooperation.

**NASIM KHAN**

Roll No: 746/065

Shankar Dev Campus

Kathmandu, Nepal

# TABLE OF CONTENTS

	<b>Page No.</b>
Recommendation	i
Viva–Voce Sheet	ii
Declaration	iii
Acknowledgement	iv
Table of Contents	v
List of Tables	viii
List of Figures	ix
Abbreviations	x

## CHAPTER – ONE

### INTRODUCTION

1.1	Background of the Study	1
1.2	Profile of Sample Banks	4
	1.2.1 Everest Bank Limited	4
	1.2.2 Nepal SBI Bank Limited	5
1.3	Statement of the problem	7
1.4	Objective of the Study	8
1.5	Significance of the Study	8
1.6	Limitations of the Study	9
1.7	Organization of the Study	9

## CHAPTER – TWO

### REVIEW OF LITERATURE

2.1	Conceptual Framework	11
2.1.1	Meaning & Definition of Bank	11
2.1.2	Products of a Bank	12
2.1.2.1	Deposit	12
2.1.2.2	Loans	15
2.1.2.3	Agency	15
2.1.2.4	Remittance	15
2.1.3	Assets of a Bank	16
2.1.3.1	Loans and Advances	16
2.1.3.2	Investment	16
2.1.3.3	Fixed Assets	16
2.1.3.4	Non Banking Asset	17
2.1.4	Asset Selection Procedure (Pre Sanction Appraisal)	17
2.1.5	Post Sanction Monitoring	18
2.1.6	Assets Liability Management (ALM)	19
2.1.7	Loans and Advances	20
2.1.7.1	Overdraft/Cash Credit	20
2.1.7.2	Demand Loan	20
2.1.7.3	Trust Receipt Loans	20
2.1.7.4	Term Loans	21

2.1.8	Introduction to Non-Performing Assets (NPA)	21
	2.1.8.1 Classification of Loans & Advances	22
	2.1.8.2 Loan Rescheduling and Restructuring	22
2.1.9	Capital Adequacy Framework	23
	2.2.9.1 Introduction	23
	2.1.9.2 Objectives	24
	2.1.9.3 Pre-Requisites	25
2.1.10	Eligible Capital Funds	25
	2.1.10.1 Core Capital (Tier 1)	25
	2.1.10.2 Supplementary Capital (Tier 2)	26
	2.1.10.3 Elements of Tier 1 Capital	26
	2.1.10.4 Elements of Tier 2 Capital	27
	2.1.10.5 Deductions from Core (Tier 1) Capital	28
2.2	Review of Journal and Articles	29
2.3	Review of Previous Thesis	32
2.4	Research Gap	35

## **CHAPTER – THREE**

### **RESEARCH METHODOLOGY**

3.1	Research Design	36
3.2	Population & Sample	37
3.3	Nature and Source of Data	37
3.4	Research Variables	37

3.5	Method of Data Analysis	37
3.5.1	Financial Tools	37
3.5.2	Statistical Tools	39

## **CHAPTER – IV**

### **PRESENTATION & ANALYSIS OF DATA**

4.1	Analysis of Financial Ratios	43
4.1.1	Gross Loans & Advances of Sample Banks	44
4.1.2	Percentage of Non-Performing Assets (NPA)	45
4.1.3	Composition of Non-Performing Assets (NPA)	47
4.2	Credit Deposit Ratio (CD Ratio)	50
4.3	Return on Loan & Advance	51
4.4	Return on Investment (ROI)	52
4.5	Operating Expenses to Total Assets	54
4.6	Fixed Assets to Total Loans and Advances	55
4.7	Analysis of Capital Adequacy	56
4.8	Capital Adequacy as per Basel II Norms	58
4.9	Breakdown of Risk Weighted Exposure	59
4.10	Correlation Analysis	59
4.10.1	Relationship between LA & NPA	60
4.11	Trend Analysis	61
4.12	Major Findings	63

## **CHAPTER – V**

### **SUMMARY, CONCLUSION & RECOMMENDATION**

5.1	Summary	66
5.2	Conclusion	68
5.3	Recommendation	69
	<b>BIBLIOGRAPHY</b>	<b>72-74</b>
	<b>APPENDICES</b>	<b>75-79</b>

## LIST OF TABLES

		<b>Page No.</b>
Table: 1.1:	Present Share Capital of EBL	5
Table: 1.2:	Detail of Share Ownership of EBL	5
Table: 1.3:	Present Share Capital of NSBIBL	6
Table: 1.4:	Detail of Share Ownership of NSBIBL	6
Table: 4.1:	Trend Line Showing Gross Loans & Advances	44
Table: 4.2:	NPA Percentage of Sample Banks	45
Table: 4.3:	Amount of NPA, NPA Growth Percentage and L&A Growth Percentage	46
Table: 4.4:	Composition of NPA & Rescheduled/Restructured Loans of EBL	48
Table: 4.5:	Composition of NPA and Rescheduled/Restructured Loans of NSBIBL	49
Table: 4.6:	Credit Deposit (CD) Ratio	50
Table: 4.7:	Return on Loan & Advance (ROLA)	51
Table: 4.8:	Return on Investment (ROI)	53
Table: 4.9:	Operating Expenses to Total Assets (OE/TA) Ratio	54
Table: 4.10:	Fixed Assets to Total Loans and Advances (FA/LA) Ratio	55
Table: 4.11:	Capital Adequacy as per BASEL I Norms	57
Table: 4.12:	Capital Adequacy as per Basel II Norms for FY 2067/068	58
Table: 4.13:	Breakdown of Risk Exposure for FY 2067/068	59
Table: 4.14:	Correlation Between LA & NPA	60
Table: 4.15:	Actual value & Trend Value of NPA	61

