

**CREDIT MANAGEMENT IN COMMERCIAL BANK
(A COMPARATIVE STUDY OF BANK OF KATHMANDU LIMITED
AND NEPAL INVESTMENT BANK LIMITED)**

By:
BASANTA ADHIKARI
University Campus
Campus Roll No.: 606/065
T.U. Regd. No.: 7-2-240-4-2004
2nd Year Exam Roll No.: 280018

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RECOMMENDATION

This is to certify that the thesis

Submitted by:

Basanta Adhikari

Entitled:

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(A COMPARATIVE STUDY OF BANK OF KATHMANDU LIMITED AND
NEPAL INVESTMENT 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.*

.....
Dr. Ramji Gautam
(Thesis Supervisor)

.....
Asso. Prof.Dr. Balkrishna Shrestha
(Head of Research Department)

.....
Asso. Prof.Dr. Balkrishna Shrestha
(Department Head)

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

by:

Basanta Adhikari

Entitled:

CREDIT MANAGEMENT IN COMMERCIAL BANK
(A COMPARATIVE STUDY OF BANK OF KATHMANNDU LIMITED
AND NEPAL INVESTMENT 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 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 “CREDIT MANAGEMENT IN COMMERCIAL BANK” (A COMPARATIVE STUDY OF BANK OF KATHMANDU LIMITED AND NEPAL INVESTMENT BANK 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 Dr. Ramji Gautam of University Campus, T.U.

.....

Basanta Adhikari

University Campus

T.U. Regd. No.: 7-2-240-4-2004

Campus Roll No.: 606/065

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CHAPTER –ONE

INTRODUCTION

1.1 Background of the Study

Nepal sandwiched between the two giant countries, India and China, is one of the landlocked countries, and survives with her own natural beauty in Asia. Its half-century of experiments and efforts to raise the quality of life of its populace is defeated. Almost half of its population lies under absolute poverty line, especially living in the rural areas are deprived of even basic needs and facilities like enough calories pure drinking water sanitation facilities, electricity, road facility etc . Some of the basic human indicators like life expectancy, literacy, nutrition level etc also show that Nepal occupies among the bottom range among the comity of the nations. Therefore, there is a great challenge to the nation to eliminate the massive poverty persisting in the country through gradual development of the total nation and by providing and availing basic needs to poor people. Actually slow pace of developing of Nepal is due to nothing but landlocked position, poor resources mobilization and its utilization, weak infrastructure development and more over unstable eco-political environment.

Banking plays significant role in the economic development of a country. Bank is a resource for the economic development, which maintains the self-confidence of various segments of society and extends credit to the people. So, commercial banks are those financial institutions mainly dealing with activities of the trade, commerce, industry and agriculture that seek regular financial and other helps from them for growing and flourishing the objectives of commercial banks is to mobilize idle resources into the most profitable sector after collecting them from scattered sources. Commercial bank contributes significantly in the formation and mobilization of internal capital and development effort.

The concept of the banking has been developed from the ancient history with the effort of ancient goldsmiths who developed the practice of storing people's gold and valuables under such arrangement the depositors would leave their gold for safekeeping and given a receipt by the goldsmith. Whenever, the receipt was presented the depositors would get back their gold and valuables after paying a small amount as fee for safekeeping and serving.

To overcome this economic situation, government has to formulate and implement strategies focusing overall industrialization of the nation and development of a sound banking system is necessary for the rapid industrial development. Dr. Shrestha says, "Financial infrastructure of an economy consists of financial intermediation, financial institution and financial markets" (Shrestha: 1990)¹ financial institution, in this economy plays a role of catalyst in the process of economic growth of the country. In this country, a bank is a financial institution, which plays a significance role in the development of a country. It facilitates the growth of trade and industry of national economy. However, bank is a resource for economic development, which maintains the self-confidence of various segments of society and extends credit to the people. Banking sector plays a vital role for the country's economic development opportunities to people. Such economy of the country secures proper growth. In this way, it is crystal clear that a sound banking system is must for the industrial development and creates employment and investment opportunities to people. Such economy of the country secures proper growth. In this way, it is crystal -clear that a sound banking system is necessary for the industrial development and for economic development of the country. "A bank is a business organization that receives and holds deposits of fund from other, makes loans or extends credit and transfer funds by written orders of depositors." Banks have always been the most important and the targets of the financial intermediaries almost everywhere. It plays significant role in the development of a country intermediating between the savings and investment. Essentially the banks and financial systems are the channel through which money has been mobilized distribution throughout the economy. Any bank must maintain adequate cash and

bank balance to meet its day-to-day management of cash resources for remote contingencies.

1.2 Histories and Development of Banks:

“The history of bank started from the merchants, goldsmith, and money lenders they are called ancestors of modern banking. Before 1848 Goldsmith used to store people's gold and other valuable goods and charge nominal charges against the deposit. That time people deposited their gold and valuable goods for the sake of securities rather than earning interest. The term bank emerged in USA in 1848 BC.’ (Paul 1996:12).

The bank means institute, which deals with money. A bank performs several financial monetary and economic activities that are very essential for economic development of any country. Broadly speaking bank collects surplus money from the people who are not using it at present and hoarding for the future and supplies loan to who are in the position to use it for productive purpose, Basically banks perform various types of services i.e. collection of deposits form the public supply loans to those investors who want to invest in business industry and other sectors, overdraft, letter of credit, bills discounting, promissory notes, merchant banking, agency function of tasks guarantee against any disable of payment , remittance services etc. Now a day’s banking sector is involving in the planning and construction of land housing.

The history of modern financial system is not too long. In Nepal it was begun in 1937 with the establishment of Nepal Bank Ltd. as a first commercial bank in Nepal. The bank was established to render services to the people for the economic progress of the country prior to the establishment of Nepal Rastra Bank; it plays the role of central bank also with the establishment of NRB 1956 under the Nepal Rastra Bank Act 1955. The new Nepal Rastra Bank Act was brought out in 2002 by replacing the previous Act of 1955. This new Act has provided operational autonomy and independence to the Bank. Then after Government of Nepal and

NRB established the Nepal Industrial Development Corporation (NIDC) Capital market in 1959. The second commercial bank the Rastriya Banijya Bank was established in the public sector in 1966, with the equity participation of Government of Nepal and Agriculture Development Bank Act, 1967 by incorporating the assets and liabilities of the Co-operative Bank.(Sharma ,2002: 3)

Numbers of financial institutions were setup till now. The legislation of commercial bank Act, 1974 set out regulation for licensing supervision and cancellation of license of commercial banks and encouraged the establishment of other commercial banks in Nepal. The move towards financial liberalization encouraged the entry of joint venture and private commercial banks. In the context of banking development, the 1980s saw a major structural change in financial sector policies, regulations and institutional developments. GON emphasized the role of the private sector for the investment in the financial sector. The financial sector liberalization, started already in the early eighties with the liberalization of the interest rates, encompassed further deregulation of interest rates, relaxation of entry barriers for domestic and foreign banks, restructuring of public sector commercial banks and withdrawal of central bank control over their portfolio management .The Nepal Arab Bank (NABIL) limited is the first joint venture commercial bank of Nepal was established in 1984. The Nepal indosez Banks ltd (now Nepal investment Bank limited). and Nepal Grindlays Bank Ltd.(Now Standard Chartered Bank ltd) two other joint venture commercial banks, were established in 1986 and 1987 respectively. With the passage of time, functions of banks have increased manifold. Since banks are rendering a wide range of services to the people of different walks of life, they have become an essential part of modern society. Life with out a bank is it brick bank or click bank (internet banking), is beyond imagination. (Dahal &Dahal 2002:7)

1.3 Introduction of Sample Organization under study

Bank of Kathmandu Ltd.

Bank of Kathmandu Ltd. was incorporated in 1993 and came into operation in March 1995 as a joint venture bank with Siam Commercial Bank of Thailand. The

head office of the bank is situated at Kamalpokhari, kathmandu, Nepal. Its authorized capital is 1,00,00,00,000.00, issued capital is 50,00,00,000.00 and paid up capital is 46,35,80,900.00. At the beginning, this bank was managed by Siam commercial bank of Thailand and later on Siam commercial bank divests their share holding and now it is fully owned and managed by Nepali professional. The majority of the shares are owned by general public which is 57.73%. (Annual Report, BOK, 2004: 13)

Bank of Kathmandu, since its inception, has been using information technology for its mainstream banking activities. All its branches including rural areas are interconnected to the bank's intranet system providing online real time Any Branch Banking system to its valued customers. Continuous updates, upgrades and replacements of its equipments and software have become one of the major focuses of the bank to stand up to the challenges posed by the fast changing environment.

Bank of Kathmandu has well-developed correspondent relationships with over 150 banks globally to help its customers to carry out their business worldwide promptly and conveniently. Bank of Kathmandu have maintained accounts in major currencies in the internationally renowned banks as well tied up with various Instant Money Transfer Companies (IMTC) like X-press Money Service Ltd., Money Gram, International Money Express P. Ltd etc for efficient execution of international banking business and also enables inflow of foreign exchange earnings to the country with high security. This bank came into operation with a objectives of catering new business yet not identified and offering new banking products and services with a modern look by adopting modern banking technology.

Bank of Kathmandu has just entered into the eleventh year of successful operation. During its tenth year of operation, it has become one of the leaders in the banking sector and was able to establish a good banking image in the banking history of Nepal. It has gain lot of popularity among its customer, due to its pioneer service provided to its customer.

Nepal Investment Bank Ltd.

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one the largest banking group in the world. With the decision of Credit Agricole Indosuez to divert, a group of Nepalese companies comprising of bankers, professionals, industrialists and businessmen, has acquired on April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd. The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting (AGM). The shareholding pattern of NIBL is group of Nepalese companies holding 50% of the capital .Rashtriya Banijya Bank holding 15% of the Capital. Rashtriya Beema Sansthan holding 15 % percentage. The remaining 20% being held by the General Public. "The NIBL's vision is to be the most preferred provider of Financial Services in Nepal". The bank has 2000 Million of authorized capital and the proposed amendment of authorized capital of bank is NRs 4000 million for the purpose of bonus share and issue of right share. Issued capital of the bank is NRs 1203.9154 Million and fully paid up. (Source Annual report of NIBL 2064/65) NIBL has a history of providing high quality services to valued customers and sound return to stakeholders over two decades. It is the mission to continue this legacy and sustain growth path.

The Bank has been awarded the prestigious award "Bank of the Year 2008" by the London-based Financial Times Group's The Banker - making it the first Nepali Bank to win the award three times. (*Sources Kantipur daily 12th Mangsir 2065*) NIBL had also won the "Bank of the Year 2003" award, "Bank of the year 2005", Bank of the year 2008 and Bank of the year 2010. The Bank was selected for this honor amongst the Nepali banks by meeting the stringent benchmark criteria set by the Banker. The award is based on the growth and performance in terms of capital, assets, and return on equity and management quality. Winning this award for the third time has not only recognized the overall banking value it has created for the market but has testified endeavors to live up to the expectations of ever-growing

loyal customer base. Like wise, the bank has awarded by “Best Presented Accounts Award -2006” by the institute of Chartered Accountants of Nepal (ICAN). NIBL has 41 branches and 67 ATM counters. The bank is higher ATM counter in Nepal.

1.4 Statement of the Problem

Commercial banks in Nepal have been facing various challenges and problems. Some of the arise due to the economic condition of the country, some of them arising due to confused policy of government and many of them arising due to default borrowers. After liberalization of economy, banking sector has various opportunities.

Research problems may be stated in the form of following questions:-

- What level of liquidity is maintained by the sample banks?
- What is the volume of contribution made by sample banks in credit and advances?
- What is the deposit collection and utilization trend of sample banks?
- What is the relationship of deposits, loan & advances and net profits of sample banks?

1.5 Objective of the Study

It is no doubt that the role of commercial banks is significant in development of the country. Banks help in development of the country by providing credit to the necessary sectors. Therefore, the main objective of this study is to find out credit management position of Bank of Kathmandu Limited and Nepal Investment Bank Limited.

The specifics objectives of the study are as follows:

- To analyze the volume of contribution made by sample banks in credit & advances.

- To analyze the deposit collection and utilization trend of sample banks.
- To study the relationship of deposit, loan & advances and net profit of sample banks.

1.6 Limitations of the Study

To complete this research, we follow the different books, journals, articles and dissertations. Thus, reliability of the study is based on those things.

This study will not examine the credit management of all listed commercial banks due to lack of time, the study will see only the credit management two commercial banks –Bank of Kathmandu Limited and Nepal Investment Bank Limited, which are listed in NEPSE. This study will cover only the past five year's period since 2062/063 to 2067/068 (least 5-year data). To prepare this report, secondary data are collected from annual general meeting (AGM)'s report of the listed banks and trading reports of NEPSE. Primary information is collected from respective office and related persons. It may not cover the whole qualitative analysis of the commercial banks because of time and resource constraints.

The research study has some limitations. The main limitations of the study are as follows: -

- Though, there have been in operation over 32 commercial banks in Nepal, only two commercial banks are taken for the proposed study.
- This study concentrates only on credit management of selected commercial banks.
- The secondary data can be used for presentation and interpretation. Only a 5-years data can be considered.
- In this study, only selected financial and statistical tools as well as techniques are used.

1.7 Organization of the Study

The whole study is divided into five different chapters. They are:

Chapter I is the introduction chapter. It includes background of the study, the profile of the study, statement of the problems, objectives of the study, significance of the study, and limitations of the study and chapter plan of the study.

Chapter II deals with review of literatures, which includes conceptual/ theoretical review and review of related studies.

Chapter III is research methodology which includes research design, population and sample, source of data, data collection techniques and data analysis tools.

Chapter IV deals with the various analysis and interpretations of data like analysis of deposits, loan & advances and profile of Bank of Kathmandu Limited and Nepal Investment Bank Limited, financial and statistical analysis and analysis of primary data. It also shows major finding of the study.

Chapter V includes summary and conclusion of the study. It also deals with recommendations suggested.

The list of biography and annexes are given at the last for reference

CHAPTER –TWO

LITERATURE REVIEW

2.1 Background of study

The review of literature is a crucial aspect because it denotes planning of the study. The main purpose of literature review is to find out what works have been done in the area of the research problem under study and what has not been done in the field of books, repots, journals and research studies published by various institution unpublished dissertations submitted by master level students have been reviewed. The review of textbook and other reference materials such as: newspaper, magazines, research articles, journals and past thesis have been included in this topic. Credit administration involves the creation and management of risk assets. The process of lending takes in to consideration about the people and system required for the evaluation and approval of loan requests, negotiation of terms, documentation, disbursement, administration of outstanding loans and workouts, knowledge of the process and awareness of its strength and weakness are important in setting objectives and goals for lending activities and for allocating available funds to various lending functions such as commercial, installment and mortgage portfolios (Johnson, 1940:132).

This chapter has been divided into two parts as:

- I) Concept and Meaning of Commercial Bank
- II) Review of previous related study

2.2. Conceptual Framework

2.2.1 Concept and Meaning of Commercial Bank

2.2.1.1 History of the Bank

The Latin word "Bancus", Italian 'Banca', French 'Banque' are the original form of the modern bank. According to some authors the word 'Bank ' is derived from all of above words the meaning of all words to a bench. This refers that early bankers transact their money lending activities on benches in the market

exhibiting the coins of different countries in different denominations for the purpose of changing and or lending money. Some writers are of the opinion that the word 'Bank' came from the German word 'Banc' meaning joint stock fund. (Varshney, 1993:145). Money lenders in the streets of major cities of Europe used benches for acceptance and payment of valuables and coins. When they were unable to meet their liabilities, the depositors used to break their benches.

Banking is as old as is the authentic history and origins of the modern commercial banking are traceable in ancient times. In ancient Greece, around 2000 A.D. The famous temples of Ephesus, Delphi and Olympia were used as depositories for peoples surplus fund and these temples were the centers for money lending transaction. The priest of these temples acted as financial agents until public confidence was destroyed by the spread of disbelief in the religion. Later, however, for a few centuries, banking as an organized system of money lending receded because of the religious belief that the charging of interest was immoral. However, the banking as we know today, made its first beginning around the middle of 12th century in Italy. The bank of Venice, founded in 1157 A.D. was the first public banking institution. Following this, in 14th century, the bank of Barcelona and bank of Genoa were established in 1401 A.D.

The ancient Hindu scriptures refer to the money lending activities in the Vedic period. in India. During the Ramayana and Mahabharata eras, banking had become a full-fledged business activity and during the Smriti period, the business of banking was carried on by members of Vaisya community. Manu, the great law giver of the time speaks of the earning of interest as the business of Vaisyas. The bankers in the smriti period performed most of those functions which the banks in modern times perform such as the accepting of deposits, granting loans, acting as the treasurer, granting loans to the king in times of grave crises and banker to the state and issuing and managing currency of the country. (Vaish, 1996:183).

In Nepal goldsmiths, merchants and money lenders were the ancient bankers of Nepal like other countries. Tejarath Adda established during the Prime Minister Ranoddip Sing B.S 1933, was the first step towards the institutional development banking in Nepal. Tejarath Adda did not collect deposits from public but gave loans to employees and public. Banking in modern senses started with the beginning of Nepal Bank limited (NBL) on B.S 1994. NBL had Heroic accountability of attracting people toward banking sector from pre dominant money lenders net and of increasing banking services.

Nepal Rastraya Bank (NRB) was established on B.S 2013.01.14 as a central bank under the NRB act 2012 B.S the government had responsibility of stretching banking services to the corner of the country and also managing financial system in the appropriate system. NRB has been working as the government's bank and has contributed to the growth of financial sector. The major confront before NRB today is to make sure the healthy of financial institution. Accordingly, NRB has been trying to change them and has introduced as host of prudential measures to safe guard the interest of the public. NRB is yet to do a lot to prove themselves and efficient supervisor. NRB really requires strengthening their policy making, supervision and examination device. Government set up Rastriya Banijya Bank (RBB) in BS 2022 as a fully government owned commercial bank.

The first financial institution, Nepal Bank Limited, was established in 1937 with the only other major commercial financial institution, Nepal Industrial Development Corporation, established in 1957 initially as the Industrial Development Board, but converted in 1959 to its present form. It should be noted that technically the first legal financial institution in Nepal was the establishment of the Tejarath Adda in 1877, however it faced problems catering

to the general needs of the population as it had the sole objective of providing credit only, with no deposits mobilized (NRB, 1996).

2.2.1.2 Concept of Commercial Bank

Before defining the term commercial bank, let us define the meaning of bank and commercial. According to S. and S. s definition of bank, a banker or bank is a person or company carrying on the business of receiving money and collecting drafts, for customers subject to the obligation of honoring cheque drawn upon them from time to time by the customers to the extent of the amount available on their customer (Shekher & Shekher, 1999:4). Paget (1987) states that no one can be a banker who does not take deposit accounts take current accounts, issue and pay cheque of crossed and uncrossed, for his customers. He further adds that if the banking business carried on by any person is subsidiary to some other business; he cannot be regarded as a banker (Page, 1987:2) Goods and services. There fore commercial view point. They perform all kinds of banking functions as accepting deposit, advancing credits, credit creation and agency functions. They provide short-term credit, medium term credits and long terms credit to trade and industry. They also operate off balance sheet functions such as issuing guarantee, bonds, letter of credit, etc.

Commercial banks act as an intermediately; accepting deposits and providing credits to the needy area. The main source of the commercial bank is current deposit, so they give more importance to the liquidity of investment and as such they specialize in commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short-term needs of trade and industry such as working capital financing. They cannot finance in fixed assets. They grant credits in the form of cash credits and overdrafts. Apart from financing, they also render services like collection of bills and cheque, safe keeping of valuables, financial advising, etc to their

customers (Vaidhya, 1999:24). As mention in the previous section, there are 33 commercial banks presently in operation..Among these banks some are established under joint venture with foreign banks while some are fully domestic bank. Out of total commercial banks, 6 commercial banks are with foreign joint venture rest of all are fully domestic banks.

2.1.3 Concept of Credit

Credit (function) can Be defined as the canalization of the fund from the people /entities that have excess fund to the people/entities that have deficit (to fund)Historically banks have preferred to make short-term loans to business for non permanent additions to their working capital. These loans usually were used to finance the inventory-raw material or finished goods to sell. Such loans take advantage of normal cash cycle in a business firm. While banks today make a far wider array of business loans than just simple liquidity credits, the short-term loan- frequently displaying many of the features of self liquidation- continues to account for over half of bank loans to business firms.

Credit can be offered in a variety of types/categories as per the need of potential market. Credit management is always a challenging task in the banking business because there are several environmental influence and risks associated with the credit and administration. Credit Risk is that risk which arises where the borrower fails to meet the obligation son agreed terms the volume and impact of credit risk is very high among the various types of risk associated in banking business.

“Credit is a contractual agreement in which a borrower receives something of a value with the explicit agreement to repay the lender at some date in future. The borrower pays interest as compensation for allowing the use of fund”

2.1.4 Types of Credit

Credit can be classified on several based. The credit products may differ as per the financing requirement of any business. These products can be developed on the basis of term and condition demanded by the credit agreement between bank and the borrower. Furthermore the credit products are determined on the basis of borrowing cause of customer. For simplicity in learning, it can be classified as,

- Funded or non Funded
- Fixed term or working capital
- Retail/consumer or Corporate

Funded or non Funded

Funded

Funded loan refer to the loan which is disturbed in the forms cash or any other payment made on behalf of customers. Whenever a bank disburse a loan and cash goes out of the bank immediately, then it is classified as funded loan. Funded loans are recorded in the books of accounts and appear in the balance sheet under the heading of loan and advances.

Some example of Funded loans;-

- Overdraft/ Cash credit / Hypothecation loan
- Importers loan / Trust receipts loans
- Exporter loans / Packing credit loan
- Short term loan / Demand loan
- Home loan / hire purchase / consumer / Mortgage loan / Auto loan
- Credit cards
- Bills Purchase

Non Funded

Banks commitment for the future payment or other conditional payment on behalf of its customer is known as non-funded facility. In non-funded facilities banks don't have to pay cash but need to commit a conditional payment. Non-funded facilities involves the issuing banks commitment to honor certain promises as per the letter of credit or guarantee or similar documents favoring a third party , without requiring any immediate outlay of the may take place in the event of development of commitment on the issuing bank. These commitments do not appear in the banks on balance sheet. It is presented as contingent liabilities out side the balance sheet hence they are also known as off balance sheet items.

