

CHAPTER - I

INTRODUCTION

1.1 General Background of the study

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 mobilized idle resources into the most profitable sector after collecting them form scattered source commercial bank contributes is significantly and the formation and mobilization of internal capital and development effort.

The economic development of any nation is highly dependent on the various industrial sectors. This industrial sector comprises public sectors, manufacturing enterprises, tourism, transportation, construction, consulting services, trade, and services. The smooth operations of these sectors certainly have positive results over the economic growth and development of the nation. The failure of only one sector may also retard the economic growth. The level of contribution of these sectors on Gross Domestic Product (GDP) should be increased year by year. The contribution of financial and consultancy services in overall GDP cannot be overlooked. Agriculture sector has dominated other sector as almost 80% of the people rely on agriculture for their existence. The service sector especially financial sector has occurred significant position in comparison to others. The sector has vital role in smooth running of the economic activities. It is the fact that the existence of financial sector in the development of the capital market as well as money market is remarkable. Moreover, the sector has been able to lure a large community to invest in equity shares through primary & secondary market. Whatever may be the position of the sector, one can definitely state that it is one of the major catalysts in removal of backwardness and poverty from the nation. The financial and consultancy services, one of the important industrial sectors comprises; commercial banks, development banks, rural development banks, agriculture development banks, finance companies, co-operative with limited banking transactions.

Integrated and speedy development of the country and its financial position of the people are possible only when competitive banking service with its effective credit management reaches nooks and corners of the country. In the developing country like Nepal, there is always lack of financial resources not only because of its real absence but because of the available resources not properly mobilized and not fully utilized for the productive

purpose; in this course the commercial banks play a vital role. In modern times, commercial banks, which are facilitated, regulated and supervised by the Central bank, confined them and concentrated in their activities of fulfilling the financial needs of their customers. In the present scenario, Nepalese banking system is evolving itself as a powerful instrument of planning and economic growth of all the developed and underdeveloped sectors. The scope and scale of banking too have undergone substantial change in response to the saving and credit needs of people.

Bank came into existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sector and causing an overall economic development. The bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society that they are serving.

While talking about financial system there are two important aspects of financial deepening and financial repression. Financial repression is defined as a situation where the government and/ or central bank's regulations distort the operation of financial market. In other words, it means banks are dictated by the central bank and/or government not to charge more than certain amount of interest and restriction on other activities too. The indicators of such situation are ceiling on the nominal interest rate, mandatory investment in government paper, imposition of reserve requirement limiting their ability to lend and mandatory directed credit in priority and deprived sector (Koch & MacDonald: 1998: 310). Similarly, financial deepening is defined as the situation where banks are allowed to charge interest on the prevailing market rate. There is negligible restrictions imposed by the central bank and commercial banks have been given total freedom on their activities.

The first joint venture of Nepal is Nabil Bank Limited established in 1984 A.D, joint ventures with United Arab Emirates Bank. Then two other banks Nepal Indosuez Bank Ltd. with Indosuez Bank of France and Nepal Grindlays Bank Limited with Grindlays Bank of London were established in 1986 A.D. But, currently these banks name changed as Nepal Investment Bank Limited and Standard Chartered Bank Limited respectively. Himalayan Bank Limited Bank is joint ventured with Habib Bank of Pakistan and NSBL Bank Limited is joint ventured with State Bank of India were established in 1993 A.D. Everest Bank limited is joint ventured with Punjab National Bank India (early it was joint ventured with United Bank of Calcutta). Nepal Bangladesh Bank is joint ventured with I.F.I.C Bank Limited of Bangladesh which was established in 1993. Bank of Katmandu is joint ventured with SIAM commercial Bank public co. Thailand which was established in 1995 A.D. Nepal Bank of Ceylon is joint ventured with Nepal Credit and Commerce Bank which was established in 1997 A.D. Likewise, Lumbini Bank Limited and NIC bank Limited both was established in 1998 A.D. Others private commercial banks,

namely Kumari Bank Limited was established in 1999, Machhapuchhere Bank Limited was established in 2000 A.D, Laxmi Bank Limited was established in 2001 A.D and Siddhartha Bank Limited was also established in 2001 A.D, Global Bank, Citizen Bank, Prime Bank, Sunrise Bank, Bank of Asia, Nepal Merchant Bank, Kist Bank are the newly established commercial bank.

Overall national development of any country depends upon the economic development of that country and economic development largely depends upon the financial infrastructure of that country. Therefore, the primary goal of any nation including Nepal is rapid economic development to promote the welfare of the people and the nation as well. Nepal being one of the least developed countries has been trying to embark upon the path of the economic development by economic growth rate and developing all sectors of economy. Nepal started economic development very late, only from early fifties of the 19th century. The agriculture based economy, vast mountainous landforms, political instabilities, landlocked situation and poor resource mobilization, which have slowed down the pace of development.

Commercial banks are major financial institution, which occupy quite an important place in the framework of every economy. Commercial banks render numerous services to their customer in view of facilitating their economic and social life such as collection deposits from the public, grant loans to those investors who want to invest in the business, industry and other sectors, overdraft, guarantee services, letter of credit, discounting bills, promissory notes, selling of others share to general public, agency function task, limit of storage commodities etc.

A good banker is one who effectively mobilizes the savings of the commodity as well as makes such use of saving by making it available to productive and prior sector of economy, thereby fostering the growth and development of nation's economy.

Traditionally, the bankers used to accept three types of deposits, i.e. current, saving and fixed deposit. But now-a-days as there is intense competition for resources, varieties of other innovations are introduced. The other sources of fund collection are common stock financing, preferred stock financing as well as bond or debenture financing. Similarly there are various instruments for fund mobilization, i.e. utilization or investment. Generally the investment of the commercial banks include the investment on government securities like treasury bills, development bonds, national savings bonds, foreign securities, shares of government owned companies and non-government companies and investment on debentures. Similarly the commercial banks use their major chunk of funds in loan and advances.

Commercial bank deals with people's money. They have to find ways of keeping their assets liquid so that they could meet the demand of their customers. In their anxiety to make profit, the banks can't afford to lock up their funds in assets that are not easily realizable. The depositor's confidence could be secured only if the bank is able to meet the demand for cash promptly and fully. The banker has to keep adequate cash for this purpose. Cash is an idle asset and hence the banker cannot afford to keep a large portion of his assets in such a way that he can have adequate profits without sacrificing liquidity. Commercial banks must mobilize its deposits and other funds to profitable, secured, stable and marketable sector. Then only it can earn profit as well as it should be secured and can be converted into cash whenever needed. A healthy development of any bank depends heavily upon its investment plan. A sound and viable investment plan attracts both borrowers and lenders, which helps to increase the volume and quality of deposits, loan and investment.

1.2 Statement of the Problem:

In the Nepalese economy, commercial banks rapidly and showing the best operating result in most recent years. The growth of the banks may be the outcome the capital structure they are applying. Realising this fact various studies regarding capital of the banks have been carried out but they have not been able to provide clear findings managing their capital structure and what is the leverage position of these institutions.

Commercial banks have vital role in the economic upliftment. Commercial bank is the bank which deals in exchanging the currency, accepting deposits giving loans and performing commercial transactions. Therefore commercial bank acts as pool between savers and investors of the fund. Banks must also maintain the adequate cash and bank balance to meet the day by day management of resources, i.e., liquidity position of the bank. Although banks are profit generating business organization, customers' expectations are also taken under consideration.

Capital structure has taken as the subject of controversy over since the publication of Modigliani and Miller Classic Paper in 1958 and the debate still exists as a puzzle. As a result the matter is running as an interesting issue among the research scholars and students of finance. Thus, the dare was collected to carry out a study on capital structure with other hand. Commercial banks are major companies of financial system and they work as a catalyst of economic development of the nation.

Although every bank has wide range of services covering the different strain of society, deposit collection, loan disbursement and collection has considered as main function to be performed by banks. The bank has to follow a number of directives set by the central bank in all the activities, deposit of this the bank has been facing various problems like as lack of good lending opportunities, poor information systems, political instability,

security problem, increasing level of non-performing assets etc. So, to overcome out of such problem the bank has to adopt the proper techniques of loan management which help the bank in maintaining the liquidity position and improve its performance.

This study needs to analyzed efficiency and weaknesses of capital and assets structure management of all Nepalese commercial banks which aims to help it is make a proper decision. This study especially dials with following problems:

- ❖ To what extent Nepalese commercial banks have been able to raise their profitability?
- ❖ How efficiently Nepalese commercial banks are managing their liquidity, assets and capital structure?
- ❖ What is the relationship of investment and loan advances with deposits and total net profit?
- ❖ How for Nepalese commercial banks have been able to convert the mobilized resources into investment?

1.3 Objectives of the Study

The main objective of the study is to analyze, examine and interpret the assets utilization and its impact on capital structure of Nepalese commercial banks. To achieve the main objective the following subsidiary objective has been set:

- ❖ To analyze the utilization of assets and liability of Nepalese commercial banks.
- ❖ To analyze the trend of interest, income and expenses of Nepalese commercial banks.
- ❖ To find out position of the assets utilization and capital structure of Nepalese commercial banks.
- ❖ To provide feedback to the policy makers and executive working in various sectors related to it.

1.4 Significance of the Study

Research itself is very important because it aims to gain knowledge and to add the new literate in existing field. Thus, the research has its own imperative. Mainly, the study is important for the researcher to fulfill the academic requirement of master degree. On the other, the study is important for commercial banks, researchers, scholars, investors, government and many other parties. At last, it is expected that the study will add a drop of literate in the field of commercial banks and their assets utilization and its impact on capital structure.

1.5 Limitations of the study

Financial ratio is not a full proof tool itself and no study can be conducted without any limitation. So this study has also been some limitations. Major limitations of the study are:

- This study will cover the four commercial banks only.
- The study is limited to the related variables effecting assets utilization and its impact on capital structure of selected bank.
- The study is mainly based on secondary data. Due to the used of secondary data the accuracy of result and conclusions highly depends upon the reliability of these data.
- Sometime data may be unsuitable vague and not available due to secrecy.
- The study will consider the period of 5 years only for the analysis of the data. So it has time constraint.
- Finally out of the numerous affecting factors only factors related to assets utilization and its impact on capital structure.

1.6 Organization of the Study

This proposal is prepared in line with prescribed format and structured into five chapters; each devoted to some aspects of non performing loan and performance of finance companies. The titles of each of these chapters are summarized and the contents of each of these chapters of this study are briefly mentioned here.

Chapter I	:	Introduction
Chapter II	:	Review of Literature
Chapter III	:	Research Methodology
Chapter IV	:	Presentation and Analysis of Data
Chapter V	:	Summary, Conclusion & Recommendations

Chapter one: The first chapter deals with the subject matter consisting introduction, background of the study, focus of the study, statement of the problem, objective of the study, significance of the study, limitations of the study and chapter scheme of the study.

Chapter Two: The second chapter is mainly focused with the review of available literature in the field of the studies being conducted. This includes review of the concerned topics, review of supportive text, review of books, review of various empirical studies conducted inside and outside the country, review of related articles and review of legislation related to loan management of commercial banks, development banks and finance companies.

Chapter Three: The third chapter describes the research methodology used to conduct the present research. It deals with research design, sources of data, data processing procedures, population and sample, period of the study, method of analysis and financial and statistical tools.

Chapter Four: The fourth chapter is concerned with analytical framework. It deals with the presentation, analysis, interpretation and scoring the empirical findings out of the study through definite course of research methodology. In this study, investment operations of commercial bank.. This chapter also contains major finding of the study.

Chapter Five: The final chapter five includes the major finding and conclusion of the study, which deals about the main theme of study. It is conclusive and suggestive chapter including the main findings and recommendation for improvement. This chapter deals about the main themes of the study and gives recommendations for the improvement in loan quality of the listed finance companies. At last, appendixes and bibliography have also been included according to the use of study.

CHAPTER - II

REVIEW OF LITERATURE

“Review of literature means reviewing research studies of other relevant proposition in the related area of the study so that all part studies, their conclusions and deficiencies may be know and further research can be concluded.”(Pantta & Wolf, 1999:234). This chapter deals with the literature, relevant to this study, this part of thesis will essential to know about the finding of other research which are appropriate to the study. The first part will consist conceptual framework and the remaining parts will consist the review of reports, articles, journals and dissertation.

2.1 Conceptual Review

2.1.1 Capital Structure

Capital structure is concerned with analyzing the capital composition of the organization. According to *Weston and Bringham 7th edition, page:555*, “Capital structure is the permanent financing source of the firm, represented primarily by long term debt, preferred stock, common stock, excluding all short term Credits. Thus a firm’s capital structure is only a part of its financial structure. Common stock, capital surplus and accumulated retained earnings.”

Capital structure refers to the mix of long-term sources of funds. Such as, debentures long term debt and preference share capital and equity share capital including reserve and surplus (Panday 1999: 231). Capital structure concept hold major place in the field of financial management. Capital structure is the composition of various types of long term sources of funds, debt, preferred socks, debentures and equity including retained earnings (reserves & surplus). Sometime it is also referred to as financial structure, if there is no short-term liability. (Khan and Jain,1992: 376) stressed that the capital structure or financial plan or financial structure refers to the composition of the firm is the permanent financing represented by long term debt, preferred stock & shareholder’s equity. They further added that a firm’s capital structure is only part of its financial structure.

Financial structure of a firm represents the composition of various means of financing, ie short term and long term. In this may, the capital structure is only part of the financial structure of an enterprise as the mixture of liabilities plus equity, which are shown by the left hand side of the balance sheet. Similarly, the capitalization of the firm is different from the capital structure. Capitalization is a word ordinarily used to refers the sum of outstanding stocks and funded obligation which may represent whole factitious value (Lincoln, 1982: 213).

Value of the firm, market value of the share, net income and stakeholder desires can be fulfilled by the optimal capital structure decision. Optimal capital structure concerns the level of optimum utilization of the capital which decreases the overall cost of capital.

The question of the Existence of optimum use of leverage has been very succinctly by (Solomon,1963:92) is that, “Given that a firm has certain structure of assets, which offers net operating earning of given size and quality, and given a certain structure of rates in the capital market, is there some specific degree of financial leverage at which the market value of the firm’s securities will be higher or the cost of capital will be lower than at other degrees of leverage.”

According to *Stephen and George second edition, page: 344*, “Mixture of financial instruments used to finance the firm, is simplified to include only long term interest bearing debt and common stock including a short term liability is known as the capital structure.”

Every firm must deal with the various choices available to management for funding the investment and operations of the business over the long term. Financing

section of a firm includes the operating profit, which normally is a key source of funds available internally for an organization.

(*Helfert,1997:11-12*, has stated, in this context, two key areas of strategy and trade-off decisions that are identified as: the disposition of profit and shaping of the firm’s capital structure.

“As the choices are crucial to the firm’s long term viability, this set of decisions is made at the highest level of the management and endorsed by the board of directors.

The first area, disposition of profits, undergoes a basic three way split of after tax operating profit among owners, lenders and retention for reinvestment in the firm. Here, the critical trade-off choice is the relative amount of dividends to be paid out versus the alternative of retaining these funds to invest in the company’s growth. Payment of interest to lenders is a matter of contractual obligation. The level of interest payments uncured relative to operating profit, however, is a direct function of management policies and actions regarding the use of debt.

The second area, the planning of capital structure proportions, involves selecting and balancing the relative proportion of funds obtained over time from ownership source and long-term debt obligation. The chosen combination is intended to support an acceptable level of overall profitability of the business. In this context, business risk and debt services requirements should be taken into account. At the same time it should match the degree of risk exposure deemed appropriate by management and the board of directors.”

According to *Western and Brigham (1981)*, “Capital structure is the permanent financing of the firm, primarily represented by long-term debt, preferred stock and common stock but excluding all short term credits.”

According to *Solon (1969)*, page:42 “Capital structure is the combination of the long term sources of funding i.e. debt, preferred stock, common stock that are used to finance the firm. Optimum capital structure can be defined as the mix of debt and equity, which will maximize the market value of the firm, is represented as the credit side of the balance sheet. Further the advantage of having an optimum capital structure, if such an optimum does exist, is two fold, it maximizes the value of the firm and hence the wealth in turn increases its ability to find new wealth creating investment opportunities. Also by increase in investment in increases the economy’s rate of investment and growth.”

Main theories and approaches regarding capital structure are mentioned below. According to *David Durand (1999)*, main approaches are:

- Net Income Approach.
 - Net Operating Income Approach.
- And other two fundamental theories are as follows:
- Traditional Approach
 - Modigliani and Miller’s Approach

2.1.2 Related Terms in Capital Structure Theories:

Mainly used term in the capital structure theories are defined follow properly.

Total market value of the firm (V) = (S+B)

Value of the equity (S) = (V-B)

Market Value of debt (B) = (V-B)

EBIT= Earning before Interest and Taxes or net operating income (NOI).

I= Annual Interest charge.

E=Earning available to common stockholders (EACS).

Ke= Equity capital rate.

Kd =Debt Capitalization rate.

Ko = Overall capitalization rate.

NI = Net income.

Value and Cost related with the different securities are mentioned below:

For Debt:

Cost of Debt (Kd) = I / B

Market value Debt (B) = I / Kd

For Equity:

$$\text{Cost of Equity} \quad (K_e) = \text{NI} / S$$

$$\text{Market value of Equity} \quad (S) = \text{NI} / K_e$$

For Overall:

$$\text{Overall Capitalization rate:} \quad (K_o) = \text{EBIT} / V$$

Overall Capitalization rate is weighted average of the cost of debt and equity, can also be written as:

$$\text{Weighted average cost of capital (WACC / } K_o\text{):} = W_d \times K_d + W_e \times K_e$$

$$\text{Market value of the firm} = \text{EBIT} / K_o$$

2.1.3 Capital Structure Approaches:

Different approaches have been developed under the relevancy of capital structure to value of firm and cost of capital. Net income approach and traditional approach argued capital structure as relevant matter and net operating income approach and MM approach argued capital structure as irrelevant matter.

2.1.3.1 Net Income Approach:

Net income approach is a relevant theory of capital structure. According to this approach, the capital structure decision is relevant to the valuation of the firm and the overall cost of capital. In other words, a change in a financial leverage (proportion of debt in the capital structure) will lead to a corresponding change in the overall cost of capital as well as the total value of the firm. Therefore if we increase the ration of debt in the capital structure, the weighted average cost of capital will decline and the value of the firm as well as the market price of the ordinary shares will increase. In contrast, a decrease in the debt ratio will cause an increase in the overall cost of capital and decline both in the value of the firm as well as the market price of equity shares.

Assumptions of This Approach:

The following are the basic assumptions of net income approach. To calculate the value of firm and WACC, these assumptions are constantly used.

- There are no taxes.
- The cost of debt is less than the equity- capitalization rate or the cost of equity.
- Cost of equity and cost of debt remain constant.
- The use of debt doesn't change the risk perception of investors.
- Net operating income remains constant.
- Overall cost of capital decreases as leverage increases.

In this approach, the cost of debt, value of debt, operating income and cost of equity are defined. First of all, calculate the value of equity, then add it to the value of debt to obtain the value of firm and finally, calculate the overall cost of capital.

The effect of leverage on the firms cost of capital and the effect of leverage on the total market value of the firm is mentioned below graphically:

Figure – 2.1: Cost of Capital (Net Income Approach)

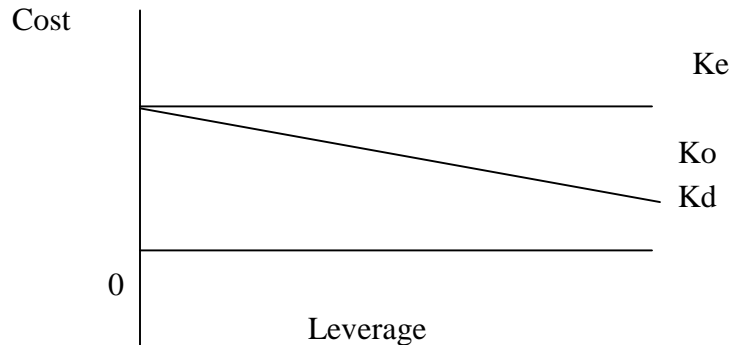
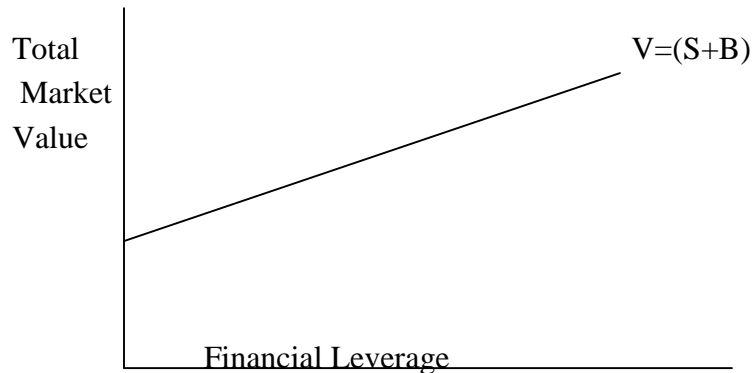


Figure – 2.2: Leverage Effect on the Total Market Value of the Firm



2.1.3.2 Net Operating Income Approach:

Net operating approach is an irrelevant theory co capital structure. This theory assumes that the cost of capital structure (proportion of debt and equity) is irrelevant to the value of the firm and overall cost of capital. Under this approach, net operating income is capitalized at an overall capitalization rate to obtain the total market value of the firm. The market value of the debt, then, is deducted from the total market value to obtain the market value of the stock.

The main hypothesis of this approach is that the market value of the firm is not affected by the capital structure change. The required return on equity, however, increases linearly with leverage.

Assumptions of This Approach:

Following are the main basic assumptions of this approach.

- Over all cost of capital remains constant.
- Cost of debt remains constant.
- Cost of debt is less than cost of equity.
- Required return on equity increases linearly with an increase in debt ratio
- Total operating profit remains constant.

In this approach, overall cost of capital, cost of debt net operating income are defined. First of all calculate the value of firm then deduct the value of debt to obtain the value of equity and finally value of equity used to calculate the cost of equity.

Value of the Firm:

According to (*Van Horne and John,1997: 287*), “With this approach the overall capitalization rate as well as the cost of the debt funds stays the same regardless of the financial leverage employed. However, the required return on equity, increases linearly with financial leverage.”

