

**A STUDY ON OFF BALANCE SHEET ITEM
OF BANK OF KATHMANDU LIMITED**

By

GANESH DHAKAL

Shanker Dev Campus

Campus Roll No: 133/063

T.U. Regd. No: 7-2-48-2378-2003

2nd Year Symbol No.: 1830

A Thesis Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University



*In partial fulfillment of the requirement for the degree of
Master of Business Studies (MBS)*

Kathmandu, Nepal

January 2011

RECOMMENDATION

This is to certify that the thesis

Submitted by:

GANESH DHAKAL

Entitled:

**A STUDY ON OFF BALANCE SHEET ITEM
OF BANK OF KATHMANDU LIMITED**

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

.....
Joginder Goet
(Thesis Supervisor)

.....
Prof. Bishweshor Man Shrestha
(Head, Research Department)

.....
Prof. Dr. Kamal Deep Dhakal
(Campus Chief)

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

By

GANESH DHAKAL

Entitled:

**A STUDY ON OFF BALANCE SHEET ITEM
OF BANK OF KATHMANDU 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 of Business Studies (MBS)

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 off Balance Sheet Item of Bank of Kathmandu Limited**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Joginder Goet** of Shanker Dev Campus, T.U.

.....
Ganesh Dhakal
Shanker Dev Campus
Campus Roll No: 133/063
T.U. Regd. No: 7-2-48-2378-2003
2nd Symbol No.: 1830

ACKNOWLEDGEMENT

I am pleased to present this dissertation for the partial fulfillment of the requirement for the Degree of Master in Business Studies (M.B.S), which could enhance the capabilities of students in the field of research work.

I am highly grateful and indebted to my honorable thesis supervisor **Joginder Goet**, Lecture of Shanker Dev Campus for their guidance, encouragement and possible help in the smooth conduct of this study. I would like to express sincere thank to all Lecture and staff member of Shanker Dev Campus who helped me directly and indirectly in course of my study and preparation of this thesis.

Thanks are also due to Tribhuvan University for providing opportunity to conduct this research and the staff of Bank of Kathmandu Limited for providing necessary data and information without which the completion of dissertation could be impossible.

I extend my warm thanks to my family member and my friends for their continuous inspiration and support during the entire period of the study.

Finally I would like to express a warm regard to the entire concerned person who helped and directed me for the successful completion of my Thesis.

Ganesh Dhakal

TABLE OF CONTENTS

Recommendation	
Viva-Voce Sheet	
Declaration	
Acknowledgement	
Table of Contents	
List of Tables	
List of Figures	
Abbreviations	
	Page No.
CHAPTER – I INTRODUCTION	
1.1 General Concept of Bank	1
1.1.1 Historical Background of Banking	2
1.1.2 About Bank of Katmandu	4
1.2 Statement of the Problem	8
1.3 Objectives of the Study	9
1.4 Significance of Study	10
1.5 Limitations of the Study	10
1.6 Organization of the study	11
CHAPTER – II REVIEW OF LITERATURE	
2.1 Introduction	13
2.2 Conceptual Framework	13
2.2.1 Review of Books	13
2.2.2 Review of Articles	15
2.2.3 Consideration on Contingent Liabilities	17
2.2.4 Potential Losses in Contingent Liabilities	18
2.3 About Letter of Credit (L/C)	19
2.3.1 Purpose of Letter of Credit	21
2.3.2 Types of Letter of Credit	21
2.3.3 Process to Open Import Letter of Credit	22

2.3.4 Amendment on (L/C)	24
2.3.5 Cancellation of L/C	25
2.3.6 Document required under Import L/C	25
2.3.7 Settlement of L/C after arrival of Original Documents	25
2.5 Research Gap	26

CHAPTER – III RESEARCH METHODOLOGY

3.1 Introduction	28
3.2 Research Design	29
3.3 Population and Sample Size	30
3.4 Nature and Source of Data	30
3.5 Data Collection Procedure	30
3.6 Methods of Data Analysis	31
3.7 Description of the Analysis Tools	31
3.7.1 Financial Tools	31
3.7.2 Statistical Tools	36