Some examples of non-funded loans are:-

- Letter of credit
- Guarantee (Bid bond, Performance bond, advance Payment, Retention etc.)
- Acceptance and endorsement
- Commitments

Fixed term or Working Capital

The loans which are granted for the certain of longer term of assets (Capital Expenditure) are known as fixed term loans. These types of loans are generally for more than one year and repaid on fixed installments over the loan tender. These are secured mortgaging the specific fixed assets financed or the entire book of fixed assets of a particular project. Examples are:-

- Project loan
- Home / House
- Hire purchase Other term loans

Working capital denotes the difference between current assets and current liabilities. It is granted to the customers to meet their working capital gap for supporting production process. A natural process develops in funds moving through the cycle are generated to repay a working capital credit.

- Pledge
- Hypothecation
- Overdraft
- Demand loan
- Cash Credit

Retail / consumer or Corporate

Retail / consumer loans are the loans which are granted for the consumptions purpose. These loans are based on the security and the future cash flow (disposable income) of the borrower. Some examples are:-

- House / Home loans
- Vehicle loans / auto
- Education loan
- Personal loan / Management loan

Corporate loans are the loans which are granted for big business houses. The corporate loans are appraised on the basis of detail analysis of the borrowers past performance, projected balance sheet, Profit and loss account, cash flow statement etc. to determined financial viability of the project and its debts service capacity. The technical, managerial, commercial viabilities of the project are also critically examined by the banker before these loans for example :- all the loans disbursed to the corporate sectors.

Other loans products

1) Bills purchase

Loans granted to the customer purchasing different types of commercial bills viz. Traveler Cheque, Bank cheques, and Export / import bills. These types of limits are granted for very short period of time.

2) Credit Cards

Continued borrowing arrangement enhances cost advantages. Once the credit line is established, the customer can borrow and repay according to his needs and the bank can provide the fund to the customer at lower cost.

Charge cards and credit lines tied to demand deposit accounts are the two most common revolving credit agreements. It can be further divided into credit cards, automatic overdrafts lines and large credit lines.

3) Loan against fixed deposit

Banks lend against the fixed deposit receipts of own banks as well as other banks.

Various new loan products are being developed in the market as a result of rise in the competitive environment and advancement in the technology as well. Furthermore, these are various bank specific special loan products available in the Nepalese market.

2.1.5 Credit process

Banks and financial institutions have to pass through a predetermined process of granted loan. Well defined helps to minimize credit risk as well as other

potential complexities of future. In general following steps are taken as credit processes:-

- Credit appraisal
- Credit approval
- Credit documentation
- Disbursement
- Credit monitoring
- Credit recovery and restructuring

1) Credit appraisal

Credit appraisal is the process where by risks relating to the repayment of loan are evaluated. It is first step in credit process which involve analysis of borrowers capacity the loan. Good credit appraisal may be a milestone in maintaining good credit portfolio in the banking business. Better credit quality may be regarded as out come of the better credit appraisal technique. Every lending situation may vary from case to case. Proper credit appraisal involves the assessment of three main aspects; the application, the purpose and the security. The banks should also assess the applicants character and capital positions. The banks should also assess the economy and industry conditions and the borrowers need for funds, including the feasibility of any proposed venture, the amount of funds required, and the cash flow expected to liquidate the credit facility. Banks should assess the marketability and price stability of the security offered. Moreover in case of business borrowers, financial statements and project process reports are normally good indicators of the state of their businessman.

A credit appraisal is a generally standardized presentation demonstrating the detail analysis of a particular leading situation. The conclusion drawn on the analysis helps in decisions making for leading. Before making the credit

appraisal it is must for the credit analyst to understand the situation of macro environment and the industry a firm operates in. The detail procedure and analysis technique are discussed under credit Appraisal Chapter.

2) Credit approval

The loan is approval by competent authority after completion of the credit appraisal on the basis of the recommendation of credit analyst as well as credit risk officer. Approving authority may enquire and make addition in terms and conditions of the credit agreement during the stage of approval. Principally the approving process needs to be started after completion of the documentation process. But in practice, the competitive market has developed the trend of collecting initial document in the first stage for approval of loan. Final and original documentation are obtained only before disbursement of loan. Approval of credit facilities should be done only by the authorized officers of the bank with in their respective authorized limits.

In practices “principally agreed” types of the pre approval is also granted to the borrowers subject to the conditions of providing necessary documents (security) before disbursement of loan.

3) Credit Documentations

Credit Documentations means obtaining and executing necessary legal documentations in order to protect the interest of the Bank. As discussed earlier, credit is an agreement between the bank and the borrower. The borrower must present the documents before being availed the loan as specified in the proper form as required by banks internal policies as well prevailing

lending bankers and the borrowers. Documentation are essential to avoids ambiguities and settlement of future disputes.

4) Disbursement

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

2.1.6 Principles of Lending Policy

Lending constitutes the main business of a banking company. A major chunk of the profits of a bank comes out of this function. But no lending can take place without some inherent risks. As bankers are trustees of the depositors' money, they cannot take undue risks. A banker has to follow a cautious policy and conduct the business of lending on the basis of certain sound principles. Here are some of the important principles of sound lending.

1. Principle of Safety and Security

If the banker has to ensure safe lending, he has to look to the three C's of the borrower namely Character, Capacity and Capital. Character of the borrower is important because that determines his willingness to repay the loan. His capital and capacity to run the business successfully determine his capacity to pay. The safety of the loan depends on both his capacity to repay and willingness to repay.

Banks will have to keep a portion of the deposits received for honoring the demands made by the customers. Only the balance can be safely. The bank's endeavor is of course to lend as much of the deposits as possible, without which he will not be in a position to meet his interest, obligations and the maintenance of establishment. Therefore, he has to lend with a view to earn interest but lend it safe.

Traditionally, bankers have been security oriented. The security offered against a loan can be of various types. It may vary from a piece of land or a building to a commercial paper or bullion. Whatever may be the security, a banker has to realize that it only a cushion to fall back upon in case of need and its adequacy alone should not form the sole consideration for advance. It must be ensured that the security when accepted must be adequate, readily marketable, easy to handle and free from encumbrances.

2. Principle of Liquidity

By liquidity is meant the readiness with which the bank can convert the assets into cash. Liquidity means short-term solvency of the borrower. A banker is essentially the lender of short-term funds because he knows that the bulk of his deposits are repayable on demand or at short notice. As the banker's deposits are subject to the legal obligation of being repayable on demand and at short notice, he must ensure liquidity also while lending, so that in times of need, he will be able to convert the assets into cash.

Bank can ensure high liquidity by keeping all deposits in the form of cash only. In such a case, he will not be in position to meet the interest obligations and expenditure of the establishment. From experience, he has learnt that he can safely lend out a substantial portion of the funds. But while lending he should

try to ensure liquidity, i.e. in times of need, he must be able to obtain repayment of the money within a reasonably short time. Liquidity also implies that the assets can be sold without any loss. Thus the concept of liquidity has twin aspects namely quick sale ability or convert ability of the assets and the absence of risk of loss in such conversion.

3. Principle of Profitability

Commercial banks obtain funds from shareholders and naturally if dividend is to be paid on such shares it can only be paid by earning profits. Even in the case of public sector banks although they are service motivated they will have to justify their existence by earning profits. This is not possible unless the funds are employed profitably. From out of the revenue earned, the banker has to pay interest on deposits, salary to the staff, meet other establishment expenses, build-up reserves and the balance must permit the payment of dividend to shareholders. So for the bank to sustain on a long run, it has to seek many profitable sectors where it can mobilize its collected fund. Before lending, a banker has to see that the advance and credit is on the whole profitable. Lending rates are affected by banks' internal policy like credit rating of the borrower, bank rate of NRB, inter-bank competition and NRB's guidelines on lending rates.

4. Principle of Purpose of Loan

Nowadays, the purpose for which loans are granted has acquired precedence over the principle of security. If a loan is required for a non-productive or speculative purpose, a banker will be reluctant to entertain the proposal. Loans for social functions, ceremonies, pleasure trips or for repayment of prior loans are not favored by a banker, as they are unproductive in nature. But it is very difficult for the bank to ensure that the advance has been used for the purpose

for which it was taken. A person may take a loan obviously for a productive use, but may spend it on speculation. The central bank through its directives, also determines the policy to be followed by the banks with regard to the purpose for which advances may not be granted. So a banker should enquire the purpose for which it is taken for safe lending.

.5. Principle of risk Diversification

There is a very familiar saying that “Do not put all the eggs in the same basket.” Banker should try to diversify loans as far as possible, so that he may minimize his risks in lending. If the banker lends only to one industry or only to few big firms or concentrates in a certain geographical area, the risk is great. He should diversify lending, so that he may not be affected by the failure of one industry or of a few big borrowers. A banker who puts all his eggs in one basket is not a prudent banker.

6. Principle of loans purpose

Bankers must ascertain on what type of business the customer is involved whether it serves the national interest or not, whether the firm is acting responsibly towards the society that it is operating in like brick industry or the cement industry and the precautions taken by it against environment pollution. Central bank issues directives, prohibiting banks to invest in various sectors such as the import of arms and ammunitions etc. Also bankers must remain vigilant of the law and order situation where borrower carries its business

.

2.1.7 Objectives of the Sound Credit Policy

The purposes of a written credit policy are

- To assure compliance by lending personnel with the bank's policies and objectives regarding the portfolio of credits.
- Documentations Applications and credit file.
- Principal trade and industry area.
- Guideline for write off.
- To provide personnel with a framework of standards within which they can operate.
- To good loans portfolio, target market and credit distributions.

2.1.8 Lending Criteria

While screening is a credit application, to be first considered supported by documents. They are:

1 Character

Character is the analysis of the applicant as to his ability to meet the obligations put forth by the lending institution. For this analysis, generally the following documents are needed.

- Memorandum and Articles of Association
- Registration certification
- Tax registration certificate (Renewed)
- Resolution to borrow
- Authorization- person authorizing to deal with the bank

2. Capacity

Describe customer's ability to pay. It measured by applicants past performance records and followed by physical observation. For this, an interview with applicant's customers/suppliers will further clarify the situation, Documents relating to this area were:

- Certified balance sheet and profit loss account for at least past 3 years.
- In case of the personal loan they have to submit the proof source of income.
- References or other lenders with whom the applicant has dealt in the past or bank A/C.

3. Capital

This indicates applicant's capacity to inject his own money. By capacity analysis, it can be concluded that whether borrower is trying to play with lender's money only or is also injecting his own fund to the project. For capital analysis, financial statements, like certified balance sheet, profit and loss account is the only tools.

4. Collateral

Collateral is the security proposed by the borrower. Collateral may be of either nature movable or immovable. Movable collateral comprises right from stock, inventories to plying vehicles. In case of immovable it may be land with or without building or fixtures, plant machineries attached to it.

5. Conditions

Once the funding company is satisfied with the character, capacity, capital and collateral then a credit agreement (Sanction letter) is issued in favor of the

Borrower stating conditions of the credit to which borrower's acceptance is accepted.

.2.1.9 Some Important Banking Terms

The study in this section comprises of some important banking terms for which efforts have been made to clarify the meaning, which are frequently used in this study, which are given below.

A. Deposits

Deposit is the most important source of liquidity for a commercial bank. It is also the main source of fund that a bank usually uses for the generation of profit. Therefore, the efficiency depends on its ability to attract deposits. Banks collect the scattered savings of the public through various accounts type like saving, current, fixed etc. Deposit being the borrowed amount from the depositors or from general public and institutions, it constitutes the liability of a bank. The management of a bank is always influencing it through deliberate policy action; the deposits of a bank are affected by various factors. They are as follows.

- Types of customers
- Physical facilities of bank
- Management accessibility of customers
- Types and range of services offered by the bank.
- Interest rate paid on deposits.
- Goodwill and financial position of the bank

In addition to the above, the prevailing economic conditions exert a decisive influence on the amount of deposit the bank receives.

B. Loan and Advances

"Loan, advance and overdraft are the main sources of income for a bank. Bank deposits can cross beyond a desired level but level of loans, advances and overdraft will never cross it. The facilities of granting loan, advances and overdrafts are the main services in which customer of the bank can enjoy.

Fund borrowed from bank are much cheaper than those borrowed from unorganized money lenders. The demand for loan has excessively increased due to cheaper interest rate. Furthermore, an increase in an economic and business activity always increases the demand for the fund. Due to limited resources and increasing loans, there is some fear that commercial banks and other financial institutions too may take more preferential collateral while granting loans causing unnecessary trouble to the general customers.

In addition to this, some portion of loan advances and overdraft includes that amount which is given to staff of the bank for house loan, vehicle loan, personal loan and others. In mobilization of commercial banks fund, loan advance and overdrafts have occupied a large portion.

C. Investment on Government Securities, Share and Debenture

"Though a commercial bank can earn some interest and dividend from the investment of government securities, share and debenture, it is not the major portion of income, but it is treated as a second source of banking business. A commercial bank may extend credit by treating it as a second source of banking business. A commercial bank may extend credit by purchasing government securities bonds and shares for several reasons.

Some of them are given as:

- It may want to space it matures so that the inflow of cash coincide

with expect withdrawals by depositors or large loan demands of its customers.

- It may wish to have high grade marketable securities to liquidate if its primary reserve becomes inadequate.
- It may also be forced to invest because the demand for loans has decreased or is not sufficient to absorb its excess reserves.

However, investment portfolio of commercial bank is established and maintained primarily with a view of nature of banks liabilities that is since depositors may demand fund in great volume without previous notice to banks. The investment must be of a type that can be marketed quickly with little or no shrinkage in value.

D. Investment on other Company's Share and Debentures

Most of commercial banks invest their excess fund to the share and debenture of the other financial and non-financial companies. Due to excess funds but least opportunity to invest those funds in much more profitable sector and to meet the requirement of NRB directives, the commercial banks purchase shares and debenture of regional development bank, NIDC and other development banks.

E. Liquidity

Liquidity is the ability of bank to meet its obligations on time, especially in relation to repayment of inter-bank borrowings and customer deposits. Liquidity management is a very crucial job of commercial bank and the bank should maintain adequate amount of cash in its vault and NRB for its daily operation and administrative purpose. As per the arrangement of NRB effective from fiscal year 2004/05, the commercial banks are required to maintain cash

reserve of 5% with NRB of its total deposit liability with NRB. The previous provision of cash in vault maintenance has been withdrawn now.

F. Capital Adequacy

Capital is the blood of any business without which business cannot be run or established. In financial term, capital is the excess of assets over liabilities and can be defined as the wealth, which is employed for the production. Capital is required by a bank as a cushion to absorb losses, which should be borne by shareholders rather than depositors and to finance the infrastructure of the business. Capital adequacy is to maintain adequate amount of capital or fund to safeguard the money of the depositors against any possible loss. NRB requires banks to maintain a certain capital adequacy ratio based on the total risk weighted assets and the banks are supposed to meet the minimum requirement of CAR.

F. Off-Balance Sheet Activities

Off balance sheet activities involve contracts for future purchase or sale of assets and all these activities are contingent obligations. These are not recognized as assets or liabilities on balance sheet. Some examples of these items are letter of credit, letter of guarantee, bills of collection etc. These activities are very important, as they are the good source of profit of bank though they have risk. Nowadays, some economists and finance specialists to expand the modern transactions of a bank stressfully highlight such activities.

G. Banking Risks

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

- **Credit Risk**

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

- **Liquidity Risk**

Liquidity risk arises when bank itself fail to meet its obligation. 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.

- **Yield Risk**

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

- **Market Risk**

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

- **Operational Risk**

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

- **Ownership/Management Risk**

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

2.1.10 Project Appraisal

Before providing credit to the customer, bank makes analysis of project from various aspects and angles. It will help the bank to see whether project is really

suitable to invest. The purpose of project appraisal answers the following questions:

- Is the project technically sound?
- Will the project provide a reasonable return?
- Is the project in line with the overall economic objectives of the economy?

Generally, the project appraisal involves the investigation from the following aspects (Gautam, 2004: 258):

- Financial aspect
- Economic aspect
- Management / Organizational aspect
- Legal aspect

2.1.11 Adverse aspect Classifications

Substandard

All loans and advances that are past due for a period of 3 month to 6 month shall be included in this category.

Doubtful

All loans and advance which are past due for a period of 6 month to 1(one) year shall be included in this category.

PASS

Loans and Advances whose principal amount are not past due for a period up to 3(three) months shall be included in this category. These are classified and defined as performing Loans.

Loss

All loans and advances which are past due for a period of more than 1(one) year as well as advances which have least possibility of recovery or considered unrecoverable and those having thin possibility of even partial recovery in future shall be included in this category.

Loans and advances failing in the category of sub-standard doubtful and loss are classified and defined as Non-Performing Loan.

Note:

- **Submission of Return Relating to Classification of Loan and Advances**

Bank shall, as of the Mid of October, January, April and July, prepare the statement of outstanding loans & advances classified on the basis of aging & submit the particulars as per the enclosed Directives Form No.3 to the Banking Operation Department & Inspection & Supervision Department of Nepal Rasta Bank within 1(one) month from the end of each quarter.

Classified Loans and Advances under the currently existing arrangement are required to be classified as per the Time Table in four phases:

- **Relating to Collateral**

All collateral used back loan & advance shall be adequate to cover up the principal and interest and shall also be legally secured. In the event of non-realization of principal and interest of loan, there must be no difficulty in acquiring the title of the collateral asset.

- **Additional Arrangement in Respect of Pass Loan**

Loans & advances fully secured by gold, silver, fixed deposit receipts and NG securities shall be included under “**pass**” category.

However, where collateral of fixed deposit receipt or NG securities or NRB Bonds is placed as security against loan for other purposes, such loans has to be classified on the basis of aging per clause 2.

- **Additional Arrangement in Respect of “Loss Loan”**

Even if the loan is not past due, loans giving any or all of the following discrepancies shall be classified as “**Loss**”.

- No security at all or security that is not in accordance with the borrower’s agreement with the bank,
- The borrower has been declared bankrupt,
- The borrower is absconding or cannot be found,
- Purchased or discounted bills are not realized within 90 days from the due date.
- The credit has not been used for the purpose originally intended.
- Owing to non- recovery, initiation as to auctioning of the collateral has passed six months and if the recovery process is under litigation.
- Loans provided to the borrowers included in the black list and where the Credit Information Bureau blacklists the borrower.
- Additional Arrangement in Respect of Term Loan

In respect of term loans, the classification shall be made against the entire outstanding loan on the basis of the past due period of over due installment In the event of conversion of contingent liabilities of the bank e.g. letters of credit, un-matured guarantees, in to the liability of the bank, such amount becomes recoverable from the customers. Hence, such amount shall also be classified as per the classification norms applicable to loans & advances & accordingly be provided with requisite provisioning.

Prohibition to Recover Principal and Interest by Overdrawing the Current Account & Exceeding the Overdraft Limit Principal and interest on loans & advances shall not be recovered by overdrawing the borrower’s current account

or where overdraft facility has been extended, by overdrawing such limit. However, this arrangement shall not be construed as prohibitive for recovering the principal & interest by debiting the customer's account & recovery is made as such resulting in overdraft, which is not settled within one month, such overdrawn principal amount shall also be liable to be included under the outstanding loans & such loans shall be liable to be included under the outstanding loan and such loan shall be downgraded by one step from its current classification. In respect of recognition of interest, the same shall be as per the clause relating to income recognition mentioned in Directives No.4.

- **Loan Loss Provisioning**

The Loan loss provisioning, on the basis of the outstanding loans & advances and purchase classified as per this Directives, shall be provided as follows:

<u>Classification of Loan</u>	<u>Loan Loss Provision</u>
Pass	1 percent
Substandard	25 percent
Doubtful	50 percent
Loss	100 percent

Note: Loss loan provision set aside for performing loan is defined as “general loan loss provision” and loan loss provision set aside for Non- performing loan is defined as “Specific Loan Loss Provision”.

- **Additional Provisioning in the case of Personal Guarantee Loans**

Where the loan is extended only against personal guarantee, a statement of the assets equivalent to the personal guarantee amount not claimable by any other shall be obtained. Such loans shall be classified as per above and where the

loans fall under the category of Pass, Substandard and Doubtful, in addition to the normal loan loss provision applicable for the category, an additional provision by 20% point shall also be provided. Classification of such loans and advances shall be prepared separately.

- **Rescheduling and Restructuring of Loan**

In respect of loans & advances falling under the category Substandard, Doubtful or Loss, banks may reschedule or restructure such loans only upon receipt of a written Plan of Action from the borrower citing the following reason:

- The internal and external causes contributing to deterioration of the quantity of loan.
- The reduced degree of risk inherent to the borrower/enterprise, determined by analyzing its balance sheet and profit & loss account in order to estimate recent cash flows & to project future ones, in addition to assessing market conditions.
- Evidence of existing of adequate loan documentation.
- An evaluation of the borrower/ enterprise's management with particular emphasis on efficiency, commitment & high standards of business ethics.

In addition to written Plan of Action for rescheduling or restructuring of loan per Clause (13.1) above, payment of interest according to the loan contract as originally specified should have been collected. The loan loss provisioning, in respect of rescheduled, restructured and swap loans, shall be provided at minimum 12.5%. Separate statement shall be prepared for loans classified & provision made as per Clause 13.3 above.

- **Provisioning against Priority Sector Credit**

- Full provisioning as per clause (11) shall be made against the uninsured priority and deprived sector loans. However, in respect of insured loans; the requisite provisioning shall be 25% of the percentage state under clause (11).

- **Adjustment in Provisioning**

Except in the following cases, banks are prohibited from making any adjustments in their loan loss provision amount:

- The loan has been completely written off:
- The principal amount of loan and interest has been fully settled by the borrower.
- Loan has been classified or reclassified and vision for loan loss is made.

However, no such adjustments shall be made in the case of reclassified loan by way of rescheduling or restructuring.

- **Action to be taken in cases of Noncompliance**

In cases where a bank has been found not complying the regulations in respect of loan classification and provisioning, Nepal Rastra Bank may ask for clarification. If the bank's response is not satisfactory, Nepal Rastra Bank shall initiate following action in exercise of its authority under section 23(1) of Nepal Rastra Bank Act. 2012.