The implied required rate of return on equity (K_e) = NI / S

Alternatively, the implied required rate of return can be calculated as follows:

$$K_e = K_o + (K_o - K_i) B / S$$

This equation indicates that, if K_o and K_d are constant, K_e would be increased linearly with debt-equity ratio.

The effect of financial leverage on the value of the firm and cost of capital under NOI approach is further illustrated graphically:

Figure – 2.3: Cost of Capital (Net Operating Income Approach)

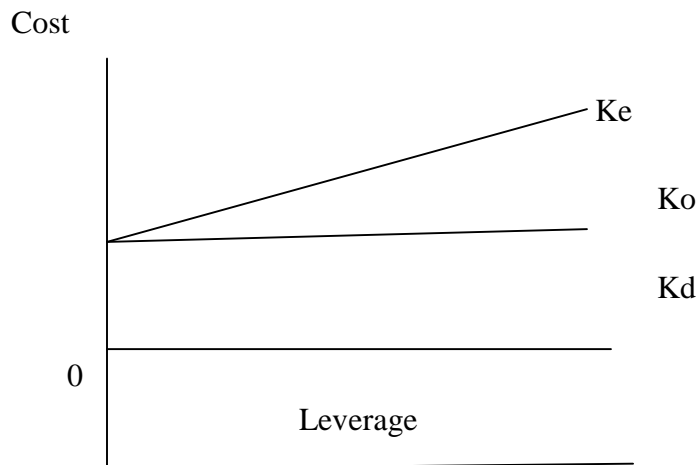


Figure – 2.4: Effect of Leverage on the Value of Firm

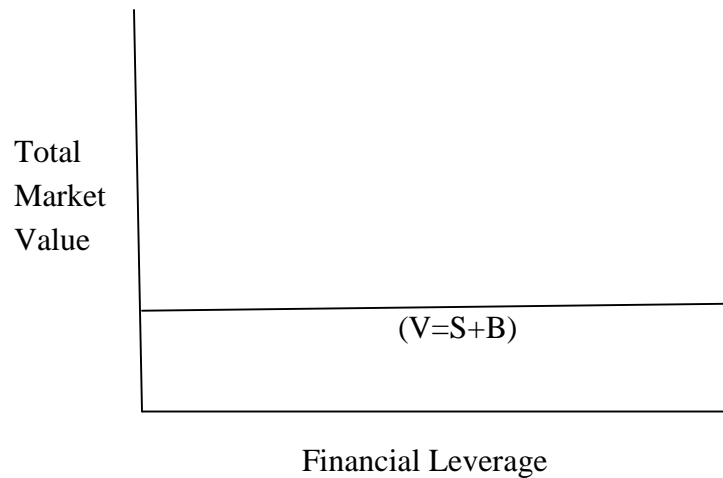


Figure mentioned above (2.3) shows that overall cost of capital and cost of debt are constant and cost of equity increases with leverage continuously. “As the average cost of capital, is constant and this approach implies that there is no any unique optimum capital structure.” (Pandey, 1995:619).

2.1.3.3 Traditional Approach:

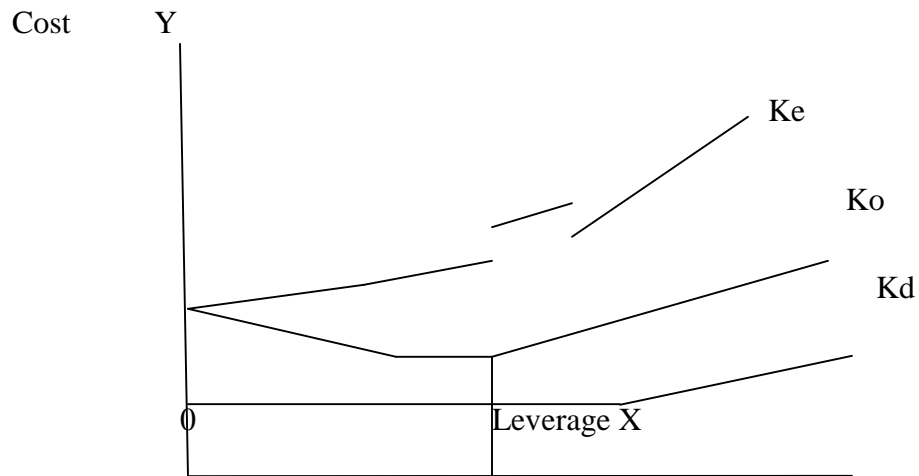
This approach assumes the capital structure as relevant matter for the value and cost of capital of the firm. It takes some features of both net income and net operating income approach. This approach strikes a balance between the two different approaches net income and net operating income.

Therefore, it is also known as the intermediate approach. It resembles the net income approach in arguing that cost of capital and total value of the firm are not independent of the capital structure. But it does not subscribe to the view of NI approach that value of a firm will necessarily increase for all degree of leverage. In one respect it shares a feature with the NOI approach that beyond a certain degree of leverage, the overall cost increases leading to a decrease in the total value of the firm.

According to this approach, there is an optimal capital structure therefore the firm can increase the total value of the firm through the wise use of leverage. The firm initially can lower its overall cost of capital through the use of cheapest cost debt and raise its total value through leverage. But the increase in leverage increases the risk to the debt holders and the debt holders demand high interest rate as a result the overall cost of capital also increases.

The effect of leverage on the firms cost of capital and the effect of leverage on the total market value of the firm is mentioned below graphically:

Figure – 2.5: Cost of Capital (Traditional Approach)



In the above figure, at first, the overall cost of capital declines with increase in debt ratio because the rise in cost of equity (k_e) does not entirely offset the use of cheaper debt funds. As a result, the weighted average cost of capital (k_o) declines with moderate use of leverage. After a point however, the increase in cost of equity (k_e) more than offsets the use of cheaper debt funds in the capital structure, and overall cost of capital (K_o) begins to rise. The rise in overall cost of capital (K_o) is supported further one cost of debt (K_d) begins to rise. The optimal capital structure is the point at which overall cost of capital (K_o) bottoms out. In the figure, this optimal capital structure is point X. thus, the traditional position implies that the cost of capital is not independent of the capital structure of the firm and that there is an optimal capital structure.

According to the traditional position, the manner in which the overall cost of capital reacts to changes in capital structure can be divided into three stages.

1. First Stage: Increasing Value

At the first stage, the equity capitalization rate (K_e) rises only after a certain level of leverage and not before or rises slightly with debt. So that the use of debt does not necessarily increase the K_e . And this slight increase in K_e may not be so high as to neutralize the benefit of using cheaper funds. In other words, the advantage arising out of the use of debt is so large that, even after allowing for higher K_e , the benefit of use of the cheaper source of funds are still available. As a result, the value of the firm, V , increases while overall cost of capital falls with increasing leverage.

Under the assumption that K_e remains constant within the acceptable limit of debt, the value of the firm will be:-

$$\begin{aligned}
 V &= S+B \\
 &= (EBIT - I)/K_e + I/K_d \\
 &= (EBIT - I)/K_e + B \\
 &= EBIT/K_e + (K_e - K_d) \times B/K_e
 \end{aligned}$$

Thus, so long as K_e and K_d are constant, the value of the firm 'V' increases at a constant rate, $(K_e - K_d)/K_e$ as the amount of debt increases.

When the formula is solved for overall capitalization rate, K_o , we get

$$K_o = EBIT/V = K_e - (K_e - K_d) \times B/V$$

This means that, with $K_e > K_d$, the average cost of capital will decline leverage.

2. Second Stage: Optimum Value

In the words of (*Pandey, 1995: 684*), once the firm reached a certain degree of leverage, increase in leverage have a, negligible effect on the value, or the cost capital of the firm. This is so because the increase in the cost equity due to the added financial risk exactly offsets the advantage of low cost debt. Thus within the rank or at the specific point. The value of the firm will be maximum or cost of capital will be minimum.

3. Third Stage: Declining Value

If the Amount of debt is increased further beyond the acceptable limit, then the firm would become very risky to the creditors who would like to be compensated by a higher return such that K_i will rise. The use of debt beyond a certain point will, therefore have effect of rising the weighted average cost of capital and conversely the total value of the firm.

Overall Effect:

overall effect of these three stages suggest that the cost of capital in the function of leverage. Up to a point, the use of debt will favorably affect the value of firm, beyond the point, use of debt will adversely affect it. At the level of debt -equity ratio, the capital structure is an optimum capital structure. At the optimum capital structure, the marginal real cost of debt, define to include both implicit and explicit, will be equal to the real cost of equity. For the debt - equity ratio before that level the marginal real cost of debt would be less than that of equity capital, while beyond that level of leverage, the marginal real cost of debt would exceed that of equity. Thus, there would, according to traditional view, be an optimum capital structure (*Khan and Jain, 1990:511*).

2.1.3.4 Modigliani- Miller (MM) Approach:

In 1958, two prominent financial researchers, Franco Modigliani and Merton Miller (MM), showed that, under certain assumptions, a firm's overall cost of capital, and therefore, its value, is independent of the capital structure. In the words of *Pandey, page: 686*, the Modigliani-Miller hypothesis is identified with the net operating income approach. M-M argue that, in absence of taxes, a firm's market value and the cost of capital remains invariant to the capital structure changes. They provide analytically sound and logically consistent behavioral justification in favor of their hypothesis, and reject any other capital structure theory as incorrect.

Assumptions of this Approach:

Following are the main basic assumption of this approach.

- There is a perfect capital market.
- There are no transaction costs of buying and selling securities.
- A sufficient numbers of buyer and seller exist in the market' so no single investor can have a significant influence on security prices.
- Relevant information is readily available to all investors and is cost-free to obtain.
- All investors can borrow or lend at the same rate.
- All investors are rational and have homogeneous expectations of a firm's earnings.
- All firms are homogeneous in riskiness.
- There are no personal or corporate taxes.
- All cash flows are perpetuities, that is, all firms expect zero growth.
- EBIT and bonds are perpetual.

In the no- tax MM case, the cost of debt and the over all cost of capital are constant regardless of a firm financial leverage position, measured as the firm's debt-to-equity ratio. As a firm increases its relative debt level, the cost of equity capital increases, reflecting the higher return requirement of stockholders due to the increased risk imposed by additional debt. The increased cost of equity capital exactly offsets the benefit of the lower cost of debt, so that the overall cost of capital does not change with changes in capital structure.

Basic Proposition:

According to *Khan and Jain*, there are three basic proposition of the M-M approach, but M-M hypothesis can be best explained in term of their proposition I and II.

Proposition 1:

The value of any firm is established by capitalizing its expected net operating income (NOI or EBIT) at a constant rate (i.e. overall cost of capital) which appropriate for the firm's risk class.

$$VL = VU = \text{EBIT (NOI)} / \text{WACC (Ko)}$$

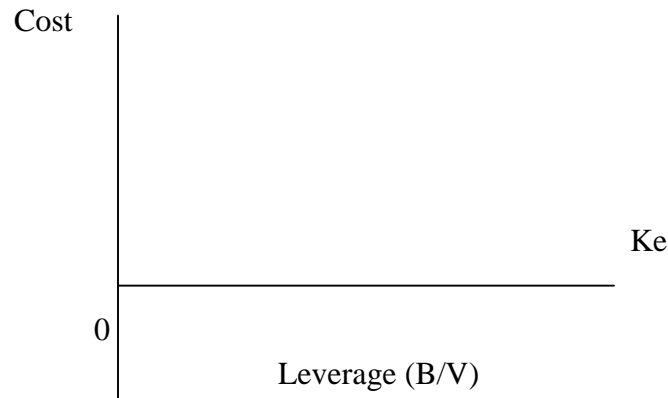
Since value as established by proposition 1 equation is constant, and then under the MM theory the value of the firm is independent of its leverage. This also implies that weighted average cost of capital (Ko) to any firm, levered or not, is:

- i. Completely independent of its capital structure.
- ii. Equal to the cost of equity to an un levered firm in the same risk class.

Thus MM's proposition 1 is identical to the Net Operating Income hypothesis.

The cost of capital under M-M proposition I is shown in the following figure which clears the average cost of capital is constant and is not affected by leverage.

Figure – 2.6: Cost of Capital (Under MM Proposition 1)



Proposition 2:

MM's proposition 2 defines the cost of equity. The cost of equity to the levered firm is equal to

- i. The cost of equity to an unlevered firm in the same risk class plus
- ii. Risk premium whose size depends on both the differential between the cost of equity and debt to an unlevered firm and the amount of leverage used.

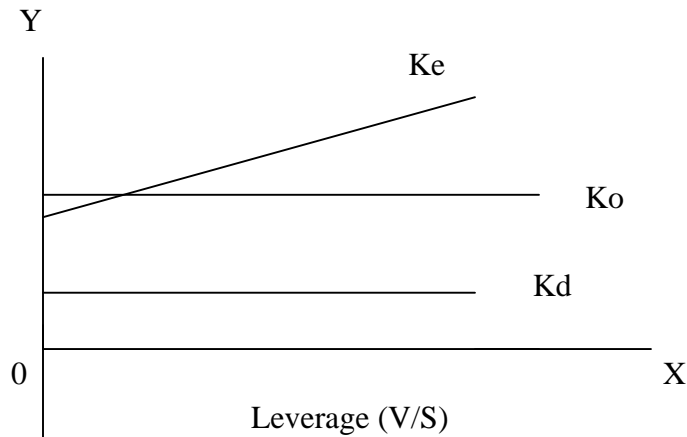
$$K_e(L) = K_e(U) + \text{Risk premium.}$$

Or

$$K_e(L) = K_e(U) + \{K_e(U) - K_d\} (B/S)$$

Proposition 2 states that as the firm's use of debt increases, its debt cost of equity also rises. Taken together, the 2- MM propositions imply that the inclusion of mere debt in the capital structure will not increase the value of the firm, because the benefits of cheaper debt will be exactly offset by an increase in the cost of equity. Thus, MM theory states that in a world with out taxes, both the value of a firm and its cost of capita are unaffected by its capital structure.

Figure – 2.7: Cost of Equity (Under the M-M Proposition 2)



Under MM hypothesis is that K_o will not rise even if very excessive use of leverage is made. This conclusion could be valid if the cost of borrowings, K_d , remains constant for any degree of leverage, but in practice, K_d increase with

leverage beyond a certain acceptable or reasonable level of debt. However, M-M maintain that even if the cost of debt, K_d , is increasing, the weighted average cost of capital, will remain constant. They argue that when K_d increase at a decreasing rate and may even turn down eventually.

This is illustrated in above figure (2.7) when K_d increases with debt, K_e will become less sensitive to further borrowing. The reason for this is that debt –holders, in extreme situation, on the firm’s assets and bares some of the firm’s business risk. Since risk of share holders is transferred to debt-holders, K_e declines.

2.1.3.5 Modigliani-Miller (MM) Approach with Corporate Taxes:

Considering tax, the theory process that the value of the firm increases with the inclusion of debt in the capital structure. The reason is that interest paid on debt deductible for tax purpose, and it reduces the tax liabilities. This means that after tax net income increases by the amount of tax benefit resulting in an increase in the value of the firm by the same amount.

Proposition 1:

Proposition 1, the value of the firm is determined by capitalizing the net operating income (before tax) at a rate that appropriate to its risk class. When tax is considered, the value is determined by capitalizing the net income after tax instead of net operating income

The value of a livered firm is equal to:

- i. The value of un livered firm in the same risk class plus
- ii. The gain form leverage, which is the present value of the tax saving and which equals the corporate tax rate times the amount of debt the firm uses

$$V_L = V_u + BT_c$$

Where,

V_L = Value of levered firm

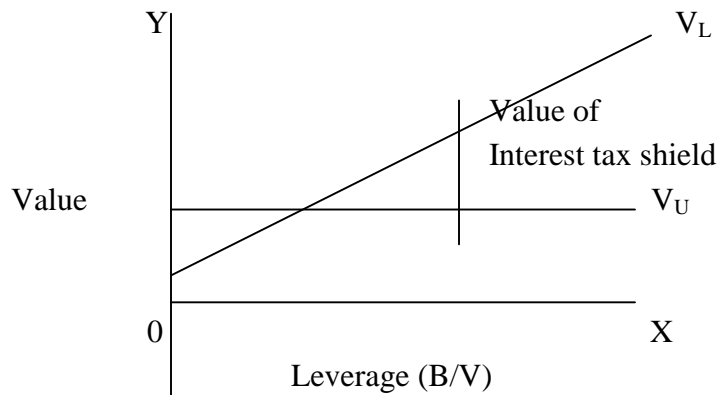
V_u = Value of unlevered firm.

BT_c = Present value of debt tax shield.

T_c = Corporate tax rate.

MM proposition 1 with taxes indicates $V_L > V_u$ and suggested that a firm's value rises continuously as moves from zero to hundred percent (0 to 100%) debt. This is clearly shown in following figure:

Figure – 2.8: Value of the Levered firm



Proposition 2:

MM proposition 2 stress that the cost of equity of levered firm (K_{eL}) rises with levered ratio to compensate for the additional levered risk while the cost of debt remains constant, because of the debt is assumed to be risk less .

The cost of equity to a levered firm is equal to:

- i. The cost of equity to an unlevered firm in the same risk class plus
- ii. A risk premium whose size depends on the differential between the cost of equity and debt to an unlevered firm, the amount of financial leverage and the corporate tax are:

$$K_{eL} = K_{e_u} + (K_{e_u} - K_d) (B/S)$$

When corporate and personal taxes, exists:

$$V_L = V_u + B \left[1 - \frac{(1 - T_c)(1 - T_{ps})}{(1 - T_{pd})} \right]$$

Where,

T_{ps} = Personal tax on stock.

T_{pd} = Personal tax on debt.

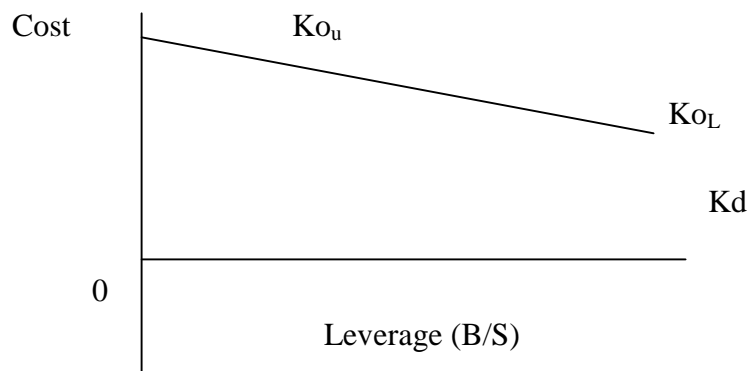
T_c = Corporate tax rate.

Value of the firm with taxes and bankruptcy costs, (Financial Distress) and agency costs.

$V_L = V_U + PV \text{ of debt tax shields} - PV \text{ of bankruptcy and agency costs.}$

The figure mentioned below (2.9) indicates that as the cost equity increases with the B/S ratio, the overall capitalization rate decreases continuously until it reaches to the level of cost of debt at 100% debt financing.

Figure – 2.9: Cost of Capital of the Levered Firm



MM's tax corrected view suggested that , because of the tax deductibility of interest charges, a firm can increase its value or lower its cost of capital continuously with leverage . Thus the optimum capital structure is reached when

the firm employs 100% debt. But the observed experience does not entirely support this view. In practice, firms do not employ large amounts of debt, not are lenders ready to lend beyond certain limit. Thus MM suggest that firm would adopt a target debt ratio so as not to violate the limit of the debt level imposed by lenders.

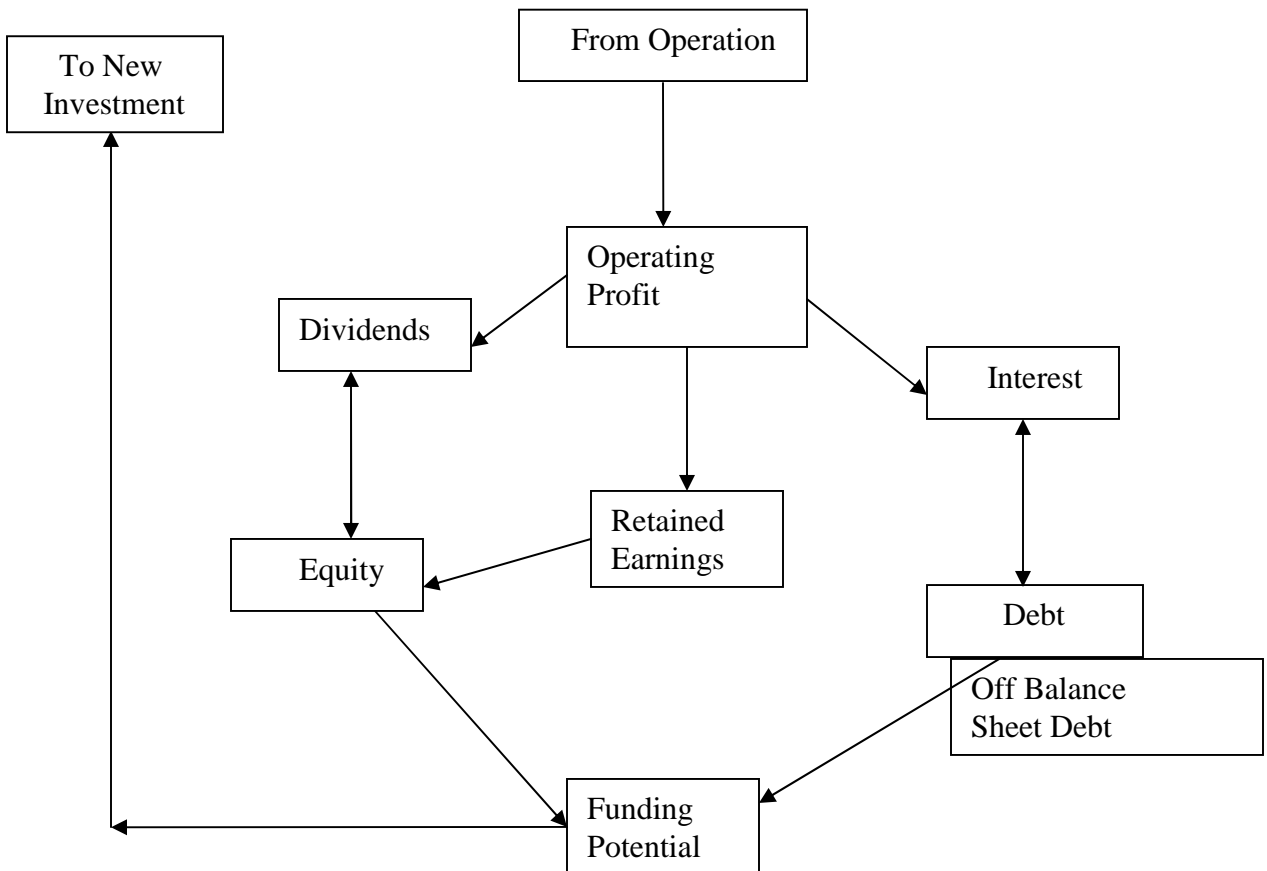
2.1.4 Capital Structure Components:

The components of capital structure of any firm can be broadly categorized into two types of funds: debt and equity. Numerous types of equity ranging from straight common equity to convertible shares and preferred stocks, can be used for new ownership funding while conversely, existing funds can also be returned through approaches of the company share in the open market. The latter has become an important aspect of capital structure management, for repurchasing stock with corporate cash flow reduce the no of shares outstanding, making each remaining share proportionately more valuable. At the same time no dividends need to be paid on the purchased shares.