## LIST OF FIGURES

	<b>Page No.</b>
Figure: 4.1: Trend Line Showing Gross Loans & Advances	44
Figure: 4.2: Trend of NPA Percentage	46
Figure: 4.3: NPA Position of Sample Banks	47
Figure: 4.4: Composition of NPA & Rescheduled/Restructured Loans of EBL	48
Figure: 4.5: Composition of NPA & Rescheduled/Restructured Loans of NSBIBL	49
Figure: 4.6: Trend of Credit Deposit (CD) Ratio	51
Figure: 4.7: Trend of Return on Loan & Advance (ROLA)	52
Figure: 4.8: Trend of Return on Investment (ROI)	53
Figure: 4.9: Trend of Operating Expenses to Total Assets (OE/TA) Ratio	54
Figure: 4.10: Trend of Fixed Assets to Total Loans and Advances Ratio	55
Figure: 4.11: Capital Adequacy of EBL	57
Figure: 4.12: Capital Adequacy of NSBIBL	58
Figure: 4.13: Trend Line of NPA of EBL	62
Figure: 4.14: Trend Line of NPA of NSBIBL	62

## ABBREVIATIONS

%	Percentage
&	And
A.D	Anno Domini
ABBS	Any Branch Banking System
ATM	Automated Teller Machine
B. S.	Bikram Sambat
C. V.	Coefficient of Variation
CD	Credit Deposit
DA	Deposit Amount
EBL	Everest Bank Limited
FA	Fixed Assets
FY	Fiscal Year
GDP	Gross Domestic Product
LA	Lending Amount
LC	Letter of Credit
MBA	Masters' of Business Administration
MBS	Masters' of Business Studies
NEPSE	Nepal Stock Exchange
NPA	Non-Performing Assets
NRB	Nepal Rastra Bank

NSBIBL	Nepal SBI Bank Limited
OE	Operating Expenses
ROI	Return on Investment
ROLA	Return on Loan & Advance
S.D	Standard Deviation
SDC	Shankar Dev Campus
SEBON	Securities Board of Nepal
T. U.	Tribhuvan University
TA	Total Expenses

## **CHAPTER - ONE**

### **INTRODUCTION**

#### **1.1 Background of the study**

Financial institution can be considered as the catalyst to the economic growth of a country. The development process of a country involves the mobilization and deployment of resources. Development of trade, commerce and industry are the prime requisite for the attainment of the economic political and social goals. To fulfill the purpose of planning, financial functions more often dominate the other functions. There is always lack of finance in underdeveloped economy because natural resources are either underutilized or utilized in non-productive sectors. Likewise, underdeveloped countries are not efficient in mobilization of financial resources.

Therefore, in these countries for the rapid development of the economy, there should be proper mobilization of resources. Due to various difficulties or even ignorance of the people, such resources have not been properly utilized. Hoarding could be one of the reasons for this. So, financial institutions play a vital role to encourage thrift and discourage hoardings by mobilizing the resources and removing the habit of hoarding. Banks are the heart of the financial system, they pursue rapid economic growth, developing the banking habit among the people, collecting the small-scattered resources in one bulk and utilizing them in further productive purposes and rendering other valuable services to the country. Thus, this gives the individuals an opportunity to borrow funds against future income, which may improve the economic well-being of the borrower.

The growth of banking in Nepal is not so long in comparison with other developing countries. Nepal had to wait for a long time to come to the present banking system. The development of any countries cannot be image without economic activities. The development of banking system is one of the grounds for economic development. Therefore, we should take a bank as strong means for the economic development. The development of bank is interwoven with the development of a person, a society and a nation. It is impossible to fulfill the needs without bank whether it is inside the nation or foreign country whether it is individual development or business and whether it is

the people or the government. So, to solve the problems relating to economic development, developing of banking system is necessary.

A bank is an institution that accepts deposits of various types, withdrawal by cheque and advances loans of different kinds. Bank is a link between collected deposits of its depositors with the lending of same to its credit customers. The major income of the bank is the difference of spread rate between deposit and lending by which bank makes profit and distributes dividend to its stakeholders. It is an institution whose debts are widely accepted in settlement of other people's debts to each other. A well-developed banking system is a necessary pre-condition for economic development in a modern economy. Besides providing financial resources for the growth of industrialization, banks can also influence the direction in which these resources are to be utilized. The underdeveloped country like Nepal, the banking facilities are limited in urban areas and the banking activities are limited mostly to trade and commerce and paying little attention to industry and agriculture. Structural as well functional reforms in the banking system are needed to perform creative role in under developing countries.

Commercial banks are those, which pool together the saving of the community and arrange them for the productive use. They accept deposits from the public and provide same deposits to the public as loan and advances. In fact, they circulate the money and create credit. The concept of the commercial banks made the economy strong. And now it's playing important role to make country economically strong. According to the Black's law Dictionary "Commercial Bank" means a bank authorized to receive both demand and time deposits, to engage in trust services, to issue letter of credit, to rent time-deposit boxes, and to provide similar services. Commercial Bank means a bank which operates currency, exchanges transactions, accepts deposits, provides loan, perform, dealings, relating to commerce except the banks which have been specified for the co-operative, agricultural, industry of similar other specific object (Bhandari, 2003:5).

In modern economy, bank plays the vital role for development in every sector from our day to day life to big industrial sector. It's like the relationship between the heart and the blood. Banks are to be considered not merely as dealers in money but also the leaders in development. They are not only the collector of the country's wealth but

also the resources supplier for economic development. In the 18<sup>th</sup> and 19<sup>th</sup> centuries, the growth of commercial bank facilitated the occurrence of industrial revolution in Europe. Similarly, the economic process development in the present day largely depends upon the growth of sound banking system in these economies.

Integrated and speedy development of the country is possible only when competitive banking services reaches the nooks and corners of the country. A commercial bank is an institute that offers a broad range of deposit accounts, including checking, savings, and time deposits, and extends loans to individuals and businesses. Thus it is engaged in capital formation. Commercial banks collect money from those who have surplus of it, in the form of deposits, and then lend the same to them who need it in the form of loans and advances. Thus it acts as agent for the flow of capital.