Require reclassification of loan and advances and accordingly adjust the loan loss provisioning within 3 months. If the banks do not comply to the directive issued as per Sub-Clause 16.1 above, the following additional action shall be initiated in exercise of the authority under section 32 of Nepal Rastra Bank Act 2012 with amendment:

- Suspend declaration and distribution of dividends (including bonus shares)
- Suspend extension of loans
- Suspend acceptance of deposits

All earlier circulars issued by Nepal Rastra Bank relating to loan classification and loan loss provisioning have been repealed.

2.2 Review of Related Studies

Shrestha, (1998) in her article "Lending operations of commercial banks of Nepal and its impact on GDP" presented the objectives to make an analysis of contribution of commercial banks' lending to the Gross Domestic Product (GDP) of Nepal. She has set a hypothesis that there has been a positive impact of lending of commercial banks to the GDP. In research methodology, she has considered GDP as the dependent variable and various sectors of lending viz. agriculture, industrial, commercial, service, general and social sectors as independent variables. A multiple regression technique has been applied to analyze the contribution.

The multiple analyses have shown that all the variables except service sector lending have positive impact on GDP. Thus in conclusion, she has accepted the hypothesis, i.e. there has been positive impact on GDP by the lending of commercial banks in various sectors of economy, except service sector investment."

Bhattarai, (2007) in his article "Something is rotten with the state of commercial banking in Nepal" starts with words like NPA, conflict of interest, merky offshore ownership, well connected defaulter, loan swapping and political obstruction to describe the commercial banks in Nepal. Mr. Bhattarai

quoted the words of the Governor to describe the state of banking sector as 'terrible'. Also, he quotes one of the donor representatives involved in financial reform as "Nepal has the weakest central bank in the developing world." As per the author, bankers with patronage could get away with getting anything they wanted approved by the regulator. He quotes Mr. Investment SJB Rana, the first governor of NRB, "only 3 out of 12 Governors actually completed their five year terms in its entire history because they were sacked for undefined exigencies." He also quotes Mr. Shovan Dev Pant, the then Executive Director of Nabil, "The financial sector is in appalling state."

Bhattarai says that all the evidences gathered for his article point to one direction-the regulatory body, NRB not doing its job properly. He explains that the malaise with the financial sector was deep. As an instance, he presents Nabil Bank and its ownership. He bets on the fact that even Nabil Bank Shareholders do not know of the Bank's owners of the major block of shares. The author expects NRB to disclose this fact if they know about it.

Another example **Bhattarai** presents is on the profitability of the banks in the very first year. He questions their profit figures with the given state of ailing economy, where each sector is showing heavy losses. Also, the increasing trend of Non-performing Assets (NPAs) is explained by him is a result of scam. A scam process as explained to him by an NRB official goes like this, "You put in Rs.50 million to promote a bank and then borrow Rs.500 million from it. They are not opening banks to do banking but to siphon loans for themselves." However, the author is of a view that the new directives issued on October 2001 shall improve the situation.

Here, the author has not clearly mentioned of the research methodology. The conclusions are not well supported by data. The article reflects a one sided

biased view of the author and the view of NRB on this has not been taken. The conclusion made by the author has not been tested.

Aryal (2005) has submitted a thesis entitled to, “A Evaluation of credit investment and Recovery of Financial Public Enterprises in Nepal” 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 collection amounts is not good. However, ADB/N has increased its effort to collect its credit. It is said that those people who really need do not receive sufficient amount of credit from ADB/N. His major findings are actual credit disbursement, collection and outstanding are increasing in decreasing rate. Yearly increase in credit disbursement is higher than that of collection. Positive relation between credit disbursement and collection that is 0.996 Targeted credit collection and disbursement fixed by planning and project department is not significantly different than the actual. Most of the customers are unaware of the policy of the bank. He recommends the borrowers should be about the credit, its use and its payment procedures and schedule; Greater attention should be given to increase the credit collection and to collect old outstanding amount of credit and renewal of it. To accelerate the collection, credit should be followed continuously in a regular interval of time. 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 personal.

Gautam (2009) has submitted thesis entitled to, “Investment Analysis of Finance Company of Nepal” her research major objectives relevant to my research are to analyze the interest rate structure of credit. To analyze the repayment of the credits. Her findings are use of funds towards the hire purchase credit is decreasing rapidly. As the direct data of good and bad credit was not available, the credit loss provision used to analyze the credit quality. Credit loss is increasing every year significantly and should be controlled. The loss provision of some company is more alarming on individual analysis. The company having above average credit loss provision should rethink on their investment and repayment policy

Joshi (2007) has studied on “Lending policy of Commercial Banks in Nepal” The main objectives of this study is to examine the role of commercial bank in its functions as well as performance: to show the relationship between deposit and loan advance, to identify major weakness of lending policy of the commercial banks and to suggest lending policy to process the utilization of the resources and they are still lazy to pay active role to utilizes these sources collected from different sectors accordance with the need of the economy. He recommended that Nepal Rastra Bank have significant role in the overall economic policy of the country NRB must take safe of lending policy and role to solve various problems, which have been arising in the banking development.

Acharya (2007) has studied on “Deposit mobilization of commercial bank in Nepal”. The main objective is to impact of interest rate on deposit mobilization as well as credit ratio increase or decrease as the change in interest rate. Besides this, the objective is to know the efficient utilization of the accumulated deposits. She has found out that the commercial bank have not been successful in the mobilization of the deposits collected by the commercial

banks have not been successful in the mobilization of the deposits collected by the commercial banks. Its is because of the fact, the commercial banks have not able to motivate and facilitate to their cents except at change in the rate of interest. The problems are to attracting the savings to the maximum possible extent to channeling these savings into those sectors of the economy where there are most needed and to extending banking facilities in the country to unbanked areas. The changes of intrest rates in loan are also recommended. Commercial banks should extend long term and medium term credit in addition to short term credit.

Panta (2008) in his thesis paper “A study of commercial banks deposit and its utilization” got to notice that the percentage of the total credit supplied by commercial banks within five years period (1995-2000) is more or less same while in the collection of deposits. The percentage has increased too much. Thus, the increasing gap between collection and utilization shows economic requirement and to contribute the economic upliftment of the country, commercial bank should a fair sector wise and planned policy.

The purpose of this research is to develop some expertise in one’s to see what new contribution can be made and to receive some ideas, knowledge and suggestions in relation to credit management of NB bank. Thus, the previous studies can’t be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies. Here, it is clear that the new research cannot be found on those exact topics, j e. Credit Management: A study on Nepal Bangladesh 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 dissertation are followed as guidelines 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 NB bank. Our main research problem is to analyze

whether the NB bank has right level of liquidity as well as is able to utilize its resources 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 the concern bank as well as different persons: such as shareholders, investors, policy makers, stockbrokers, state of government etc.

Khadka (2009) has conducted a research study on “Investment Policy of Commercial Banks” with reference to NBL, Nabil, Nepal Grindlays Bank (former name of Standard Chartered Bank) and NIBL, with an objective to evaluate liquidity, assets management and profitability position of NBL in comparison with other CBs and also to find out the relationship between deposit and total investment, deposit and loan & advances and net profit and outside assets.

Joshi (2008), on her thesis, “Investment Policy of Commercial Banks of Nepal”, has made an attempt to know and understand fund mobilization and investment policy of EBL, Nabil and BOK. The thesis work was performed with an objective of analyzing the trend of deposit utilization towards total investment and loan & advances and also to evaluate the growth ratios with other financial variables.

From the study, she has concluded the following findings:

- The liquidity position of EBL is comparatively better than Nabil and BOK.
- The total investment of EBL is in between in compared to other two banks.
- Total interest earned to total outside assets of EBL is lowest of all. EBL

- The total investment of EBL is in between in compared to other two banks.
- Total interest earned to total outside assets of EBL is lowest of all. EBL has higher capital risk ratio but average credit risk ratio compared to Nabil and BOK.

On the basis of the findings, she has recommended EBL to mobilize excess idle cash and bank balance in some profitable and productive sector. She also emphasized on investing more on shares and debentures as it encourages financial and economic development of the country. She has suggested the bank to make continuous efforts to explore new, competitive high yielding investment opportunity to optimize their investment portfolio. She has also recommended bank to adopt innovative approach to marketing. In the light of growing competition in the banking sectors, the business of bank should be customer oriented. The bank should develop an innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient and satisfactory way by optimally utilizing the modern technology and offering new facilities to the customers at competitive prices.

2.3 Research Gap

Since the above mentioned studies offer limited findings, more extensive testing , and adjustment of necessary variables are needed in ordered to be more conclusive about the credit Management. Previous studies were directed to find the effect of the credit management of different commercial banks. Similarly, Joshi's study is unable to present the exact condition of credit management in Nepalese banking sector Nepal.

Presently, this study aims to attempt to study about credit management of Nepalese commercial banks in Nepal. The previous relevant literature related

to banking business has just reviewed to support the study. In Joshi's study, he failed to study the perfect credit management of Nepalese commercial banks. This study tries to fulfill this weakness. And there is also less research made in this topic especially in banking sector.

Credit Management has very big role to sustain any banking business. It is equally important to identify the relation of performance of the banking business. So, it tries to assess the credit management of banking sector and by providing the proper atmosphere for the banking market in our country. The present study is based on five years data of commercial banks, which tries to achieve its objectives by analyzing secondary source of data. Thus, the earlier studies on these issues need to be updated and validated because of the many changes taking place in Nepalese banking sector. The current study is a supplement to overcome the weakness and limitation of previous studies.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Introduction

Research is common parlance refers to a search for knowledge. The Webster International Dictionary gives a very inclusive definition of research as a careful critical inquiry or examination in seeking facts and principles: diligent investigation in order to ascertain something (Saravanel, 1990: 1).

Research Methodology is a way to systematically solve the research problem (Kothari, 1990: 10). It may be understood as a science of studying how research is done scientifically. In it, we study the various steps that are generally adopted by a researcher, studying his research problem along with the logic behind them. This chapter looks into the research design, nature and sources of data, data collection procedure and tools & techniques of analysis.

This topic presents the short outline of the methods applied in the process of analyzing the credit management of the selected joint venture banks. 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.

A Research methodology helps us 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 study, the applied methodology will be used. The research methodology used in the present study is briefly mentioned below.

3.2 Research Design

A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. For the analysis of credit management of selected joint venture banks, analytical as well as descriptive designs applied to achieve the objective of the research.

.A research design is the specification of methods and procedures of acquiring the information needed. It is the overall operational pattern of framework, of the project that stipulates what information is to be collected from which sources and what procedure. If it is a good design, it will ensure that the information obtained is relevant to the research questions and that it was collected objective and economical procedures.

3.3 Sources & collections of Data

Necessary data has been collected from secondary sources. This research work is based on secondary data. The required data has been collected from following sources.

- Annual reports of the banks
- Published and unpublished bulletins, reports of the banks
- Published and unpublished bulletins, reports of the Nepal Stock Exchange
- Previous studies and reports
- "Banking and Financial Statistics" report of Nepal Rastra Bank Magazines

3.4 Populations and Sampling

A population in most studies usually consists of large group because of its large size. It is fairly difficult to collect detailed information from each member of population rather than collecting information from each member, a sub-group is chosen which is believed to be representative of population. This sub-group is called a sample and sampling does the method of choosing this sub-group. The sampling allows the researches more time to make an intensive study of a research problem. The total commercial banks shall constitute the population of data and two banks under the study constitute the sample for. So among the various commercial banks in the banking industry, Nepal Investment Bank Limited and N Bank of Kathamndu Limited are taken as sample for the study. Similarly, financial statements of those banks for 5 years from 2063/64 to 2067/68 have been taken as samples for the same purpose.

3.5 Methods of Data Analysis

Mainly financial methods are applied for the purpose of this study. Appropriate statistical tools are also used. Among them correlation analysis regarded as major one is used for this research.

To make the study more specific and reliable, the researcher uses two types of tool for analysis:

- i) Financial Tools
- ii) Statistical Tools.

3.5.1 Financial Tools

For the sake of analysis, various financial tools were used. The basic tools used were ratio analysis. Besides it, total deposit, total investment and total income analysis have been used.

Ratio Analysis

Ratio analysis is a powerful and the most widely used tool of financial analysis. A ratio defined as "The indicated quotient of two mathematical expression" and as the relationship between two or more things (Webster's New Collection Dictionary, 1975: 958).

A ratio is a figure or a percentage representing the comparison of one-dollar amount with some other dollar amount as a base (Roy, 1974: 97). Ratio analysis is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. In financial analysis a ratio is used as an index or yardstick for evaluating the financial position and performance of a firm. Ratio helps to summarize the large quantities of financial data and to make qualitative judgment about the firm's financial performance (Pandey, 1979: 97).

A. Liquidity Ratio

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 and from them the present cash solvency as well as ability to remain solvent in the event of adversities of the same can be examined (Van Horne, 1999: 693).

Inadequate liquidity can lead to unexpected cash short falls that must be covered at inordinate costs, thus reducing profitability. In the worst case, inadequate liquidity can lead to the liquidity insolvency of the institution. On

the other hand, excessive liquidity can lead to low asset yields and contribute to poor earnings performance (Scott, 1992: 140).

To find out the ability of bank to meet their short-term obligations, which are likely to mature in the short period, these ratios are calculated. The following ratios are developed under the liquidity ratios to identify the liquidity position

I. Current Ratio

Current ratio indicates the ability of bank to meet its current obligation. It measures the relationship between current assets and current liabilities. 2:1 ratio is the standard ratio, which is expressed as:

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

Current assets are those assets which can be converted into cash within a year and so it includes cash and bank balance, investment in treasury bills, bills purchased and discounted, customer acceptances liabilities, prepaid expenses, bills for collection, likewise current liabilities denotes current account deposits, saving account deposits, margin deposits, bills payable, call deposits, bank overdraft, inter bank reconciliation account, provisions, customer's acceptance liabilities etc.

II. Cash & Bank Balance to Total Deposit Ratio

Cash & bank balance are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositors. Both higher and lower ratios are not desirable. The reason is that if bank maintains higher ratio of cash, it has to pay interest on deposits and some earnings may be lost. In contrast, if a bank maintains low ratio of cash,

may fail to make payment for the demands of depositors. So, sufficient and appropriate cash reserve should be maintained properly. This ratio shows the ability of banks' immediate funds to cover their deposit. Higher the ratio shows higher liquidity position and ability to cover the deposits and vice versa. It can be calculated by dividing 'cash & bank balance' by deposits. This ratio can be calculated using the following formula.

$$\text{Cash \& Bank Balance to Total Deposit Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Total Deposit}}$$

III. Cash & Bank Balance to Current Deposit Ratio

Cash & bank balance are the most liquid current assets. This ratio measures the percentage of most liquid fund with the current deposit. Higher ratio indicates the bank's sound ability to meet the daily cash requirement of their customer's deposit. If bank maintain low ratio, bank may not able to make the payment of against cheques. So bank has to maintain cash & bank balance to current ratio properly. This ratio is computed to disclose the soundness of company to pay total calls made of current deposits. It can be expressed as:

$$\text{Cash \& Bank Balance to Current Deposit Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Current Deposit}}$$

iv. Cash & Bank Balance to Interest Sensitive Deposit Ratio

Saving deposit is deposited by public in a bank with an objective of increasing their wealth, interest rate plays important role in the flow of interest sensitive deposit. Fixed and current deposits are not interest sensitive. Fixed deposits have a fixed term to maturity and current deposits are not sensitive toward interest rate. The ratio of cash & bank balance to interest sensitive deposits

measure the bank ability to meet its sudden outflow of interest sensitive deposits due to the change in interest rate.

$$\text{Cash \& Bank Balance to Interest Sensitive Deposit Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Saving Deposit}}$$

B. Activity/Efficiency Ratio

It is also known as turnover or efficiency ratio or assets management ratio; measures how efficiently 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: 138). Greater rate of turnover or conversion indicates more efficiency of a firm in managing and utilizing its assets, being other things equal. Various ratios are examined under this heading.

i. Loan & Advances to Total Deposit Ratio

Commercial banks utilize the outsider's fund for profit generation purpose. Loan & advances to total deposit ratio shows whether the banks are successful to utilize the outsiders funds (i.e. total deposits) for the profit generating purpose as loan & advances or not. Generally, a high ratio reflects higher efficiency to utilize outsider's fund and vice-versa. The ratio can be calculated by using following formula.

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

Loan and advances includes short-term loan and advances, overdrafts, cash credit, local and foreign bills purchased and discounted.

ii. Loan & Advances to Total Assets Ratio

It measures the ability in mobilizing total assets into loan & advances for profit generating income. A higher ratio is considered as an adequate symbol for

effective utilization of total assets of bank into loan and advances which creates opportunity to earn more and more. It is calculated as:

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

iii. Total Investment to Total Deposit Ratio

A commercial bank may mobilize its deposit by investing its fund in different securities issued by government and other financial and non-financial companies. Effort has been made to measure the extent to which the banks are successful in mobilizing the total deposit on investment. A high ratio is the indicator of high success to mobilize the banking fund as investment and vice-versa.

$$\text{Total Investment to Total Deposit Ratio} = \frac{\text{Total Investment}}{\text{Total Deposit}}$$

C. Leverage ratio

The use of finance is refers by financial leverage. When a firm borrows money, it promises to make series of fixed payments, which create financial leverage (Brealy and Myers, 1991: 677). These ratios are also called solvency ratio or capital structure ratio. These ratios indicate mix of funds provided by owners and lenders. As a general rule, there should be an appropriate mix of debt and owner's equity in financing the firm's assets. To judge the long-term financial position of the firm, leverage ratios are calculated. This ratio highlights the long-term financial health, debt servicing capacity and strength and weaknesses of the firm. Following ratios are included under leverage ratios.

i. Debt to Equity Ratio

Debt to equity ratio measures the relative proportion of outsiders and owner's funds employed in the total capitalization. Here, debt includes the amount of fixed deposits and credits of the bank and equity includes paid up capital,

reserve and surplus and undistributed profit. The formula used to determine the ratio is:

$$\text{Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

ii. Total Debt to Total Assets Ratio

It examines the relationship between borrowed funds (i.e. total debt) and total assets. It shows the relative extent to which the firm is using borrowed money. A lower ratio is preferable since it reduces the distress of the creditors by using more amount of equity on total assets. It is computed as:

$$\text{Total Debt to Total Assets Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

D. Profitability Ratios

Profit is the difference between revenues and expenses over a period of time. A company should earn profit to survive and to grow over a long period of time. So profits are essential, but profit earning is not the ultimate aim of company and it should never be earned at the cost of employees, customer and society.

Profitability ratios are the indicators of degree of managerial success in achieving firm's overall goals (Pradhan, 1996: 41). It shows the overall efficiency of the business concern. The following ratios are calculated under the profitability ratios:

i. Interest Income to Interest Expenses Ratio

Interest income to interest expenses ratio measure the gap between interest rates offered and interest rate charged. NRB has restricted the gap between the

interest taken in loan, advances and interest offered in deposits. The credit creation power of commercial banks has high impact on this ratio.

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

ii. Return on Loan & Advances Ratio

This ratio measures the earning capacity of the commercial banks through its fund mobilization as loan & advances. Higher ratio indicates greater success to mobilize fund as loan & advances and vice versa. Mostly, loan & advances include cash, credit, overdraft, bills purchased and discounted.

$$\text{Return on Loan \& Advances} = \frac{\text{Net Profit}}{\text{Loan \& Advances}}$$

iii. Net Profit/Loss to 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 ratio indicates the higher efficiency in utilization of total assets and vice-versa. The ratio is low 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 this study, net profit/loss to total assets ratio is examined to measure the profitability of all the financial resources in bank-assets and is calculated by applying the following formula:

$$\text{Net Profit/Loss to Total Assets Ratio} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

iv. Interest Income to Total Loan & Advances Ratio

It tells the income as interest from total loan & advances. It is useful to know the fact that whether the loan has given good return or not. We can increase 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:

$$\text{Interest Income to Total Loan \& Advances Ratio} = \frac{\text{Interest Income}}{\text{Total loan \& Advances}}$$

v. Earning Per Share (EPS)

EPS is one of the most widely quoted statistics when there is a 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 earnings 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. This decision will automatically affect the earnings per share. The profits available to the ordinary shareholders are represented by net profit after taxes and preference dividend. Symbolic expression of EPS is given below.

$$\text{EPS} = \frac{\text{Net Profit After Tax}}{\text{Number of Common Stock Outstanding}}$$

D. Lending Efficiency Ratio

The efficiency of a firm depends to a large extent on the efficiency with which its assets are managed and utilized. This ratio is concerned with measuring the efficiency of bank. This ratio also shows the utility of available fund. The following are the various type of lending efficiency ratios:

i. Non – Performing Loan to Total Loan & Advances Ratio

NRB has directed all the commercial banks create loan loss provision against the doubtful and bad debts. But both of our concerned banks have not provided data on non-performing loan in balance sheet and profit and loss account.

$$\text{Non-Performing Loan to Total Loan \& Advances} = \frac{\text{Non - Performing Loan}}{\text{Total Loan \& Advances}}$$

ii. Loan Loss Provision to Total Loan & Advances Ratio

Loan loss provision to total loan & advances describes the quality assets that a bank holding. The provision for loan loss reflects the increasing probability of non-performing loan. The provision of loan mean the net profit of the banks will come down by such amount. Increase in loan loss provisions decrease in profit result to decrease in dividends but it's positive impact is that strengthens financial conditions of the bank by controlling the credit risk and reduced the risks related deposits. So it can said that loan suffer it only for short term while the good financial conditions and safety of loans will make bank's prosperity resulting increasing profits for long term. The low ratio indicates the good quality of assets in total volume of loan & advances. High ratio indicates more risky assets in total volume of loan & advances.

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

3.6.2 Statistical Tools

For supporting the study, statistical tool such as mean, standard deviation, coefficient of variation, correlation, trend analysis and diagrammatic cum pictorial tools have been used under it.

I. Arithmetic Mean ($\bar{X}$):

Averages are statistical constants, which enable us to comprehend in a single effort of the whole (*Gupta, 2000: 357*). It represents the entire data by a single value. It provides the gist and gives the bird's eye view of the huge mass of unwieldy numerical data. It is calculated as:

$$\bar{X} = \frac{\sum x}{N}$$

Where,

$\bar{X}$ = Arithmetic mean

N = Number of observations

$\frac{\sum x}{N}$ = Sum of observations

ii. Standard deviation (S.D.)