The trade of each between adding value through new investment and adding value through reduced ownership claims. Although repurchase is better case of Nepal, it is restricted by the company act 2053, section No.4 Clause 47.

The choices of debt instrument are also varied. these also include leases and similar long term obligations, which are called off balance sheet debt. Because they are no listed on the balance sheet and only impact the operating statements as annual expenses. Proper capital structure decision needs close insight of each of its components. The following figure serves for better understanding of the components and their effect in any business system (Helfert, 1997:13).

Figure –2.10: The Business System (Financing Segment)



Source: (Helfert, 1997: 11)

The diagram shows different components of financing segment of any business system. Funding potential for any investment project is developed with the incorporation of

equity and debt. Retained earnings reinforce issue of new shares. Similarly, amount of debt is supported by off balance sheet debt like leases. The operating profit is allocated to lenders as interest in debts- given out to share holders as dividend- and retained in the firm as retained earnings for further reinvestment.

2.1.5 Optimal Capital Structure:

Capital structure is a mix of long term sources of financing. The optimal capital structure in general is that mix of sources of long term funds that maximizes the value of shares and minimizes the overall cost of capital.

According to *Asch and Kaye (1996)*, conclude that, “The optimal capital structure for an actual firm has never been specified, nor has the precise cost of capital for any given capital structure. This should not be a surprise as decisions concerning the firm’s capital structure are a matter of judgment by the management.”

According to *Van Horne* “Modigliani and Miller’s proposition assuming perfect capital market and absence of corporate taxes- is based on the notion that there is a conservation of investment value. No matter how the pie is divided between debt and equity claims. The size of the pie or investment value of the firm remains unchanged. Therefore, leverage is said to be irrelevant and there is no optimal capital structure.” (*Van Horne, 1998:473*).

According to *Weston and Bringham* “whenever the return on assets fairly exceeds the cost of debt, leverage is favorable. And the probable return on equity is raised using it. However, leverage is a two- edged sword, and if the returns on assets are less than the cost of debt, leverage reduces the returns on equity. The more leverage a firm employs, the greater this reduction becomes. As a result, leverage may be used to boost stockholder returns, but it is used at the risk of increasing losses if the firm’s economic fortunes decline. Thus gain and losses are magnified by leverage. The higher the leverage employed by a firm. The greater will be the volatility of its returns.” (*Weston and Bringham, 1981: 580*).

According to *Helfert* “The higher the proportion of debt in the capital structure, the greater the demand will be for profit dollars to be used as interest expense, and the greater the firm’s risk exposure will be. That means potential inability to meet interest obligations and/or repayment during a downturn. The key trade-off, in this regard, is one of risk versus reward. Introducing leverage in to a capital structure will tend to lower the overall cost of capital because of the least-cost nature of debt.” (*Helfert, 1997:296-297*)

The magic of capital structure decision remains on the tax-deductibility of interest on debt. Even when interest rate is higher than the return on equity, the effective rate of interest (multiplied by a factor one minus tax rate) will be less due the pre tax deduction of interest.

Helfert, page: 297, further clarifies, “the overall cost of capital generally moves in a relatively narrow band between the extremes of leverage conditions, usually on more than two percentage points. This is due in part to the tax- deductibility of interest, which moderates the impact of higher rates as leverage increases. But, the cost involved in financing is one of many other considerations entering the complex trade-offs in capital structure planning.”

According to *Pradhan (1992)*, “If we can determine the size of EBIT that makes no difference between the EPS under debt financing and the EPS under equity financing, it can be used as a cut- off level for limiting equity and debt financing.” The capital structure that can make EBIT equal to the cut-off level can be termed as optimal capital structure (*Pradhan, 1992:187*).

According to *Tracy (1996)*, “Cash dividend paid to the stock holders- even though these payments for the use of equity capital certainly can be viewed as substantially the same as interest payments for the use of debt capital – are not deductible to determine taxable income. This basic distinction has a significant impact on the amount of operating profit that has to be earned to cover company’s cost of capital.” (*Tracy, 1996: 287*).

Although optimal capital structure can not be determined in a point level, by analyzing different variables affecting the cost of capital the range can be obtain for the proximity of optimum level. Many study shown that, as a general rule, the cost of capital will tent to be lowest at debt proportions of around one – third versus two- thirds of equity in various forms. But specific risk characteristics of the particular company and its industry certainly affect this general result.

2.1.6 Risk Measure in Capital Structure:

Western and Brigham (1981) have presented a very clear picture about the relationship between risk and leverage and have stated: risk, as measured by the standard deviation, has a linear relationship to the debt to equity ratio measured at the book value but an upward curvilinear relationship to the debt to total assets ratio at book value. Conversely, when risk is measured by the co-efficient of variation, the relationship to the book debt to total assets ratio is linear.

Because of the theoretical relationship between beta and leverage, the relevant leverage ratios for comparison with beta are at market values. At market values, the relationship between beta and the debt to equity ratio is linear, and between beta and the ratio of debt to the total value of the firm is curvilinear upward. The different shapes of the relationship stem from the basic underlying theory of the computations involved.

But what is common to all of the six portrayals of the relationship between risk and leverage is that to obtain the higher expected earnings (whether measured by earning per share or return on shareholder's equity) that go with increased leverage, the firm must incur more risk.

There is a positive relationship between return and risk, and there is also a positive relationship between risk and the degree of leverage employed. Finally higher leverage reflects higher return and higher risk in the organization.

2.1.7 Determinants of Capital Structure:

Following factors are the determinants of the capital structure:

1.Stability of Sales and Growth Rate:

Firm whose sales are relatively stable can use more debt and incur higher fixed charges than a company with unstable sales. As far as growth rate is concerned, other things remaining the same, faster-growing firms must rely more heavily on external capital. Thus, rapidly growing firms tend to use somewhat more debt than slower growing companies.

2.Cost of Capital:

Cost of capital comprises using costs and issuing costs (flotation cost). Flotation cost of various kinds of securities should also be considered while raising funds. The cost of floating a debt is generally less than the cost of floating equity and hence it may persuade the management to raise debt financing.

3.Assets Structure:

Firms whose assets are suitable as security for loans tend to use more debt. General purpose assets, which can be used by many businesses, make good collateral, whereas special purpose assets do not. Thus in real estate companies are usually highly leveraged, whereas companies involved in technological research employ less debt.

4.Management Attitude:

Some management tends to be more conservative than others, and thus use less debt than the average firm in their industry, whereas aggressive management uses more debt in the quest for higher profits.

5. Lender Attitude:

Lender attitude frequently influence capital structure decisions. Lenders emphasize that excessive debt reduces the credit standing of the borrower and the credit rating of the securities previously issued. The corporation discusses its financial structure with lenders and gives much weight to their advice. If

management wants to use leverage beyond norms for the industry, lenders may be unwilling to accept such debt increases.

6. Operating Leverage:

Other thing remaining the same, a firm with less operating leverage is better able to employ financial leverage. In other words, firms having lower degree of operating leverage can take higher degree of financial risk and use more debt to increase profit. Interaction of operating and financial leverage determines the overall effect of a change in sales on operating income and net cash flows.

Other factors like; taxes, profitability, interest rates, control, flexibility, nature and size of the firm, period of finance and legal requirements are also affect the capital structure decision.

2.1.8 Arbitrage Process:

MM model of irrelevant theory of capital structure is based on the assumption of an arbitrage mechanism. In a perfect capital market the capital structure of two firms, like every other aspect, must have the same total value. Otherwise, arbitrage will be possible, and its occurrence will cause the two firms to sell in the market at the same total value.

Arbitrage is the process of simultaneously buying and selling the same or equivalent securities in different markets to take advantage of price differences and make a profit. Arbitrage truncations are risk free.

The essence of arbitrage is that the investors are able to substitute personal or homemade leverage for corporate leverage. The behavior of the investors will have the effect of:

- i. Lowering the price of shares of the firm whose share are being sold.

- ii. Increasing the share price of the firm whose shares are being purchased. This arbitrage process will continue until the value of the two firms become equal.

Steps of Arbitrage:

- i. A rational investor sells the holding shares of a levered firm.
- ii. The investor borrows an equal amount of debt in proportional ownership in the levered firm.
- iii. The investor buys the shares of an unlevered firm in equal proportion as that of a levered firm.

Income Calculation in Levered and Un Levered Firms:

Levered firm:

Total income = Net income \times Proportion of ownership in the firm.

Unlevered firm:

Total net income = Net income of firm \times proportion of ownership – Interest on personal borrowing of debt.

In this arbitrage mechanism total income from both firms must be equal.

2.1.9 Leverage:

Leverage is the results from the use of fixed cost assets or fund to magnify returns to the firm's owners. Level of Changes in leverage occurs changes in the return and related risk. Commonly, increase in leverage ratio brings increase in return and risk, and decrease in leverage ratio brings decrease return and risk.

The level of leverage in firm's capital structure is the mixture of long-term debt and equity balanced by the firm. Mainly, three types of leverage can be described with leverage to the firm's income statement. They are degree of operating leverage, degree of financial leverage and degree of total leverage.

Income Statement Schedule is mentioned below.

Figure-2.11: Income Statement Schedule and Types of Leverage

.....

Operating	Sales Revenue
Leverage	Less –Cost of goods sold
	Gross profit
	Less Operating expenses
Total	
Financial	Earning before interest and taxes (EBIT)
Leverage	less- interest
	Net profit before Taxes
	Less –Taxes
	Net Profit after Taxes
	Less- Preferred stock dividends
	Earning available to common stockholders
	Earning per share (EPS)

In above table, it is clear that operating leverage is concerned with the relationship between the firm’s sales revenue and its operating interest and taxes or EBIT. While financial leverage is concerned with the relationship between the firm’s earnings before interest and taxes (EBIT) and its earnings per shares of common stock. The study focuses Financial Leverage as a core.

Financial Leverage:

Financial leverage, the advantage lies in the possibility that funds borrowed at a fixed interest rate can be used for investment opportunities earning a rate of return higher than the interest paid. Financial leverage, result from the presence of fix financial cost in the firm’s income stream. Financial leverage can be defined as the potential use of fixed financial cost to magnify the effect of

changes in earning before interest and taxes on the firm’s earning per share. The two fixed financial cost normally found on the firm’s income statement which are:

-) Interest of debt and
-) Preferred Stock dividend

These changes must be paid regardless of the amount of earning before interest and tax available to pay them. The effect of financial leverage is such that an increase in the firm’s earning before interest and tax result in a greater than proportional increase in the firm’s earnings per share, while a decrease in the firm’s earning before interest and tax result in a more than proportional decrease in Earning per share.

Measurement of Degree of Financial Leverage:

The degree of financial leverage is the numerical measure of the firm's financial leverage. It can be computed in fashion similar to that used to measure the degree of operating leverage. It can be derived by using following formula:

$$DFL = EBIT / EBT$$

There is a financial leverage Where DFL is greater than 1.

2.2 Review of Previous Studies

2.2.1 Review of Journals

Jackson (1975) conducted a study on commercial bank regulation structure and performance. The study was carried out to identify the determinants of commercial banks allocation efficiency. Both theoretical and empirical microeconomic analysis has applied influences. In this paper, the nature of banking was examined, showing that banks are essentially financial intermediaries that are engaged in greater competition than is commonly believed. Many theories of the firm as a bank are presented emphasizing efficiency. Almann Phillip's model of complex interaction between banking firms and other influences on observed performance was used to summarize banking theories. (Jackson, 1975 : 123)

For the empirical analysis purpose, data were collected by covering 1644 banks over the period 1967-1971. Regression analysis was used to measure the relationship among variables. As a conclusion, the study showed that, the relatively "desirable" banking performance is associated with several traits including bank asset size, non bank competition, low cash holdings , low labour cost, state non member basic status, multi-bank company legislation, national bank status, low time deposits and low equity capitalization. Demand levels and temporal variable also significantly affect the banking performance. Furthermore, the study showed that the commercial bank regulation structure and performance are interrelated with each other.

Adhikari (1992) conduct a study on capital structure effect on average cost of capital. The major objective of the study was to analyse the effect of the capital structure on the cost of capital in the context of Nepal. Specially, the aim of the study was to test the relationship between capital structure and average cost of capital. The study was based on the pooled data of selected five financial enterprises listed in the security exchange center. The study period was bounded from 1976 to 1978. Simple and multiple regression approaches were used to test the relationship. In the simple regression models, the average cost of capital was regressed with each of explanatory, variables such as leverage, size, growth divided payout ratio, earning variability and liquidity. Similarly, in multiple regression model the average cost of capital was regressed on the leverage together with other explanatory variables. He found negative sign of beta coefficient of

leverage under both analysis. On the basis of these findings, the researchers conducted that study does not support the M-M's independence hypothesis. It indicates that the use of debt in capital structure increases the value and decreases the overall cost of capital. (Adhikari, 1992, page no: 37).

Shrestha (1993) conducted a study on capital structure in public companies. She used data from 19 companies and the study covered different sectors manufacturing, finance utility service and other area. She found that most of the companies have relatively higher debt capital than equity capital. Consequently, most of them are operating at losses, to the extent that interest payment on loan has been serious issue in these organizations. Due to the higher amount of debt in capital structure all of the enterprises are facing the problem of properly servicing the debt. In this way, she has suggested that the government have to consider in public enterprises by evaluating the relationship among the variables that are important is designing capital structure as well as the use of debt and its impact on overall earnings. Nepalese public enterprises are absorbing the huge amount of government funds. So, it is necessary to develop a suitable capital structure guideline for these enterprises from the side of government. Because of the funds used in public enterprises is not a cost less fund. To make the more realistic capital structure. It is needed to analysis the cost and risk-return trade off. At last she concluded that most of the public enterprises have no transparent capital structure and capital structure is determined without any realistic parameter. Thus, policy makers should have to be careful in developing capital structure guidelines for public enterprises and the organizations also to be aware of financial accountability. (Shrestha, 1993: 53)

Booth et. Al. (2001) have conducted a research work on capital structure in developing countries. The purpose of the study was to analysis the capital structure choices made by companies from developing countries having different institutional structure and economic structures. The study was attempted to search the answer of three different questions. Data and information were collected from the international finance corporation (IFC). In addition with this source, other related data and information were collected from 10 different countries. Such as India, Pakistan, Thailand, Malaysia, Turkey, Zimbabwe, Mexico, Brazil, Jordon and Korea. Different common financial and mathematical tools were used to examine the financial data. In this study a new firm-level database was used to examine the financial structure of firm in a simple of 10 developing countries. (Booth et. Al., 2001: 241)

They found that the variables that are relevant for explaining capital structure in the United States and European countries are also relevant in developing countries. Although, there are the financial differences in institutional factors across these developing countries. Therefore, they conclude that the knowledge of institutional

factors, is essential to predict the financial structure and capital structure of a firm then the knowledge of its nationality. Furthermore, they found that the firms are adopting “Pecking-order hypothesis” because of the higher costs involving in external financing in these countries. Finally, they conclude that the debt-ratios in developing countries seem to be in developed countries. However, there are systematic differences in the way these ratios are affected by country factors, such as GDP growth rates, inflation rates and the development of capital markets.

2.2.2 Review of Previous Thesis:

Giri (2007) had conducted a thesis on “Capital Structure Management of Listed Nepalese commercial Commercial Banks”. He studied on two Nepalese commercial commercial banks; they are Standard Chartered Bank Nepal Limited (SCBNL) and Nepal Bangladesh Bank Limited (LBL). He found that JVBs have lack of theoretical and practical knowledge with regard to capital structure theories. Nepalese investors are not attracted by the theories. JVBs in Nepal have concentrated their business with big businessmen and industrialists. Their clients are mostly big manufacturer; carpet and garment exporters, multinational companies, large scale of industries, NGOs as well as INGOs, travel agencies, cargo agencies, housing companies etc. Therefore, the JVBs are suggested to open their doors to the small depositors and entrepreneurs also. The capital structure of selected banks is highly levered. The proportion of debt and equity capital should be decided keeping in mind the efforts of tax advantage and financial distress. The banks, when they are in difficult to pay interest and principal, ultimately lead to liquidation or bankruptcy. For such, the banks should reduce the high use of debt capital. Return ratios like; return on total assets and return on shareholder’s equity are not satisfactory in LBL. SCBNL seems very good performing than LBL in case of ROE. The savings from rural communities are neglected by JVBs, without which they can’t contribute much to the economic development of the country. So, JVBs recommended being cooperative and should expand the branches by covering all the five development regions of the country including rural areas to achieve geographically balanced approach. JVBs are basically not concentrated to mobilize their deposit funds in productive areas. Nepalese shareholders are very much concerned about the payment of cash dividend by the Nepalese commercial banks rather than their financial statement. He has suggested paying cash dividend consistently. He also has suggested expanding branches and assets, which ultimately affect the banks capital structure and expected to increase the profitability more than the present. Last but not the least; the banks have to enhance effectiveness, efficiency and proper coordination of its departmental tasks by continuously reviewing its structural design in accordance with the need of the changing time and situation.

Thapa (2008) has conducted research on "A Study on Capital Structure of Industrial Public Enterprises". In this study, effect of leverage was tested and measured the relationship between capital investment and earnings generations and also measured the relationship of capital structure with profit.

Under this study, it was concluded that the overall result was unsatisfactory and suggested improving their self efficiency in the financial performance. Furthermore, it was advised that the subsidy and donation should be reduced where has been the main cause of inefficiency of the management.

Karki (2009) has conducted research on "An Evaluation of Capital Structure of Bottlers Nepal's Limited" suggested that the management must bring a satisfactory compromise among the confusion of cost, risk control and timing. It was found that the company did not have a proper balance of debt and equity. The debt capital was comparatively higher than equity, so the company is regarded as highly levered company. It was suggested that, in order to bring down the amount of debt capital, company should retire debt capital by issuing additional equity shares and further suggested that the company should maintain the general norms of capital structure optimal.

Shrestha (2010) had conducted a study on the topic of "Focus on Capital Structure of selected and listed public companies". Her objective of the study was to analyze the capital structure of selected and listed companies. She used data from 19 companies and study had covered different sectors manufacturing finance, utility service and other allied area. She had found that most of these companies have debt capital relatively very higher than equity capital. Consequently, most of them are operating at losses to the extent that payment of interest on loan has been serious issues. Most of the losses are after charging interest on loan. She has suggested that the government has to consider in public enterprises is that of evaluating the relationship between use of debt and its impact on overall earning of public enterprises. So, the government should be sure in knowing how using debt capital will minimize return. Government of Nepal invested large amount of money in public enterprises. It should need to develop a suitable capital structure guideline to make public enterprise aware of the responsibility to repay the debt schedules. The other thing, which needs to be made publicity transparent that government money is not a lost less, found. Government has to analyze cost and risk return trade off. Thus, capital structure needs to be made more determinate by realistic analysis of cost.

Dhakal (2011) had submitted a thesis study on "An evaluation of Capital Structure of Bottlers Nepal Limited". He has found that the long-term debt on BNL is increasing year by year because the company has borrowed more long-term debt. Different ratio analyses show the inefficient capital structure management of the company. He had made his analyses only five years periods and he suggested that the company has to follow good

policy to set capital structure. The calculation of leverage position indicates the bad performance of the company because it is in increasing trend. After doing all calculations like ratio, leverage, capital structure position, correlation and P/E ratio etc, it was found that the company is facing bad situation due to inefficient capital structure. So the company has to lower down the amount of debt and to obtain additional fund through the issue of equity share by using cheaper source of collecting funds. In order to build up public image, share must be issued to the general public. Moreover the company should think about other new product for winter season to increase good image of the company. The company has regarded as highly geared up capital structured company. Thus, to design suitable pattern of capital structure for the company, the management must bring about a satisfactory compromise among these conflicting factors of cost, risk, control and timing. He recommended that the company to shift debt capital to equity capital when the company has high earning per share.

2.3 Research Gap:

The research gap for this study can be shown as follows.

-) It analyzes the tier ratio, considering the risk weighted assets and liabilities.
-) Capital adequacy ratio is analyzed, which helps to quality control of the Nepalese commercial Bank.
-) Performing Loan and total expense to total return is the main part with earning per employees, Cash Reserve Ratio etc.
-) It is very hard to analyze the four banks with comparatively.
-) All possible ratios are in the study to analyze.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

Researcher needs sequential steps to adopt realistic study or studying a problem with certain object/objects in view. So that, Through Research methodology researcher can get appropriate guidelines and knowledge about the various sequential steps to adopt a systematic analysis. Research Methodology is the investigation tools of any certain area and it means clearly observation of certain objective. Research is the process of systematic and in-depth study or search for any particular topic, subject or area of investigation backed by collection presentation and interpretation of relevant details or data.

3.2 Research Design

A research design is the conceptual structure within which research is conducted. It is an integrated system that guides the researcher in formulating, implementing, and controlling the study.

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. It is the plan and formulation of investigation idea and strategy so as to obtain answers to research questions and to control variance.

Kerlinger (1986) describes that “Research design is the plan, structure, and strategy of investigation conceived so as to obtain answers to research questions and to control variance. The plan is the overall scheme or program of the research. It includes an outline of what the investigator will do from writing the hypotheses and their operational implications to the final analysis of data. The structure of the research is more specific. It is the outline, the scheme, and the paradigm of the operation of the variables. With the aid of the diagrams that outline the variables and their relation and juxtaposition, it is possible to build structural schemes for accomplishing operational research purposes.