Asset management, broadly defined, refers to any system whereby things that are of value to an entity or group are monitored and maintained. It may apply to both tangible assets and to intangible concepts such as [intellectual property](#) and [goodwill](#). Asset management is a systematic process of operating, maintaining, and upgrading assets cost-effectively, (American Association of State Highway and Transportation Officials). Alternative views of asset management in the engineering environment are: The practice of managing assets so that the greatest return is achieved (this concept is particularly useful for productive assets such as plant and equipment); and the process by which built systems of facilities are monitored and maintained, with the objective of providing the best possible service to users (appropriate for public infrastructure assets).

Managing a commercial bank is basically the risk management of its assets, mainly its Loans & Advances and Investment. Once the lending portfolio is turned into bad loans then bank has to suffer not only with deposit management but also in terms of provisioning which result into the profitability of the bank. Profitability of the bank and even its survival depends upon the risk management. Of course banks are there to lend, however banks have to think hundred times before taking lending decision as every lending has inherent risk associated with it within the quick time of lending decision. They have to ensure that borrowers are and will be able to serve their debt obligations in time. Otherwise let the interest, principal amount itself will not return back.

Banks have to manage their assets in various ways. There is asset selection procedure; this is how the banks select its assets. How bank calculate risk associated in any lending decision and should also focus on its mitigation. Banks have to lend and also make sure that it returns back. To mitigate the risk they also must diversify the risk among various borrowers and among various sectors. Also there must be system to continuously monitor and evaluate the performance of existing assets. If is any sign of sickness is shown remedial action should be taken on time. This will prevent the loan default and also will enable bank to make necessary corrections and to take immediate actions in the course likely situation arising in loan default.

## **1.2 Objective of the Study**

The main objective of this study is to examine the efficiency of the sample banks on various asset management practices. The specific objectives are as follows.

- To explore the structure of assets held by sample banks.
- To analyze the structure of nonperforming assets of sample banks.
- To examine the capital adequacy position of sample banks.
- To explore the earning power efficiency and risk diversification capacity of sample banks.

## **1.3 Organization of the Study**

This study is dividing into five chapters, each chapter deals with the specific aspects of the study which will be as follows.

### **Chapter-One: Introduction**

The first chapter deals with the background of the study, profile of sample banks, statement of the problems, objectives of the study, significance of the study, limitations of the study and organization of the study.

## **Chapter-Two: Review of Literature**

This chapter deals with conceptual framework of study and reviews of major empirical work in the area. This study is based on the framework provided by the chapter.

## **Chapter-Three: Research Methodology**

This chapter carries out research design, nature and source of data, data gathering process, population and sample and tools for data analysis.

## **Chapter-Four: Presentation & Analysis of Data**

This is the main part of this study. It deals with the empirical analysis of the study. Analysis is the systematic and careful examination of available facts so that certain conclusion can be drawn and inferences can be made.

## **Chapter-Five: Summary, Conclusion & Recommendation**

This chapter is summarizes the whole spectrum of the study. It also offers recommendation for the improvement in future.

Similarly, at the front part of the study table of contents, recommendation sheet, viva voice sheet, acknowledgement, list of table and figure and abbreviation are presented and bibliography and appendices are presented at the end of the study.

## **CHAPTER - TWO**

### **REVIEW OF LITERATURE**

This chapter is concerned with review of literature relevant to the topic Assets Management Procedure. The purpose of reviewing of literature is to develop some expertise in one's area, to see what new contribution has made and to receive some ideas for developing a research design. Thus, previous studies cannot be ignored as they provide the foundation of the present study. This chapter highlights the literature that is available in concerned subject as to my knowledge, research work, and relevant study on this topic, review of journals and articles and review of thesis work performed previously. The review of literature has been divided in two categories namely conceptual framework, theories related to the topic and review of articles, books and master's level thesis.

- 2.1 Conceptual Framework**
- 2.2 Review of Journal & Articles**
- 2.3 Review of Previous Thesis**

## **CHAPTER - THREE**

### **RESEARCH METHODOLOGY**

A systematic study needs to follow a proper methodology to achieve pre determine objective. Research methodology may be defined as “a systematic process that is adopted by the researcher in studying problem with certain objective and view”. In other word, research methodology describes the methods and process applied in the entire aspect of the study focus of data, data gathering instrument and procedure, data tabulating and processing and methods of analysis. It is really a method of critical thinking by defined and redefining the problems, formulating hypothesis or suggested solution and collecting and organizing and evaluating data, making deduction and making conclusions.

Research methodology is a path from which we can solve research dilemma systematically to accomplish the basic objective of the study. It consists of a brief explanation of research design, nature and sources of data, method of data collection and methods of tools used for analyzing data.

#### **3.1 Research Design**

A research design is the arrangement of conditions for collection and analysis of data that aim to combine relevance to the research purpose with economy in procedure. Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to objective of this study. To achieve the objective of this study, descriptive and analytical research design has been used.

It is the process, which gives us an appropriate way to reach research goal. It includes definite procedures and techniques, which guide in sufficient way for analyzing and evaluating the study. This study is carried out by using both quantitative and qualitative analysis methods. Mostly, secondary data has been used for analysis, but the discussion and personal interview with the concerned employees of the selected bank is also used for qualitative analysis. Hence, research design of this study is based on descriptive and analytical method.

### **3.2 Population and Sample**

The population refers to the industries of the same nature and its services and product in general. Thus, total of 32 commercial banks operating in Nepal constitute the population of the data and the bank under study constitutes the sample for the study. Among them only two banks, i.e. EBL and NSBIBL are selected as the sample banks to carry out the study. These two banks are chosen because of similarity between both of them. They both started operation in same time, both are the in joint ventures with two biggest state owned banks of India and management of both banks are being handled by the two largest state owned banks of India viz. State Bank of India and Punjab National Bank.