The standard deviation is the square root of mean squared deviations from the arithmetic mean and is denoted by S.D. or σ (*Shrestha, 1991: 43*). It is used as absolute measure of dispersion or variability. It is calculated as:

$$\sigma = \sqrt{\frac{\sum (x - \bar{x})^2}{N}}$$

Where,

σ = Standard deviation

iii. Coefficient of Variation (C.V.)

The co-efficient of variation (C.V.) is the relative measure based on the standard deviation and is defined as the ratio of the standard deviation to the mean expressed in percentage (*Shrestha, 1991: 45*). It is independent of units.

Hence, it is a suitable measure for comparing variability of two series with same or different units. A series with smaller C.V. is said to be less variable or more consistent or more homogeneous or more uniform or more stable than the others and vice versa. It is calculated as:

$$C.V. = \frac{\sigma}{\bar{x}} \times 100$$

Where,

σ = Standard Deviation

$\bar{x}$ = Mean

3.6 Limitation of the Methodology

To carry out the research work, various financial and statistical tools are used. Similarly, descriptive as well as analytical analysis of credit management has been carried out however these tools and techniques have some limitations.

For research purpose, the five data are used in analyzing the financial and statistical tools, which may mislead the research work, as it is not sufficient to make projections for future regarding the performance of the bank. As far as the financial tools concerned, only ratio and trend analysis has been carried out to know the performance of the bank however there are various financial tools to measure the financial performance of the bank. With regard to statistical tools, the researcher carried out different statistical tools to make the result more concise but it may not be the valid measurement. Similarly, the instrument used for primary data analysis is not a valid measurement. Although, there were certain limitations during the research work, it is not so crucial that it can weaken the basic findings of the study.

CHAPTER – IV DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation and Analysis

In this chapter, the data have collected from various sources have been presented and analyzed to measure the various dimensions of problems of the study and major findings of the study are presented systematically.

4.1.1 Measuring Liquidity Position of the Bank

A commercial bank must maintain satisfactory liquidity position to satisfy the credit needs of community, to meet demands for deposits withdrawal, pay maturity obligation in time, convert non-cash assets into cash to satisfy immediate needs without loss of the bank, and without consequent impact on long run profitability of the bank. To measure the liquidity position of bank, following measures of liquidity ratios have been calculated.

4.1.1.1 Current Ratio

Current ratio indicates the ability of bank to meet its current obligation. It measures the relationship between current assets and current liabilities.

Table: 4.1

Current assets Ratio of NIBL

“000”

Fiscal Year	Current Assets(x)	Current Liability(y)	Ratio(x/y)
2063/064	27314061	26195394	1.042704721
2064/065	38435867	36719173	1.046751979
2065/066	52536002	49688914	1.057298254
2066/067	56799298	53350152	1.0646511
2067/068	58040559	53989247	1.075039239
Average Ratio			1.057289058
Standard Deviation			0.01177286
Coefficient Of Variation			0.01113495

Source: Appendix 1

Table 4.1 shows the current assets to current liabilities ratio, i.e. current ratio of NABIL from the fiscal year 2063/064 to 2067/068 of five years study period. The ratios are 1.042, 1.046, .057, 1.046 and 1.075 in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. Likewise, average ratio of five years study period is 1.057. As well, standard deviation is 0.0117 and coefficient of variation is 0.0111. Current assets and current liabilities of NABIL can also be presented by bar diagram as follows:

Figure: 4.1

Current assets Ratio of NIBL

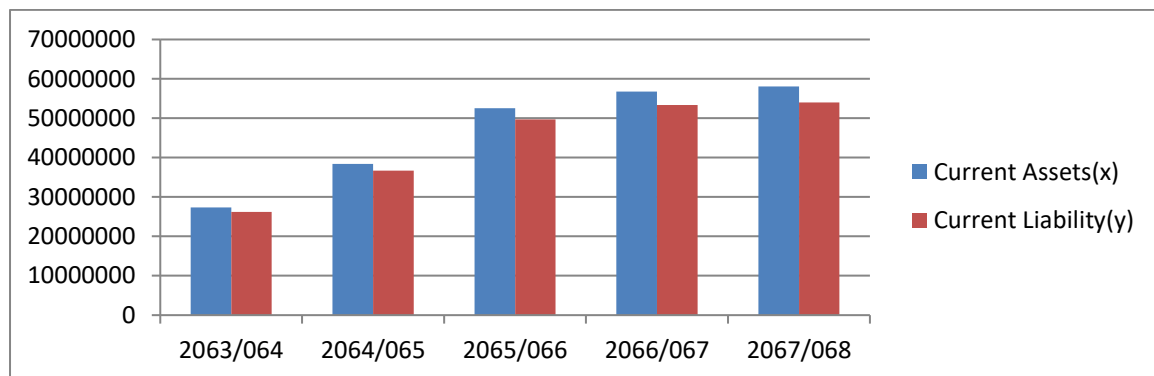


Table 4.2

Current Ratio of BOK (Rs. in '000')

Year	Current Assets	Current Liabilities	Ratios
2063/064	12131157	21699946	0.559040884
2064/065	14321953	22733721	0.62998719
2065/066	14880073	25388459	0.58609595
2066/067	17365192	27307464	0.635913756
2067/068	20465362	30866629	0.663025496
AV			0.614812655
SD			0.03724283
CV			0.06057589

Source: Appendix 2

Table 4.2 shows the current ratio of BOK during the five years of study period from fiscal year 2063/064 to 2067/068 the ratios are 0.559, 0.6299, 0.586, 0.6359 and 0.663 in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. Similarly, the average ratio of five years study period is 0.6148 Likewise, standard deviation is 0.0372 and coefficient of variation is 0.0605. Current assets and current liabilities of HBL can also be presented by bar diagram as follows:

Figure 4.2
Current Assets and Current Liabilities of BOK

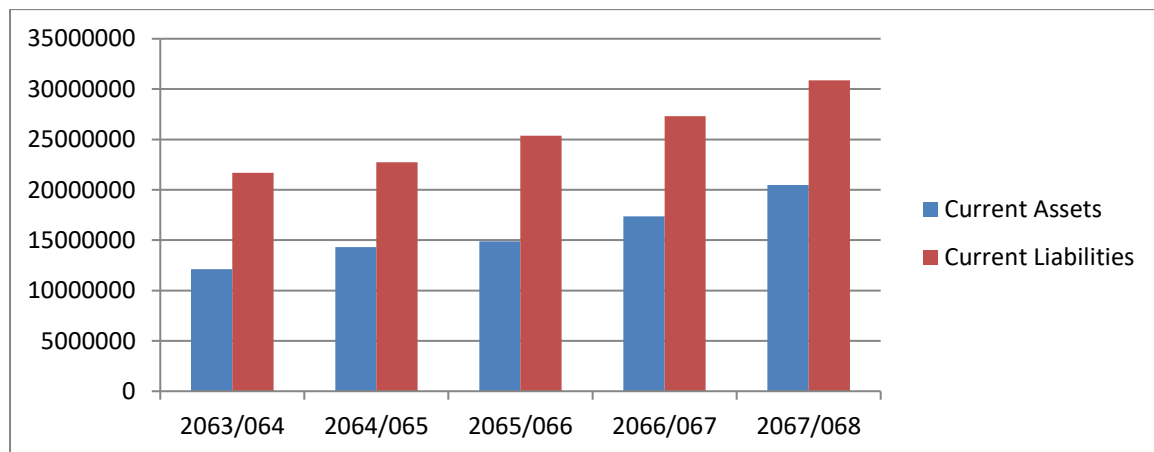


Table 4.1 and 4.2 shows the current liabilities of NIBL as well as BOK is higher than the current assets during the five years of study period. Ratios of NIBL are in increasing trend where ratios of BOK are in increasing trend except in the year 2065/66. During the study period, NIBL kept a higher mean ratio of current assets to current liabilities ratio than BOK. However, the ratios of NIBL have more variation and less consistency that of BOK because of high standard deviation and coefficient of variation.

Though the optimal standard of current ratio should be 2:1, the conventional measure of liabilities is not applicable in banking sector. Banking business

holds big portion of deposits as a core deposit and this deposit remains all the time throughout the years. This core deposit forms the fixed liability on the bank though it is current in nature. So the ratio maintained by commercial banks at the level of around 1:1 can be regarded as good and sufficient to meet the normal contingencies. Hence, the above current ratio analysis of the banks over the five years period indicates that the banks have satisfactory liquidity position.

4.1.1.2 Cash and Bank Balance to Total Deposit Ratio

This ratio shows the ability of banks in immediate funds to cover their deposits. Higher ratio shows higher liquidity position and ability to cover the deposits and vice versa.

Table 4.3

Cash and Bank Balance to Total Deposit Ratios of NIBL (in times)

Fiscal years	Cash & Bank balance	Total Deposit	Ratio
2063/064	2441514	27314061	0.089386708
2064/065	3754942	38435867	0.097693698
2065/066	7918004	52536002	0.15071577
2066/067	6815890	56799298	0.119999546
2067/068	8140371	58040559	0.663025496
AV			0.224164244
SD			0.22045587
CV			0.98345687

Source: Appendix 3

Table 4.3 depicted the cash & bank balance to total deposit ratio of NIBL over the five years period from 2063/064 to 2067/068. The ratios are 0.0893,

0.09769, 0.1507, 0.1199 and 0.663 in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. Similarly, the mean ratio remains at 0.2241 during the five years study period. Likewise, standard deviation is 0.22405 and coefficient of variation is 0.9834. Cash & bank balance and total deposit of NIBL can be shown by following diagram:

Figure 4.3

Cash and Bank Balance and Total Deposit of NIBL

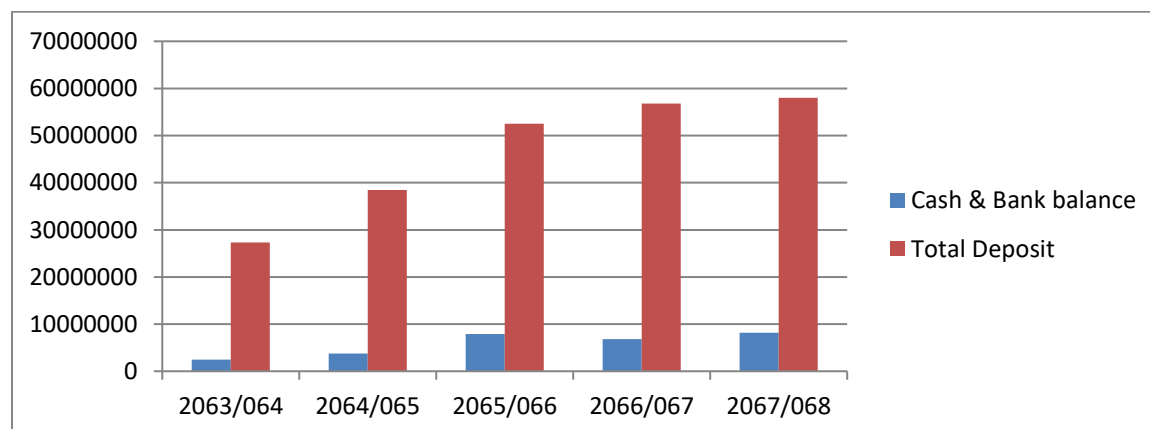


Table 4.4

Cash and Bank Balance to Total Deposit Ratio of BOK

(Rs. in '000')

Year	Cash & Bank Balance	Total Deposit	Ratio
2063/064	1979209	21007379	0.094214942
2064/065	2001184	22010333	0.090920206
2065/066	2014471	24814012	0.081182801
2066/067	1717352	26490852	0.064828115
2067/068	1757341	30048418	0.058483645
AV			0.077925942
SD			0.0141021
CV			0.18096792

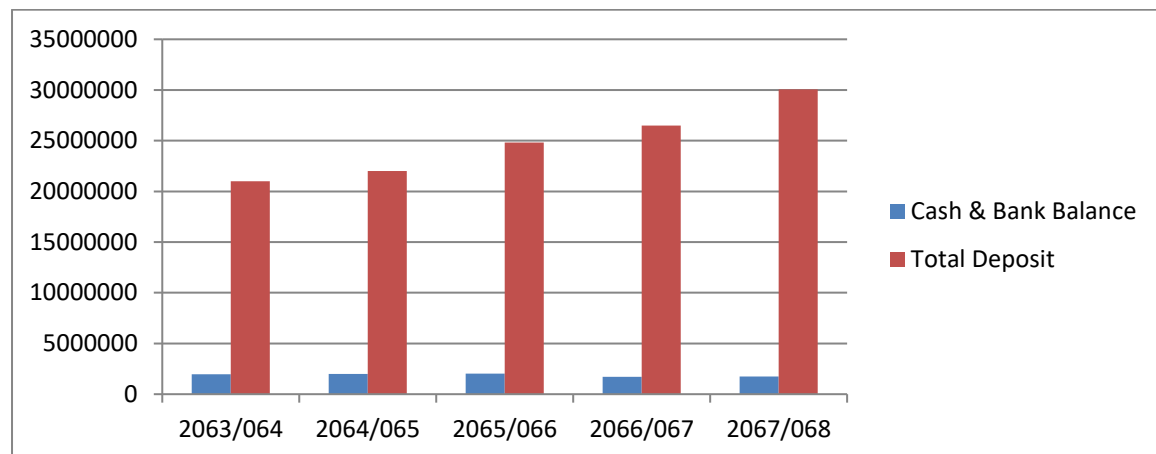
Source: Appendix 4

Table 4.4 depicted the cash & bank balance to total deposit ratio of BOK over the five years period from 2063/064 to 2067/068. The ratios are 0.0942,

0.0909, 0.0811, 0.0648 and 0.0584 in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. Similarly, the mean ratio remains at 0.0779 during the five years study period. Likewise, the standard deviation is 0.0141 and coefficient of variation is 0.1809. Cash & bank balance and total deposit of BOK can be shown by following diagram:

Figure 4.4

Cash and Bank Balance and Total Deposit of BOK



The cash & bank balance to total deposit ratio of NIBL is in increasing trend till the study period. However, the cash & bank balance to total deposit ratio of BOK is in decreasing trend. There is highest mean ratio of cash & bank balance to total deposit ratio with BOK than NIBL. However, the ratios of NIBL have more variation and less consistency than BOK.

Though the ratios are not consistent, cash & bank balance position of NIBL as well as BOK with respect to deposit is better to serve the customers deposit withdraw demands. Commercial banks have to maintain their cash & bank balance in term of total deposit as directed by NRB time to time. Otherwise, they are imposed penalty. A high ratio of invest in to short-term marketable securities, treasury bills etc. insuring enough liquidity, which will help the bank to improve in profitability.

4.1.1.3 Cash and Bank Balance to Current Deposit Ratio

This ratio shows the percentage of most liquid fund over current deposit of the bank. Higher ratio indicates the bank's sound ability to meet the daily cash requirement of their customer's deposit. Low ratio is also dangerous. If bank maintain low ratio, bank may not able to make the payment against cheques.

Table 4.5
Cash and Bank Balance to Current Deposit Ratio of NIBL
(Rs. in '000')

Year	Cash & Bank Balance	Current Deposit	Ratios
2063/064	2441514	2954756	0.826299701
2064/065	3754942	3138669	1.196348516
2065/066	7918004	7556657	1.047818367
2066/067	6815890	4025820	1.693043902
2067/068	8140371	4335178	1.877747811
Average			1.328251659
S.D.			0.39573133
C.V.			0.297934

Source: Appendix 5

Above table depicted the cash & bank balance to current deposit ratio of NIBL over the five years period from 2063/064 to 2067/068 The ratios are 0.8263, 1.1969, 1.0478, 1.693 and 1.8777 in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. Similarly, mean ratio remains at 1.3282 during the five years study period. Likewise, standard deviation is 0.3957 and coefficient of variation is 0.2979. Cash & bank balance and current deposit of NIBL can be shown by following diagram:

Figure 4.5

Cash and Bank Balance and Current Deposit of NIBL

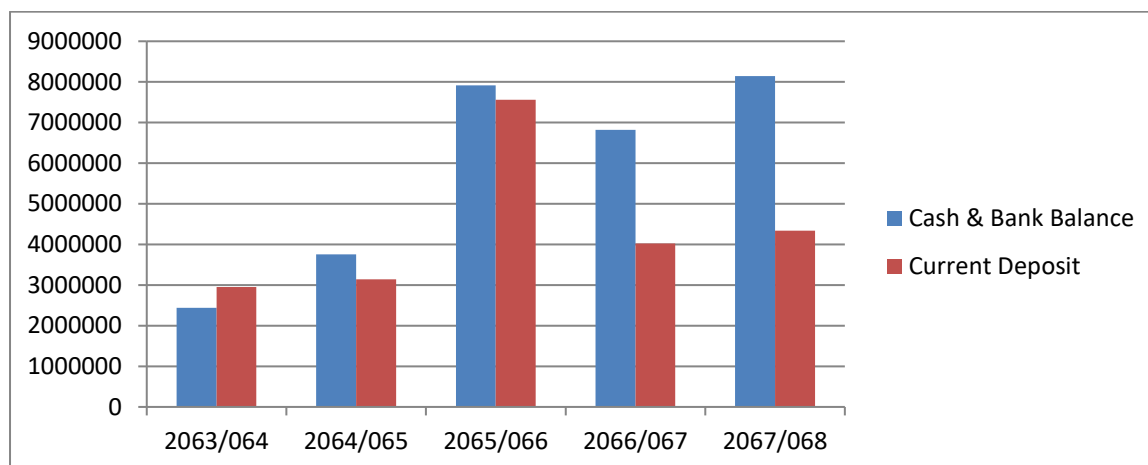


Table 4.6

Cash and Bank Balance to Current Deposit Ratio of BOK

(Rs. in '000')

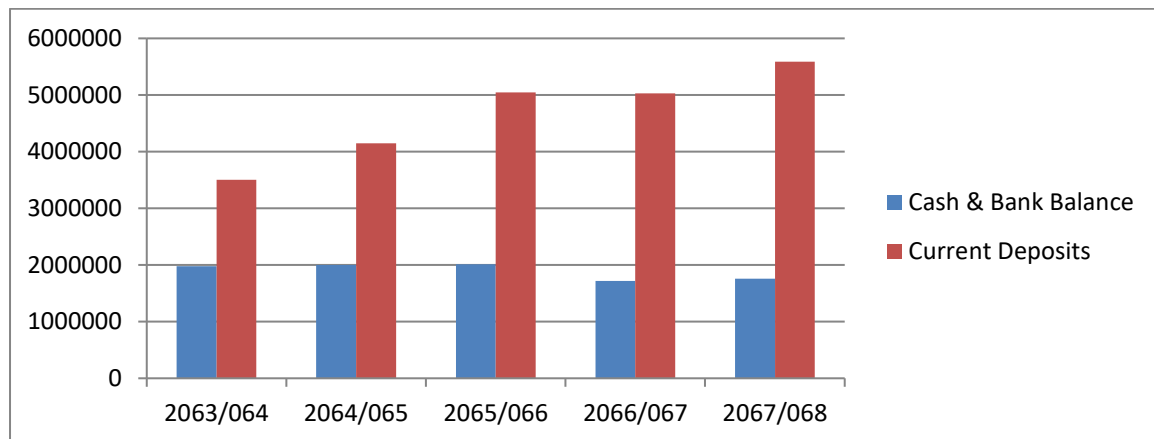
Year	Cash & Bank Balance	Current Deposits	Ratio
2063/064	1979209	3503144	0.564980772
2064/065	2001184	4145448	0.482742517
2065/066	2014471	5045161	0.399287753
2066/067	1717352	5028151	0.34154742
2067/068	1757341	5589580	0.314395894
AV			0.420590871
SD			0.09240166
CV			0.21969488

Source: Appendix 6

Above table depicted the cash & bank balance to current deposit ratio of BOK over the five years period from 2063/064 to 2067/068. The ratios are 0.5649, 0.4827, 0.3992, 0.3415 and 0.3143 in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. Similarly, mean ratio remains at 0.4205 during the five years study period. Likewise, standard deviation is

0.0294 and coefficient of variation is 0.2196. Cash & bank balance and current deposit of BOK can be shown by following diagram:

Figure 4.6
Cash and Bank Balance and Current Deposit of BOK



Cash & bank balance to current deposit ratio of NIBL is increasing trend during the five years of study period. Similarly, the ratio of BOK is decreasing trend. Where the mean ratio of BOK is highest than that of NIBL over the study period. Likewise, the ratios of BOK have more variation but more consistency than NIBL.

It can be said that BOK has high liquid assets in terms of cash & bank balance to current deposit ratio than NIBL but it does not mean that NIBL has mobilized its more funds in profitable sectors than BOK. It actually means that NIBL can tightly meet its daily requirements to make the payments on customer deposit withdrawals than BOK.

4.1.1.4 Cash and Bank Balance to Interest Sensitive Deposits Ratio

The ratio of cash and bank balance to interest sensitive deposits measures the ability to meet its sudden outflow of interest sensitive deposits due to the change in interest rate.