3.3 Nature and Sources of Data

Generally this study is based secondary data. Secondary data are collected from Annual report of the concerned firm, supporting data and information are collected from the office of the concerned firm and another institution. Documents, books, other publishes or unpublished material, thesis, newspapers are the important data and informal quires, with the authorities of the concerned firm is primary source in nature.

3.4 Population and sample

When it is impossible or very difficult to study the whole population, a part of the population is selected in order to draw conclusion of the whole population, this process is sampling and the part selected is called sample. Here, regarding to this study, the whole of commercial banks are the population of the study. And the selected one commercial banks viz. Nepal Investment Bank Limited, Bank of Kathmandu, Laxmi Bank Limited and Kumar Bank Limited are the samples for the study.

3.5 Data Collection Procedure

Almost secondary data has been taken in this study. The data needed are collected from Balance Sheet, Profit & Loss Account, other related books of account of the concerned bank, stock exchange board and Nepal Rastra Bank. The annual reports of the concerned finances were obtained from their head office and their websites. The main source of data are annual report of concern financial institute. NRB publication, such as Banking and Financial Statistics Economic Reports, Annual Reports of NRB etc .has been collected from the personal visit of concerned department of NRB.

3.6 Data Processing and Presentation

The information and data obtained from the different sources are in row form. From that information, direct presentation is not possible. So it is necessary to process data and converts it into required form. After then only, the data are presented for this study. This process is called data processing. For the study, only required data are taken form the secondary source and presented likewise, in some case graphical presentation is also made. For presentation, different tables are used. Likewise, in some case graphical presentation is also made. The calculations that are related to this study are done with the help of scientific calculator as well as computer software program.

3.7 Data analysis tools

Financial ratios are the major tools used for the descriptive analysis of the study. In addition to the financial tools, simple statistical tools are also used.

3.7.1 Financial Ratio Analysis Tools

Financial Ratio Analysis tools are used to determine the performance of the banks in the framework CAMELS components. These ratios are categorized in accordance of the CAMELS components. Following category of key ratios are used to analyse the relevant components in terms of CAMELS:

Capital Adequacy Ratio: Capital Adequacy Ratios take into account the most important financial risks-foreign exchange, credit and interest rate risks, by assigning risk weightings to the institution's assets. Risk-weighted assets (RWA), Tier 1 capital, Tier 2 capital are used to calculate the capital adequacy ratios.

$$\text{Capital Adequacy Ratio} = \frac{\text{Tier I+ Tier II Capital}}{\text{RWA}}$$

Tier I Capital Adequacy Ratio: Tier I ratio shows the relationship between the total core capital or internal sources and total risk adjusted assets. It is calculated by using the following model.

$$\text{Tier I Adequacy Ratio} = \frac{\text{Tier I Capital}}{\text{RWA}}$$

Tier II Capital Adequacy Ratio: This ratio shows the absolute contribution of supplementary capital in capital adequacy. It is used to analyze the supplementary capital adequacy of the banks and determined by using the following model.

$$\text{Tier II Adequacy Ratio} = \frac{\text{Tier II Capital}}{\text{RWA}}$$

Non- Performing Loan Ratio: The non-performing loan ratio indicates the relationship between non-performing loan and total loan. It measures the proportion of non-performing loan in total loan and advances. The ratio is used to analyze the asset quality of the bank and determined by using the given model.

$$\text{Non Performing Loan Ratio} = \frac{\text{Non Performing Loan}}{\text{Total Loans and Advances}}$$

Where, Non-performing Loan = Thoses loans which have been past due either in the form of interest servicing or principal repayment and graded as possible default.

Loan Loss Provision to Total Loans Ratio: The provision for loan losses is a charge to current earnings to build the Allowance for Loan and Lease Losses (ALLL). The ALLL is a general reserve kept by banks to absorb loan losses. While it measures the possibility of loan default, it reflects adequacy of to absorb estimated credit losses associated with the loan and lease portfolio, of the bank. For the purpose of this study following model is used to determine the loan loss ratio:

$$\text{Loan Loss Provision Ratio} = \frac{\text{Loan Loss Provision}}{\text{Total Loans and Advances}}$$

Total Expense to Total Income Ratio: The total expenses to total incomes ratio is the expression of numerical relationship between total expenses and total incomes of the

bank. It measures the proportion of total expenses in total revenues. A high or increasing ratio of expenses to total revenues can indicate that FIs may not be operating efficiently. This can be, but is not necessarily due to management deficiencies. In any case, it is likely to negatively affect profitability (IMF, 2000). Following is the expression of total expenses to total revenues ratio.

$$\text{Total Expense to Total Income Ratio} = \frac{\text{Total Expense}}{\text{Total Income}}$$

Earning per Employee: Earning per employee is the numerical relationship between net profit after taxes to total numbers of employee. Low or decreasing earnings per employee can reflect inefficiencies as a result of overstaffing, with similar repercussions in terms of profitability (IMF, 2000). It is calculated by using the following model:

$$\text{Earning Per Employee} = \frac{\text{Net Income After Tax}}{\text{Total Number of Employees Income}}$$

Return on Equity (ROE): The return on equity indicates the relationship between net profit after taxes to total equity capital. It measure of the rate of return flowing to the bank's shareholders. Higher is the return on equity, higher the investment which the shareholders will undertake. For the purpose of the study following model is used to determine the return on equity ratio:

$$\text{Earning Per Employee} = \frac{\text{Net Income After Tax}}{\text{Total Number of Employees Income}}$$

Return on Assets (ROA): Return on assets is the numerical relationship between net income after taxes to total assets of a bank. It is primarily an indicator of the quality of assets, managerial efficiency to utilize the institution's assets into net earnings (Rose, 1999). Higher the ROA, higher is the quality of assets and efficient asset utilization. It is calculated by using the following model.

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

Net Interest Margin: Net interest margin is the expression of numerical relationship between net interest income and total earning assets of a bank. It measures how large a spread between interest revenues and interest costs management has been able to achieve by close control over the bank's earning assets and the pursuit of the cheapest sources of

funding (Rose, 1999). For the purpose of the study following model is used to determine net interest margin:

$$\text{Earning Per Employee} = \frac{\text{Net Interest Income}}{\text{Total Earning Assets}}$$

Where, Net interest income = Interest Income- Interest Expense

Total Earning assets = Total Interest bearing Assets

Earning Per Share (EPS): Earning per share provides a direct measure of the returns flowing to the bank's owners- its stockholders- measured relative to the numbers of shares to the public (Rose, 1999). It gives the strength of the share in the market. Following is the expression of earning per share:

$$\text{EPS} = \frac{\text{Net Income After Tax}}{\text{Number of Shares of Common Stock}}$$

Cash Reserve Ratio (CRR): It is the minimum amount of reserves a bank must hold in the form account balance with NRB and cash held in vault. This ratio ensures minimum level of the bank's first line of defense in meeting depositor's obligations. Commercial banks are required to maintain cash reserve ratio in two forms; NRB Balance and Cash at Vault specified as the Percentage of total deposits as follows:

- **NRB Balance to Total Deposits Ratio:** NRB balance to total deposits ratio shows the numerical relationship between NRB balance and total deposits of a bank. It measures the proportion of NRB balance in total deposits. Following model is used to determine the NRB balance to total deposits ratio:

$$\text{NRB Balance to Deposit Ratio} = \frac{\text{NRB Balance}}{\text{Total Deposits}}$$

- **Cash in Vault to Total Deposit Ratio:** Cash in vault to total deposits ratio indicates the relationship between cash in vault to total deposits. It shows the percentage of total deposit maintained as vault. It is worked out by using the following model:

$$\text{Cash in Vault to Deposit Ratio} = \frac{\text{Cash At Vault}}{\text{Total Deposits}}$$

Where, Cash in vault = cash in hand + foreign currency in hand

Liquid Assets to Total Deposits Ratio: Total liquid assets to total deposits ratio is a numerical relationship between total liquid assets and total deposits of a bank. The higher ratio implies better liquidity position. It is calculated by using the following model:

$$\text{Total Liquid Assets to Deposits Ratio} = \frac{\text{Total Liquid Assets}}{\text{Total Deposits}}$$

Where,

Total liquids assets = Cash in hand + NRB Balance + Domestic bank balance + Foreign Currency bank balance + Placements+ Investment in Government securities.

Interest Rate Sensitivity: Interest rate sensitivity is estimated by GAP Analysis. If ΔR_i is the average interest rate change affecting assets and liabilities that can be repriced within i^{th} maturity bucket, the effect on the bank's net interest income (NII) in the i^{th} maturity bucket is calculated by (Saunders and Cornett, 2004):

$$\begin{aligned} \Delta NII_i &= \left(\text{RSA}_i - \text{RSL}_i \right) \times \Delta R_i \\ &= \text{GAP}_i \times \Delta R_i \end{aligned}$$

i=1th Maturity Bucket i=1th Maturity Bucket

i=1 DAY i=1 DAY

Where ΔNII_i = Change in Interest income in the i^{th} maturity bucket

GAP_i = Rupee size of gap between book value of Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RLA) in maturity bucket i .

Similarly Cumulative GAP (CGAP) of interest is the One-Year repricing gap estimated as:

$$\Delta NII_i = \text{CGAP}_i \times \Delta R_i$$

Where,

$$\begin{aligned} \text{CGAP}_i &= \left(\text{RSA}_i - \text{RSL}_i \right) + \left(\text{RSA}_i - \text{RSL}_i \right) + \left(\text{RSA}_i - \text{RSL}_i \right) \\ &= \left(\text{RSA}_i - \text{RSL}_i \right) \end{aligned}$$

i=90 Days i=90 Days i=180 Days i=180 Days i=270 Days i=270 Days

i=1 DAY i=1 DAY i=91 DAY i=91 DAY i=181 DAY i=181 DAY

i=365 Days i=365 Days

i=271 DAY i=271 Days

Interest Rate Sensitivity: Interest Rate Sensitivity can be computed by expressing Cumulative GAP as a percentage of total risk sensitive assets (A) as:

$$\text{Interest Rate Sensitivity Ratio} = \frac{\text{CGAP}}{A} \times 100$$

3.7.2 Statistical Tools

Average: A simple arithmetic average is used to summarize the data as a representation of mass data. A simple arithmetic average is a value obtained by dividing the sum of the values by their numbers (Kothari, 1989). Thus, the average is expressed as:

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

Where, \bar{x} = Mean of the values, N = Number of pairs of observation.

During the analysis of data, mean is calculated by using the statistical formula average on excel data sheet on computer.

Standard Deviation: Standard deviation is the absolute measure of dispersion of the values and shows the deviation or dispersion in absolute term (Kothari, 1989). Here, the standard deviation is used to find out the deviation in absolute term. Standard deviation is determined in the following way:

$$\begin{aligned} &= \left(\frac{\sum (x - \bar{x})^2}{n} \right) \\ &= \left(\frac{\sum x^2}{n} - \frac{(\sum x)^2}{n^2} \right) \end{aligned}$$

Here, n= Number of observations

x=Individual value, \bar{x} = Simple Arithmetic mean

During the analysis of data, standard deviation is calculated by using the statistical function 'stdev' of Excel data sheet on computer.

Coefficient of Variation: Coefficient of variation is the relative measure of dispersion based on the standard deviation (Kothari, 1989). It is most commonly used to measure the variation of data and more useful for the comparative study of variability in two or more series or graphs or distribution. Symbolically, the coefficient of variation is defined as:

$$CV = \frac{\text{Standard Deviation}}{\bar{x}}$$

Here, σ = standard deviation, \bar{x} = Mean, CV = Coefficient of variation

3.7.3 Limitations of the Methodology

The research is conducted to fulfill the academic requirement of Master of Business degree. It is focused on the financial analysis of NIBL & KBL in the frame work of all the six components of CAMELS system and are based on the audited financial annual reports of condition of each bank during the period 2007/08 to 2011/12. Since the research work on all the six components is little been done in Nepalese environment, the study may not reveal reliability and validity in every field. The basic limiting conditions within which the research work is conducted, are:

-) The evaluation made herein of one sample unit of two banks only, hence cannot be reasoned for similar condition of the whole industry. However, it gives a particular direction to the industry if not actual.
-) The study remains largely in the realms of Offsite Monitoring System hence qualitative assessment may not be reflected by the study. However, the proxy financial tools are helpful to give a close picture of such factors.
-) The quarterly financial reports of the bank are not publicly available or if available not adequate whereas the effectiveness of CAMELS assessment requires quarterly financial reports. However, Cole and Gunther (1998) examined that a statistical model using publicly available financial data is a better indicator of bank failure than CAMEL ratings that are more than two quarters old.
-) The data figures from different other sources may not be congruent with the bank's published data. However audited data published by the bank are treated as authentic. The study is carried out within the framework of case study research design. So, it is difficulty to eliminate the limitations of the case study research design, in which the study as well as the methodology is bounded. Only a single unit is taken for the study, therefore, the study may not be able to represent the whole scenario.

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

In this chapter, to achieve the objectives which are set in Introduction chapter, the relevant data and information on capital and Assets structure management of joint ventures banks are presented and analyzed comparatively. It is notable that all types of financial ratios are not studied under this chapter. Only those ratios are calculated and analyzed which are very significant to pictures the real assets utilization and its impact on capital structure of commercial banks.

In this chapter evaluation, analysis and interpretation, analysis is made, according to the research methodology as mentioned in the previous chapter.

4.1 Presentation and Analysis of Data

The data collected from different sources has been refined and documented in Excel tables, which are further processed to analyze and arrive at the findings on the financial conditions of Bank in terms of CAMELS framework.

4.1.1 Asset Quality Analysis

Here, out of the several indicators of asset quality, Asset composition, Non-Performing asset ratio and Loan Loss provisioning ratio are taken to examine the asset quality of NIBL. The total asset composition of NIBL is analyzed using time series technique over the review period with major highlight on Investment component due to its sensitive exposure. The Loans & Advances having major exposure and sensitive to bank's performance, was carried out using time series and comparative analysis technique. The analysis of Loans & Advances contains examination of loan classification and Non-Performing Loans (NPLs) to Total Loans ratio which is used as a proxy for asset quality. The coverage ratio—the ratio of provisions to loans was examined since it provides a measure of the share of bad loans for which provisions have already been made.

The loan portfolio diversification analysis to assess inherent credit risks could not be conducted as the bank's financial data format (prescribed by NRB) in the annual reports lacked detailed sectoral loan portfolio unlike financial reports required in US region. It is advisable NRB to stipulate banks present with detailed Loan & Advances exposures for signaling vulnerability of, the financial system, economy and inherent credit risks.

4.1.1.1 Asset Composition

The assets portfolio of the bank represents the varied nature and consequence of the bank's function and investment policies. Usually every banker seems to arrange their assets appearing in balance sheet in descending order of liquidity. The capital and liabilities of banks are invested in various assets in the form of Cash & Bank Balance, Placements, Investments, Bills purchase, Loans and advances and Fixed Assets. Of these, Loans usually make the largest portion of all the assets. As they are the least liquid form of assets, Loans and Advances contain the high proportion of potential risk to the bank's capital.

Table 4.1: Bank Asset Composition (in %)

NIBL

	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
Cash & Bank Balance	<u>4.43</u>	<u>5.96</u>	<u>6.91</u>	<u>5.79</u>	<u>3.25</u>	<u>5.93</u>
<i>Industry Average*</i>		9.81	8.46	9.77	N/A	
Money at Call or Short Notice	<u>2.85</u>	<u>0.18</u>	<u>4.05</u>	<u>5.49</u>	<u>5.05</u>	<u>3.48</u>
<i>Industry Average*</i>		2.11	1.69	2.15		
Investment (At Cost)	<u>41.95</u>	<u>46.51</u>	<u>36.41</u>	<u>34.85</u>	<u>24.83</u>	<u>37.04</u>
<i>Industry Average*</i>		20.78	23.32	21.86	N/A	
Loans, Advances & Overdrafts & Bills Purchases & Discounted	<u>45.32</u>	<u>42.2</u>	<u>46.83</u>	<u>48.91</u>	<u>61.59</u>	<u>48.97</u>
<i>Industry Average(Loans, Adv & B/P)*</i>		47.13	47.38	47.42	N/A	
Fixed Assets	<u>1.35</u>	<u>1.35</u>	<u>1.52</u>	<u>2.02</u>	<u>2.10</u>	<u>1.66</u>
<i>Industry Average*</i>		0.88	0.93	0.92	N/A	
Other Assets	<u>4.11</u>	<u>3.81</u>	<u>4.28</u>	<u>2.94</u>	<u>3.16</u>	<u>3.67</u>
<i>Industry Average*</i>		19.29	18.23	17.87	N/A	

BOK

	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
Cash & Bank Balance	<u>5.69</u>	<u>7.36</u>	<u>5.93</u>	<u>8.18</u>	<u>7.78</u>	<u>6.99</u>
<i>Industry Average*</i>		9.81	8.46	9.77	N/A	
Money at Call or Short Notice	<u>29.51</u>	<u>20.80</u>	<u>1.65</u>	<u>0.62</u>	<u>1.43</u>	<u>10.80</u>
<i>Industry Average*</i>		2.11	1.69	2.15		
Investment (At Cost)	<u>13.97</u>	<u>20.90</u>	<u>42.96</u>	<u>42.10</u>	<u>36.12</u>	<u>26.70</u>
<i>Industry Average*</i>		20.78	23.32	21.86	N/A	
Loans, Advances & Overdrafts & Bills Purchases & Discounted	<u>45.54</u>	<u>46.23</u>	<u>44.84</u>	<u>44.82</u>	<u>50.21</u>	<u>46.33</u>
<i>Industry Average(Loans, Adv & B/P)*</i>		47.13	47.38	47.42	N/A	
Fixed Assets	<u>1.22</u>	<u>1.08</u>	<u>1.50</u>	<u>0.90</u>	<u>1.16</u>	<u>1.17</u>
<i>Industry Average*</i>		0.88	0.93	0.92	N/A	
Other Assets	<u>4.07</u>	<u>3.63</u>	<u>3.12</u>	<u>3.38</u>	<u>3.30</u>	<u>3.50</u>
<i>Industry Average*</i>		19.29	18.23	17.87	N/A	

KBL

	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
Cash & Bank Balance	<u>5.43</u>	<u>5.06</u>	<u>5.31</u>	<u>4.67</u>	<u>4.05</u>	<u>4.91</u>
<i>Industry Average*</i>		9.81	8.46	9.77	N/A	
Money at Call or Short Notice	<u>3.12</u>	<u>0.25</u>	<u>4.95</u>	<u>5.70</u>	<u>5.87</u>	<u>3.97</u>
<i>Industry Average*</i>		2.11	1.69	2.15		
Investment (At Cost)	<u>42.05</u>	<u>44.21</u>	<u>35.32</u>	<u>33.25</u>	<u>22.73</u>	<u>35.51</u>
<i>Industry Average*</i>		20.78	23.32	21.86	N/A	
Loans, Advances & Overdrafts & Bills						
Purchases & Discounted	<u>42.22</u>	<u>45.3</u>	<u>46.83</u>	<u>49.11</u>	<u>51.51</u>	<u>46.99</u>
<i>Industry Average(Loans, Adv & B/P)*</i>		32.13	47.21	43.32	N/A	
Fixed Assets	<u>1.35</u>	<u>1.35</u>	<u>1.52</u>	<u>2.02</u>	<u>2.10</u>	<u>1.66</u>
<i>Industry Average*</i>		0.88	0.93	0.92	N/A	
Other Assets	<u>3.11</u>	<u>4.81</u>	<u>3.33</u>	<u>2.43</u>	<u>2.34</u>	<u>3.67</u>
<i>Industry Average*</i>		19.29	18.23	17.87	N/A	

LBL

	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
Cash & Bank Balance	<u>4.54</u>	<u>6.32</u>	<u>4.23</u>	<u>7.98</u>	<u>8.56</u>	<u>6.32</u>
<i>Industry Average*</i>		9.81	8.46	9.77	N/A	
Money at Call or Short Notice	<u>28.11</u>	<u>19.70</u>	<u>2.55</u>	<u>0.32</u>	<u>1.20</u>	<u>10.37</u>
<i>Industry Average*</i>		2.11	1.69	2.15		
Investment (At Cost)	<u>14.07</u>	<u>19.70</u>	<u>40.96</u>	<u>41.20</u>	<u>37.02</u>	<u>30.59</u>
<i>Industry Average*</i>		20.78	23.32	21.86	N/A	
Loans, Advances & Overdrafts & Bills						
Purchases & Discounted	<u>55.54</u>	<u>42.23</u>	<u>40.74</u>	<u>42.82</u>	<u>51.21</u>	<u>46.50</u>
<i>Industry Average(Loans, Adv & B/P)*</i>		47.13	47.38	47.42	N/A	
Fixed Assets	<u>1.24</u>	<u>1.34</u>	<u>1.30</u>	<u>0.80</u>	<u>1.06</u>	<u>1.148</u>
<i>Industry Average*</i>		0.88	0.93	0.92	N/A	
Other Assets	<u>4.13</u>	<u>4.03</u>	<u>4.02</u>	<u>3.98</u>	<u>3.40</u>	<u>3.91</u>
<i>Industry Average*</i>		19.29	18.23	17.87	N/A	

Source: Annual Reports

* NRB, Bank & Supervision Report 2010/11, p.36

Asset composition of NIBL bank like in every banks remained largely in loans and investment during the last five financial years. As shown in the Table, percentage of cash and bank balance (which form the most liquid of all assets) cumulatively increased in the initial 3 years with 4.43%, 5.96%, 6.91% and decreased in later 2 years with 5.79% and 3.25% cummulatively. The average Cash & Bank Balance of 5 years was 5.25%. Money at Call was minimum in FY 2008/09 at 0.18% then increased rapidly for the next 2 years to reach the maximum in FY 2010/11 at 5.49%. However the following year the figure decreased but was still above the mean of 3.48%. The Investments composition of the total assets has shown steady decrease during the review period with 41.95% in 2007/08 and 24.83% in 2011/12. The Investment proportion in the 5 year period averaged 37.04%. The Loan, Advances & Bills Purchase was 45.32% in 2001/01 and 61.59% in 2011/12 with an average of 48.90%. Similarly, fixed assets proportions increased steadily

during the period while the other assets proportions remained fluctuating around average 3.67%.