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

For the purpose of this study, data are collected mainly from the secondary source. The secondary data are based on the second hand information. Secondary data were gathered much more quickly than primary. The secondary data is gathered mainly from annual reports of the Banks, quarterly financial publications of concerned banks, web sites of both banks and web site of NRB.

### **3.4 Research Variables**

According to research objectives, to analyze asset management practice of two sample banks. Loans & Advances being major asset of the banks mainly figures related to loans and advances will be collected. Various ratios NPA percentage, C/D ratio, Return on Loans & Advances, Return on Investment, capital adequacy, operating expenses to total assets, total income to total assets, staff expenses to total assets, etc will be examined. Also some absolute figures and growth percentages is also measured.

### **3.5 Method of Data Analysis**

Method of data analysis is the raw data processing technique to find out the result for making decision. Financial as well as statistical tools are used to analysis of data.

### **3.5.1 Financial Tools**

- a. NPA Percentage
- b. Credit Deposit Ratio (CD Ratio)
- c. Return on Loan & Advances (ROLA)
- d. Return on Investment (ROI)
- e. Operating Expenses to Total Assets (OE/TA)
- f. Fixed Asset to Loans & Advances (FA/LA)

### **3.5.2 Statistical Tools**

- a. Arithmetic Mean or Average
- b. Standard Deviation
- c. Coefficient of Correlation
- d. Least Square Linear Trend Analysis
- e. Coefficient of Variation
- f. Assessment of the Sample Correlation Coefficient

## **CHAPTER - FOUR**

### **PRESENTATION AND ANALYSIS OF DATA**

The basic objective of the study has already been mentioned in the first chapter 'Introduction'. The researcher already reviewed many important articles in the topic of 'Review of Literature'. In order to achieved these objective, several analytical tools and techniques are employed which are defined in the 'Research Methodology Chapter'. Now, in this chapter, the effort has been made to analyze the assets management practice of sample banks and the attitude of management towards the optimum utilization of assets. The researcher analysis highly supported by the practices of assets management of sample banks. That is why; the researcher have taken the data of sample banks for elaboration, explanation and to come to conclusion.

This chapter of data presentation and analysis related to assets management of commercial banks begins with analysis different financial ratios. These financial indicators of concerned banks are compared with the help of statistical tools viz. Mean standard deviation and coefficient of variables which are calculated and interpreted. At last, correlation and trend analysis of some specific component has been made. The data are also presented in graph.

#### **4.1 Major Findings**

- The growth rate of EBL during the study period is observed negative despite of growth on its loans and advances by amount. NSBIBL is growing at increasing loans and advances volume however the growth rate of NSBIBL was decreased in the year 2065/066 and 2066/067. Average growth rate of EBL during the study period is 26.02% and that of NSBIBL is 21.44%. The average growth rate of EBL is higher than average growth rate of NSBIBL.
- The NPA figure of EBL is always and far lower than that of NSBIBL. Average NPA % of EBL during study period is 0.48% which is far lower than

that of NSBIBL having 2.47%. During study period variability of NPA% of NSBIBL is higher than EBL shown by CV of 49.17% against 61.30% of EBL.

- EBL has reduced its NPA by 12.46%, 7.31% and 62.97% respectively in the year 2063/064, 2065/066 and 2066/067. Similarly, NSBIBL has reduced its NPR by 9.22%, 35.32%, 16.08% and 62.54% respectively in the year 2063/064, 2065/066, 2066/67 and 2067/068.
- In case of EBL substandard loan is increasing trend except the year 2065/066, Doubtful loan is in fluctuating trend it is increasing in 2065/066, 2066/067 and decreasing in 2064/065 & 2067/068 than previous year. Similarly, loss loan is decreasing trend except the year 2064/065. The restructured of loan is in decreasing each fiscal year than previous year over the study period.
- In case of NSBIBL substandard loan is increasing trend except the year 2066/067 and 2067/068; Doubtful loan is in decreasing trend except the year 2064/065. Similarly, loss loan is decreasing trend except the year 2064/065. The high amount consists by loss loan each year. The restructured of loan is in decreasing each fiscal year than previous year except the year 2066/067.
- During the study period, average CD ratio of EBL is 76.53% with standard deviation of 1.93% and coefficient of variation of 2.52%, the same of NSBIBL respectively being 66.90%, 18.09% and 27.44%. NSBIBL is in comfort position in terms of liquidity.
- ROLA of EBL is consistently higher than that of NSBIBL. Only in the year 2063/064, ROLA of NSBIBL is higher than EBL. However, EBL has recovered on year 064/065 and ROLA increased from 6.87% to 7.06%. Average ROLA of EBL during study period is 8.73% and that of NSBIBL is 8.47%. EBL has higher variability in ROLA shown by 23.61% CV against 20.69% of NSBIBL.
- The average ROI of EBL during the study period is 4.66% with standard deviation of 1.17% and coefficient of variation of 25.14%. NSBIBL has average of 2.30%, with standard deviation of 2.30% and CV of 50.18%. ROI of EBL is higher than NSBIBL and it has low variability.