Table 4.7

Cash and Bank Balance to Interest Sensitive Deposits Ratio of NIBL

(Rs. in '000')

Year	Cash & Bank Balance	Saving Deposit	Ratios
2063/064	2441514	14095832	0.173208222
2064/065	3754942	13688766	0.27430829
2065/066	7918004	17066252	0.46395682
2066/067	6815890	14324255	0.475828586
2067/068	8140371	16248538	0.500990981
Average			0.37765858
S.D.			0.13021279
C.V.			0.34478969

Source: Appendix 7

Table 4.7 depicted the cash & bank balance to saving deposit ratio of NIBL over the five years period from 2063/064 to 2067/068. The ratios are 0.1732, 0.2743, 0.4639, 0.4758 and 0.5009 in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. Similarly, mean ratio remains at 0.3776 during the five years study period. Likewise, standard deviation is 0.1302 and coefficient of variation is 0.3447. Cash & bank balance and saving deposit of NIBL can be shown by following diagram:

Figure 4.7

Cash and Bank Balance and Interest Sensitive Deposits of NIBL

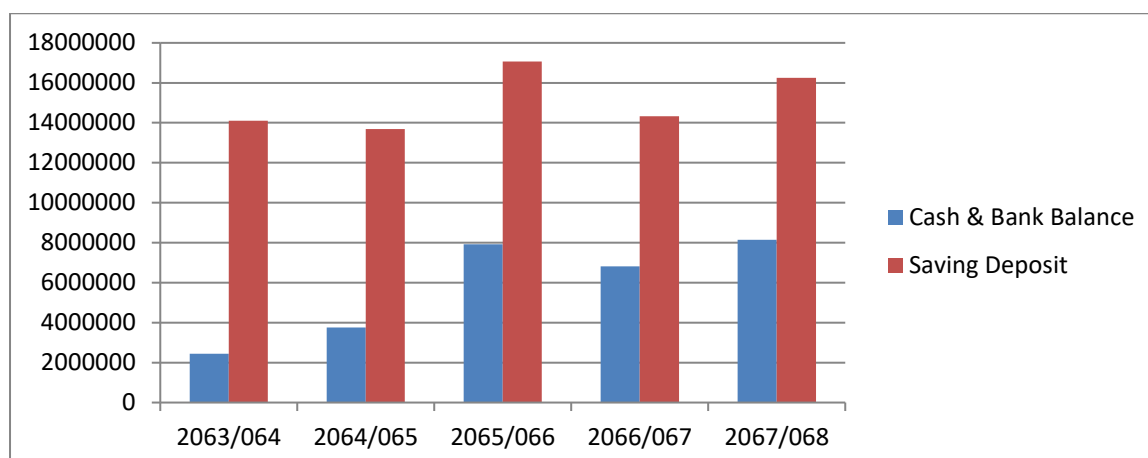


Table 4.8

Cash and Bank Balance to Interest Sensitive Deposits Ratio of BOK

(Rs. in '000')

Year	Cash & Bank Balance	Saving Deposit	Ratio
2063/064	1979209	10870542	0.182070866
2064/065	2001184	11759602	0.170174467
2065/066	2014471	12852415	0.156738714
2066/067	1717352	14582855	0.117765143
2067/068	1757341	15784770	0.111331429
AV			0.147616124
SD			0.02823788
CV			0.19129267

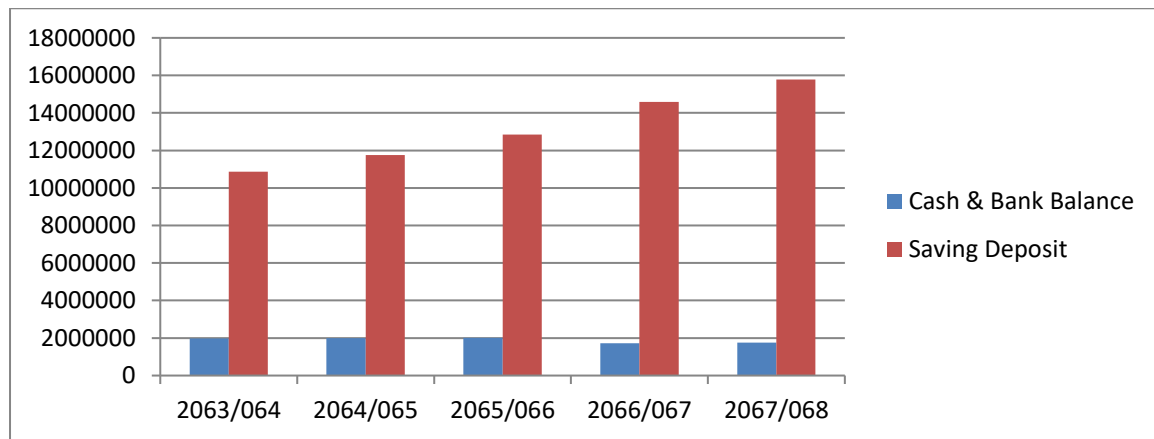
Source: Appendix 8

Table 4.8 depicted the cash & bank balance to saving deposit ratio of BOK over the five years period from 2063/064 to 2067/068. The ratios are 0.182, 0.1701, 0.1567, 0.1177 and 0.1113 in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. Similarly, mean ratio remains at 0.1476 during the five years study period. Likewise, standard deviation is

0.0282 and coefficient of variation is 0.1912. Cash & bank balance and saving deposit of BOK can be shown by following diagram

Figure 4.8

Cash and Bank Balance and Interest Sensitive Deposits of BOK



Cash & bank balance to saving deposit ratio of NIBL is in increasing trend till the study period. The ratio of BOK is in a decreasing trend. But, NIBL has higher mean ratio than BOK. Similarly, ratios of NIBL have more variation and less consistency than BOK.

From the analysis of overall liquidity ratios of NIBL and BOK, we can say that NIBL has high degree of liquid assets, i.e. high liquidity position than BOK. High liquidity position is not so better because of interest expenses and it caused inverse impact in overall performance.

4.1.2 Assets Management Ratio

This ratio measures the efficiency of commercial bank in its fund mobilization. A commercial bank must be able to manage its assets properly to earn high profit, maintaining the appropriate level of liquidity. Assets management ratio measures the efficiency of bank to manage its assets in profitable way satisfactorily. Help of the following ratios have analyzed asset management ability of NIBL as well as BOK.

4.1.2.1 Loan & Advances to Total Deposit Ratio

This ratio measures to the extent that bank is successful to manage its total deposit on loan & advances for the purpose of income generation or not. A high ratio indicates better mobilization of collected deposit and vice-versa. But it should be noted that too high ratio might not be better from liquidity point of view.

Table 4.9
Loan & Advances to Total Deposit Ratio of NIBL
(Rs. in ‘000’)

Year	Loan & Advances	Total Deposit	Ratios
2063/064	17769100	2899220	6.128924331
2064/065	27529305	3952524	6.964993761
2065/066	36827157	5502209	6.693158511
2066/067	40948440	7449057	5.497130711
2067/068	41887694	8752064	4.786036071
Average			6.014048677
S.D.			0.79421688
C.V.			0.13206027

Source: Appendix 9

Table 4.9 depicted the loan & advance to total deposit ratio of NIBL over the five years period from 2063/064 to 2067/068. The ratios are 6.1289, 6.9649, 6.6139, 5.4971 and 4.786 in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. Similarly, mean ratio remains at 6.014 during the five years study period. Likewise, standard deviation is 0.9742 and coefficient of variation is 0.132. Loan & advance and total deposit of NIBL can be shown by following diagram:

Figure 4.9
Loan & Advances and Total Deposit of NABIL

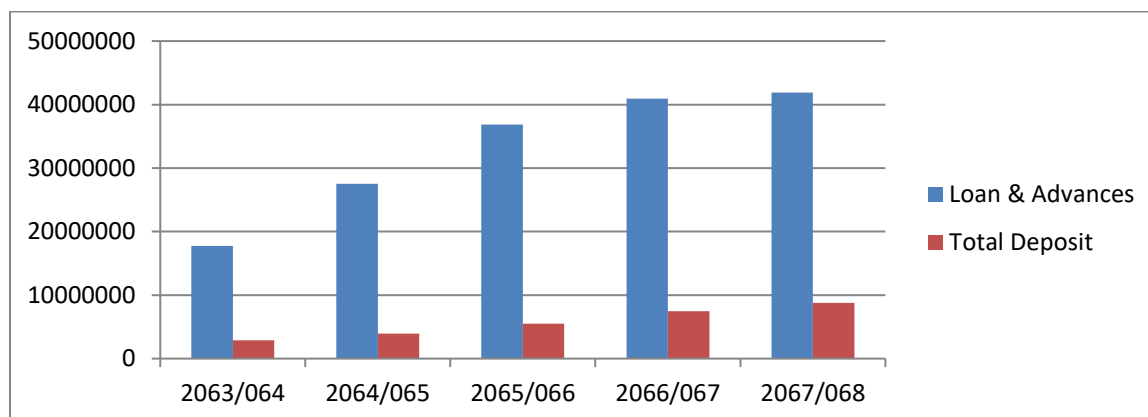


Table 4.10
Loan & Advances to Total Deposit Ratio of BOK
(Rs. in '000')

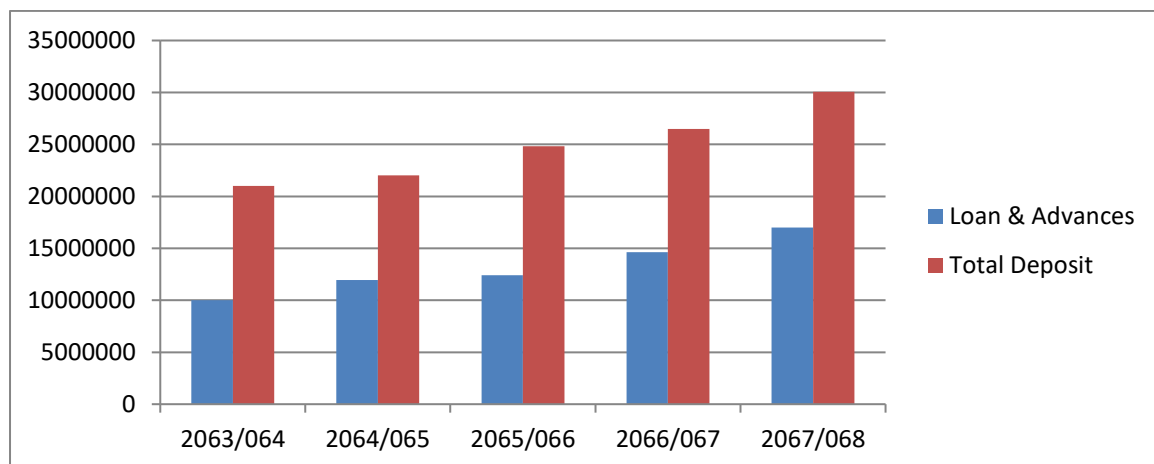
Year	Loan & Advances	Total Deposit	Ratio
2063/064	10001848	21007379	0.47611118
2064/065	11951869	22010333	0.54301173
2065/066	12424521	24814012	0.500705851
2066/067	14642560	26490852	0.552740244
2067/068	16997997	30048418	0.565686919
AV			0.527651185
SD			0.03374773
CV			0.06395841

Source: Appendix 10

Table 4.10 depicted the loan & advance to total deposit ratio of BOK over the five years period from 2063/064 to 2067/068. The ratios are 0.4761, 0.5430, 0.5007, 0.5527 and 0.5656 in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. Similarly, the mean ratio remains at

0.5276 during the five years study period. Likewise, the standard deviation is 0.0337 and coefficient of variation is 0.0639. Loan & advance and total deposit of BOK can be shown by following diagram:

Figure 4.10
Loan & Advances and Total Deposit of BOK



Loan & advances to total deposit ratio of NIBL is increasing and decreasing trend over the five years of study period. Where the ratio of BOK is increasing trend except in the fiscal year 2065/066. Similarly, NIBL has higher mean ratio than that of BOK during the study period. Likewise, the ratios of NIBL have more variation and less consistency than BOK.

From the analysis, we can say that NIBL is in good form according to deposit mobilization point of view than BOK. But it does not mean that NIBL is investing more of its collected fund in high return but with low risk sector than BOK. As well, lending ratios are very low than collection ratios over the study period. From this point of view, loan & advance to total deposit ratios of the banks are not so better but satisfactory.

4.1.2.2 Loan & Advances to Total Assets Ratio

Loan & advances of any commercial bank represent the major portion in the volume of total working fund. This ratio measures the volume of loan &

advances in the structure of total assets. High degree of this ratio indicates good performance of the bank in mobilizing its funds by way of lending function. However, in its reverse side, high degree of this ratio is repressed enactive of low liquidity ratio.

Granting of loans & advances always carries a certain degree of risk. Thus, this asset of banking business is regarded as risky assets. This ratio measures the management attitude toward risky assets. The low ratio is indicative of low productivity and high degree of safety in liquidity and vice-versa. The interaction between risk and return determines this ratio. This ratio also shows the credit risk taken by the bank towards mobilizing its funds into different types of assets. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loan & advances for the purpose of income generation.

Table 4.11
Loan & Advances to Total Assets Ratio of NIBL
(Rs. in ‘000’)

Year	Loan & Advances	Total Assets	Ratios
2063/064	17769100	28073517	0.632948839
2064/065	27529305	39405959	0.698607665
2065/066	36827157	53596379	0.687120244
2066/067	40948440	57935545	0.70679304
2067/068	41887694	59149007	0.708172396
Average			0.686728437
S.D.			0.02791396
C.V.			0.04064774

Source: Appendix 11

Table 4.11 depicted the loan & advances to total assets ratio of NIBL over the five years period from 2063/064 to 2067/068. The ratios are 0.6329, 0.6986, 0.6871, 0.7067 and 0.7081 in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. Similarly, the mean ratio remains at 0.6867 during the five years study period. Likewise, the standard deviation is 0.0279 and coefficient of variation is 0.0406. Loans & advances and total assets of NIBL can be shown by following diagram:

Figure 4.11

Loan & Advances and Total Assets of NIBL

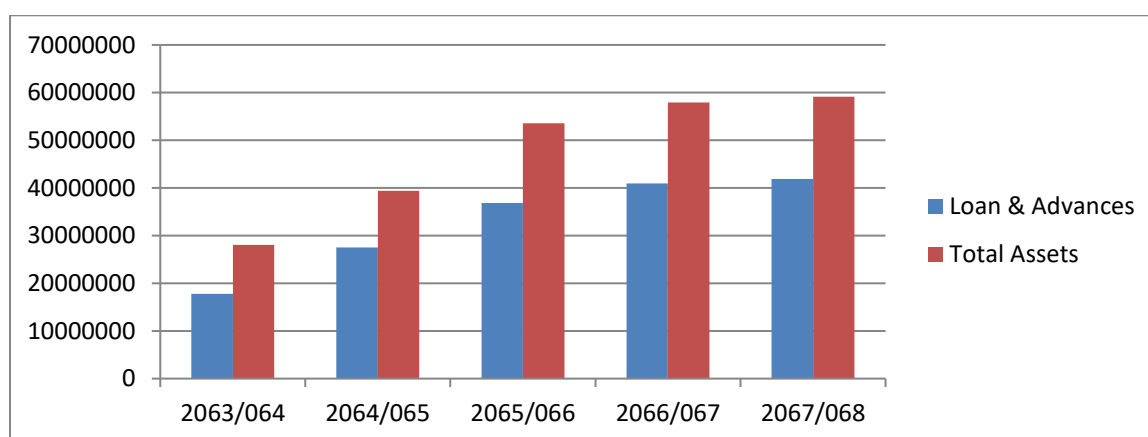


Table 4.12

Loan & Advances to Total Assets Ratio of BOK

(Rs. in '000')

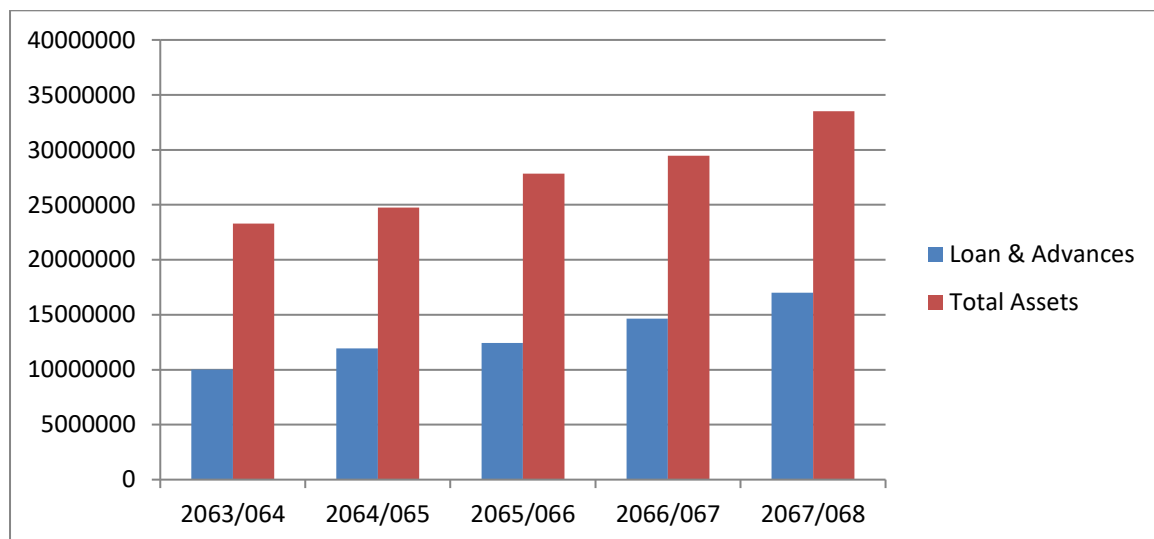
Year	Loan & Advances	Total Assets	Ratio
2063/064	10001848	23279341	0.429644808
2064/065	11951869	24762025	0.482669289
2065/066	12424521	27844695	0.446207832
2066/067	14642560	29460390	0.497025328
2067/068	16997997	33519141	0.507113145
AV			0.47253208
SD			0.02976849
CV			0.06299783

Source: Appendix 12

Table 4.12 depicted the loan & advances to total assets ratio of BOK over the five years period from 2063/064 to 2067/068. The ratios are 0.4296, 0.4826, 0.4462, 0.4970 and 0.5071 in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. Similarly, the mean ratio remains at 0.4725 during the five years study period. Likewise, the standard deviation is 0.0297 and coefficient of variation is 0.063. Loan & advance and total assets of BOK can be shown by following diagram:

Figure 4.12

Loan & Advances to Total Assets Ratio of BOK



Loan & advances to total assets ratio of NIBL is in increasing trend over the five years of study period. The ratio of BOK is in increasing trend except in the fiscal year 2065/66. Similarly, NIBL has higher mean ratio than that of BOK. Likewise, the ratios of NIBL have more variation and less consistency than BOK.

From the analysis, we can say that NIBL has sound lending policy so that it is able to mobilize its resources as loan & advances than BOK. As well, NIBL is risk taker bank than BOK. But assets management in terms of loan & advances of both banks are not so better because of below the fifty percent of total assets.

4.1.2.3 Total Investment to Total Deposit Ratio

A commercial bank may mobilize its deposit by investing in different securities issued by government and other financial and non-financial organizations. This ratio measures the extent to which banks are able to mobilize their deposits on investment in various securities. In the process of management of bank assets, various factors such as excess availability of fund, liquidity requirement, central banks norms etc. are to be considered in general. This ratio indicates the proportion of deposits utilized for the purpose of income generation as well as for maintaining liquidity in appropriate level. A high ratio is the indicator of high success of mobilizes deposits in securities and vice-versa.

Table 4.13
Total Investment to Total Deposit Ratio of NIBL

(Rs. in '000')

Year	Total Investments	Total Deposit	Ratios
2063/064	6505679	2899220	2.243941129
2064/065	6874023	3952524	1.739147694
2065/066	7399811	5502209	1.344880029
2066/067	8635530	7449057	1.159278282
2067/068	7423106	8752064	0.848154904
Average			1.467080408
S.D.			0.48379273
C.V.			0.32976566

Source: Appendix 13

Table 4.13 depicted the total investment to total deposit ratio of NIBL over the five years period from 2063/064 to 2067/068. The ratios are 2.24, 1.73, 1.34, 1.15 and 0.84 in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. Similarly, the mean ratio remains at 1.46 during the

five years study period. Likewise, the standard deviation is 0.48 and coefficient of variation is 0.32. Total investment and total deposit of NIBL can be shown by following diagram:

Figure 4.13
Total Investment and Total Deposit of NIBL

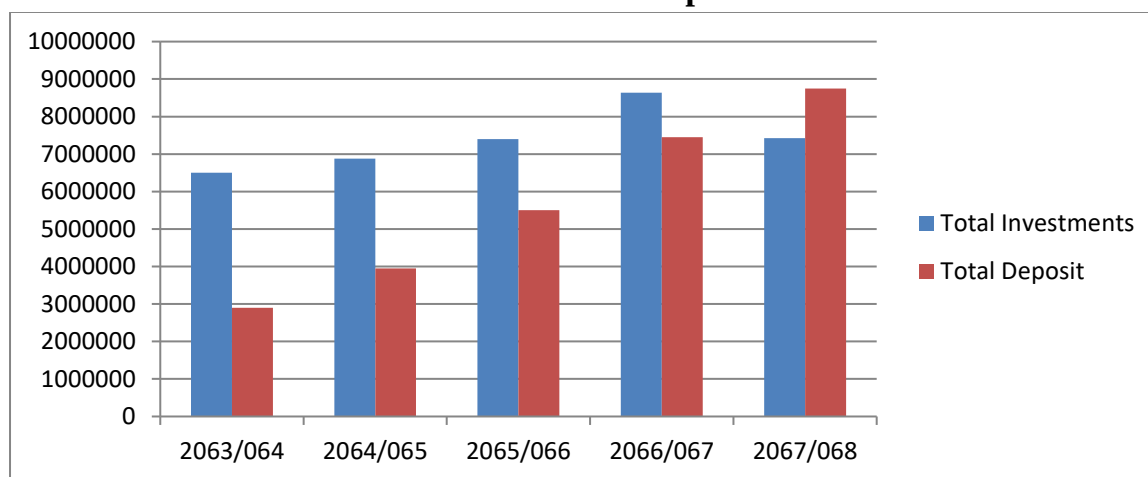


Table 4.14
Total Investment to Total Deposit Ratio of BOK
(Rs. in '000')

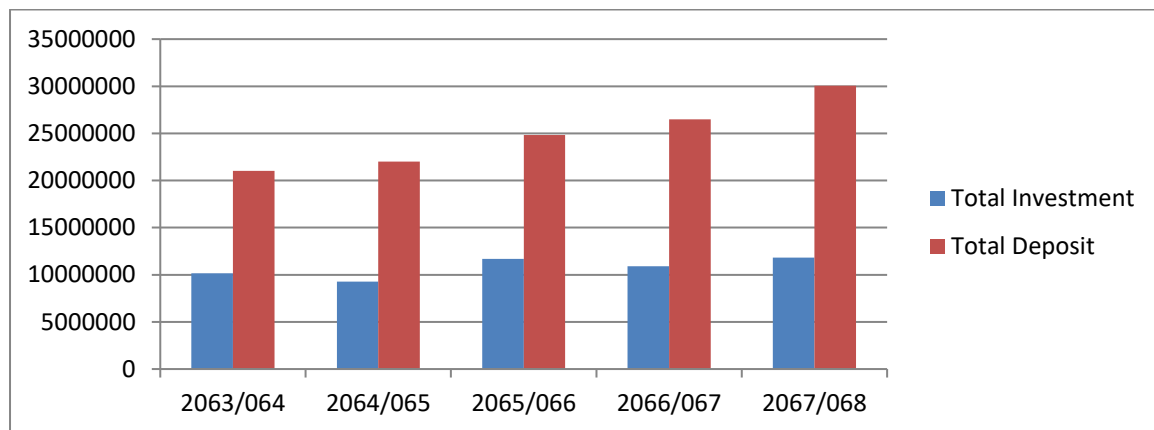
Year	Total Investment	Total Deposit	Ratio
2063/064	10175435	21007379	0.484374324
2064/065	9292103	22010333	0.422170033
2065/066	11692342	24814012	0.471199176
2066/067	10889031	26490852	0.411048727
2067/068	11822985	30048418	0.393464475
AV			0.436451347
SD			0.03521688
CV			0.08068913

Source: Appendix 14

Table 4.14 depicted the total investment to total deposit ratio of BOK over the five years period from 2063/064 to 2067/068 The ratios are 0.48,0.42,0.47,0.41

And 0.39 in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. Similarly, the mean ratio remains at 0.43 during the five years study period. Likewise, the standard deviation is 0.035 and coefficient of variation is 0.08. Total investment and total deposit of BOK can be shown by following diagram:

Figure 4.14
Total Investment and Total Deposit of BOK



Total investment to total deposit ratio of NIBL is in increasing trend except in the fiscal year 2067/68 over the five years of study period. The ratio of BOK is in fluctuating trend all over the study period. Similarly, BOK has highest mean ratio than that of NIBL. Likewise, the ratios of BOK have more variation and less consistency than NIBL.