In the case of KBL, percentage of Bank and Cash Balance cumulatively ups and down in all the years with 5.69%, 7.36%, 5.93%, 8.18% and 7.78% respectively with average balance of 6.99%. Money at call is maximum with 29.51% in FY 2007/08 after then rapidly decreases till FY 2010/11 to 0.62% then slightly increased to 1.43% in FY 2011/12. However the trend is in tremendously fluctuating but still the above mean with 10.80%. The investment composition in in rapidly increasing trend in first 3 years from 13.97% in FY 2007/08 to 42.96% in FY 2009/10, later on the trend decreased slightly to 36.12% in FY 2011/12. Loan, Advances and Bills Purchase is in slightly fluctuating trend over the period with maximum of 50.21% in FY 2011/12 and minimum of 44.82% in FY 2010/11 with average of 46.33% of 5 years. Similarly, Fixed assets and other assets proportion is in customary changing trend in the review period.

4.1.1.2 Loans And Advances

The fact that the Loans usually form the largest of the asset items and can carry the greatest amount of potential risk to the bank's capital account, the primary factor effecting overall asset quality is the quality of the loan portfolio and the credit administration program. For the evaluation of asset quality of NIBL, the adequacy of Allowance for Loan and Lease Losses (ALLL) has been considered and the exposure to counter-party, issuer, or borrower default under actual or implied contractual agreements is weighed. Assets with inherent credit weaknesses, categorized into non-performing assets components: Substandard, Doubtful and Loss grades are examined, as per minimum criteria laid down by NRB based on the overdue period of the advances. These graded loans are required require provisioning of 25%, 50% and 100% respectively, in order to safe guard the interest of the stakeholders. Quality of loans and advances of NIBL is assessed based on its Loan Classification and Loan Loss Provision mix as below.

4.1.1.2.1 Loan Classification Mix Analysis

The default in repayment of interest or principal within the stipulated time frame, the performing loan turns into non-performing loan. As per NRB directives, all Loans and Advances must be classified in order of Principal default aging into Pass (past due up to 3 months), Sub-standard (past due between 3-6 months), Doubtful (past due between 6-12 months) and Loss (past due over 1 year). NPL forms an aggregate of Substandard, Doubtful and Loss loans. The ratio of NPL to Total loan and advances shows the percentage of NPL in total loan. The lower the ratio the better is the proportion of performing loans and risk of default.

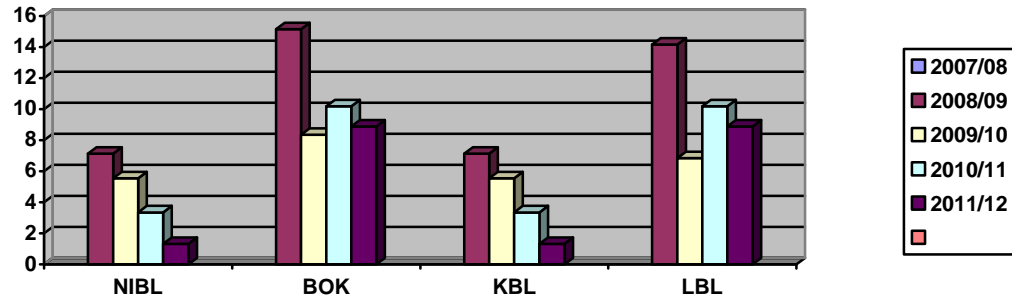
Table 4.2: Non Performing Loan Ratio. (Rs. In Millions)

NIBL						
	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
Non-Performing Loan	<u>NA</u>	<u>557</u>	<u>450</u>	<u>287</u>	<u>145</u>	<u>287.8</u>
Total Loan	<u>8324</u>	<u>7802</u>	<u>8114</u>	<u>8549</u>	<u>10947</u>	<u>8747.20</u>
NPL Ratio (%)	<u>NA</u>	<u>7.14</u>	<u>5.54</u>	<u>3.35</u>	<u>1.32</u>	<u>2.87</u>
<i>Industry Average*</i>	29.31	30.41	28.68	22.77	N/A	
BOK						
	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
Non-Performing Loan	<u>NA</u>	<u>1367</u>	<u>797.6</u>	<u>1092.8</u>	<u>1147.5</u>	<u>880.98</u>
Total Loan	<u>7224.7</u>	<u>9015.3</u>	<u>9557.1</u>	<u>10844.6</u>	<u>12919.6</u>	<u>9912.26</u>
NPL Ratio (%)	<u>NA</u>	<u>15.16</u>	<u>8.35</u>	<u>10.18</u>	<u>8.88</u>	<u>8.51</u>
<i>Industry Average*</i>	29.31	30.41	28.68	22.77	N/A	
KBL						
	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
Non-Performing Loan	<u>NA</u>	<u>402</u>	<u>523</u>	<u>232</u>	<u>150</u>	<u>261.4</u>
Total Loan	<u>8112</u>	<u>7241</u>	<u>7020</u>	<u>8143</u>	<u>9,443</u>	<u>7991.8</u>
NPL Ratio (%)	<u>NA</u>	<u>7.14</u>	<u>5.54</u>	<u>3.35</u>	<u>1.32</u>	<u>2.87</u>
<i>Industry Average*</i>	29.80	28.20	28.54	23.55	N/A	
LBL						
	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
Non-Performing Loan	<u>NA</u>	<u>1432</u>	<u>842.6</u>	<u>769.7</u>	<u>1422.5</u>	<u>893.36</u>
Total Loan	<u>8113.7</u>	<u>9012.3</u>	<u>7786.1</u>	<u>11657.6</u>	<u>12543.6</u>	<u>9822.66</u>
NPL Ratio (%)	<u>NA</u>	<u>14.16</u>	<u>6.85</u>	<u>10.18</u>	<u>8.88</u>	<u>8.51</u>
<i>Industry Average*</i>	29.31	29.33	28.21	20.23	N/A	

Source: Annual Reports, *NRB, Bank & Supervision Report 2011/12

Table 4.2 presents the NPL Ratio of the banks, The figures for the FY 2007/08 was not available and could not be examined. Likewise the industry average figures of FY 2011/12 were also not examined due to non-availability. However the mid figures were adequate to tell the trend analysis. The NPL ratio of NIBL bank is in continuously decreasing trend and was found maximum with 7.14% in FY 2008/09 and minimum with 1.32% in FY 2011/12. Whereas, NPL of KBL was found maximum with 15.16% in FY 2008/09 and minimum with 8.35% in FY 2009/10. The average NPL ratio of both bank found below the industrial average in all the years.

Chart 4.1: Non Performing Loan Ratio



In figure 4.1, the non-performing loan ratio curve of the both banks are below the industry average curve in all observed fiscal years. Due to the public sectors bank in Nepal have very high value of non-performing loan so the industrial average is also came very high. Thus, this industrial average ratios can not taken as a benchmark for non-performing loan ratio. Generally, an internationally recognized non-performing loan benchmark is less than 8 percent. With regards to the Nepalese banking scenarios, having non-performing loan ratio in a single digit is said to be acceptable.

4.1.1.2.2 Loan Loss Provisioning Ratio

The Loan Loss Provisioning ratio indicates adequacy of allowance for loans and trend in the collection of loan and the performance in loan portfolio. It is obtained by the ratio of loan loss provision to the total loan (Garden and Miller, 1988). Loan loss ratio provides useful insight into the quality of a banks loan portfolio and bad debts coverage, and the adequacy of loan loss provisions. Greater loan loss provision is required to allow in income statement if high loss is expected. This ratio shows the possibility of loan default of a bank. It indicates how efficiently it manages its loan and advances and makes effort for the loan recovery. Higher ratio implies higher portion of non-performing loan portfolio. The ratio of loan loss provision to total loans and advances describes the quality of assets that a bank is holding. The provision for loan loss reflects the increasing probability on non-performing loans in the volume of total loans and advances. Loan loss provision on the other hand signifies the cushion against future contingency created by the default of the borrowers. The high ratio signifies the relatively more risky assets in the volume of loans and advances. The high provision for loan loss shows the recovery of loan to be difficult and irregular and the age of the loan is increasing. More delay the bank gets to collect the loan, the provision will be higher and the ratio will be higher. Altman and Sametz (1977) have identified few early warning variables based on the balance sheet data. The loan loss ratio as defined by them is the ratio of provision for loss to the total loan and investments. This ratio is defined as the measure of prospective

losses that are envisioned by the bank management in relation to the bank's overall loan and investment.

Table 4.3: Loan Loss Provisioning (%)

NIBL

	2007/08	2008/09	2009/10	2010/11	2011/12
Total Loan Loss Provision (in Million)	591.80	363.95	357.73	358.66	360.57
Total Loan & Advances	8,324.44	7,801.85	8,113.68	8,548.66	10,946.74
Total Provision to Total Loans (%)	7.11	4.66	4.41	4.20	3.29

BOK

	2007/08	2008/09	2009/10	2010/11	2011/12
Total Loan Loss Provision (in Million)	-	344.50	643.40	842.80	967.80
Total Loan & Advances	7224.70	9015.30	9557.10	10,844.60	12919.60
Total Provision to Total Loans (%)	-	3.82	6.73	7.77	7.49

KBL

	2007/08	2008/09	2009/10	2010/11	2011/12
Total Loan Loss Provision (in Million)	675.20	423.24	357.73	358.66	380.53
Total Loan & Advances	7,324.44	7,561.85	8,013.48	7,548.66	9,999.74
Total Provision to Total Loans (%)	9.21	5.597	4.464	4.75	3.80

LBL

	2007/08	2008/09	2009/10	2010/11	2011/12
Total Loan Loss Provision (in Million)	-	304.60	543.40	742.70	963.80
Total Loan & Advances	7112.70	9345.30	9557.10	10,144.60	11519.60
Total Provision to Total Loans (%)	-	3.25	5.68	7.32	8.36

Source Annual Reports, 2007/08, 2008/09, 2009/10, 2010/11, 2011/12

Table 4.3 exhibits that the loan loss provisioning ratio of NIBL for the study period is in continuous decreasing trend. The ratio ranges from 7.11% in FY 2007/08 to 3.29% in FY 2011/12 with an average of 4.73%. The coefficient of variation between them is 30.11%, which indicates that the ratios are variable and not consistent with the decreasing trend. Where in the case of KBL the loan loss provisioning ratio for the study period is in increasing trend. The ratio ranges from 3.82% in FY 2008/09 to 7.77% in FY 2010/11 with an average of 6.45%. The co-efficient of Variation between them is 28.04%, which indicates that the ratios are variable and not consistent with the increasing trend.

Chart 4.2: Trend of Loan Loss Provision Ratio

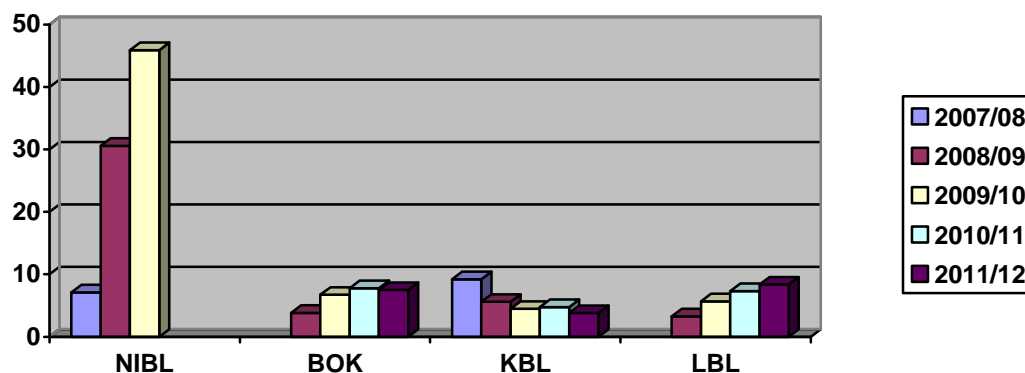


Chart 4.2 shows the observed value of loan loss provisioning ratio of NIBL is in decreasing trend, The ratio is continuously decreasing till FY 2011/12. which indicates the trend of the loan loss ratio is decreasing over the study period. On the other hand loan loss provisioning of KBL is increasing trend upto year 2010/11 thereafter it is observed declining in year 2011/12. It indicates the trend of the loan loss ratio is in increasing over the study period.

4.1.2 Management Component Analysis

Management role is very important in the performance of FIs. The key distinct areas that reflect the overall quality of management are governance, general management, human resource policy, management information system, internal control and audit strategic planning and budgeting.

While the others factors can be quantified fairly easily from current financial statements, management quality being subjective is difficult to quantify. As such no particular factor can be pointed out as a concrete measure for assessing Management quality. The qualitative assessment of aspects like Depth and succession of top management, Technical Aspects, Internal Control decisions, Operating and Lending decisions, Involvement of Board of Directors, Willingness to serve community needs etc, illustrate the level of management quality as these decisions are reflected in the final balace sheet. There is one measure that is relevant to management is the ratio of Total expenses to Total revenue. Since the profitability of an institution is determined by the gap of Total Revenues and Total Expenses which are well in direct control and monitoring of the management, it is used to represent the management quality. Another measure that is also relevant to management is the ratio of earnings per employee is used as a proxy of management quality.

4.1.2.1 Total Operating Expense to Total Operating Revenue Ratio

The ratio of total expenses to total revenue is used as a proxy measure of the management quality. This ratio is calculated by dividing the total expenses by total revenues. A high level of expenditures in un-productive activities may reflect an inefficient management. A high or increasing ratio of expenses to total revenues may give indication of inefficient operation. This can be, but necessarily due to management deficiencies. In any case, it is likely to negatively affect profitability (IMF, 2000).

Commercial bank's earnings originate from interest on Loans & Advances, Investments, Commissions & Discounts, Foreign Exchange Rate Gains and other miscellaneous income. Conversely, it expends on, Depositors' Interest, Staff Salary, Provident Fund allowances and other operating expenses like rent, water & electricity, fuel expenses, audit fee expenses, management expenses, depreciation, miscellaneous expenses, and all other expenses directly related to the operation of bank. Expenses such as loss on sale of assets, write off expenses, losses shortage, written off, provision for income tax are non-operating expenses.

Table 4.4: Total Operating Expenses to Total Operating Revenues Ratio**NIBL**

FY (as at mid July)	<u>2007/08</u>	<u>2008/09</u>	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>
Total Operating Expenses (TOE) (in million)	1,049.00	1,185.36	745.71	697.42	668.70
Total Operating Revenues (TOI) (in million)	1,573.06	1,639.12	1,340.50	1,333.65	1,438.44
TOE /TOI Ratio (%)	66.69	72.32	55.63	52.29	46.49

BOK

FY (as at mid July)	<u>2007/08</u>	<u>2008/09</u>	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>
Total Operating Expenses (TOE) (in million)	1,043.32	1,298.19	1,154.77	1,242.18	1,256.56
Total Operating Revenues (TOI) (in million)	1,242.70	1,575.23	1,389.79	1,454.30	1,519.62
TOE /TOI Ratio (%)	83.96	82.41	83.09	85.41	82.69

KBL

FY (as at mid July)	<u>2007/08</u>	<u>2008/09</u>	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>
Total Operating Expenses (TOE) (in million)	980.00	1,284.23	875.54	875.54	776.98
Total Operating Revenues (TOI) (in million)	1,454.09	1,567.23	1456.87	1345.98	1567.90
TOE /TOI Ratio (%)	67.39	81.94	60.009	65.04	49.49

LBL

FY (as at mid July)	<u>2007/08</u>	<u>2008/09</u>	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>
Total Operating Expenses (TOE) (in million)	923.87	1324.6	1145.65	1345.51	1349.67
Total Operating Revenues (TOI) (in million)	1,098.98	1654.98	1256.77	1376.76	1487.90
TOE /TOI Ratio (%)	84.06	80.03	91.15	97.73	90.70

Source: Annual reports.

As shown in Table 4.4, the total operating expenses (TOE) to total revenue ratio (TOI) of NIBL has increased in 2008/09 from 66.69% to 72.32% which is the maximum of all the review period. The ratio however has continuously decreased thereafter to reach 46.49% in 2011/12 which is the minimum ratio of the observed years. The mean ratio of the review period was 58.68%. It can be concluded that the ratios are in decreasing trend. Whereas, TOE to TOI ratio of KBL is in slightly decreased in first two year from 83.96% in FY 2007/08 to 82.41% in FY 2008/09 then increased upto 85.41% in FY 2010/11 which

is maximum during the study period. The mean ratio of the review period was 83.60 which indicates the ratio are stable and consistent.

Chart 4.3 Trend Analysis of Total Operating Expenses/ Total Operating Revenue Ratio

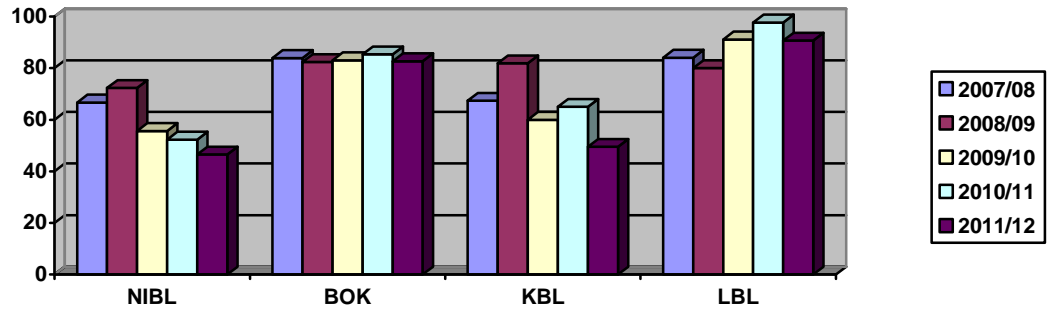


Chart 4.3 exhibits the observed TOE to TOI ratio of NIBL and KBL within the study period of last five years. As shown in the chart, the observed ratio fluctuated upwards only once 2008/09 else it is in continuous decreasing trend to reach at the all time minimum of 46.49% in FY 2011/12. In case of KBL the slope of the curve is in slightly increasing trend till FY 2010/11 thereafter it is declining in FY 2011/12. Hence, the negative slope of both bank thus indicates decreasing expenses with respect to income which is accredited to good management quality.

4.1.2.2 Earnings per Employee

Earning per Employee is calculated by dividing net profit after taxes by number of employees. Low or decreasing earnings per employee can reflect inefficiencies as a result of overstaffing, with similar repercussions in terms of profitability (IMF, 2001).

Table 4.5: Earnings per Employee**NIBL**

	2007/08	2008/09	2009/10	2010/11	2011/12
Net Profit (Rs.)	291,376,140	271,638,612	416,235,811	455,311,222	518,635,749
Number of Employees	388	382	326	372	426
Earning per Employee (Rs.)	750,969.00	711,096.00	1,276,797.00	1,223,955.00	1,21,7,455.00

BOK

	2007/08	2008/09	2009/10	2010/11	2011/12
Net Profit (Rs.)	199,380,000	277,039,000	235,023,000	212,132,000	263,052,000
Number of Employees	311	359	357	385	455
Earning per Employee (Rs.)	641,158.00	771,588.00	658,263.00	550,909.00	578,242.00

KBL

	2007/08	2008/09	2009/10	2010/11	2011/12
231,326,321	234,453,908	321,235,798		445,234,656	509,615,456
438	393	354		392	498
528142.28	596574.82	907445.75		1135802.69	1023324.20

LBL

	2007/08	2008/09	2009/10	2010/11	2011/12
176,230,000	298,033,000	217,028,000		278,107,000	301,098,000
341	459	398		398	466
516803.51	649309.36	545296.48		698761.30	646133.0472

Source: Annual reports.

Table 4.5 shows the Earnings per Employee in rupees during the study period. The ratio at first decreased in 2008/09 and thereafter abruptly increased in 2009/10. Following 2 years shows continuous decrease. The mean earning per employee of the study period was Rs.1, 036,054.00, However, in the case of KBL Earning per Employee at first increased in 2008/09 then continuously decreases upto Rs. 550,909.00 in FY 2010/11, which is minimum figure in all the year. During the review period the maximum Earning per Employee is 771,588.00 in FY 2008/09. The mean earning per employee of the study period was Rs. 640,032.00

Chart 4.4: Earning per Employee Trend

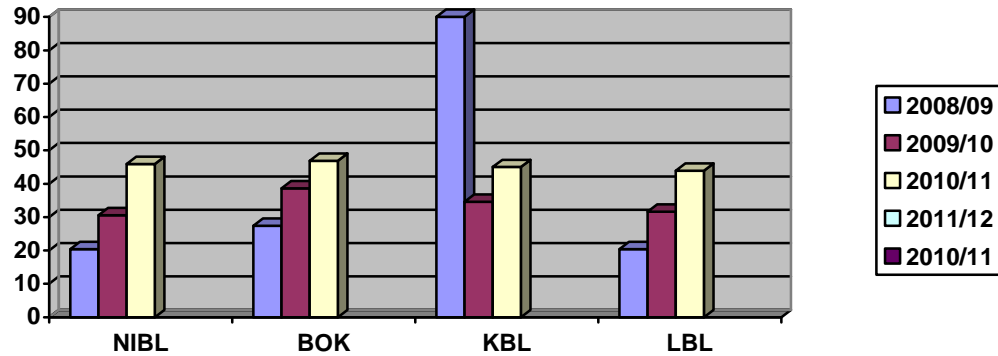


Chart 4.4 shows the observed Earning per Employee the banks. The slope of the curve of NIBL is positive, which indicates the Earning per Employee is increasing over the study period. However the later periods it has shown decrement though in low level. This indicates that, in the later half of the review period the increased number of staff have decreased the earnings per employee with similar repercussion in terms of profitability. Whereas, the slope of the curve of KBL is negative, which indicates the earning per employee is declining over the study period, however the decline is not sharp, this indicates that low or decreasing earning per employee can reflect inefficiencies as a result of overstaffing, with similar repercussions in terms of profitability.

4.1.3 Earning Quality Analysis

Earning represents the first line of defense against capital depletion resulting from shrinkage in asset value. Earnings performance also allows the bank to remain competitive by providing the resources. The main objectives of bank is to earn profit and their level of profitability is measured by Profitability ratios. Profitability ratios measures the efficiency of banks, higher profit ratios indicate higher efficiency and vice-versa.