- In case of OE/TA ratio, average of EBL is 4.72% and of NSBIBL is 4.83%, showing higher efficiency of EBL. EBL has higher variability shown by CV of 29.56% against 27.55% of NSBIBL during the study period.
- The average FA/LA ratio of EBL during the study period is 1.59% and of NSBIBL is 1.55% showing that NSBIBL is efficiently deploying its fixed assets. CV of EBL is 15.24% and of NSBIBL is 34.57% showing higher variability on NSBIBL part.
- The capital adequacy position of both banks as per BASEL I capital adequacy norms. Both banks meet the regulatory requirement. NSBIBL is more comfortable on capital adequacy on recent years.
- On total risk weighted exposure, both banks have higher percentage of Credit Risk (above 90%) which is normal. Both banks have approximately similar percentage of Credit Risk but EBL has lower market risk than that of the NSBIBL and NSBIBL has lower operational risk.
- The values of coefficient of correlation (r) of EBL and NSBIBL are -0.577 and -0.958 respectively, which shows that there is a negative correlation between LA and NPA.
- The value of coefficient of determination ( $r^2$ ) is 0.3333 and 0.9180, which shows that 33.33% and 91.80% of the total variation in dependent variable (NPA) is explained by independent variable (LA).
- The calculated 't' value of EBL is less than the tabulated value i.e.  $1.233 < 2.201$ , therefore it reveals that the relationship between LA and NPA is insignificant. Similarly, The calculated 't' value of NSBIBL is high than the tabulated value i.e.  $5.802 > 2.201$ , therefore it reveals that the relationship between LA and NPA is significant.
- The trend line of NPA is in decreasing trend of both banks. Comparatively, the slope of equation of NSBIBL is high and its trend line is sloping downward rapidly.

## **CHAPTER - FIVE**

### **SUMMARY, CONCLUSION AND RECOMENDATIO**

#### **5.1 Summary**

A bank is an institute providing various financial services to its customers. It accepts broad range of deposits accounts which includes time deposit, saving deposit and checking deposits. The amount received from deposit is being lent to various individuals and institutions as loans and advances. The interest rate that is being paid to depositors is lower than the interest rate that is being paid by the loans accounts. The difference between lending rate and deposit rate is the spread rate which is a major source of income for the banks. Besides the spread rate income, banks have other income such as fee based income, exchange income etc. Banks act as agent for the flow of capital. A well-developed banking system is a necessary pre-condition for economic development in a modern economy. Besides providing financial resources for the growth of industrialization, banks can also influence the direction in which these resources are to be utilized. In modern economy, bank plays the vital role for development in every sector from our day to day life to big industrial sector. It's like the relationship between the heart and the blood. Banks are to be considered not merely as dealers in money but also the leaders in development. They are not only the collector of the country's wealth but also the resources supplier for economic development. In the 18<sup>th</sup> and 19<sup>th</sup> centuries, the growth of commercial bank facilitated the occurrence of industrial revolution in Europe. Similarly, the economic process development in the present day largely depends upon the growth of sound banking system in these economies.

The banks lend the money collected as deposit in which there is obligation of banks to pay the interest and principal upon the written demand of its depositors. Hence, the lending decision of banks should be effective and efficient so that in bank can manage its lending portfolio and can easily fulfill the obligations towards its depositors. In case of worst case scenario, when the bank's lending portfolio is not properly managed, that lead to the risk on its assets and hence the not only the banks have to suffer in the long run the overall industry also gets suffered. Managing commercial

banks means mainly the management of its risk assets i.e. loans and advances. Profitability of a bank is mainly depends on the risk management. How the portfolio is managed and average yield on its lending portfolio becomes the major for the efficiency of bank. Banks have to manage their risky assets in various ways. The bank may take the lending decision based on the collateral coverage, credibility of party, past business history of party etc. There is asset selection procedure; this is how the banks select its assets. How they calculate risk inherent in every assets created and ways to mitigate it. Banks have to lend and also make sure that it returns back. To mitigate the risk they also must diversify the risk among various borrowers and among various sectors. Also there must be system to continuously monitor and evaluate the performance of existing assets. If is any sign of sickness is shown remedial action should be taken on time. This will prevent the loan default. The banks also must have loss absorbing capacity. There must to enough capital to absorb the loss before it pass on to the deposit holders. This study intends to dissert the asset management practice of two major joint venture banks of Nepal, Everest Bank Limited and Nepal SBI Bank Limited. The specific objectives are: (i) to explore the structure of assets held by sample banks, (ii) to analyze the structure of nonperforming assets of sample banks. (iii) to examine the capital adequacy position of sample banks. (iv) to explore the earning power efficiency and risk diversification capacity of sample banks.

In this research study, the various financial tools mainly ratio analysis statistical tools like percentage, mean, standard deviation, coefficient of variance is used for the purpose of analysis and interpretation of data. The data, which are used in the study, are mainly secondary in nature but also primary data in form of questionnaire is used. These data are obtained from the annual reports of EBL and NSBIBL from the fiscal year 2006/07 to 2010/11. Likewise, the news and journals published in different period are also been the great source of data collection. As we know today's world is the world of computer and IT, so internet also has been an effective means of data collection.

Detail analysis asset management practice followed by the banks has been carried out. Analysis of figures such as Loan & Advances figures and growth, NPA figures and composition, earning capacity, efficiency ratios, capital adequacy, diversification

practice and asset selection procedure and post sanction monitoring practice are carried out to find the present position of the selected banks. Statistical tools such as mean, standard deviation, coefficient of variance have also been used to interpret the data.

The study shows that EBL is ahead of NSBIBL in many asset management practices but NSBIBL is ahead in efficiency and setting up realistic banking norms.

## **5.2 Conclusions**

The study led to conclude that the overall performance of both banks is satisfactory. Both banks are growing and improving their performance in various asset management practices like, curbing NPA, maintaining liquidity enhancing efficiency etc. These banks are acting as financial intermediaries, which provide a link between borrowers and lenders by mobilizing the scattered funds towards productive investment. Both banks are performing satisfactorily and growing with steady pace. Based on the analysis and findings of the study, the following conclusion can be drawn.

- EBL is better than NSBIBL in many areas, it has higher growth. In fact during past 3-4 years EBL has grown rapidly and healthily. EBL is aiming to be number 1 bank among private sector banks in near future and it is showing traits of the same. EBL's gross loans and advances have increased in higher volume than that of the NSBIBL's. However, in the last year, the growth of NSBIBL is higher than that of EBL despite of lower volume based increment.
- EBL has better NPA position in volume. The NPA volume of NSBIBL is almost three times higher than NPA of EBL. The average NPA percentage of EBL is lower than NSBIBL despite of higher gross loans and advances which means that EBL has better NPA management. The better NPA management of EBL is mainly due to diversified risk portfolio, higher retail lending, and better assets selection procedure.
- EBL has higher yield and higher spread enhancing its profitability. The reason behind having higher yield on advances is mainly due to diversified risk

portfolio and higher portion on retail lending which has higher rate of return. Further, the low cost deposit also has made effect on higher spread and yield.