During the study period, movements of ratios are first increasing, then decreasing and again increasing. It may be due to slack in the different sectors of economy due to which bank is unable to mobilize its fund in loan & advances and share/debenture of other companies properly.

4.1.3 Leverage Ratio

These ratios are also called solvency ratio or capital structure ratio. These ratios indicate mix of funds provided by owners and lenders. As a general rule, there should be an appropriate mix of debt and owner's equity in financing the firm's

assets. To judge the long-term financial position of the firm, leverage ratios are calculated. This ratio highlights the long-term financial health, debt servicing capacity, strength and weakness of firm. Following ratios are included under leverage ratios.

4.1.3.1 Debt to Equity Ratio

Debt to equity ratio measures the relative proportion of outsiders and owner's funds employed in the total capitalization. Here, debt includes all the credits (long-term and short-term) of the bank where equity includes paid up capital, reserve & surplus and undistributed profit. Very high ratio is bad during the long-run period and vice-versa.

Table 4.15
Debt to Equity Ratio of NIBL
(Rs. in '000')

Year	Total Debt	Total Equity	Ratios
2063/064	24488855	1878124	13.03899796
2064/065	34451726	2686786	12.82265353
2065/066	46698100	3907840	11.94984953
2066/067	50094725	4585393	10.92484875
2067/068	50138122	5159760	9.71714227
Average			11.69069841
S.D.			1.23675729
C.V.			0.10578985

Source: Appendix 15

Table 4.15 depicted the total debt to total equity ratio of NIBL over the five years period from 2063/064 to 2067/068 The ratios 13.03, 12.82, 11.94, 10.91 and 9.71 in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and

2067/068 respectively. Similarly, the mean ratio remains at 11.69 during the five years study period. Likewise, the standard deviation is 1.23 and coefficient of variation is 0.10. Total debt and total equity of NIBL can be shown by following diagram:

Figure 4.15
Debt to Equity Ratio of NIBL

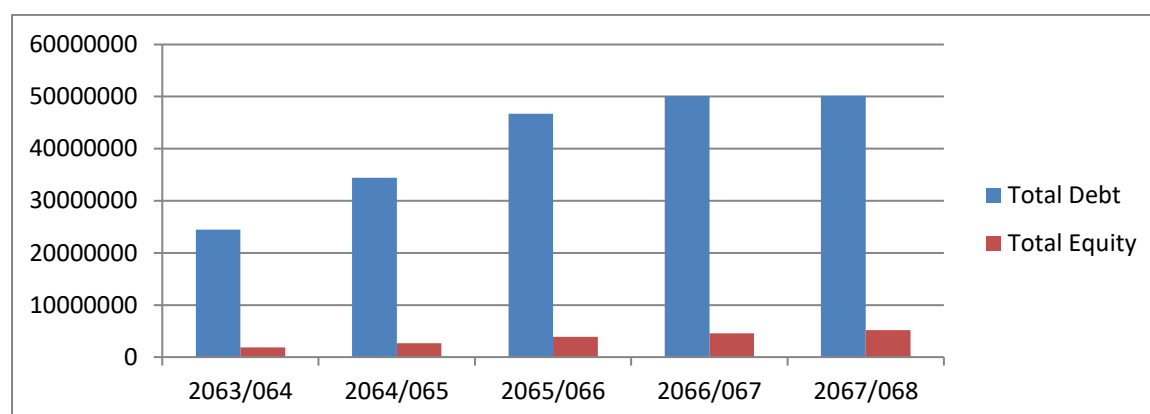


Table 4.16

Debt to Equity Ratio of BOK

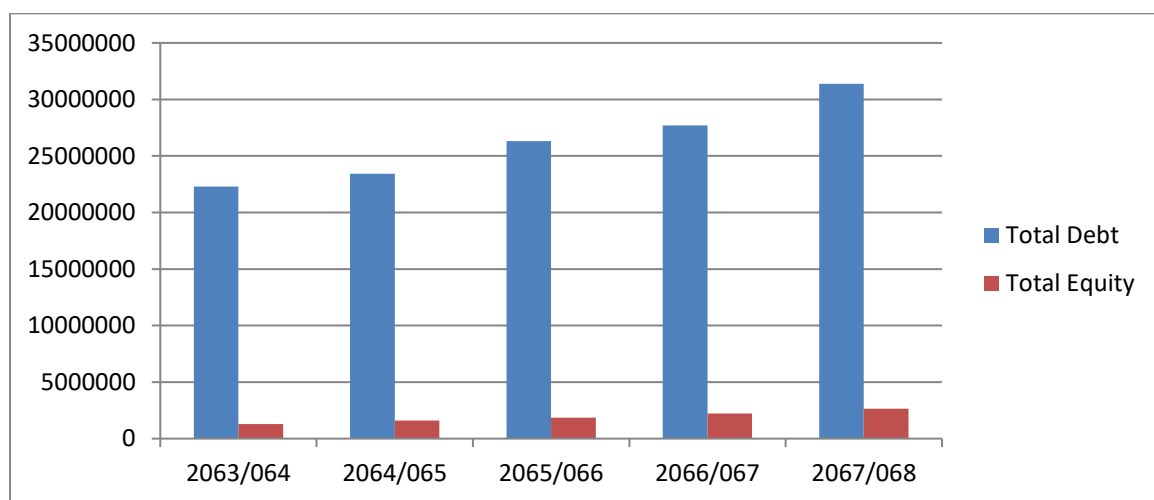
(Rs. in '000')

Year	Total Debt	Total Equity	Ratio
2063/064	22292091	1275260	17.4804283
2064/065	23437859	1587219	14.76661948
2065/066	26302948	1850021	14.21764834
2066/067	27694215	2223634	12.45448442
2067/068	31372641	2638323	11.89112971
AV			14.16206205
SD			1.97246492
CV			0.13927809

Source: Appendix 16

Table 4.16 depicted the total debt to total equity ratio of BOK over the five years period from 2063/064 to 2067/068. The ratios are 17.48, 14.76, 14.21, 12.45 and 11.89 in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. Similarly, the mean ratio remains at 14.16 during the five years study period. Likewise, the standard deviation is 1.96 and coefficient of variation is 0.139. Total debt and total equity of BOK can be shown by following diagram:

Figure 4.16
Debt and Equity of BOK



Total debt to total equity ratio of NIBL is in decreasing trend all over the five years of study period. The ratio of BOK is in continuously decreasing trend in the subsequent years. But BOK has the highest mean ratio than that of NIBL during the study period. Similarly, the ratios of BOK have more variation but more consistency than NIBL.

From the analysis, we can say that BOK is more levered firm than NIBL during the six years of study period. Levered firm must bear more fixed expenses than non-levered. It may result in bad impact on overall performance of the bank in the long-term.

4.1.3.2 Total Debt to Total Assets Ratio

It examines the relationship between borrowed funds (i.e. total debt) and total assets. It shows the relative extent to which the firm is using borrowed money. A lower ratio is preferable since it reduces the distress of the creditors by using more amount of equity on total assets.

Table 4.17
Total Debt to Total Assets Ratio of NIBL

(Rs. in '000')

Year	Total Debt	Total Assets	Ratios
2063/064	24488855	28073517	0.872311617
2064/065	34451726	39405959	0.87427706
2065/066	46698100	53596379	0.87129207
2066/067	50094725	57935545	0.864663049
2067/068	50138122	59149007	0.847657882
Average			0.866040336
S.D.			0.00974233
C.V.			0.01124928

Source: Appendix 17

Table 4.17 depicted the total debt to total assets ratio of NIBL over the five years period from 2063/064 to 2067/068. The ratios are 0.87, 0.87, 0.87, 0.86, and 0.84 in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. Similarly, mean ratio remains at 0.86 during the five years study period. Likewise, standard deviation is 0.009 and coefficient of variation is 0.011. Total debt and total assets of NIBL can be shown by following diagram:

Figure 4.17

Total Debt and Total Assets of NIBL

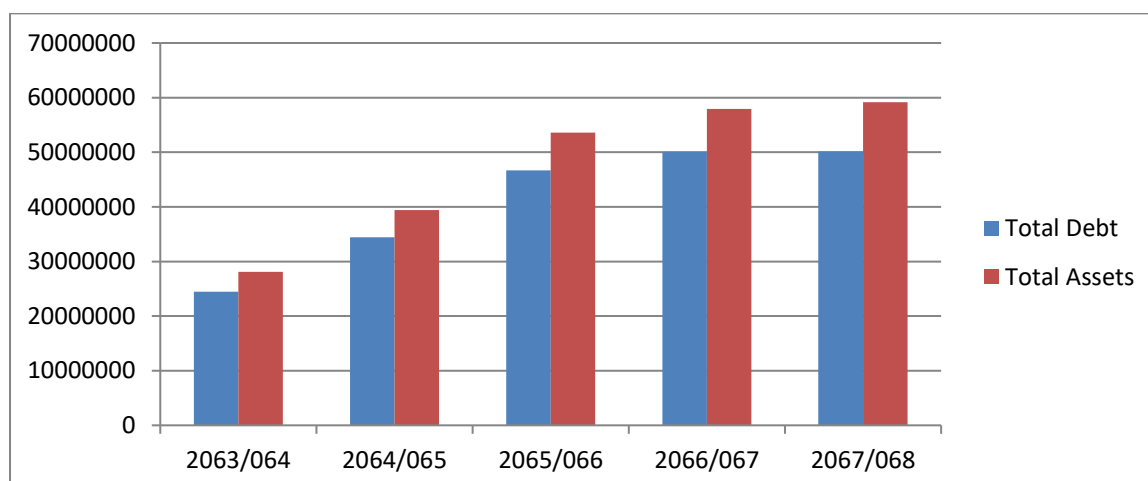


Table 4.18

Total Debt to Total Assets Ratio of BOK

(Rs. in '000')

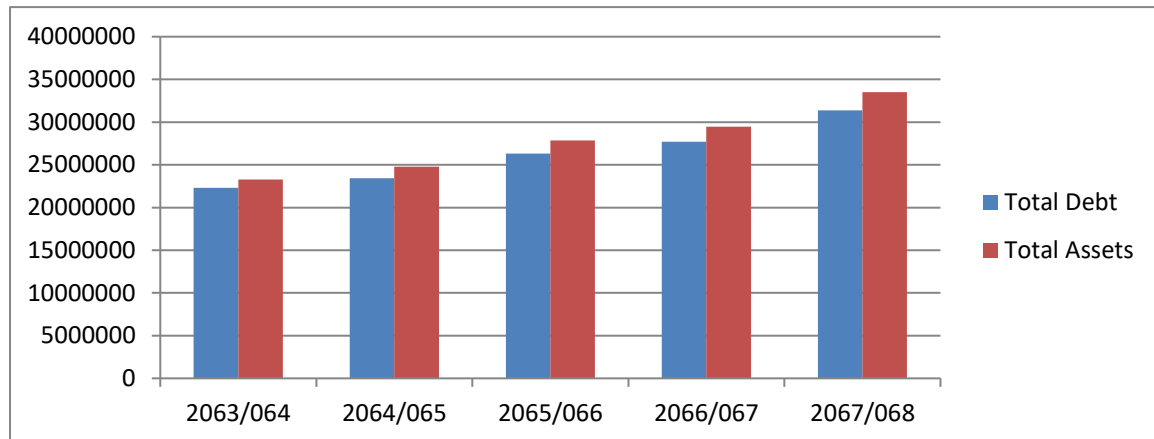
Year	Total Debt	Total Assets	Ratio
2063/064	22292091	23279341	0.957591153
2064/065	23437859	24762025	0.946524325
2065/066	26302948	27844695	0.944630494
2066/067	27694215	29460390	0.940049164
2067/068	31372641	33519141	0.935961963
AV			0.94495142
SD			0.00731003
CV			0.00773587

Source: Appendix 18

Table 4.18 depicted the total debt to total assets ratio of BOK over the five years period from 2063/064 to 2067/068. The ratios are 0.95, 0.94, 0.94, 0.94, and 0.93 in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. Similarly, the mean ratio remains at 0.94 during the

five years study period. Likewise, the standard deviation is 0.0073 and coefficient of variation is 0.0077. Total debt and total assets of BOK can be shown by following diagram:

Figure 4.18
Total Debt and Total Assets of BOK



Total debt to total assets ratio of NIBL is in decreasing trend except in the last two year of study period during the five years. The ratio of BOK is in continuously decreasing trend over the study period. But BOK has the highest mean ratio than that of NIBL. Similarly, the ratios of NIBL have more variation and less consistency than BOK.

According to the above analysis, we can say that BOK used outsider's fund more than owner's fund during the formation of capital structure. But NIBL has more variation in the ratios during the study period. It is bad symptoms for the bank.

4.1.4 Profitability Ratios

Profitability ratios are very helpful to measure the overall operation efficiency of a financial institution. In the context of banks, no bank can survive without profit. Profit is one of the major indicators or efficient operation of a bank. The banks acquire profit by providing different services to its customers or by providing loan & advances and making various kinds of investment opportunities. Profitability ratios measure the efficiency of bank. A higher

profit ratio shows the higher efficiency of a bank. The following ratios are under the profitability ratio.

4.1.4.1 Interest Income to Interest Expenses Ratio

Interest income to interest expenses ratio is the gap between interest rates offered and interest rate charged. NRB has restricted the gap between interests taken in loan & advances and interest offered in deposit. The credit creation power of commercial bank has high impact on this ratio.

Table 4.19
Interest Income to Interest Expenses Ratio of NIBL

(Rs. in ‘000’)

Year	Interest Income	Interest Expenses	Ratios
2063/064	1584987	685530	2.312060741
2064/065	2194276	992158	2.21161952
2065/066	3267941	1686973	1.937162598
2066/067	4653521	2553847	1.822161234
2067/068	5701426	3591630	1.587420196
Average			1.974084858
S.D.			0.26252772
C.V.			0.13298705

Source: Appendix 19

Table 4.19 depicted the interest income to interest expenses ratio of NIBL over the five years period from 2063/064 to 2067/068. The ratios are 2.31, 2.21, 1.92, 1.82, and 1.58 in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. Similarly, the mean ratio remains at 1.97 during the five years study period. Likewise, the standard deviation is 0.26 and coefficient of variation is 0.13. Interest income and interest expenses of NIBL can be shown by following diagram.

Figure 4.19

Interest Income and Interest Expenses of NIBL

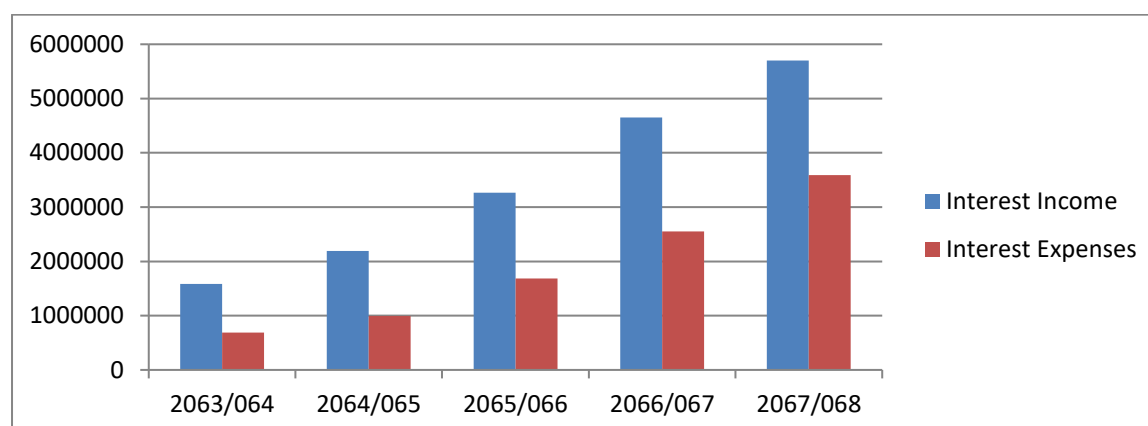


Table 4.20

Interest Income to Interest Expenses Ratio of BOK

(Rs. in '000')

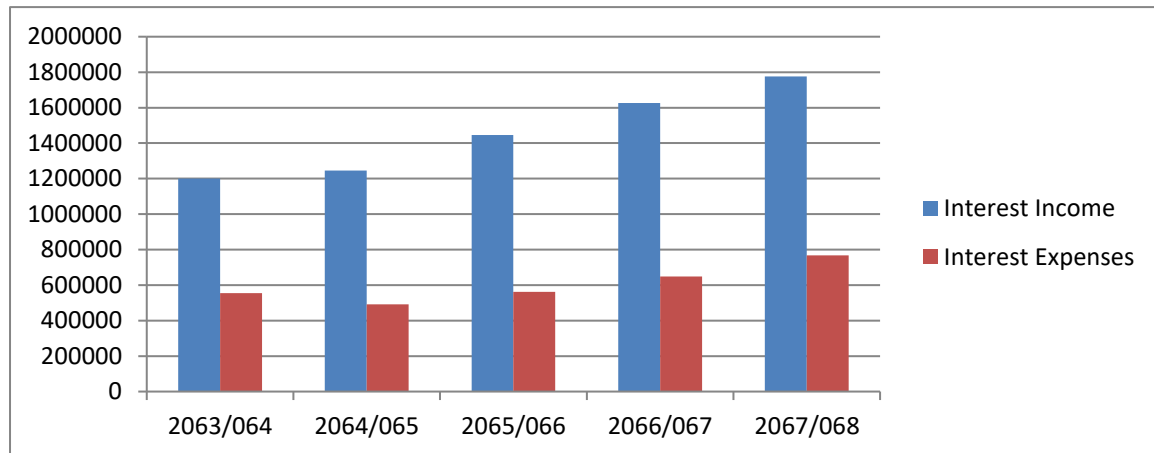
Year	Interest Income	Interest Expenses	Ratio
2063/064	1201234	554128	2.167791557
2064/065	1245895	491543	2.534661261
2065/066	1446468	561964	2.573951356
2066/067	1626474	648842	2.506733535
2067/068	1775583	767411	2.313731495
AV			2.419373841
SD			0.15444809
CV			0.06383804

Source: Appendix 20

Table 4.20 depicted the interest income to interest expenses ratio of BOK over the five years period from 2063/064 to 2067/068. The ratios are 2.16, 2.53, 2.57, 2.50, and 2.31 in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. Similarly, the mean ratio remains at 2.41 during the five years study period. Likewise, the standard deviation is 0.15 and coefficient

of variation is 0.063. Interest income and interest expenses of BOK can be shown by following diagram:

Figure 4.20
Interest Income and Interest Expenses of BOK



Interest income to interest expenses ratio of NIBL is in highly increasing trend except in the last two year during the five years of study period. The ratio of BOK is also in increasing trend over the study period expect last fiscal year. Similarly, NIBL has the highest mean ratio than that of BOK. Likewise, the ratios of NIBL have more variation and less consistency than BOK.

From the analysis, we can say that NIBL has high degree of gap between interest offered and interest charged than BOK. This shows that NIBL has charged high interest rate to borrowers and offering low interest rate to depositors. The highest cost of deposit mix of NIBL has caused the gap between interest income and interest expenses to be least.

4.1.4.2 Return on Loan & Advances Ratio

This ratio measures the earning capacity of commercial bank through its fund mobilization as loan & advances.