4.1.3.1 Return On Equity (ROE)

ROE is measure of the rate of return flowing to the bank's shareholders. ROE is the profit as a percentage return on the owner's stake in a firm. The level of profit depends on the ROE i.e. the profit per dollar invested (Meir Kohn, 1999). Computed as the ratio of net income to the equity, it reflects the income earned from its internal sources. The ROE measures the book return to the owners of the firm. It is a "bottom line ratio" in that sense (Weston & Copeland, 1991). Return on equity reveals how well the bank uses the resources of owners. The higher ratio represents sound management and efficient mobilization of the owner's equity and vice- versa. ROE of 15% is treated as standard and banking industry are desired to have higher than this (World Bank, 1996). **Table 4.10:**

Table No. 4.6 Return on Equity**NIBL**

Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Net Profit After Taxes (in million)	291.38	271.64	416.24	455.31	518.64
Shareholders' Equity (in million)	1,062.85	1,146.43	1,314.19	1,481.68	1,657.64
Return on Equity (%)	27.41	23.69	31.67	30.73	31.29

BOK

Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Net Profit After Taxes (in million)	194.40	277.00	235.00	212.10	263.10
Shareholders' Equity (in million)	870.60	1,198.40	1,501.50	1,906.00	2,292.10
Return on Equity (%)	22.90	23.11	15.65	11.13	11.48

KBL

Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Net Profit After Taxes (in million)	231.58	298.54	512.24	541.31	509.64
Shareholders' Equity (in million)	1,162.55	1,207.23	1,245.19	1,391.87	1,567.98
Return on Equity (%)	19.92	24.72	41.13	38.89	32.50

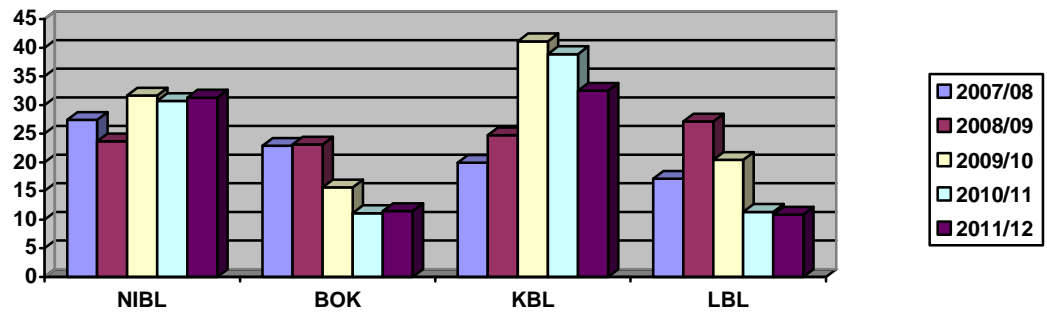
LBL

Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Net Profit After Taxes (in million)	167.90	298.00	287.00	205.00	255.40
Shareholders' Equity (in million)	980.44	1,098.40	1,403.40	1,804.00	2,345.50
Return on Equity (%)	17.12	27.13	20.45	11.36	10.88

Source: Annual reports.

As shown in Table 4.6, the ROE of NIBL of 23.69% is the minimum in 2008/09 and maximum in 2009/10. The ratio fluctuated between 27.41% in the initial period of 2007/08 and 31.29% of the final period of 2011/12. The mean ratio of the bank is 28.96% and the coefficient of variation of them is 11.72% which is adjustable and consistent. In all years of the review period and obviously the mean ratio is above the 15% benchmark. Hence the bank's ROE ratio is sound. In the other hand, ROE of KBL is maximum with 22.90% in the FY 2007/08 and minimum of 11.13% in FY 2010/11, the ratio slightly increased to 11.48%. The mean ratio of the bank is 16.85% and the coefficient of variation of them is 30.41%. The average mean ratio is above the 15% benchmark so this shows that it is in decreasing tendency.

Chart 4.5: Return on Equity Trend



As shown in Chart 4.5, the ratio of NIBL has slightly decreased in 2008/09 and abruptly rose in 2009/10. It slightly decreased in the following year and increased again in 2011/12. The observed values of the ratio are fluctuating over study period. The slope of the curve is positive which indicates the upward trend in ratio of bank during the period of five years. The average ratio is also above the benchmark. The increasing trend of ratios implies that earning quality of bank is getting better. Comparatively, the ratio of KBL is in decreasing trend, the slope of curve is negative, which indicates the steady downward movement or decreasing trend in ratio of the bank during the period of 5 years. But the ratio is found minimum 11.13% over the study period, which is not sufficient in the Nepalese Commercial Banks. The decreasing trend of ratios implies that earning quality of bank is also declining.

4.1.3.2 Return on Assets (ROA)

ROA determines the net income produced per dollar of assets. It is a measure of profitability linked to the asset size of the bank (Saunders and Cornett, 2004). It is primarily an indicator of managerial efficiency; it indicates how capably the management of the bank has been converting the institution's assets into net earnings (Rose, 1999). ROA is a popular tool to measure how well its asset is utilized in generating profit. It measures the profit earning capacity by utilizing available resources i.e. total assets. Return will be higher if the banks resources are well managed and efficiently utilized. Generally, the return on assets ratio should be 1% and higher is desired to the banking industry (World Bank, 1996).

Table 4.7: Return on Assets**NIBL**

Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Net Profit After Taxes (million)	291.38	271.64	416.24	455.31	518.64
Total Assets (million)*	18,175.59	17,528.57	16,437.17	16,633.04	17,064.02
Return on Assets (%)	1.60	1.55	2.53	2.74	3.04

BOK

Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Net Profit After Taxes (million)	194.40	277.00	235.00	212.10	263.10
Total Assets (million)*	15,863.70	19,500.60	21,315.80	24,197.90	25,729.80
Return on Assets (%)	1.26	1.42	1.11	0.88	1.02

KBL

Year (as at mid July)	2007/08	2008/09	2009/10	2010/11
Net Profit After Taxes (million)	211.54	298.84	435.94	489.31
Total Assets (million)*	18765.59	17,528.57	15,786.09	15678.78
Return on Assets (%)	1.12	1.70	2.76	2.74

LBL

Year (as at mid July)	2007/08	2008/09	2009/10	2010/11
Net Profit After Taxes (million)	194.40	277.00	235.00	212.10
Total Assets (million)*	15,863.70	19,500.60	21,315.80	24,197.90
Return on Assets (%)	1.22	1.42	1.11	0.88

*Total Assets are net of Interest Suspense & Branch Adjustment balances included under other liabilities of the balance sheet(NRB Audit Report,2004)

Source: Annual reports.

As shown in Table 4.7, the return on asset ratio of NIBL was minimum in 2008/09 with 1.55% and maximum in 2011/12 with 3.04%. The ratio decreased in 2008/09 and thereafter ratio is in increasing trend continuously to reach at 3.04% in the concluding FY. The mean ratio of the bank is 2.29% and the coefficient of variation of them is 29.93% which is variable and not consistent. The bank's mean ratio is two folds above the 1% benchmark and concluding FY is three folds above the benchmark. The bank's ROA is in continuous increasing trend which shows the quality of assets and their efficiency to generate return is increasing. Similarly, the ROA of KBL is minimum of 0.88% in FY 2010/11 and maximum of 1.42% in FY 2008/09. The bank's mean ratio is 1.14% and the coefficient of variation of them 20.43%, which is variable and less

consistent. On the basis of mean ratio of the bank is above the benchmark 1% and higher so this indicates that the bank's ratio is better but decreasing tendency.

4.1.3.3 Net Interest Margin (NIM)

The net interest margin measures the net return on the bank's earning assets (investment securities and loans and leases). It is calculated by dividing the Net Interest Income (NII) with the earning assets (Saunders and Cornett, 2004).

Generally, the net interest margin ratio should be 3% to 4% and higher is better in banking industry (World Bank, 1996). Generally the higher this ratio, the better. However it highlights the fact that looking at returns without looking at risk can be misleading and potentially dangerous in terms of bank solvency and long run profitability (Saunders and Cornett, 2004).

Table 4.8: Net Interest Margin

NIBL

Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Net Interest Income (in million)	688.34	658.11	500.52	718.67	825.20
Earning Assets (in million)	16,551.30	15,668.78	14,457.33	14,994.67	15,721.83
Net Interest Margin (%)	4.16	4.20	4.85	4.81	5.25

BOK

Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Net Interest Income (in million)	488.90	591.90	570.90	647.10	754.40
Earning Assets (in million)	9,441.00	13,098.00	18,714.20	21,020.00	22,212.00
Net Interest Margin (%)	5.18	4.52	3.05	3.08	3.40

KBL

Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Net Interest Income (in million)	598.98	786.09	500.52	875.12	987.76
Earning Assets (in million)	12567.09	15985.23	13456.66	116785.34	17895.45
Net Interest Margin (%)	4.76	4.20	4.85	4.81	5.25

LBL

Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Net Interest Income (in million)	564.65	654.43	675.36	786.04	876.39
Earning Assets (in million)	10987.32	12367.00	17890.56	20234.98	23453.56
Net Interest Margin (%)	5.13	4.52	3.05	3.08	3.40

Source: Annual reports.

In the past five years, the NIM ratio of NIBL was distributed over 4.16% of 2007/08 and 5.25% of 2011/12. The minimum ratio was observed in 2007/08 with 4.16% and the maximum ratio was found in the concluding year 2011/12 with 5.25%. The ratio continuously increased in the first three years of the review period and slightly

decreased in 2010/11. Thereafter it again increased to the all time maximum in 2011/12. Despite fluctuated only once the NIM ratio is in increasing trend. The mean ratio for the study period was found 4.65% and the coefficient of variation is found 10.01%. On the basis of the coefficient of variation, it can be concluded that the ratios are slightly variable. Throughout the review period the NIM ratio was found slightly above the generally accepted benchmark. Comparatively, NIM ratio of KBL was distributed as a maximum ratio 5.18% in the initial FY 2007/08 and minimum ratio 3.05% in FY 2009/10. The ratio continuously decreases upto 3.05% in FY 2009/10 then slightly increases to 3.40% in FY 2011/12. The mean ratio for the period is 3.85% and the coefficient of variation is found 24.27%. On the basis of the coefficient of variation, it can be concluded that the ratios are variable and on the basis of mean ratio the bank is above to benchmark 3% to 4%, so the bank's ratio is higher but it is in declining tendency.

4.1.3.4 Earning Per Share (EPS)

The profitability of a firm from the point of view of the ordinary shareholders is the Earning Per Share. It measures the profit available to the equity shareholders on per share basis (Shiva Prasad Munankarmi, 2002). The earnings per share of an organization give the strength of the share in the market. The higher the EPS is supposed to be a best comparing between two banks.

Table 4.9: Earning Per Share**NIBL**

Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Net Profit (in million)	291.38	271.64	416.24	455.31	518.64
No. of Shares (in Million)	4.92	4.92	4.92	4.92	4.92
Earning Per Share	59.26	55.25	84.66	92.61	105.49

KBL

Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Net Profit (in million)	199.40	277.00	235.00	212.10	263.10
No. of Shares (in Million)	2.40	3.00	3.90	4.29	5.3625
Earning Per Share	83.08	92.33	60.26	49.44	49.06

NIBL

Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Net Profit (in million)	301.09	287.90	489.90	567.90	509.56
No. of Shares (in Million)	6.98	5.87	4.89	6.98	6.89
Earning Per Share	43.13	55.25	84.66	92.61	105.49

KBL

Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Net Profit (in million)	178.98	345.00	345.00	452.89	345.20
No. of Shares (in Million)	3.45	4.00	6.80	4.68	4.98
Earning Per Share	51.07	92.33	60.26	49.44	49.06

Source: Annual Report

Table 4.9 reveals that EPS of NIBL fluctuated only in the first year of the review period thereafter it increased continuously till the final year of the review period. EPS was minimum in 2008/09 with Rs.55.25/share and maximum in 2011/12 with Rs.105.49/share. The average EPS of the required period was Rs.79.45/share and coefficient of variation of the bank is 27.23% which shows more volatility during the study period. Whereas, in the case of KBL EPS of the bank has fluctuated over the study period. The EPS of the bank has ranged between Rs. 49.06 in FY 2011/12 to Rs. 92.33 in FY 2008/09, which is decreasing trend during the study period. The mean average of EPS is Rs. 66.83 and co-efficient variation is 38.36% which shows less consistent and more volatile during the study period.

Chart 4.6: Earning Per Share

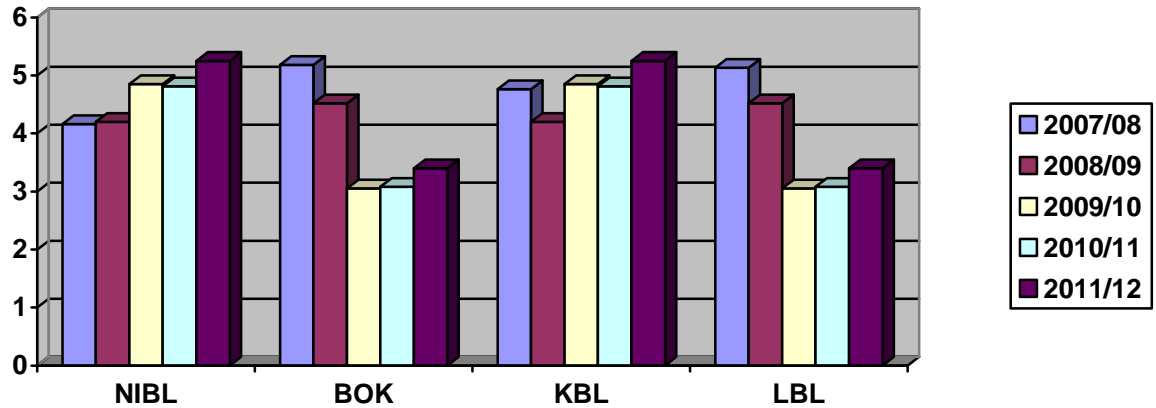


Chart 4.6 shows the EPS of NIBL fluctuated down in 2008/09 from Rs.59.26/share to the all time minimum of Rs.55.25/share. Thereafter it increased continuously in the following years. The maximum EPS was reached in 2011/12 with Rs.105.49/share. The increasing trend of EPS is also supported by positive slope of the trend line. However, the trend line of KBL is negative, which indicates that the trend of earning per share is declining over the study period and the declining also sharp.

4.1.4 Capital Adequacy

Capital adequacy component analysis of NIBL & KBL is made based on the regulations and standard ascertain by NRB as to maintaining minimum risk-based Core & Total Capital Standard, and maximum risk based Supplementary capital standard. The minimum risk-based capital standard which includes a definition for Risk Based Capital, a system for calculating Risk Weighted Assets (RWA) by assigning on and off balance sheet items to broad risk categories. Capital Adequacy Ratios take into account the most important financial risks-foreign exchange, credit and interest rate risks, by assigning risk weightings to the institution's assets.

4.1.4.4 Core Capital Adequacy Ratio

Core (Tier I) Capital, which is a capital of permanent nature, comprise of Paid Up, Share premium, Non Redeemable Preference Share, General Reserve, Dividend Equalization Fund, Capital Adjustment Reserve, Retained Earning and Profit & Loss accounts. Table 4.1 presents the observed Core Capital Ratio during the study period and minimum core capital standard set by NRB in the corresponding period along with variance from NRB Standard.

Table 4.10: Core Capital Adequacy Ratio**NIBL**

Fiscal Year	Core Capital (Million)	RWA (Million)	Core Capital To RWA %	Min. NRB Standard %*	Variance (+/-%)
2007/08	1,032	NA	6.50	4.50	+2.00
2008/09	1,112	10,564	10.53	4.50	+6.03
2009/10	1,277	11,146	11.45	5.00	+6.45
2010/11	1,439	11,872	12.12	5.50	+6.62
2011/12	1,611	14,193	11.35	5.50	+5.85

BOK

2007/08	580	13,059	4.44	4.50	-0.06
2008/09	699	14,957	4.67	4.50	+0.17
2009/10	835	12,746	6.50	5.00	+1.50
2010/11	1,039	14,681	7.10	5.50	+1.60
2011/12	1,297	16,861	7.70	5.50	+2.20

*Source : Annual Reports***KBL**

Fiscal Year	Core Capital (Million)	RWA (Million)	Core Capital To RWA %	Min. NRB Standard %*	Variance (+/-%)
2007/08	832	9380	8.86	4.50	+4.36
2008/09	1,103	5637	19.56	4.50	+15.06
2009/10	1098	9,146	12	5.00	+7
2010/11	1039	10345,	10.043	5.50	+4.5
2011/12	1,061	12,193	8.70	5.50	+3.2

LBL

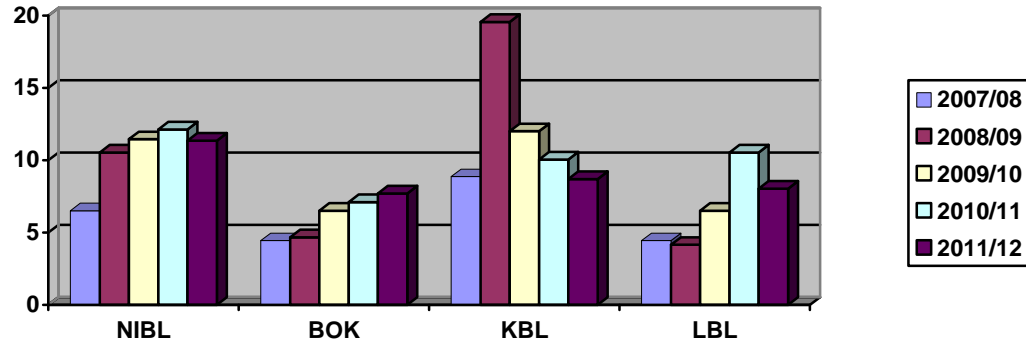
2007/08	420	11,356	4.44	3.69	-0.75
2008/09	509	12,254	4.15	4.67	-0.52
2009/10	935	12,746	6.50	5.00	+1.50
2010/11	1,125	10,681	10.53	5.50	+1.60
2011/12	1,226	15,262	8.03	5.50	+2.53

Source : Annual Reports

As shown in the table, the Tier I ratio of NIBL of 12.12% was maximum in FY 2010/11 and minimum ratio of 6.50% in FY 2007/08. The Tier I ratio increased continuously till FY 2010/11 and decreased thereafter in FY 2011/12. The reason of this decrease was due to comparatively high increase of RWA by 19.55% in FY 2011/12. Whereas Tier ratio of BOK of 7.70% was maximum in FY 2011/12 and minimum ratio of 4.44% in FY

2007/08, The tier ratio continuously increasing trend, its due to respective increase in Core Capital and RWA in the following year.

Chart 4.7 Core Capital Ratios



The graphical representation in Chart 4.1 shows, Tier I capital ratio of NIBL varied positively in all the 5 years of the review period, with maximum positive variance of 6.62% in FY 2010/11 and minimum positive variance of 2.00% in FY 2007/08. The bank was able to maintain positive variance greater than 6% during the period 2008/09 to 2010/11 however it slightly decreased in the concluding FY of 2011/12. Similarly, Tier I ratio of KBL also varied positively during the study period except in FY 2007/08, which is negative by 0.06%. Maximum Positive variance of 1.60% in FY 2010/11.

In general, both banks has maintained Tier I capital adequately above the NRB standard during the study period. It means the banks are applying adequate amount of internal sources of shareholders' fund with significant core capital adequacy ratio in all the years over the study period.

4.1.4.5 Supplementary Capital Adequacy Ratio

Supplementary capital are collected by way of hybrid capital instruments, General Loan Loss Provision, Exchange Fluctuation reserve, Asset Revaluation reserve, Interest Spread Reserve, Subordinate Term Debt, and other free reserve. The ratio reflects proportion of supplementary capital components in total risk adjusted assets and relative contribution in the CAR. NRB regulates Supplementary Capital ratio by allowing Supplementary capital not exceeding 100% of the core capital for CAR calculation.

Table 4.11: Supplementary Capital Adequacy NIBL

Fiscal Year	Supplementary Capital (Million)	RWA (Million)	Supplementary To RWA %	Max.NRB Standard %*	Variance (+/-%)
2007/08	630	N/A	3.96	6.50	+2.54
2008/09	353	10,564	3.34	10.53	+7.19
2009/10	178	11,146	1.60	11.45	+9.85
2010/11	167	11,872	1.43	12.12	+10.69
2011/12	156	14,193	1.10	11.35	+10.25

BOK

Fiscal Year	Supplementary Capital (Million)	RWA (Million)	Supplementary To RWA %	Max.NRB Standard %*	Variance (+/-%)
2007/08	469	13,059	3.59	6.50	+2.91
2008/09	500	14,957	3.34	10.53	+7.19
2009/10	639	12,746	5.01	11.45	+6.14
2010/11	565	14,681	3.85	12.12	+8.27
2011/12	499	16,861	2.96	11.35	+8.39

KBL

Fiscal Year	Supplementary Capital (Million)	RWA (Million)	Supplementary To RWA %	Max.NRB Standard %*	Variance (+/-%)
2007/08	530	14250	3.71	6.50	+2.71
2008/09	234	9,564	2.44	10.53	+8.09
2009/10	244	12345	1.97	11.45	+9.47
2010/11	324	11,472	2.82	12.12	+12.09
2011/12	158	12,123	1.30	11.35	+10.04

LBL

Fiscal Year	Supplementary Capital (Million)	RWA (Million)	Supplementary To RWA %	Max.NRB Standard %*	Variance (+/-%)
2007/08	229	10,131	2.26	6.50	+4.23
2008/09	245	13,123	1.86	10.53	+8.66
2009/10	567	9,987	5.67	11.45	+5.77
2010/11	379	11,476	3.30	12.12	+8.81
2011/12	498	14,153	3.51	11.35	+7.83

Source: Annual Reports,

As shown in Table 4.11, the Tier II ratio of NIBL was maximum in FY 2007/08 with 3.96% and minimum in FY 2011/12 with 1.10%. The ratio is in continuous decreasing trend since 2007/08 till 2011/12. The continuous decrease owed due to regular decrease

in Supplementary Capital Fund and regular increase in RWA over the study period, However, the Tier II ratio of KBL was maximum with 5.01% in FY 2009/10 and minimum with 2.96% in FY 2011/12. The ratio is in volatile trend during the study period. The fluctuating ratio is due to the fluctuation in Supplementary Capital Fund and RWA over the study period.