- NSBIBL is better than EBL in the efficiency front. It has better mobilized its work force and assets to generate business and income.
- Both the banks have high reliance on interest income. This is the sign of traditional banking. Both should focus on other commission and fee based non-fund based business. In this regards, EBL is comparatively in better position on profitability. EBL has lower interest income and portion of fee based income is higher. NSBIBL should focus on fee-based income so that the overall profitability will not have negative impact despite of turning of its risky assets into doubtful or substandard.
- EBL has stronger customer base. It is strong in retail lending front where as NSBIBL is more strong in corporate lending front. This may be due to fact that, from the initial phase EBL stressed in retail front but NSBIBL initially tried to do wholesale banking, only later it understood the benefit of retail lending. However, NSBIBL also is doing slowly in this front.
- NSBIBL has more realistic credit standards than EBL. It seems that EBL haphazardly sets the credit norms like income requirement, current ratio requirement etc. NSBIBL does more study while setting credit norms.

### **5.3 Recommendation**

Based on the analysis and findings, the following suggestions (recommendation) can be forwarded to overcome weakness, inefficiency and to improve the overall asset management practice as well as fund mobilization of EBL and NSBIBL.

- NSBIBL has more shortcoming than that of the EBL like growth, composition of lending portfolio, composition of income, etc. NSBIBL should focus on enhancing its comfort liquidity position to loans and advances so that the overall profitability would be higher. Further, NSBIBL should focus on fee based income so that despite of negative impact on interest recovery, the overall profitability will not be affected. To have higher interest spread,

NSBIBL should focus on retail and SME loans where there is adequate security coverage and higher interest rate. Further, the retail and SME lending also enhance the processing fee income to the bank. Despite of having more branches network, NSBIBL has lower gross loans and advances. Hence, NSBIBL should put remarkable effort to bring out the higher lending portfolio for the reason that NSBIBL should have effect action against it. Most of the NSBIBL rural branches are focused on privileged services to Ex-Indian army, therefore, the branch should be fully fledged providing all the services like LC, Guarantee, Remittance etc and equipped with competent, experienced and customer friendly manpower. In fact, NSBIBL has moved towards this direction.

- NSBIBL has comparatively lower customer base than that of the EBL. So it has to diversify risk among numbers of customers by increasing its customer base. This also helps it in increasing business figure in future. As shown by lower C/D ratio, NSBIBL should utilize its comfort liquidity position to secured lending for the higher interest yield and higher profitability. It also has to increase proportion of low cost deposit like Savings account and Current Accounts.
- Both banks have high reliance on interest income comparatively EBL is in better position than NSBIBL. The interest income of both bank is hovering around 70% to 80%. Interest Income being fund based has high risk. So both banks should try to increase its commission income like agency commission, remittance etc. This must be focused particularly by NSBIBL. NSBIBL is lagging far behind on LC/Guarantee Commission, Service Charge, Renewal Fee, Remittance Fee etc.
- EBL is always lagging behind NSBIBL at efficiency front. It has to train its employees, hire more competent man power and avoid duplication in works to enhance its per employee business.
- Performance of EBL in terms of managing NPA is outstanding. NSBIBL to learn more from it on this arena. NSBIBL is also gradually decreasing its NPA percentage but the same is not sufficient. The volume of NPA if NSBIBL is

higher than EBL despite of reducing the NPA percentage. It has to try to curb the NPA from its early sign like high utilization of limits, interest suspense, overdue TR and overdue installments.

- EBL is doing traditional banking in its commercial banking segment. Its lending is more collateral based and it provides its corporate customers less modern banking facilities. EBL to make its staff members more aware about banking services to provide it to its customers.
- Business of NSBIBL is concentrated among some branches, some sectors and on corporate lending. It has to diversify its business across many branches, many sectors and also increase its retail lending proportion.
- Both the bank should alert on its assets selection process. As the recent banking, incidents are leading some of the banks and financial institutions to liquidation. The same should be kept in mind for future.

## BIBLIOGRAPHY

### Books

- Francis, J. C. (1991). *Investments-Analysis and Management*. New York: McGraw Hill
- John, M. & Wachowicz, J. (2001). *Fundamentals of Financial Management*. Delhi: Addison Wesley Longman (Singapore) Pte. Ltd.
- Khambata, D. (1996). *The practice of multinational banking: macro-policy issues and key international concepts*. New York: Quorum Books.
- Pandey, I. M. (1999). *Financial Management*. New Delhi: Vikas Publishing House
- Shrestha, S. (1995). *Porfolio Behavior of Commercial Banks in Nepal*. Kathmandu: Mandala Books Point.
- Singh, H. B. (2063). *Banking and Insurance*. Kathmandu: Asia Publications P Ltd
- Weston, J. & Thomas C. (1987). *Managerial Finance*. Hinsdale: The Dryden Press.
- Wolf, H. & Pant, R (2002). *Social Science Research and Thesis Writing*. Kathmandu: Buddha Academic Publishers and Distributors Pvt. Ltd.
- Bhandari, D. R. (2003), *Banking and Insurance: Principle and Practice*, Aayush Publication, Kathmandu
- Frank K. R. (1995), *Investment Analysis Management & Portfolio Management*, Japan, the Oryden Press, CBS Publisher Ltd.
- Radhaswamy, M. and Vasudevan, S. V. (1979), *A Text book of Banking*, New Delhi, S. Chand & Company Ltd.
- Rose, P. (1991), *Commercial Bank Management*, Irwin Publication, Singapore.
- Singh, S. P. and Singh, S. (1983), *Financial Analysis for Credit Management in Banks*, New Delhi, Vikas Publishing House Ltd.