Table 4.21
Return on loan & advances ratio of NIBL

(Rs. in '000')

Year	Net Profit	Loan & Advances	Ratios
2063/064	501399	17769100	0.028217467
2064/065	696732	27529305	0.025308739
2065/066	900619	36827157	0.024455295
2066/067	1265950	40948440	0.030915708
2067/068	1176641	41887694	0.028090374
Average			0.027397517
S.D.			0.00230433
C.V.			0.08410728

Source: Appendix 21

Table 4.21 depicted the return on loan & advances ratio of NIBL over the five years period from 2063/064 to 2067/068. The ratios are 0.028, 0.025, 0.024, 0.0309, and 0.028 in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. Similarly, the mean ratio remains at 0.027% during the five years study period. Likewise, the standard deviation is 0.0023 and coefficient of variation is 0.084. Net profit and loan & advances of NIBL can be shown by following diagram:

Figure 4.21

Return on Loan & Advances of NIBL

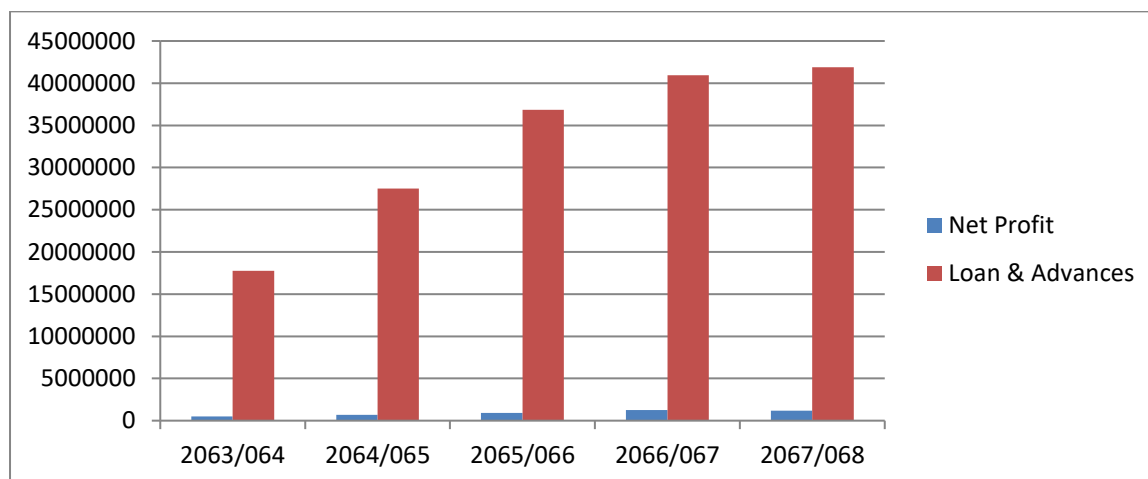


Table 4.22

Return on Loan & Advances Ratio of BOK

(Rs. in '000')

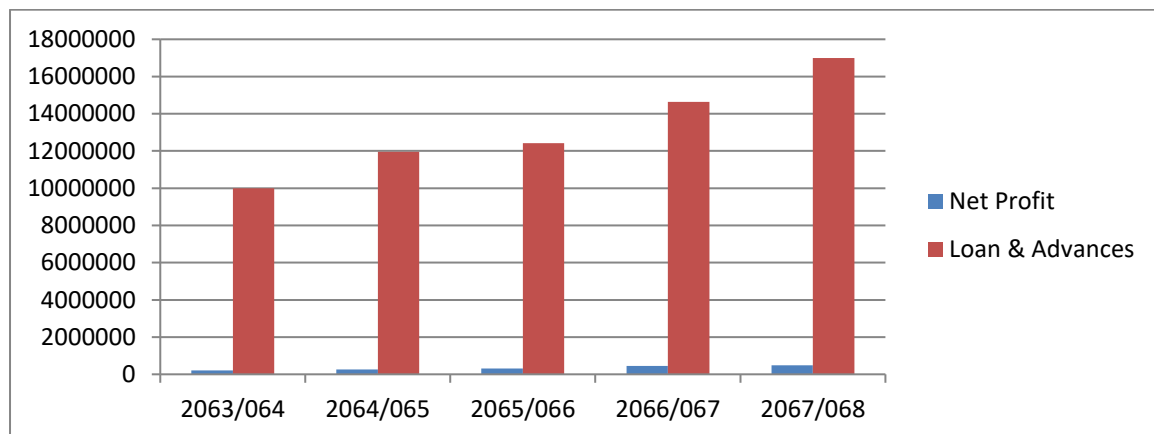
Year	Net Profit	Loan & Advances	Ratio
2063/064	212128	10001848	0.021208881
2064/065	263053	11951869	0.022009361
2065/066	308275	12424521	0.024811822
2066/067	457458	14642560	0.031241668
2067/068	491823	16997997	0.028934174
AV			0.025641181
SD			0.00389185
CV			0.15178125

Source: Appendix 4.22

Table 4.20 depicted the return on loan & advances ratio of BOK over the five years period from 2063/064 to 2067/068. The ratios are 0.021, 0.022, 0.024, 0.312, and 0.289 in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. Similarly, the mean ratio remains at 0.025 during

the five years study period. Likewise, the standard deviation is 0.0038 and coefficient of variation is 0.1517. Net profit and loan & advances of BOK can be shown by following diagram:

Figure 4.22
Net profit Loan & Advance of BOK



Return on loan & advances ratio of NIBL is in fluctuating trend over the five years of study period. The ratio of BOK in first decreasing trend till to the fiscal year 2063/ then it increasing trend the following years of study period. As well, NIBL has the higher mean ratio than that of BOK. Similarly, the ratios of NIBL have more variation but more consistency than BOK.

From the analysis, we can say that return on loan & advances ratio of NIBL and BOK is very low and in fluctuating trend also. The highest ratio is 0.03 of NIBL and 0.031 of BOK during the five years of study period. It shows the normal earning capacity of NIBL and BOK in loan & advance. That means, lending policy of both banks are not so sound and credits are not granted in profitable sectors but satisfactorily in the present economic situation.

4.1.4.3 Net Profit/Loss to Total Assets Ratio

The ratio is useful to measure how well management uses all the assets in business to generate an operating surplus. Higher ratio indicates higher efficiency in the utilization of total assets and vice-versa.

Table 4.23
Net profit/loss to total assets ratio of NIBL

(Rs. in '000')

Year	Net Profit	Total Assets	Ratios
2063/064	501399	28073517	0.017860213
2064/065	696732	39405959	0.017680879
2065/066	900619	53596379	0.016803728
2066/067	1265950	57935545	0.021851007
2067/068	1176641	59149007	0.019892828
Average			0.018817731
S.D.			0.0018233
C.V.			0.09689254

Source: Appendix 23

Table depicted the return on total assets ratio of NIBL over the five years period from 2063/064 to 2067/068. The ratios are 0.017, 0.017, 0.016, 0.0218, and 0.0198 in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. Similarly, the mean ratio remains at 0.0188 during the five years study period. Likewise, the standard deviation is 0.0018 and coefficient of variation is 0.096. Net profit and total assets of NIBL can be shown by following diagram:

Figure 4.23

Net Profit and Total Assets of NIBL

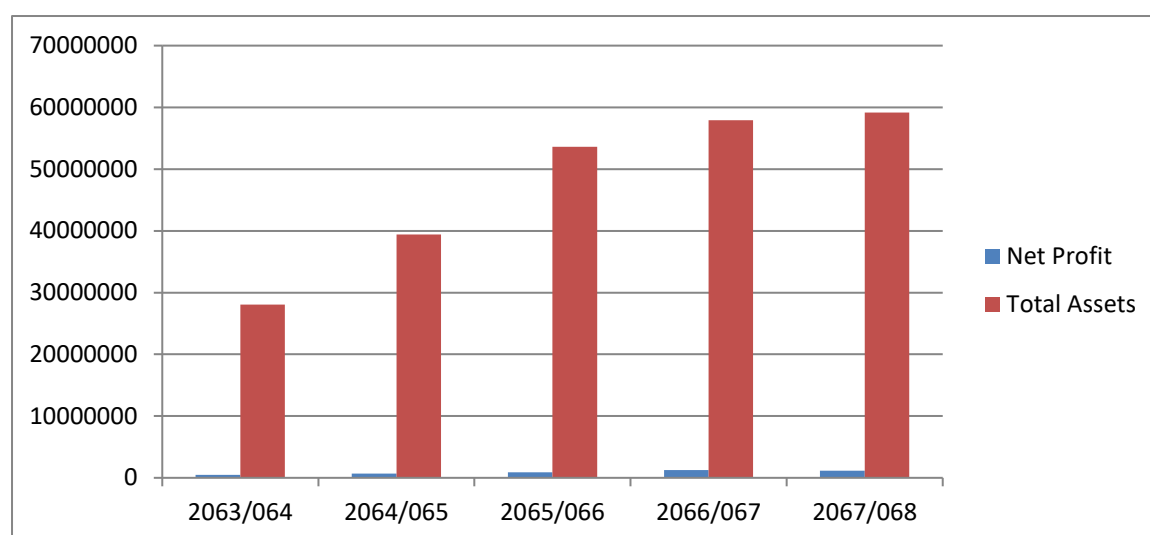


Table 4.24

Net Profit/Loss to Total Assets Ratio of BOK

(Rs. in '000')

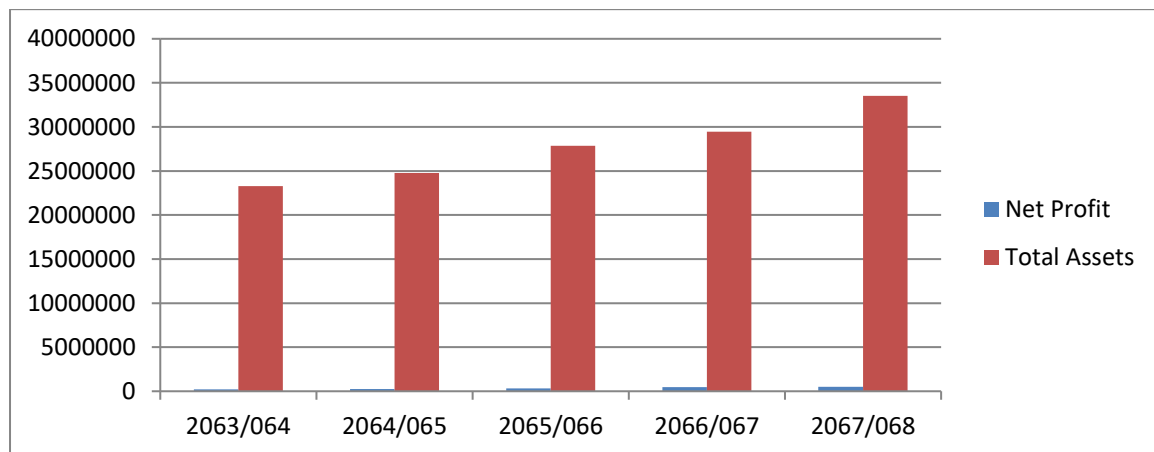
Year	Net Profit	Total Assets	Ratio
2063/064	212128	23279341	0.009112285
2064/065	263053	24762025	0.010623243
2065/066	308275	27844695	0.011071229
2066/067	457458	29460390	0.0155279
2067/068	491823	33519141	0.0146729
AV			0.012201511
SD			0.00246919
CV			0.20236727

Source: Appendix 24

Table 4.24 depicted the return on total assets ratio of BOK over the five years period from 2063/064 to 2067/068 The ratios are 0.009, 0.0106, 0.011, 0.015,

and 0.012 in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. Similarly, the mean ratio remains at 0.012 during the six years study period. Likewise, the standard deviation is 0.0024 and coefficient of variation is 0.2023 Net profit and total assets of BOK can be shown by following diagram:

Figure 4.24
Net Profit and Total Assets of BOK



Return on total assets ratio of NIBL is in increasing trend except in the fiscal year 2063/64, 2064/65 and 2066/67 over the five years of study period. The ratio of BOK is in first fluctuated trend all the fiscal year. Similarly, NIBL has the higher mean ratio than that of BOK during the study period. Likewise, the ratios of NIBL have more variation and less consistency nature than BOK.

From the analysis, we can say that NIBL has better earning capacity than BOK. The highest ratio of NIBL is 0.021 where of BOK is 0.015 over the study period. It means that NIBL can earn 2.1% profit of total assets and BOK can earn only 1.50% profit of total assets.

4.1.4.4 Interest Income to Total Loan & Advances Ratio

It tells the income as interest from total loan & advances. It is useful to know the fact that whether the loan has given good return or not. We can increase interest income by taking good issuing and recovery credit policy. High return shows the soundness of credit policy and vice-versa.

Table 4.25
Interest Income to Total Loan & Advances Ratio of NIBL

(Rs. in '000')

Year	Interest Income	Loan & Advances	Ratios
2063/064	1584987	17769100	0.089199059
2064/065	2194276	27529305	0.079706916
2065/066	3267941	36827157	0.08873726
2066/067	4653521	40948440	0.113643426
2067/068	5701426	41887694	0.136112196
Average			0.101479771
S.D.			0.02066206
C.V.			0.20360769

Source: Appendix 25

Table 4.25 depicted the interest income to loan & advances ratio of NIBL over the five years period from 2063/064 to 2067/068. The ratios are 0.089, 0.079, 0.088, 0.11 and 0.13 in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. Similarly, the mean ratio remains at 0.10 during the five years study period. Likewise, the standard deviation is 0.02 and coefficient of variation is 0.20. Interest income and loan & advances of NIBL can be shown by following diagram:

Figure 4.25
Interest Income and Loan and Advances of NIBL

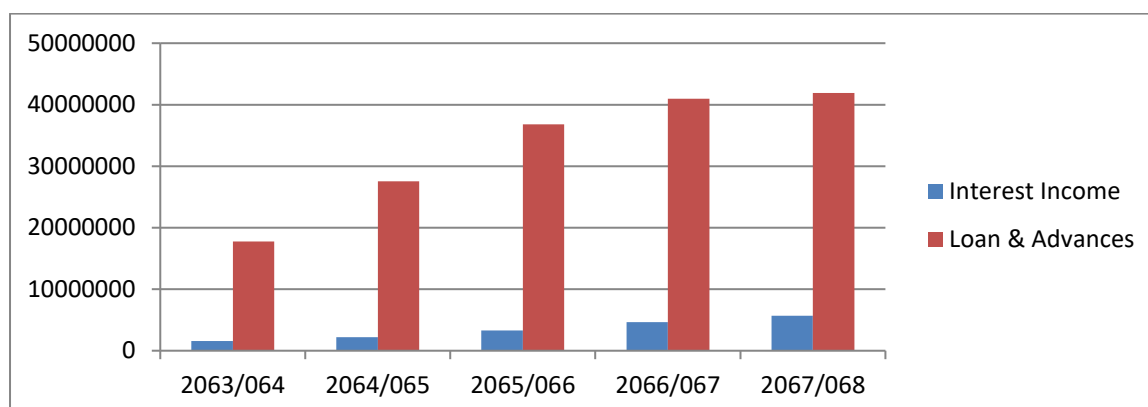


Table 4.26
Interest Income to Total Loan & Advances Ratio of BOK
(Rs. in '000')

Year	Interest Income	Loan & Advances	Ratio
2063/064	1201234	10001848	0.120101205
2064/065	1245895	11951869	0.104242692
2065/066	1446468	12424521	0.116420424
2066/067	1626474	14642560	0.111078527
2067/068	1775583	16997997	0.104458366
AV			0.111260243
SD			0.00632984
CV			0.05689224

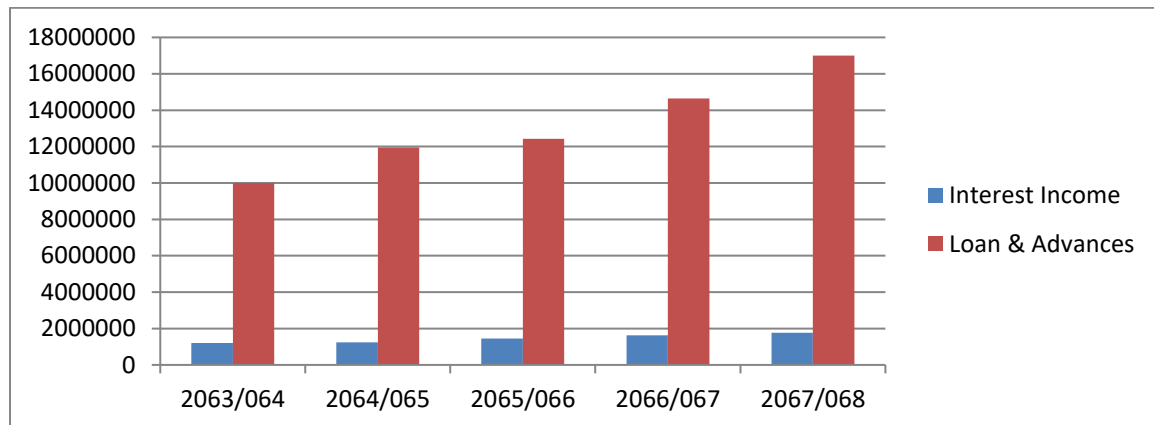
Source: Appendix 26

Table 4.26 depicted the interest income to loan & advances ratio of BOK over the five years period from 2063/064 to 2067/068. The ratios are 0.12, 0.10, 0.11, 0.11, and 0.10 in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. Similarly, the mean ratio remains at 0.11 during the five years study period. Likewise, the standard deviation is 1.78 and

coefficient of variation is 0.056. Interest income and loan & advances of BOK can be shown by following diagram:

Figure 4.26

Interest Income and Loan and Advances of BOK



Interest income to loan & advances ratio of NIBL is in continuously decreasing trend except in the last two year during the five years of study period. The ratio of BOK is also in rapidly increasing trend all over the study period. Similarly, NIBL has the higher mean ratio than that of BOK. Likewise, the ratios of NIBL have more variation and less consistency than BOK.

From the analysis, we can say that NIBL has highest interest income ratio than BOK. That means NIBL is able to grant its credit (loan & advances) in high interest earning area. But it will be risky lending because high interest rate carry high risk and low interest rate carry low risk.

4.1.4.5 Earning per share (EPS)

EPS is one of the most widely quoted statistics when there is a 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 earnings 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. This decision will automatically affect the earnings per share. The profits available to the ordinary shareholders are represented by net profit after taxes and preference dividend. Symbolic expression of EPS is given below.

$$\text{EPS} = \frac{\text{Net profit after tax}}{\text{Number of common stock outstanding}}$$

Table 4.27
Earning Per Share of NIBL and BOK

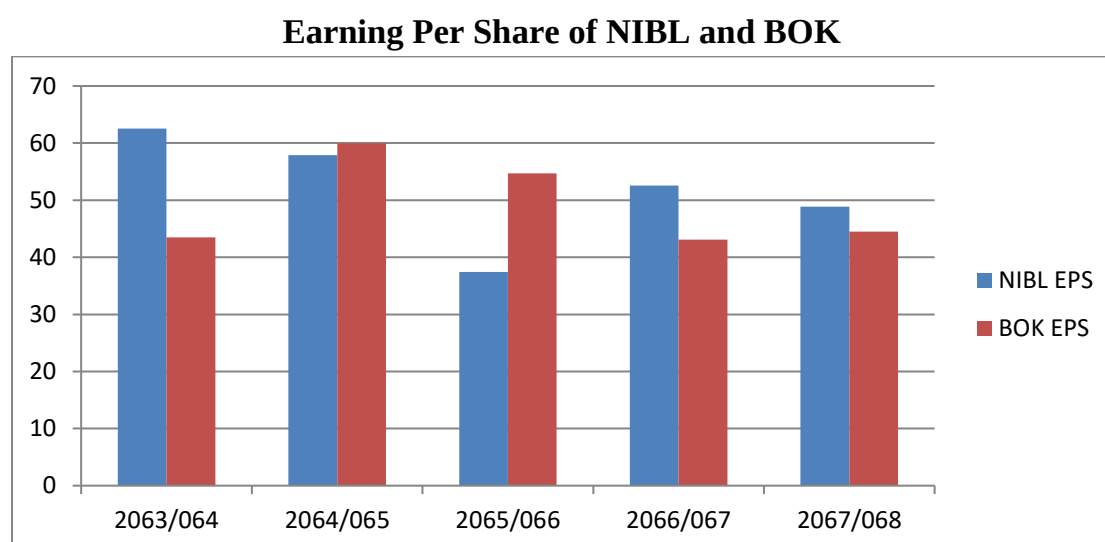
(In Rs.)

Banks Year	2063/064	2064/065	2065/066	2066/067	2067/068	Average
NIBL	62.57	57.87	37.42	52.55	48.84	51.85
BOK	43.5	59.94	54.68	43.08	44.51	49.14

Source: Major indicators of respective banks

Table 4.27 depicted the earning per share of NIBL and BOK over the five years period from 2063/064 to 2067/068. The EPS of NIBL are Rs. 62.57, Rs. 57.87, Rs. 37.42, Rs. 52.55 and Rs. 48.84 in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. The mean EPS of NIBL remains at Rs. 51.85 during the five years of study period. Similarly, the EPS of BOK are Rs. 43.5, Rs. 59.94, Rs. 54.68, Rs. 43.08, and Rs. 44.51, in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. The mean EPS of BOK is Rs. 49.14 over the five years of study period.

Figure 4.27



Earning per share of NIBL is in fluctuating trend where earning per share of BOK is in continuously fluctuating trend of study period during the five years. Similarly, NIBL has the higher mean of EPS than that of BOK. It shows that NIBL is able to earn and provide good return to its shareholders than BOK over the study period.

4.2 Major Finding

- Currents ratio of NIBL is more better then BOK because current ratio of NIBL is 1.057 but current ratio of BOK is 0.61 in average. Similarly, SD and CV are positively aspects.
- Cash and Bank balance ratio is defined as liquidity positions of bank is better than the NIBL because BOK average liquidity position is less than 1.
- BOK interest earning ratio is loser then the NIBL , NIBL earning ability are higher than BOK.
- Average loan and advance ratio of BOK and NIBL is 0.527 and 6.01. NIBL has maintained higher loan & advance to total deposit. In this way, It shows that NIBL ratio does not mean it is always better from the point of liquidity, Both banks are capable to use more than 50% of

deposit on loan and advances. If maintained this it help make consistency on profitability of the banks.

- The Average interest income to interest expenses of the NIBL is 1.97. Average interest income to loss and interest expenses of BOK is 2.41, it terms of the average ratio BOK has best performance. Average interest expenses to total expenses t total expenses ratio of Bok is higher. NIBL has low interest expenses to total expenses ratio, it shows that decreased in cost of deposit as decreased in the interest in the interest expenses ratio decreased .
- NIBL has lowest non performance loan and advances, this IBL is best performance than the BOK. Banking sector is seriously affected by non-performance loan. Both banks are not far from this above fact. If non – performing loan increases, the overall banking business will be affected. So ,it is suggested that both banks (NIBL & BOK) to be sincere while granting loan and to do effective follow up for recovery of non-performing loan
- Average loan and advances to total of BOK and BOK and NIBL 0.68 and 0.50 it can be concluded that the higher mean ratio indicated the good lending performance. Here Bok should focus to increase loan and advances loan and advance to total asset ratio to increase lending performance.
- NIBLs investing ability is good performing the Bok investing ability. NIBL invest is 1.46 of its deposit but BOK is less then 1.
- Total income of Bok and NIBL ,interest income contributes 81.70 and 79.10 respectively. The lowest ratio of NIBL indicated its low dependency in fund-based activity. The highest ratio of BOK indicates greater dependency on fund based activities.