CHAPTER – IV PRESENTATION AND ANALYSIS OF DATA

4.1 Objective Analysis	43
4.2 SWOT Analysis	44
4.3 Calculation of Income generated from Off Balance Sheet Items	46
4.3.1 Calculation of Contribution from Off-Balance-Sheet Activities on Net Income	46
4.3.2 Trend Analysis of Income from Off-Balance-Sheet Activities	48
4.3.3. Total Contingent Liabilities Generated By Off-Balance Sheet Items	49
4.4 Analysis of Contingent Liabilities	50
4.4.1 Letter of Credit to Total Contingent Liability	51
4.4.2 Bid Bond Guarantee to Contingent Liabilities	52
4.4.3 Performance Bond Guarantee to Contingent Liabilities	53
4.4.4 Counter Guarantee of Internationally Rated Banks to	

contingent Liabilities	54
4.4.5 Advance Payment Guarantee to Contingent Liabilities	56
4.4.6 Forward Exchange Contract to Total Contingent liabilities	57
4.4.7 Bills Under Collection to Contingent Liabilities	58
4.4.8 Acceptances and Endorsement to contingent liabilities	59
4.4.9 Total Guarantee to Total Contingent Liability	60
4.4.10 Trend Analysis of Letter of Credit	61
4.4.11 Trend Analysis of Issued Guarantee	63
4.4.12 Combined Trend Analysis of L/C and L/G	64
4.5 Statistical Measurements	65
4.5.1 Test of Co-relation between Letter of Credit and Guarantee	66
4.5.2 Arithmetic (Mean) Average Measurement and Standard Deviation of Total Contingent Liabilities	67
4.6 Major Findings of the Study	67

CHAPTER –V SUMMARY, CONCLUSION & RECOMMENDATION

5.1 Summary	70
5.2 Conclusions	71
5.3 Recommendations	72

Bibliography

Appendices

LIST OF TABLE

Table No.	Title	Page No.
4.1	Contribution from off-Balance Sheet activities	46
4.2	Income from Off-Balance Sheet Activities	48
4.3	Contingent Liabilities Generated By Off-Balance Sheet	49
4.4	Letter of Credit to Total Contingent Liability	51
4.5	Bid Bond Guarantee to Contingent Liabilities	52
4.6	Performance Bond Guarantee to Contingent Liabilities	53
4.7	Counter Guarantee of Internationally Rated Banks to contingent Liabilities	54
4.8	Advance Payment Guarantee to Contingent Liabilities	56
4.9	Forward Exchange Contract to Total Contingent liabilities	57
4.10	Bills Under Collection to Contingent Liabilities	58
4.11	Acceptances and Endorsement to contingent liabilities	59
4.12	Total Guarantee to Total Contingent Liability	60
4.13	Trend Analysis of Letter of Credit	61
4.14	Trend Analysis of Issued Guarantee	63
4.15	Combined Trend Analysis of L/C and L/G	64
4.16	Co-relation between Letter of Credit and Guarantee	66
4.17	Mean, Standard Deviation and Coefficient of Variation	67

LIST OF FIGURER

Figure No.	Title	Page No
4.1	Contribution of Net Income from off-Balance Sheet Items	47
4.2	Trend Analysis of Income from OBS	48
4.3	Total Contingent Liability	50
4.4	Comparison of L/C with Total Contingent Liabilities	51
4.5	Comparison of Bid Bond Guarantee with Contingent Liabilities	52
4.6	Comparison of Performance Bond Guarantee with Contingent Liability	53
4.7	Counter Guarantee of Internationally Rated Banks to contingent Liabilities	55
4.8	Comparison of Advance payment Guarantee with Contingent liabilities	56
4.9	Forward Exchange Contract to Total Contingent liabilities	57
4.10	Bills Under Collection to Contingent Liabilities	58
4.11	Comparison of Acceptances and Endorsement to contingent liabilities	59
4.12	Comparison of Total Guarantees with Total Contingent Liabilities	60
4.13	Trend of Letter of Credit	62
4.14	Trend of outstanding Guarantee	63
4.15	Comparison Letter of Credit and Letter of Guarantee	64

ABBREVIATIONS

A. D.	:	Anno Domoni
ADB.	:	Agriculture Development Bank Ltd
APG	:	Advance Payment Guarantee
ATM	:	Automated Teller Machine
BFIA	:	Bank and Financial Institutions Act
BOK	:	Bank of Katmandu Ltd
BOD	:	Board of Director
BOP	:	Balance of Payment
CAMELS	:	Capital Adequacy, Assets Quality, Management
BS	:	Bikram Sammat
FYs	:	Fiscal Year
FCY	:	Foreign Currency
GT	:	Guarantee
IA	:	Internal Audit
IT	:	Information Technology
L/C	:	Letter of Credit
MIS	:	Management Information System
NIDC	:	Nepal Industrial Development Corporation
NRB	:	Nepal Rastra Bank
OBSA	:	Off-Balance Sheet Activities
PAN	:	Permanent Account Number
TC	:	Travelers Cheque
TR	:	Treasurer
VAT	:	Value Added Tax
WTO	:	World Trade Organization