## **Journals, Reports, Articles and Encyclopedia**

Ahmad, S F. (2001), *Credit Appraisal Techniques*, Finance & Market, p 8-9

EBL (2063 - 2068), *Annual Reports of Everest Bank Limited*, from FY 2063/064 to FY 2067/068.

Muniappan, G. P. (2002), *Address at CII Banking Summit 2002 at Mumbai*, April 1, 2002

NRB (2008), *Basel II FAQ*, Kathmandu: Nepal Rastra Bank, Kathmandu

NRB (2008), *Capital Adequacy Framework 2007, Updated 2008*. Kathmandu: Nepal Rastra Bank.

NSBIBL (2063 - 2068), *Annual Reports of Nepal SBI Bank Limited*, from FY 2063/064 to FY 2067/068.

Risk Glossary Encyclopedia & Resource locator. (2009, February 14). *Asset-Liability Management*, Retrieved 19:25, July 16, 2012.

Subedi, K. (2002). *Growth in Major Commercial Banks*. New Business Age, p. 18-19

Wikipedia, The Free Encyclopedia. (2009, April 20), *Fixed asset*, Retrieved 01:55, July 15, 2012.

Wikipedia, The Free Encyclopedia. (2009, April 21), *Loan*, Retrieved 01:52, June 25, 2012.

Wikipedia, The Free Encyclopedia. (2009, April 24), *Investment*, Retrieved 01:54, July 13, 2012.

Wikipedia, The Free Encyclopedia. (2009, April 25), *Bank*, Retrieved 12:42, July 6, 2012.

Wikipedia, The Free Encyclopedia. (2009, April 4), *Commercial Bank*, Retrieved 09:41, July 12, 2012.

Wikipedia, The Free Encyclopedia. (2009, April-14). *Asset-Liability Management*, Retrieved 23:07, July 5, 2012.

Wikipedia, The Free Encyclopedia. (2009, February 20), **Deposit Account**, Retrieved 10:44, July12, 2012.

## **Thesis**

Shrestha, D. R. (2006), ***A Study of Nonperforming Loan & Loan Loss Provision of Commercial Bank, A Case Study of NABIL, SCB and NBL***, Kathmandu: An Unpublished Master's Degree Thesis, Submitted to Shankar Dev Campus, T. U.

Joshi, K. (2008), ***Investment & Deposit of Commercial Bank of Nepal A Comparative Study of SCBNL with NABIL Bank and BOK***, Kathmandu: An Unpublished Master's Degree Thesis, Submitted to Shankar Dev Campus, T. U.

Sapkota, M. (2009), ***A comparative study on Assets Management of Everest Bank Ltd. And Nepal SBI Bank Ltd.***, Kathmandu: An Unpublished Master's Degree Thesis, Submitted to Shankar Dev Campus, T. U.

Shrestha, K. (2011), ***Credit Risk Management of Commercial Bank in Nepal***, Kathmandu: An Unpublished Master's Degree Thesis, Submitted to Shankar Dev Campus, T. U.

## **Websites**

<http://en.wikipedia.org>

<http://www.answers.com>

<http://www.tanneri.com>

[www.ebl.com.np](http://www.ebl.com.np)

[www.nrb.org.np](http://www.nrb.org.np)

[www.nsbl.com.np](http://www.nsbl.com.np)

[www.riskglossary.com](http://www.riskglossary.com)

## Appendix - I

### Calculation of Growth Percentage of NPA

Rs. In '000000'

Fiscal Year	EBL		NSBIBL	
	NPA in Rs	Growth %	NPA in Rs	Growth %
2062/063	129.2	-	505.5	-
2063/064	113.1	-12.46	458.8	-9.22
2064/065	127.3	12.56	488.4	6.46
2065/066	118.0	-7.31	315.9	-35.32
2066/067	43.7	-62.97	265.1	-16.08
2067/068	94.1	115.33	99.3	-62.54

$$\text{Growth \%} = \frac{\text{Current Year NPA} - \text{Previous Year NPA}}{\text{Previous Year NPA}} \times 100$$

For the fiscal year 2063/064 of EBL,

$$= \frac{113.1 - 129.2}{129.2} \times 100 = -12.46\%$$

The same process will be repeated to calculate the other fiscal year growth percentage of NPA.

## Appendix II

### Calculation for Mean Value, & Correlation Between

#### LA & NPA of EBL (In '00000')

Year	LA (X <sub>1</sub> )	NPA (X <sub>2</sub> )	x <sub>1</sub> =X <sub>1</sub> - $\bar{x}_1$	x <sub>2</sub> =X <sub>2</sub> - $\bar{x}_2$	x <sub>1</sub> · x <sub>2</sub>	x <sub>1</sub> <sup>2</sup>	x <sub>2</sub> <sup>2</sup>
2063/064	140827	1131	-93586.80	138.60	-12971130.48	8758489134.24	19209.96
2064/065	188364	1273	-46049.80	280.60	-12921573.88	2120584080.04	78736.36
2065/066	244696	1180	10282.20	187.60	1928940.72	105723636.84	35193.76
2066/067	281564	437	47150.20	-555.40	-26187221.08	2223141360.04	308469.16
2067/068	316618	941	82204.20	-51.40	-4225295.88	6757530497.64	2641.96
N <sub>1</sub> = 5 N <sub>2</sub> = 5	∑ X <sub>1</sub> =1172069	∑ X <sub>2</sub> =4962			∑ x <sub>1</sub> ·x <sub>2</sub> = -54376280.60	∑ x <sub>1</sub> <sup>2</sup> = 19965468708.8	∑ x <sub>2</sub> <sup>2</sup> = 444251.20