Chart 4.8 Supplementary Capital Ratio

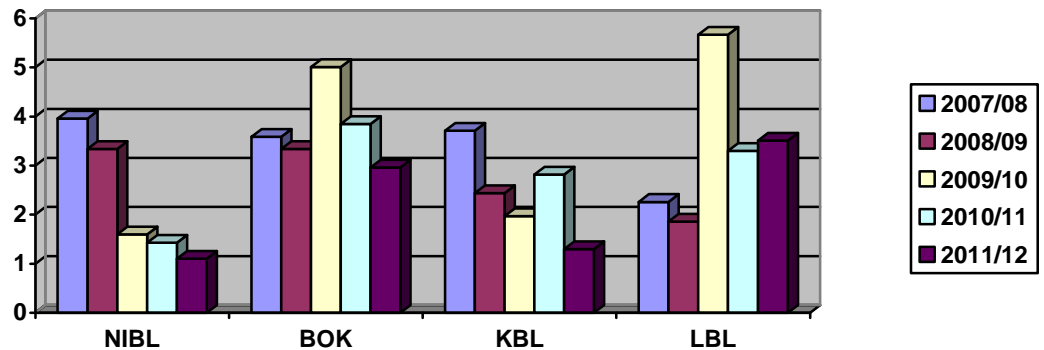


Chart 4.8 shows, Tier II capital ratios is in decreasing trend and were well below the maximum level allowed by NRB norms and thus varied positively in all the 5 years of the review period, with maximum positive variance of 10.69% in FY 2010/11 and minimum positive variance of 2.54% in FY 2007/08. Same as, Tier II capital ratio of KBL also were well below the maximum level allowed by NRB norms and varied positively in all the years with maximum positive variance of 8.39% in FY 2011/12 and minimum positive variance of 2.91% in FY 2007/08. Hence, both banks were able to maintain positive variance greater than 2% throughout the study period.

4.1.1.2 Total Capital Adequacy Ratio

Capital adequacy ratio above the NRB standard indicates adequacy of capital and signifies higher security to depositors, higher internal sources and higher ability to cushion operational and unanticipated losses. The lower value, on the contrary, indicates lower internal sources, comparatively weak financial position and lower security to depositors.

Table 4.12: Total Capital Adequacy Vs NRB Standard & Industrial Average**NIBL**

Fiscal Year	Total Capital (Million)	RWA (Million)	Total Capital To RWA %	Min. NRB Standard %	Variance %	Industry Average%
2007/08	1,662	NA	10.46	8.00	+2.46	11.18
2008/09	1,464	10,564	13.86	9.00	+4.86	13.82
2009/10	1,455	11,146	13.05	10.00	+3.05	11.95
2010/11	1,609	11,872	13.56	11.00	+2.56	11.62
2011/12	1,766	14,193	12.44	11.00	+1.44	NA

BOK

Fiscal Year	Total Capital (Million)	RWA (Million)	Total Capital To RWA %	Min. NRB Standard %	Variance %	Industry Average%
2007/08	1,049	13,059	8.03	8.00	+0.03	11.18
2008/09	1,199	14,957	8.02	9.00	-1.97	13.82
2009/10	1,474	12,746	11.56	10.00	+1.56	11.95
2010/11	1,604	14,681	10.93	11.00	-0.07	11.62
2011/12	1,796	16,861	10.65	11.00	-0.35	NA

KBL

Fiscal Year	Total Capital (Million)	RWA (Million)	Total Capital To RWA %	Min. NRB Standard %	Variance %	Industry Average%
2007/08	1,490	9089	16.39	8.00	+8.39	11.18
2008/09	1,378	10,564	13.04	9.00	+4.04	13.82
2009/10	1,233	11,146	11.06	10.00	+1.06	11.95
2010/11	1,567	11,872	13.56	11.00	+2.56	11.62
2011/12	1,876	14,193	13.21	11.00	+2.21	NA

LBL

Fiscal Year	Total Capital (Million)	RWA (Million)	Total Capital To RWA %	Min. NRB Standard %	Variance %	Industry Average%
2007/08	1,200	11,234	10.68	8.00	-2.68	11.18
2008/09	1098	13045	8.41	9.00	+0.59	13.82
2009/10	1,267	11,234	11.27	10.00	-1.27	11.95
2010/11	1,476	15467	9.54	11.00	+1.45	11.62
2011/12	1,356	15478	8.76	11.00	+2.24	NA

Source: Annual Reports,

Table 4.12 tabulates the bank's , Total Capital, RWA, Total Capital Adequacy Ratio and its comparison with minimum NRB standard and Industry average; during the review

period. As tabulated, the total capital to RWA of NIBL with 13.86% is maximum in FY 2008/09 and minimum with 10.46% in FY 2007/08, The ratio was found above the minimum NRB standard in all the study period with maximum positive variance of 4.86% and minimum positive variance of 1.44% in FY 2008/09 and 2011/12 respectively. In the case of KBL the total capital to RWA is maximum with 11.56% in FY 2009/10 and minimum with 8.02% in FY 2008/09, The ratio is found fluctuating with minimum NRB standard in all the study period with maximum positive variance of 1.56% in FY 2009/10 and minimum with negative variance of 1.97% in FY 2008/09.

Chart 4.9 Total Capital Adequacy Ratios

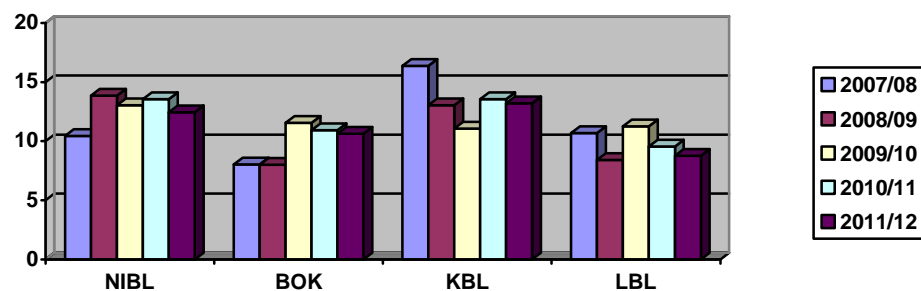


Chart 4.6 exhibits the data tabulated in Table 4.3. As shown in the chart, the capital adequacy ratio of NIBL was above the minimum NRB standard but getting closer in later years which means the positive variance is in decreasing trend represented by the variance with NRB curve. Except in Fy 2007/08, the capital ratio was seen above the industry average ratio FY 2008/09 onwards. Whereas, Capital adequacy ratio of KBL was below the minimum NRB standard in FY 2008/09, 2010/11 and 2011/12. Maximum positive variance of KBL is 1.56% in FY 2009/10.

In general, NIBL was able to maintain CAR above the minimum NRB standard efficiently during the study period. Also the ratio was seen above the industry average in the later years. But KBL was not able to maintained CAR above the minimum NRB standard efficiently during the review period. Hence the bank requires to increase its capital fund either through internal sources or decrease risky assets investments in the coming future.

4.1.5 Liquidity Component Analysis

The level of liquidity influences the ability of a banking system to withstand shocks. Liquidity risk arises when an FI's liability holders like depositors demand immediate cash for the financial claims they hold with an FI. The most liquid asset is cash, which FIs can use directly to meet liability holders' demands to withdraw funds. Day to day

withdrawals by liability holders are generally predictable and large FIs can expect to borrow additional funds on the money and financial markets to meet any sudden shortfalls of cash. At times FIs face a liquidity crisis due to either a lack of confidence on the FIs problem or some unexpected need for cash, the liability holders may demand larger withdrawals than usual. This turns the FIs' liquidity problem into a solvency problem and cause it to fail (Saunders and Cornett, 2004).

4.1.5.4 Liquid Assets to Total Deposit Ratio

The ratio of Liquid assets to Deposit measures the levels of liquid assets available with the bank to meet short term obligations. It measures overall liquidity position. This ratio is computed by dividing liquid assets by total deposits. The higher ratio implies the better liquidity position and lower ratio shows the inefficient liquidity position of the bank. As per NRB direction, only investments in government securities are considered as liquid

Table 4.13: Liquid Assets to Total Deposit Ratio

NIBL

Fiscal Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Liquid Assets (in million Rs.)	4,068.42	5,805.46	5,882.07	5,970.25	4,224.49
Total Deposits (in million Rs.)	15,839.01	15,506.43	13,447.66	14,119.03	14,586.61
Liquid Assets/Total Deposits (%)	25.69	37.44	43.74	42.29	28.96
*Industrial Average (%)	32.50	32.40	29.00	20.20	19.80
Variance from Industrial avg (%)	-6.81	+5.04	+14.74	+22.09	+9.16

BOK

Fiscal Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Liquid Assets (in million Rs.)	5,446.50	7,192.60	8,658.80	8,281.70	8,613.50
Total Deposits (in million Rs.)	14,082.50	17,613.60	18,595.20	21,002.80	22,760.90
Liquid Assets/Total Deposits (%)	36.68	40.84	41.19	39.43	37.84
*Industrial Average (%)	32.50	32.40	29.00	20.20	19.80
Variance from Industrial avg (%)	+6.18	+8.44	+12.19	+19.23	+18.04

KBL

Fiscal Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Liquid Assets (in million Rs.)	5467.90	6754.96	5,882.07	8769.24	5627.27
Total Deposits (in million Rs.)	14356.60	16543.63	13,447.66	14,119.03	16573.37
Liquid Assets/Total Deposits (%)	38.08	37.44	43.74	42.29	28.96
*Industrial Average (%)	32.50	32.40	29.00	20.20	19.80
Variance from Industrial avg (%)	+5.58	+5.04	+14.74	+22.09	+9.16

LBL

Fiscal Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Liquid Assets (in million Rs.)	6534.89	8567.43	9876.45	9234.54	9546.50
Total Deposits (in million Rs.)	15672.14	15647.23	17657.54	20647.60	34212.90
Liquid Assets/Total Deposits (%)	41.69	40.84	41.19	39.43	37.84
*Industrial Average (%)	32.50	32.40	29.00	20.20	19.80
Variance from Industrial avg (%)	+9.19	+8.44	+12.19	+19.23	+18.04

Source: Annual Report, * Banking and Financial Statistics, NRB, No.43, July, 2004, pp: 4-10

Table 4.13 shows that the liquid assets to total deposit ratio of NIBL during the period FY 2007/08 to FY 2011/12. The ratios are in increasing trend for the first three years. Thereafter it continuously decreased for the next two years. The liquid assets to deposit ratio was minimum in 2007/08 with 25.69% when the deposit were the highest with Rs.15,839.01 million. The ratio was maximum in 2009/10 with 43.74%. The extreme levels of the ratio are inversely proportional to the deposit level, in absolute terms. The ratio negatively varied with the industrial average in 2007/08. Thereafter, for the next three years till 2010/11, it varied positively with the industrial average. In 2011/12, the variance with the industrial average decreased to +9.16%. Overall, the bank held liquid assets percentage above the industrial average except in the initial period of 2007/08. Similarly, liquid funds to total deposit ratio of KBL during the period of FY 2007/08 to 2011/12 is in fluctuating trend. In absolute term, both total liquid fund and total deposit are in increasing trend during the study period. The highest ratio was 41.19% in FY 2009/10 and the lowest ratio was 38.80% in FY 2007/08. The ratios were greater than the industrial average ratios in all absorbed years i.e. difference in positive in all periods. This implies that liquidity position of the bank is upto industrial average.

Chart 4.10:

Trend of Liquid Asset to Total Deposits

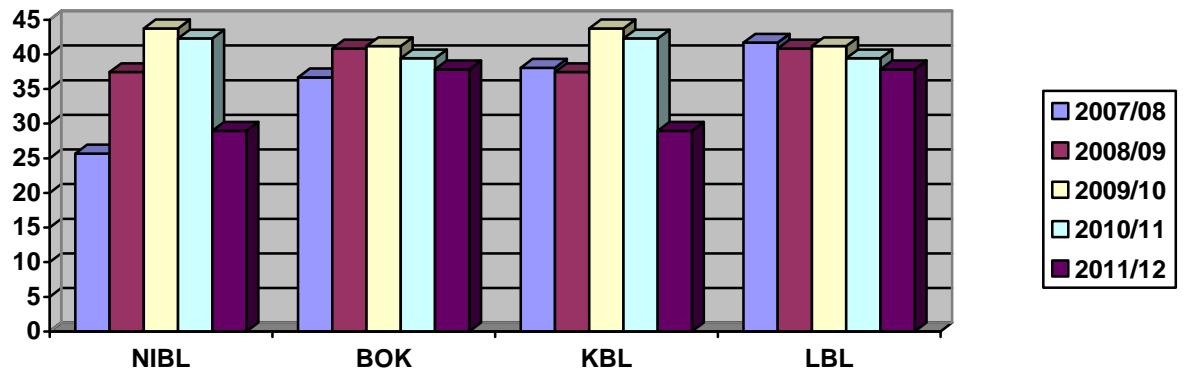


Chart 4.10 exhibits the liquid fund to total deposits ratio of NIBL in comparison to the industrial average ratio within the study period of last five years. In the chart, the total liquid fund to total deposit curve of the bank is above the industry average curve in all observed fiscal years except in 2007/08. This fact implies that the overall liquidity position of the bank is better than industrial average ratio. However the liquidity is in decreasing trend as the bank has switched to investing on more profitable assets. Similarly, the liquid funds to total deposit ratio of KBL is in above the industry average curve in all observed years. This fact implies that the overall liquidity position of the bank is better than industrial average ratio but more liquidity impacts profitability negatively.

4.1.5.5 NRB Balance to Total Deposit Ratio

This ratio shows whether bank is holding the balance as required to NRB. To ensure adequate liquidity in the commercial banks, to meet the depositors' demand for cash at any time, to inject the confidence in depositors regarding the safety of their deposited funds NRB has put the directives to maintain certain percent of total deposit in NRB by the commercial Banks. Total Deposit means Current, Savings and Fixed Deposit Account as well as Call Account deposit and certificates of deposits. For the purpose, deposits held in convertible foreign currency, employees guarantee amount and margin account will not be included (NRB Directive Manual, 2004). The following table shows the NRB Balance to Total Deposit ratio with compare to industrial average ratio by NIBL.

Table 4.14: NRB Balance to Total Deposit Ratio**NIBL**

Fiscal Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
NRB Balance (in million Rs.)	512.07	506.67	892.75	606.69	389.71
Total Deposit less Margin & FCY Dep.(million)	14,082.50	17,613.60	18,595.20	21,002.80	22,760.90
NRB Balance/ Total Deposit (%)	4.65	6.10	3.74	5.38	7.13
Industrial Average (%)*	11.40	12.50	13.40	8.90	9.70
Diff. From industrial average (%)	-6.87	-8.09	-4.14	-3.08	-6.15

BOK

Fiscal Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
NRB Balance (in million Rs.)	655.30	1,073.20	695.40	1,130.00	1,623.90
Total Deposit less Margin & FCY Dep.(million)	11,306.48	11,489.78	9,642.07	10,415.51	10,963.69
NRB Balance/ Total Deposit (%)	4.53	4.41	9.26	5.82	3.55
Industrial Average (%)*	11.40	12.50	13.40	8.90	9.70
Diff. From industrial average (%)	-6.75	-6.40	-9.66	-3.52	-2.57

KBL

Fiscal Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
NRB Balance (in million Rs.)	675.07	897.54	987.30	765.69	489.71
Total Deposit less Margin & FCY Dep.(million)	15678.70	16897.40	17846.45	22,002.80	22,660.90
NRB Balance/ Total Deposit (%)	4.30	6.10	3.74	5.38	7.13
Industrial Average (%)*	11.40	12.50	13.40	8.90	9.70
Diff. From industrial average (%)	-7.09	-8.09	-4.14	-3.08	-6.15

LBL

Fiscal Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
NRB Balance (in million Rs.)	595.30	1,173.20	595.40	1,030.00	1,023.90
Total Deposit less Margin & FCY Dep.(million)	11,246.48	11,789.78	9,742.07	11,415.51	9,963.69
NRB Balance/ Total Deposit (%)	5.29	4.41	9.26	5.82	3.55
Industrial Average (%)*	11.40	12.50	13.40	8.90	9.70
Diff. From industrial average (%)	-6.10	-6.40	-9.66	-3.52	-2.57

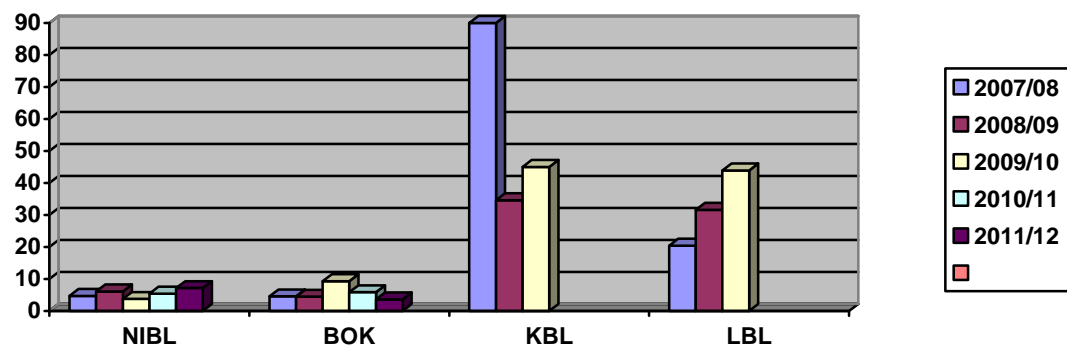
Source: Annual Report, *Banking and Financial Statistics, NRB, No.43, July, 2004.pp: 4-10.

Table 4.14 shows that NIBL has maintained reserve with NRB below the industry average. NRB balance was fluctuating increasingly upto 2009/10 and is in decreasing thereafter till the final year. As regard to the deposit volume, it is also fluctuating in decreasing trend upto 2009/10 and thereafter increased till the concluding year. The NRB

balance to deposit ratio showed maximum in 2009/10 with 9.26% when the deposit volume was minimum. Despite the highest deposit volume was observed in 2008/09, the lowest ratio was seen only in 2011/12. The ratios were less than industrial average ratio in all observed years i.e. difference is negative. This implies that deposit of NIBL with NRB is less than that of average. Similarly, KBL also has not maintained adequate liquidity by not maintaining balance with NRB. NRB balance to total deposit ratio of the bank is fluctuating during the observed years. Balance with NRB has increased at lower rate than deposit, which resulted in the decreasing trend in the ratio in 2007/08 and 2010/11. The ratio has been increasing in the year 2008/09, 2010/11 and 2004/04. The ratios were less than the industrial average ratio in all observed years i.e. difference is negative. This implies that deposit of KBL with NRB is less than average. This indicates that the bank has less exposure towards balance with NRB. However it does not necessarily mean the Cash Reserve Ratio at NRB is not maintained. The above calculation is based on year end volumes of deposit and NRB balance whereas NRB calculates CRR on weekly average balances. Hence this is a limitation of the study.

Chart 4.11 shows the NRB balance to total deposit ratio compare with the industrial average ratio within the study period of last five years. As shown in the Chart, the NRB balance to total deposit curve of NIBL is below the industrial average curve in all years during the study period. This fact implies that the balance with NRB of the bank is less than the average balance. The gap of the ratio with the industry average was narrowest in 2009/10 and widest in 2008/09. The gap is in increasing trend in the later years which implies the ratio is getting below the industry average. Same as, NRB balance to total deposit curve of KBL is below the industrial average curve in all the years during the study period. Which indicates the balance with NRB of the bank must be maintained is less than the average balance. This shows that the bank has not maintained the balance with NRB as per the directives over the study period.

Chart 4.11: NRB Balance/Deposit ratio vs Industrial Average



4.1.5.6 Table No. 15 Cash at Vault to Total Deposit Ratio

This ratio shows the percentage of total deposits held as cash in hand at vault. This ratio is computed by

Fiscal Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Cash in Vault (in million Rs.)	208.48	318.16	187.78	286.89	146.35
Total Deposit less Margin & FCY Dep.(in million)	11,306.48	11,489.78	9,642.07	10,415.51	10,963.69
Cash at Vault / Total Deposits (%)	1.84	2.77	1.95	2.75	1.33
*Industrial Average (%)	2.80	2.80	3.20	2.90	1.80
Diff. From industrial average (%)	-0.96	-0.03	-1.25	-0.15	-0.47

BOK

Fiscal Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Cash in Vault (in million Rs.)	134.00	149.90	462.80	382.70	274.00
Total Deposit less Margin & FCY Dep.(in million)	14,082.50	17,613.60	18,595.20	21,002.80	22,760.90
Cash at Vault / Total Deposits (%)	0.95	0.85	2.49	1.82	1.20
*Industrial Average (%)	2.80	2.80	3.20	2.90	1.80
Diff. From industrial average (%)	-1.85	-1.95	-0.71	-1.08	-0.60

KBL

Fiscal Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Cash in Vault (in million Rs.)	287.89	318.16	234.33	243.89	167.74
Total Deposit less Margin & FCY Dep.(in million)	10988.42	12893.70	9,234.76	11234.51	12765.43
Cash at Vault / Total Deposits (%)	2.62	2.77	1.95	2.75	1.33
*Industrial Average (%)	2.80	2.80	3.20	2.90	1.80
Diff. From industrial average (%)	-0.18	-0.03	-1.25	-0.15	-0.47

LBL

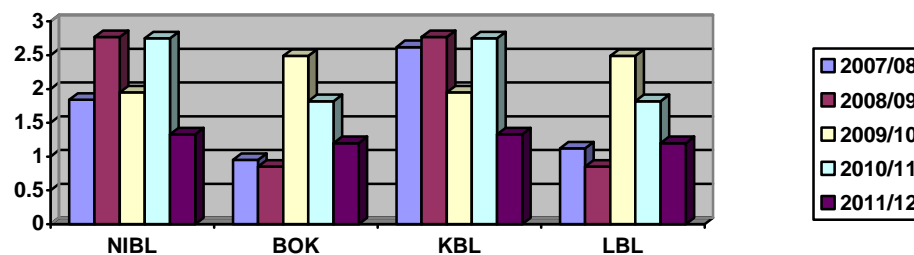
Fiscal Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Cash in Vault (in million Rs.)	155.00	149.90	462.80	382.70	274.00
Total Deposit less Margin & FCY Dep.(in million)	13765.50	17,613.60	18,595.20	21,002.80	22,760.90
Cash at Vault / Total Deposits (%)	1.12	0.85	2.49	1.82	1.20
*Industrial Average (%)	2.80	2.80	3.20	2.90	1.80
Diff. From industrial average (%)	-1.85	-1.95	-0.71	-1.08	-0.60

Source: Annual Report, *Banking and Financial Statistics, NRB, No.43, July, 2004.pp: 4-10.