CHAPTER - FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

As the final chapter of the study, this chapter briefly explains the summary of the study, tries to fetch out findings and conclusions and attempts to offer suggestions and recommendations for strengthen the financial position of the sample banks.

5.1 Summary

Development of any nation depends on capital vested and mobilized in productive sectors like industries trade and business of every nook and corners of the country. In fact, the development of economy of the world is this result of substantial investment in such productive sectors In order to boost up the economy and the social life of any country, it is extremely essential to have a mechanism through which small amount of saving can be collected and transferred into efficient uses. Hence, finance plays a vital role and thus contributes in the economic development of nation and the banks provide such financial services.

The basis of business is borrowing from individuals, firms and occasionally government i.e. receiving deposit from them. With these resources and bank's own capital, banks disburse loan or extend credit and also invest in securities. Bank is an institution, which deals with the transaction of money. They perform several financial monetary and economic activities that are essential to accelerate the rate of economic growth of the country.

At present 32 commercial banks have been operating in Nepal. After the adaptation of liberal policy by the government in 1990 number of banks and financial institutions are increasing day by day. They have been rendering high quality banking services to the people. There is cut throat competition between banks and financial institutions.

This research has been undertaken to evaluate the credit management of commercial banks. Two banks Bank of Kathmandu Limited and Investment Bank Limited banks are under study and five year financial statements of respective banks have been used for the study. The study has been divided into five chapters which include introduction, review of literature, research methodology, data presentation and analysis and summary, conclusion and recommendation.

This study mainly based in secondary data, with include published annual report and other publication of banks. Other related information was gathered from the concerned banks, Nepal Rasta Bank, Nepal Stock Exchange, Securities Board of Nepal, different websites. The data have been analyzed by using financial and statistical tools like ratio analysis, correlation coefficient, regression analysis trend analysis etc.

5.2 Conclusion

The study shows that over the period, Average loan and advances ratio of BOK and NIBL is 0.527 and 6.01. Both banks are capable to use more than 50% of deposit on loan and advances. If maintained this, it help make consistency on the profitability of the banks. Banking sector is seriously affected by the non-performing loan. Both banks are not far from this above fact. If non-performing loan increases, the overall banking business will be affected. So provision amount will increase and profit will decrease. So, it is suggested that both banks (NIBL & BOK) to be sincere while granting loan and to do effective follow up for recovery of non-performing loan.

Findings

- Here BOK should focus to increase loan and advances to total asset ratio to increase lending performance. Loan and advances to current assets ratio of BOK is in increasing trend. Here BOK should focus to increase

loan and advances to current assets ratio to increase short term lending performance.

- Here loan loss provision to total loan and advances of NIBL is in increasing trend, which indicates increased volume of non-performing loans of NIBL; we can say this is due to the ineffective credit policy and poor performance of the company.
- Total income of BOK and NIBL, interest income contributes 0.11 and 0.10 respectively. The lowest ratio of NBIL indicates its low dependency in fund-based activity.
- Currents ratio of NIBL is more better then BOK because current ratio of NIBL is 1.057 but current ratio of BOK is 0.61 in average. Similarly, SD and CV are positively aspects.
- Cash and Bank balance ratio is defined as liquidity positions of bank is better than the NIBL because BOK average liquidity position is less than 1.
- BOK interest earning ratio is loser then the NIBL , NIBL earning ability are higher than BOK.
- NIBLs investing ability is good performing the Bok investing ability. NIBL invest is 1.46 of its deposit but BOK is less then 1.

5.3 Recommendation

The findings of the study reflect both positive and negative results with respect to the financial performance of the sampled banks. But the recommendations have been presented for the improvement of the negative of the banks. As per the above conclusion the following suggestions can be concluded for the banks:

- Both banks should try to increase the loan and advances to deposit; here they have maintained more the 50%. High ratio shows the capability of bank on mobilizing its total deposit as loan and advances.
- Banking sector is seriously affected by the non-performing loan. Both banks are not far from this above fact. If non-performing loan increases,

the overall banking business will be affected Banks should sincere while granting loan and to do effective follow up fro recovery of non-performing loan.

- Average loan and advances to total assets of BOK is below 50%. So, BOK should focus to increase loan and advances to total asset ratio to increase lending performance.
- Banks should do lot exercise in more credit creation and reducing the interest rate for loan and advances. This will help them to maintain more competitive.
- Banks could do better by offering modern banking facilities and new product for the development of banking industry.
- Provision on doubtful loan should to be maintain as per the directives of Nepal Rastra bank.

Other recommendation for the achievement of target goals and objective of commercial banks. From above study, analysis and observation with facts we must conclude with a reasonable realistic solution. Some of important and valuable suggestion for strength of commercial bank establishment, sustainable growth. Commercial banks have to channel zed fund by gradually shifting priorities from consumer loan to the productive sector to help for capital formation in the country. Commercials banks have to improve their quality of services. They have to shift their focus from urban areas to rural areas, where they can collected.

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Appendix 1

Current assets Ratio of NIBL				
Year	Current Assets(a)	Current Liability(b)	Ratio (x)=(a/b)	(X-X)^2
2063/064	27314061	26195394	1.042704721	0.0002127
2064/065	38435867	36719173	1.046751979	0.000111
2065/066	52536002	49688914	1.057298254	8.455E-11
2066/067	56799298	53350152	1.0646511	5.42E-05
2067/068	58040559	53989247	1.075039239	0.0003151
AVERAGE RATIO			1.057289058	0.0001386
STANDARD DEVIATION				0.0117729
COEFFICIENT OF VARITIONS				0.011135

Sources:- Annual Report of NIBL

Appendix 2				
Current assets Ratio of BOK				
Year	Current Assets(a)	Current Liability(b)	Ratio (x)=(a/b)	(X-X)^2
2063/064	12131157	21699946	0.559040884	0.0031105
2064/065	14321953	22733721	0.62998719	0.0002303
2065/066	14880073	25388459	0.58609595	0.0008246
2066/067	17365192	27307464	0.635913756	0.0004453
2067/068	20465362	30866629	0.663025496	0.0023245
AVERAGE RATIO			0.614812655	0.001387
STANDARD DEVIATION				0.0372428
COEFFICIENT OF VARITIONS				0.0605759

Sources:- Annual Report of BOK

Appendix 3				
Cash And Bank Balance Total Deposit Ratio of NIBL				
Year	Cash & Bank balance	Total Deposit	Ratio (x)=(a/b)	(X-X)^2
2063/064	2441514	27314061	0.089386708	0.0009134
2064/065	3754942	38435867	0.097693698	0.0004803
2065/066	7918004	52536002	0.15071577	0.0009676
2066/067	6815890	56799298	0.119999546	1.519E-07
2067/068	8140371	58040559	0.140253146	0.0004261
AVERAGE RATIO			0.119609774	0.0005575
STANDARD DEVIATION				0.023612
COEFFICIENT OF VARITIONS				0.1974086

Sources:- Annual Report of NIBL

Appendix 4				
Cash And Bank Balance Total Deposit Ratio of BOK				

Year	Cash & Bank Balance	Total Deposit	Ratio (x)=(a/b)	(X-X)^2
2063/064	1979209	21007379	0.094214942	0.0002653
2064/065	2001184	22010333	0.090920206	0.0001689
2065/066	2014471	24814012	0.081182801	1.061E-05
2066/067	1717352	26490852	0.064828115	0.0001716
2067/068	1757341	30048418	0.058483645	0.000378
AVERAGE RATIO			0.077925942	0.0001989
STANDARD DEVIATION				0.0141021
COEFFICIENT OF VARITIONS				0.1809679

Sources:- Annual Report of BOK

Appendix 5				
Cash And Bank Balance Current Deposit Ratio of NIBL				
Year	Cash & Bank Balance	Current Deposit	Ratio (x)=(a/b)	(X-X)^2
2063/064	2441514	2954756	0.826299701	0.2519558
2064/065	3754942	3138669	1.196348516	0.0173984
2065/066	7918004	7556657	1.047818367	0.0786428
2066/067	6815890	4025820	1.693043902	0.1330734
2067/068	8140371	4335178	1.877747811	0.301946
AVERAGE RATIO			1.328251659	0.1566033
STANDARD DEVIATION				0.3957313
COEFFICIENT OF VARITIONS				0.297934

Sources:- Annual Report of NIBL

Appendix 6				
Cash And Bank Balance Current Deposit Ratio of BOK				
Year	Cash & Bank Balance	Current Deposits	Ratio (x)=(a/b)	(X-X)^2
2063/064	1979209	3503144	0.564980772	0.0208484
2064/065	2001184	4145448	0.482742517	0.0038628
2065/066	2014471	5045161	0.399287753	0.0004538
2066/067	1717352	5028151	0.34154742	0.0062479
2067/068	1757341	5589580	0.314395894	0.0112774
AVERAGE RATIO			0.420590871	0.0085381
STANDARD DEVIATION				0.0924017
COEFFICIENT OF VARITIONS				0.2196949

Sources:- Annual Report of BOK

Appendix 7				
Cash And Bank Balance Interest Sensitive Deposit Ratio of NIBL				
Year	Cash & Bank Balance	Saving Deposit	Ratio (x)=(a/b)	(X-X)^2

2063/064	2441514	14095832	0.173208222	0.0417999
2064/065	3754942	13688766	0.27430829	0.0106813
2065/066	7918004	17066252	0.46395682	0.0074474
2066/067	6815890	14324255	0.475828586	0.0096374
2067/068	8140371	16248538	0.500990981	0.0152109
AVERAGE RATIO			0.37765858	0.0169554
STANDARD DEVIATION				0.1302128
COEFFICIENT OF VARITIONS				0.3447897

Sources:- Annual Report of NIBL

Appendix 8				
Cash And Bank Balance Current Deposit Ratio of BOK				
Year	Cash & Bank Balance	Saving Deposit	Ratio (x)=(a/b)	(X-X)^2
2063/064	1979209	10870542	0.182070866	0.0011871
2064/065	2001184	11759602	0.170174467	0.0005089
2065/066	2014471	12852415	0.156738714	8.322E-05
2066/067	1717352	14582855	0.117765143	0.0008911
2067/068	1757341	15784770	0.111331429	0.0013166
AVERAGE RATIO			0.147616124	0.0007974
STANDARD DEVIATION				0.0282379
COEFFICIENT OF VARITIONS				0.1912927

Sources:- Annual Report BOK

Appendix 9				
Loan & Advances to Total Deposit Ratio of NIBL				
Year	Loan & Advances	Total Deposit	Ratio (x)=(a/b)	(X-X)^2
2063/064	17769100	2899220	6.128924331	0.0131964
2064/065	27529305	3952524	6.964993761	0.9042966
2065/066	36827157	5502209	6.693158511	0.4611902
2066/067	40948440	7449057	5.497130711	0.2672042
2067/068	41887694	8752064	4.786036071	1.508015
AVERAGE RATIO			6.014048677	0.6307805
STANDARD DEVIATION				0.7942169
COEFFICIENT OF VARITIONS				0.1320603

Sources:- Annual Report NIBL

Appendix 10				
Loan & Advances to Total Deposit Ratio of BOK				
Year	Loan & Advances	Total Deposit	Ratio (x)=(a/b)	(X-X)^2
2063/064	10001848	21007379	0.47611118	0.0026564

2064/065	11951869	22010333	0.54301173	0.0002359
2065/066	12424521	24814012	0.500705851	0.0007261
2066/067	14642560	26490852	0.552740244	0.0006295
2067/068	16997997	30048418	0.565686919	0.0014467
AVERAGE RATIO			0.527651185	0.0011389
STANDARD DEVIATION				0.0337477
COEFFICIENT OF VARITIONS				0.0639584

Sources:- Annual Report BOK

Appendix 11				
Loan & Advances to Total Assets Ratio of NIBL				
Year	Loan & Advances	Total Assets	Ratio (x)=(a/b)	(X-X)^2
2063/064	17769100	28073517	0.632948839	0.0028922
2064/065	27529305	39405959	0.698607665	0.0001411
2065/066	36827157	53596379	0.687120244	1.535E-07
2066/067	40948440	57935545	0.70679304	0.0004026
2067/068	41887694	59149007	0.708172396	0.0004598
AVERAGE RATIO			0.686728437	0.0007792
STANDARD DEVIATION				0.027914
COEFFICIENT OF VARITIONS				0.0406477

Sources:- Annual Report NIBL

Appendix 12				
Loan & Advances to Total Assets Ratio of BOK				
Year	Loan & Advances	Total Assets	Ratio (x)=(a/b)	(X-X)^2
2063/064	10001848	23279341	0.429644808	0.0018393
2064/065	11951869	24762025	0.482669289	0.0001028
2065/066	12424521	27844695	0.446207832	0.000693
2066/067	14642560	29460390	0.497025328	0.0005999
2067/068	16997997	33519141	0.507113145	0.0011959
AVERAGE RATIO			0.47253208	0.0008862
STANDARD DEVIATION				0.0297685
COEFFICIENT OF VARITIONS				0.0629978

Sources:- Annual Report BOK

Appendix 13				
Total Investment to Total Deposit Ratio of NIBL				
Year	Total Investments	Total Deposit	Ratio (x)=(a/b)	(X-X)^2
2063/064	6505679	2899220	2.243941129	0.6035126
2064/065	6874023	3952524	1.739147694	0.0740206
2065/066	7399811	5502209	1.344880029	0.0149329

2066/067	8635530	7449057	1.159278282	0.0947421
2067/068	7423106	8752064	0.848154904	0.3830688
AVERAGE RATIO			1.467080408	0.2340554
STANDARD DEVIATION				0.4837927
COEFFICIENT OF VARITIONS				0.3297657

Sources:- Annual Report NIBL

Appendix 14				
Total Investment to Total Deposit Ratio of BOK				
Year	Total Investment	Total Deposit	Ratio (x)=(a/b)	(X-X)^2
2063/064	10175435	21007379	0.484374324	0.0022966
2064/065	9292103	22010333	0.422170033	0.000204
2065/066	11692342	24814012	0.471199176	0.0012074
2066/067	10889031	26490852	0.411048727	0.0006453
2067/068	11822985	30048418	0.393464475	0.0018479
AVERAGE RATIO			0.436451347	0.0012402
STANDARD DEVIATION				0.0352169
COEFFICIENT OF VARITIONS				0.0806891

Sources:- Annual Report BOK

Appendix 15				
Debt to Equity Ratio of NIBL				
Year	Total Debt	Total Equity	Ratio (x)=(a/b)	(X-X)^2
2063/064	24488855	1878124	13.03899796	1.8179117
2064/065	34451726	2686786	12.82265353	1.2813224
2065/066	46698100	3907840	11.94984953	0.0671593
2066/067	50094725	4585393	10.92484875	0.5865257
2067/068	50138122	5159760	9.71714227	3.8949238
AVERAGE RATIO			11.69069841	1.5295686
STANDARD DEVIATION				1.2367573
COEFFICIENT OF VARITIONS				0.1057899

Sources:- Annual Report of NIBL

Appendix 16				
Debt to Equity Ratio of BOK				
Year	Total Debt	Total Equity	Ratio (x)=(a/b)	(X-X)^2
2063/064	22292091	1275260	17.4804283	11.011555
2064/065	23437859	1587219	14.76661948	0.3654897
2065/066	26302948	1850021	14.21764834	0.0030898
2066/067	27694215	2223634	12.45448442	2.9158214

2067/068	31372641	2638323	11.89112971	5.1571337
AVERAGE RATIO			14.16206205	3.8906178
STANDARD DEVIATION				1.9724649
COEFFICIENT OF VARITIONS				0.1392781

Sources:- Annual Report of BOK

Appendix 17				
Total Debt to Total Assets Ratio of NIBL				
Year	Total Debt	Total Assets	Ratio (x)=(a/b)	(X-X)^2
2063/064	24488855	28073517	0.872311617	3.933E-05
2064/065	34451726	39405959	0.87427706	6.784E-05
2065/066	46698100	53596379	0.87129207	2.758E-05
2066/067	50094725	57935545	0.864663049	1.897E-06
2067/068	50138122	59149007	0.847657882	0.0003379
AVERAGE RATIO			0.866040336	9.491E-05
STANDARD DEVIATION				0.0097423
COEFFICIENT OF VARITIONS				0.0112493

Sources:- Annual Report of NIBL

Appendix 18				
Total Debt to Total Assets Ratio of BOK				
Year	Total Debt	Total Assets	Ratio (x)=(a/b)	(X-X)^2
2063/064	22292091	23279341	0.957591153	0.0001598
2064/065	23437859	24762025	0.946524325	2.474E-06
2065/066	26302948	27844695	0.944630494	1.03E-07
2066/067	27694215	29460390	0.940049164	2.403E-05
2067/068	31372641	33519141	0.935961963	8.081E-05
AVERAGE RATIO			0.94495142	5.344E-05
STANDARD DEVIATION				0.00731
COEFFICIENT OF VARITIONS				0.0077359

Sources:- Annual Report of BOK

Appendix 19				
Interest Income to Interest Expenses Ratio of NIBL				
Year	Interest Income	Interest Expenses	Ratio (x)=(a/b)	(X-X)^2
2063/064	1584987	685530	2.312060741	0.1142277
2064/065	2194276	992158	2.21161952	0.0564227
2065/066	3267941	1686973	1.937162598	0.0013633
2066/067	4653521	2553847	1.822161234	0.0230808
2067/068	5701426	3591630	1.587420196	0.1495096
AVERAGE RATIO			1.974084858	0.0689208

STANDARD DEVIATION	0.2625277
COEFFICIENT OF VARITIONS	0.132987

Sources:- Annual Report of NIBL

Appendix 20				
Interest Income to Interest Expenses Ratio of BOK				
Year	Interest Income	Interest Expenses	Ratio (x)=(a/b)	(X-X)^2
2063/064	1201234	554128	2.167791557	0.0632936
2064/065	1245895	491543	2.534661261	0.0132912
2065/066	1446468	561964	2.573951356	0.0238942
2066/067	1626474	648842	2.506733535	0.0076317
2067/068	1775583	767411	2.313731495	0.0111603
AVERAGE RATIO			2.419373841	0.0238542
STANDARD DEVIATION				0.1544481
COEFFICIENT OF VARITIONS				0.063838

Sources:- Annual Report of BOK

Appendix 21				
Return on loan & advances ratio of NIBL				
Year	Net Profit	Loan & Advances	Ratio (x)=(a/b)	(X-X)^2
2063/064	501399	17769100	0.028217467	6.723E-07
2064/065	696732	27529305	0.025308739	4.363E-06
2065/066	900619	36827157	0.024455295	8.657E-06
2066/067	1265950	40948440	0.030915708	1.238E-05
2067/068	1176641	41887694	0.028090374	4.801E-07
AVERAGE RATIO			0.027397517	5.31E-06
STANDARD DEVIATION				0.0023043
COEFFICIENT OF VARITIONS				0.0841073

Sources:- Annual Report of NIBL

Appendix 22				
Return on Loan & Advances Ratio of BOK				
Year	Net Profit	Loan & Advances	Ratio (x)=(a/b)	(X-X)^2
2063/064	212128	10001848	0.021208881	1.965E-05
2064/065	263053	11951869	0.022009361	1.319E-05
2065/066	308275	12424521	0.024811822	6.878E-07
2066/067	457458	14642560	0.031241668	3.137E-05
2067/068	491823	16997997	0.028934174	1.084E-05
AVERAGE RATIO			0.025641181	1.515E-05
STANDARD DEVIATION				0.0038919

COEFFICIENT OF VARITIONS	0.1517812
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Sources:- Annual Report of BOK

Appendix 23				
Net profit/loss to total assets ratio of NIBL				
Year	Net Profit	Total Assets	Ratio (x)=(a/b)	(X-X)^2
2063/064	501399	28073517	0.017860213	9.168E-07
2064/065	696732	39405959	0.017680879	1.292E-06
2065/066	900619	53596379	0.016803728	4.056E-06
2066/067	1265950	57935545	0.021851007	9.201E-06
2067/068	1176641	59149007	0.019892828	1.156E-06
AVERAGE RATIO			0.018817731	3.324E-06
STANDARD DEVIATION				0.0018233
COEFFICIENT OF VARITIONS				0.0968925

Sources:- Annual Report of NIBL

Appendix 24				
Net Profit/Loss to Total Assets Ratio of BOK				
Year	Net Profit	Total Assets	Ratio (x)=(a/b)	(X-X)^2
2063/064	212128	23279341	0.009112285	9.543E-06
2064/065	263053	24762025	0.010623243	2.491E-06
2065/066	308275	27844695	0.011071229	1.278E-06
2066/067	457458	29460390	0.0155279	1.106E-05
2067/068	491823	33519141	0.0146729	6.108E-06
AVERAGE RATIO			0.012201511	6.097E-06
STANDARD DEVIATION				0.0024692
COEFFICIENT OF VARITIONS				0.2023673

Sources:- Annual Report of BOK

Appendix 25				
Interest Income to Total Loan & Advances Ratio of NIBL				
Year	Interest Income	Loan & Advances	Ratio (x)=(a/b)	(X-X)^2
2063/064	1584987	17769100	0.089199059	0.0001508
2064/065	2194276	27529305	0.079706916	0.0004741
2065/066	3267941	36827157	0.08873726	0.0001624
2066/067	4653521	40948440	0.113643426	0.000148
2067/068	5701426	41887694	0.136112196	0.0011994
AVERAGE RATIO			0.101479771	0.0004269
STANDARD DEVIATION				0.0206621

COEFFICIENT OF VARITIONS	0.2036077
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Sources:- Annual Report of NIBL

Appendix 26				
Interest Income to Total Loan & Advances Ratio of BOK				
Year	Interest Income	Loan & Advances	Ratio (x)=(a/b)	(X-X)^2
2063/064	1201234	10001848	0.120101205	7.816E-05
2064/065	1245895	11951869	0.104242692	4.925E-05
2065/066	1446468	12424521	0.116420424	2.663E-05
2066/067	1626474	14642560	0.111078527	3.302E-08
2067/068	1775583	16997997	0.104458366	4.627E-05
AVERAGE RATIO			0.111260243	4.007E-05
STANDARD DEVIATION				0.0063298
COEFFICIENT OF VARITIONS				0.0568922

Sources:- Annual Report of BOK