For LA,

$$\text{Mean } (\bar{X}) = \frac{\sum X_1}{N_1} = \frac{1172069}{5} = 234413.8$$

For NPA,

$$\text{Mean } (\bar{X}) = \frac{\sum X_2}{N_2} = \frac{4962}{5} = 992.4$$

Correlation between LA & NPA,

$$(r_{12}) = \frac{\sum x_1 x_2}{\sqrt{\sum x_1^2 \sum x_2^2}}$$

$$= \frac{-54376280.60}{\sqrt{19965468708.8 \times 444251.20}} = -0.577$$

$$r^2 = 0.577^2 = 0.3333 \text{ Or, } 33.33\%$$

T-value,

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{n-2}$$

$$= \frac{0.577}{\sqrt{1-0.577^2}} \times \sqrt{5-2} = 1.223$$

### Appendix III

#### Calculation for Mean Value, & Correlation Between

#### LA & NPA of NSBIBL (In '00000')

Year	LA (X <sub>1</sub> )	NPA (X <sub>2</sub> )	x <sub>1</sub> =X <sub>1</sub> - $\bar{X}_1$	x <sub>2</sub> =X <sub>2</sub> - $\bar{X}_2$	x <sub>1</sub> · x <sub>2</sub>	x <sub>1</sub> <sup>2</sup>	x <sub>2</sub> <sup>2</sup>
2063/064	100,650	4588	-55561	1333	-74062813	3087024721	1776889
2064/065	127,462	4884	-28749	1629	-46832121	826505001	2653641
2065/066	156,120	3159	-91	-96	8736	8281	9216
2066/067	179,636	2651	23425	-604	-14148700	548730625	364816
2067/068	217,187	993	60976	-2262	-137927712	3718072576	5116644
N <sub>1</sub> = 5 N <sub>2</sub> = 5	∑ X <sub>1</sub> =781055	∑ X <sub>2</sub> =16275			∑ x <sub>1</sub> ·x <sub>2</sub> = -272962610	∑ x <sub>1</sub> <sup>2</sup> = 8180341204	∑ x <sub>2</sub> <sup>2</sup> = 9921206

For LA,

$$\text{Mean } (\bar{X}) = \frac{\sum X_1}{N_1} = \frac{781055}{5} = 156211$$

For NPA,

$$\text{Mean } (\bar{X}) = \frac{\sum X_2}{N_2} = \frac{16275}{5} = 3255$$

Correlation between LA & NPA,

$$\begin{aligned} (r_{12}) &= \frac{\sum x_1 x_2}{\sqrt{\sum x_1^2 \sum x_2^2}} \\ &= \frac{-272962610}{\sqrt{8180341204 \times 9921206}} = -0.958 \end{aligned}$$

$$r^2 = 0.958^2 = 0.9180 \text{ Or, } 91.80\%$$

T-value,

$$\begin{aligned} t &= \frac{r}{\sqrt{1-r^2}} \times \sqrt{n-2} \\ &= \frac{0.958}{\sqrt{1-0.958^2}} \times \sqrt{5-2} = 5.802 \end{aligned}$$

## Appendix IV

### Calculation of Trend Value of NPA

Fiscal Year	t	X=t-3	x <sup>2</sup>	EBL (In '00000')		NSBIBL (In '00000')	
				Y <sub>1</sub>	XY <sub>1</sub>	Y <sub>2</sub>	XY <sub>2</sub>
2063/064	1	-2	4	1131	-2262	4588	-9176
2064/065	2	-1	1	1273	-1273	4884	-4884
2065/066	3	0	0	1180	0	3159	0
2066/067	4	1	1	437	437	2651	2651
2067/068	5	2	4	941	1882	993	1986
<b>Total</b>	<b>0</b>	<b>10</b>	<b>496.2</b>	<b>-1216</b>	<b>16275</b>	<b>-9423</b>	

**Calculation of intercept of 'y' when t = 0**

$$a_1 = \frac{Y_1}{N_1} = \frac{4962}{5} = 992.4$$

$$a_2 = \frac{Y_2}{N_2} = \frac{16275}{5} = 3255$$

**Calculation of Slope of Trend Line**

$$b_1 = \frac{XY_1}{X^2} = \frac{-1216}{10} = -121.6$$

$$b_2 = \frac{XY_2}{X^2} = \frac{-9423}{10} = -942.3$$

Therefore the trend line equations are:

$$Y_1 = a_1 + b_1 x$$

$$Y_2 = a_2 + b_2 x$$

### Appendix V

#### Forecasted Value for Next Five Years

Rs. In '00000'

Year	X	EBL		Actual Value	NSBIBL
		Actual Value	Trend Value		
2063/64	-2	1131	$992.4 - 121.6 \times (2) = 1235.6$	4588	$3255 - 942.3 \times (2) = 5139.6$
2064/65	-1	1273	$992.4 - 121.6 \times (1) = 1114.0$	4884	$3255 - 942.3 \times (1) = 4197.3$
2065/66	0	1180	$992.4 - 121.6 \times 0 = 992.4$	3159	$3255 - 942.3 \times 0 = 3255.0$
2066/67	1	437	$992.4 - 121.6 \times 1 = 870.8$	2651	$3255 - 942.3 \times 1 = 2312.7$
2067/68	2	941	$992.4 - 121.6 \times 2 = 749.2$	993	$3255 - 942.3 \times 2 = 1370.40$
2068/69	3	-	$992.4 - 121.6 \times 3 = 627.6$	-	$3255 - 942.3 \times 3 = 428.1$
2069/70	4	-	$992.4 - 121.6 \times 4 = 506.0$	-	$3255 - 943.3 \times 4 = (514.2)$
Mean (a)		992.4		3255	
Intercept (b)		(243.2)		(1884.6)	
Y = a + bX		$Y_1 = 992.4 - 243.2X$		$Y_2 = 3255 - 1884.6 X$	