Table 4.15 shows that volume of Cash at Vault of NIBL is fluctuating in alternatively against the alternate deposit fluctuations except in 2011/12. The Cash at Vault ratio likewise fluctuated alternating during the review period over 1.84% of 2007/08 and 1.33% of 2011/12. The ratio was maximum in 2008/09 with 2.75% in line with the highest deposit volume during the year. The ratio was minimum in the concluding year 2011/12

with 1.33%. The ratio is less than the industry average in all observed years. Whereas, the cash in vault to total deposit ratio of BOK is in fluctuating trend. The highest ratio is 2.49% in FY 2009/10 and the lowest ratio is 0.85% in FY 2008/09. The ratio has decreased till the FY 2008/09 and then increased in 2009/10 and then again decreased in final 2 years. Vaults have increased at lower rate than deposit has. So, increase in vault relatively lower rate has decreasing trend in the ratio for these years. But in year 2008/09, vault has decreased, so the ratio has come down in minimum. Ratio is less than the industrial average in all the years.

Chart 4.12 Cash at vault/ Total Deposit Ratio Vs Industrial Average



As shown in the chart 4.17, both banks have maintained the cash at vault below the industrial average. NIBL bank has maintained close to industrial average for 2 financial year in FY 2008/09 and 2010/11, but KBL has not maintained adequate cash at vault. In all the years, the the vault to total deposit curve is below the industrial average and also below the NRB standard of 2%. It indicates that the bank is running with inadequate vault as liquidity during the study period.

4.1.6 Sensitivity to Market Risk

Sensitivity to Market Risk refers to the risk that changes in market conditions could adversely affect earnings and/or capital. Market Risk encompasses exposures associated with changes in interest rates, foreign exchange rates, commodity prices, equity prices, etc. While all of these items are important, the primary risk in most banks is interest rate risk (IRR), which is the focus of this study.

When a bank has more liabilities re-pricing in a rising rate environment than assets re-pricing, the net interest margin (NIM) shrinks. Conversely, if the bank is asset sensitive in a rising interest rate environment, NIM will improve because the bank has more assets re-pricing at higher rates. There are many ways to monitor exposure to IRR. Measurement systems vary in complexity from very simple methods such as a gap model, to very sophisticated models such as a simulation or duration analysis. This study is worked with gap model, which simply measures the net quantity of assets or liabilities re-pricing within a givens period to estimate the likely impact that changes in interest rates will have on earnings. With a view to minimize the IRR, NRB requires the banks to adopt

Gap Analysis adopted for minimization of liquidity risks shall also be applied in respect of minimization of IRR. Banks shall classify the time interval of the assets and liabilities on the basis of maturity period of 0-90 days, 91-180 days, 181-270 days, 271-365 days, over 1 year. The effect on the profitability is measured by multiplying the change in interest rate, R_i in the i^{th} maturity bucket annualized with Cumulative Gap (NRB Directive Manual 2004).

If the interest rates rise on RSAs and RSLs, the positive CGAP (RSA>RSL) would project the increase in the expected annual NII. However, if interest rate fall when CGAP is positive, NII will fall. As rates, fall interest revenue falls by more than interest expense. Thus, NII falls by approximately by (CGAP) X (- R). In general when CGAP is positive the change in NII is positively related to the change in interest rates. Thus, banks would want to keep CGAP positive when interest rates expected to rise.

Conversely, when the CGAP or the Gap Ratio is negative (RSA<RSL), if interest rates rise by equal amounts for RSAs and RSLs, NII will fall. Similarly, if interest rates fall equally for RSAs and RLAs, NII will increase when CGAP is negative. As rates, fall interest expense decreases by more than the revenues. In general, when CGAP is negative, the change in NII is negatively related to the change in interest rates. Thus, banks are expected to keep CGAP negative when interest rates are expected to fall.

Expressing the re-pricing gap as a percentage of assets, gives: (1) the direction of the interest rate exposure (+ or – CGAP) (2) the scale of the CGAP against the assets size of the bank.

Gap analysis of RSAs and RSLs of NIBL and KBL for the period FY 2008/09 to 2011/12 is made as shown in Table 4.17 (a,b,c,d) based on the different maturity time bucket.

Table 4.16 GAP ANALYSIS OF NEPAL INVESTMENT BANK LTD.

a. 2008/09						
	1-90	91-180	181-270	271-365	>365	Total
RSA (Millions)	8,556.30	1,187.30	1,055.20	1,008.10	5,223.20	17,030.10
RLAs (Millions)	1,719.40	1,452.50	38.10	366.70	11,982.60	15,559.30
GAP _i (RSA-RSL) (millions)	6,836.90	(265.20)	1,017.10	641.40	(6,759.40)	1,470.80
CGAP _i (RSA-RSL) (millions)	6,836.90	6,571.70	7,588.80	8,230.20	1,470.80	1,470.80
RSA/RSL	4.98	0.82	27.70	2.75	0.44	1.09
CGAP _i Ratio[CGAP/Total RSAs](%)	40.15%	38.59%	44.56%	48.33%	8.64%	8.64%
R(%)				1%	1%	
NII (millions) = CGAP x R				82.30	14.71	
%Change in NII				0.48%	0.09%	

b. 2009/10						
	1-90	91-180	181-270	271-365	>365	Total
RSA (Millions)	6,329.00	1,180.70	1,694.70	1,412.00	5,320.10	15,936.50
RLAs (Millions)	2,225.40	1,126.70	52.90	357.30	10,646.70	14,409.00
GAP (RSA-RSL) (millions)	4,103.60	54.00	1,641.80	1,054.70	(5,326.60)	1,527.50
CGAP _i (RSA-RSL) (millions)	4,103.60	4,157.60	5,799.40	6,854.10	1,527.50	1,527.50
RSA/RSL	2.84	1.05	32.04	3.95	0.50	1.11
CGAP _i Ratio[CGAP/Total RSAs](%)	25.75%	26.09%	36.39%	43.01%	9.58%	9.58%
R(%)				1%	1%	
NII (millions) = CGAP x R				68.54	15.28	
%Change in NII				0.43%	0.10%	

c. 2010/11						
	1-90	91-180	181-270	271-365	>365	Total
RSA (Millions)	5,335.80	1,700.80	1,551.40	2,741.00	5,775.40	17,104.40
RLAs (Millions)	3,205.40	1,529.60	345.20	307.30	11,716.90	17,104.40
GAP _i (RSA-RSL) (millions)	2,130.40	171.20	1,206.20	2,433.70	(5,941.50)	-
CGAP _i (RSA-RSL) (millions)	2,130.40	2,301.60	3,507.80	5,941.50	-	-
RSA/RSL	1.66	1.11	4.49	8.92	0.49	1.00
CGAP _i Ratio[CGAP/Total RSAs](%)	12.46%	13.46%	20.51%	34.74%	0.00%	0.00%
R(%)				1%	1%	
NII (millions)= CGAP x R				59.42	-	
%Change in NII				0.35%	0%	

d. 2011/12						
	1-90	91-180	181-270	271-365	>365	Total
RSA (Millions)	4,690.40	1,441.50	661.20	2,026.10	8,730.00	17,549.20
RLAs (Millions)	2,794.20	780.00	325.30	346.90	13,302.70	17,549.10
GAP _i (RSA-RSL) (millions)	1,896.20	661.50	335.90	1,679.20	(4,572.70)	0.10
CGAP _i (RSA-RSL) (millions) (a)	1,896.20	2,557.70	2,893.60	4,572.80	0.10	0.10
RSA/RSL	1.68	1.85	2.03	5.84	0.66	1.00
CGAP _i Ratio[CGAP/Toal RSA](%)	10.81%	14.57%	16.49%	26.06%	0.00%	0.00%
R(%)				1%	1%	
NII (millions)=CGAP x R				45.73	0.00	
%Change in NII				0.26%	0%	

Table 4.17 GAP ANALYSIS OF BANK OF KATHMANDU LTD.

a. 2008/09						
	1-90	91-180	181-270	271-365	>365	Total
RSA (Millions)	7,852.40	1,250.30	9,87.20	1,173.40.	11,235.20	22,498.70
RLAs (Millions)	5,235.10	756.60	552.70	211.30	10,556.50	17,312.20
GAP _i (RSA-RSL) (millions)	2,617.30	493.70	434.30	962.10	678.70	5,186.50
CGAP _i (RSA-RSL) (millions)	2,617.30	3,111.00	3,545.30	4,507.40	5,186.10	18,867.10
RSA/RSL	1.50	1.65	1.79	5.55	1.06	1.30
CGAP _i Ratio[CGAP/Total RSAs](%)	11.63%	13.83%	15.31%	20.03%	23.05%	83.86%
R(%)				1%	1%	
NII (millions) = CGAP x R				45.07	51.86	
%Change in NII				0.20%	0.23%	
b. 2009/10						
	1-90	91-180	181-270	271-365	>365	Total
RSA (Millions)	4,235.10	1,256.60	1,068.30	887.80	8,235.40	15,683.20
RLAs (Millions)	1,524.50	546.10	456.10	387.60	11,527.10	16,211.50
GAP (RSA-RSL) (millions)	2,710.60	710.50	612.20	500.20	(3,291.70)	1,241.80
CGAP _i (RSA-RSL) (millions)	2,710.60	3,421.10	4,033.30	4,533.50	1,241.80	15,940.30
RSA/RSL	2.78	2.30	2.34	2.29	0.71	0.97
CGAP _i Ratio[CGAP/Total RSAs](%)	17.28%	21.81%	25.72%	28.91%	7.92%	101.64%
R(%)				1%	1%	
NII (millions) = CGAP x R				45.34	12.42	
%Change in NII				0.29%	0.08%	

c. 2010/11						
	1-90	91-180	181-270	271-365	>365	Total
RSA (Millions)	5,224.20	1,800.40	1,945.30	2,324.10	4,875.20	16,169.20
RLAs (Millions)	2,945.90	1,413.60	978.80	648.50	8,746.20	14,733.00
GAP _i (RSA-RSL) (millions)	2,278.30	386.80	966.50	1,675.60	(3,871)	-
CGAP _i (RSA-RSL) (millions)	2,278.20	2,665.10	3,631.60	5,307.20	-	-
RSA/RSL	1.77	1.27	1.99	3.58	0.56	1.10
CGAP _i Ratio[CGAP/Total RSAs](%)	14.09%	16.48%	22.46%	32.82%	0.00%	0.00%
R(%)				1%	1%	
NII (millions)= CGAP x R				53.07	-	
% Change in NII				0.33%	0%	
d. 2011/12						
	1-90	91-180	181-270	271-365	>365	Total
RSA (Millions)	4,786.60	1,666.10	978.20	1,926.10	10,542.20	19,899.20
RLAs (Millions)	2,945.20	1,045.60	542.30	768.20	11,286.90	16,588.20
GAP _i (RSA-RSL) (millions)	1,841.40	620.50	435.90	1,157.90	(744.70)	2,629.50
CGAP _i (RSA-RSL) (millions) (a)	1,841.40	2,461.90	2,897.80	4,055.70	3,311.00	14,567.80
RSA/RSL	1.63	1.59	1.80	2.51	0.93	1.20
CGAP _i Ratio [CGAP/Toal RSA](%)	9.25%	12.37%	14.56%	20.38%	0.00%	73.20%
R(%)				1%	1%	

TABLE 18 GAP ANALYSIS OF KUMARI BANK LIMITED

a. 2008/09						
	1-90	91-180	181-270	271-365	>365	Total
RSA (Millions)	8756.40	1,750.30	6,98.20	1,173.40.	14567.20	78654.70
RLAs (Millions)	4,235.10	956.60	552.70	211.30	12345.50	18976.20
GAP _i (RSA-RSL) (millions)	2,617.30	593.70	434.30	962.10	678.70	4,186.50
CGAP _i (RSA-RSL) (millions)	2,617.30	4534.00	3,545.30	4,507.40	5,186.10	19872.10
RSA/RSL	1.50	1.65	1.79	5.55	1.06	1.30
CGAP _i Ratio[CGAP/Total RSAs](%)	11.63%	13.83%	15.31%	20.03%	23.05%	83.86%
R(%)				1%	1%	
NII (millions) = CGAP x R				45.07	51.86	
%Change in NII				0.20%	0.23%	
b. 2009/10						
	1-90	91-180	181-270	271-365	>365	Total
RSA (Millions)	5643.10	1345.98	1,951.30	887.80	4,235.40	16758.20
RLAs (Millions)	1,678.50	879.10	456.10	387.60	112,527.10	15780.50
GAP (RSA-RSL) (millions)	2,980.20	790.50	612.20	500.20	(36291.70)	1,376.80
CGAP _i (RSA-RSL) (millions)	2,710.60	3,421.10	4,033.30	4,533.50	1,241.80	14780.30
RSA/RSL	2.78	2.30	2.34	2.29	0.71	0.97
CGAP _i Ratio[CGAP/Total RSAs](%)	17.28%	21.81%	25.72%	28.91%	7.92%	101.64%
R(%)				1%	1%	
NII (millions) = CGAP x R				45.34	12.42	
%Change in NII				0.29%	0.08%	
c. 2010/11						
	1-90	91-180	181-270	271-365	>365	Total
RSA (Millions)	6547.932	1898.40	1,945.30	2,324.10	4,875.20	16,169.20
RLAs (Millions)	2,945.90	1,413.60	978.80	648.50	8,746.20	14,733.00
GAP _i (RSA-RSL) (millions)	2,278.30	386.80	966.50	1,675.60	(3,871)	-
CGAP _i (RSA-RSL) (millions)	2,278.20	2,665.10	3,631.60	5,307.20	-	-
RSA/RSL	1.77	1.27	1.99	3.58	0.56	1.10
CGAP _i Ratio[CGAP/Total RSAs](%)	14.09%	16.48%	22.46%	32.82%	0.00%	0.00%
R(%)				1%	1%	
NII (millions)= CGAP x R				53.07	-	
%Change in NII				0.33%	0%	

d. 2011/12						
	1-90	91-180	181-270	271-365	>365	Total
	4,0386.6					
RSA (Millions)	0	1,366.10	978.20	1,926.10	10,542.20	19,899.20
RLAs (Millions)	2,945.20	1,045.60	542.30	768.20	11,286.90	16,588.20
GAP _i (RSA-RSL) (millions)	1,841.40	620.50	435.90	1,157.90	(744.70)	2,629.50
CGAP _i (RSA-RSL) (millions) (a)	1,841.40	2,461.90	2,897.80	4,055.70	3,311.00	14,567.80
RSA/RSL	1.63	1.59	1.80	2.51	0.93	1.20
CGAP _i Ratio[CGAP/Toal RSA](%)	9.25%	12.37%	14.56%	20.38%	0.00%	73.20%
R(%)				1%	1%	

Table 4.19 GAP ANALYSIS OF LAXMI BANK.

a. 2008/09						
	1-90	91-180	181-270	271-365	>365	Total
RSA (Millions)	7,852.40	1,250.30	9,87.20	1,173.40.	11,235.20	22,498.70
RLAs (Millions)	5,235.10	756.60	552.70	211.30	10,556.50	17,312.20
GAP _i (RSA-RSL) (millions)	2,617.30	493.70	434.30	962.10	678.70	5,186.50
CGAP _i (RSA-RSL) (millions)	2,617.30	3,111.00	3,545.30	4,507.40	5,186.10	18,867.10
RSA/RSL	1.50	1.65	1.79	5.55	1.06	1.30
CGAP _i Ratio[CGAP/Total RSAs](%)	11.63%	13.83%	15.31%	20.03%	23.05%	83.86%
R(%)				1%	1%	
NII (millions) = CGAP x R				45.07	51.86	
%Change in NII				0.20%	0.23%	

b. 2009/10						
	1-90	91-180	181-270	271-365	>365	Total
RSA (Millions)	4,235.10	1,256.60	1,068.30	887.80	8,235.40	15,683.20
RLAs (Millions)	1,524.50	546.10	456.10	387.60	11,527.10	16,211.50
GAP (RSA-RSL) (millions)	2,710.60	710.50	612.20	500.20	(3,291.70)	1,241.80
CGAP _i (RSA-RSL) (millions)	2,710.60	3,421.10	4,033.30	4,533.50	1,241.80	15,940.30
RSA/RSL	2.78	2.30	2.34	2.29	0.71	0.97
CGAP _i Ratio[CGAP/Total RSAs](%)	17.28%	21.81%	25.72%	28.91%	7.92%	101.64%
R(%)				1%	1%	
NII (millions) = CGAP x R				45.34	12.42	
%Change in NII				0.29%	0.08%	

c. 2010/11						
	1-90	91-180	181-270	271-365	>365	Total
RSA (Millions)	5,224.20	1,800.40	1,945.30	2,324.10	4,875.20	16,169.20
RLAs (Millions)	2,945.90	1,413.60	978.80	648.50	8,746.20	14,733.00
GAP _i (RSA-RSL) (millions)	2,278.30	386.80	966.50	1,675.60	(3,871)	-
CGAP _i (RSA-RSL) (millions)	2,278.20	2,665.10	3,631.60	5,307.20	-	-
RSA/RSL	1.77	1.27	1.99	3.58	0.56	1.10
CGAP _i Ratio[CGAP/Total RSAs](%)	14.09%	16.48%	22.46%	32.82%	0.00%	0.00%
R(%)				1%	1%	
NII (millions)= CGAP x R				53.07	-	
%Change in NII				0.33%	0%	
d. 2011/12						
	1-90	91-180	181-270	271-365	>365	Total
RSA (Millions)	4,786.60	1,666.10	978.20	1,926.10	10,542.20	19,899.20
RLAs (Millions)	2,945.20	1,045.60	542.30	768.20	11,286.90	16,588.20
GAP _i (RSA-RSL) (millions)	1,841.40	620.50	435.90	1,157.90	(744.70)	2,629.50
CGAP _i (RSA-RSL) (millions) (a)	1,841.40	2,461.90	2,897.80	4,055.70	3,311.00	14,567.80
RSA/RSL	1.63	1.59	1.80	2.51	0.93	1.20
CGAP _i Ratio[CGAP/Toal RSA](%)	9.25%	12.37%	14.56%	20.38%	0.00%	73.20%
R(%)				1%	1%	
NII (millions)=CGAP x R				40.56	33.11	
%Change in NII				0.20%	0%	

Here in case of NIBL, The period from 2008/09 to 2011/12 is taken for review of the sensitivity of market risk. From FY 2008/09 to 2011/12, net financial assets (RSA-RSL) repricing in the short term maturity bucket ranging from 0-90 day to 271-365 days was found positive except in 2008/09 when it was shortfall by Rs.265.20 million reprised in 0-90 day time bucket. In the long term maturity bucket (>365 days) the gap was negative in all the years by Rs.6,759.40, Rs.5,326.60, Rs.5,941.50 (all figure in Millions) respectively. The CGAP or the Interest rate Sensitivity ratio to the total earning assets over the short-term horizon i.e. up to one year was highest with 32.82% in 2010/11 and the lowest with 11.63% in FY 2008/09. The CGAP ratio to the earning assets over the long-term horizon was highest with 9.58% in 2009/10 and lowest with 0% in 2010/11 while it was slightly above Zero in 2011/12. It indicates the RSAs and RSLs repricing in short term maturity bucket are highly sensitive to interest rate even though it is in decreasing trend. Comparatively the RSAs and RSLs of the bank repricing in the long-term horizon is low sensitive to interest rate. As shown in the table above with the simulated interest change by 1%, it would make the NII of the bank sensitive by the quantity of CGAP held in the short term horizon. As seen from the trend of CGAP in the short run, it is in decreasing trend hence it can be concluded the bank in later years, is keeping the mismatch (RSA-RSL) lower in the short run. This would make the bank less asset sensitive in future. Since the CGAP in the concluding 2 years 2010/11 and 2011/12 in the long term horizon is ZERO, the RSAs and RSLs remain unaffected by the fall or

rise of the interest rates. Hence the bank is low sensitive to interest rate in the long horizon.

In the case of BOK from FY 2008/09 to 2011/12, net financial assets (RSA-RSL) repricing in the short term maturity bucket ranging from 0-90 days to 271-365 days was found positive. But in the long term maturity bucket (>365 days) the gap was negative in all the years except in FY 2008/09 which is positive by Rs. 678.70. The CGAP or the Interest rate Sensitivity ratio to the total earning assets over the short-term horizon i.e. up to one year was highest with 48.33% in 2008/09 and the lowest with 26.06%. The ratio is in continuous decreasing trend. The CGAP ratio to the earning assets over the long-term horizon was highest with 23.05% in 2008/09 and lowest with 0% in 2010/11 and 2011/12. It indicates the RSAs and RSLs repricing in short term maturity bucket are highly sensitive to interest rate even though it is in decreasing trend. Comparatively the RSAs and RSLs of the bank repricing in the long-term horizon is low sensitive to interest rate. As shown in the table above with the simulated interest change by 1%, it would make the NII of the bank sensitive by the quantity of CGAP held in the short term horizon. As seen from the trend of CGAP in the short run, it is in decreasing trend hence it can be concluded the bank in later years, is keeping the mismatch (RSA-RSL) lower in the short run. This would make the bank less asset sensitive in future. Since the CGAP in the concluding 2 years 2010/11 and 2011/12 in the long term horizon is ZERO, the RSAs and RSLs remain unaffected by the fall or rise of the interest rates. Hence the bank is low sensitive to interest rate in the long horizon.

4.2 Major Findings

- The bank maintained maximum Tier I ratio capital adequacy ratio i.e. 12.12% in FY 2010/11 and the minimum ratio of 6.50% was found in in FY 2007/08. The Tier I ratio increased continuously till FY 2010/11 and decreased thereafter by 0.77% in FY 2011/12. The reason of this decrease was due to comparatively high increase of RWA by 19.55% in FY 2011/12. In all the 5 years of the review period, the Tier I capital ratio was above the NRB standard with maximum positive variance of 6.62% in FY 2010/11 and minimum. Positive variance of 2.00% in FY 2007/08. The bank was able maintain more than 6% above the NRB requirement in Tier I ratio during the period 2008/09 to 2010/11 however it has slightly decreased in 2011/12. In general, the bank has maintained Tier I capital adequately above the NRB standard during the study period. Similarly, Tier I ratio of KBL is distributed from the minimum of 4.44% in FY 2007/08 to maximum of 7.69% in FY 2011/12. The Core Capital (Tier I) of the bank in the increasing trend over the study period. The bank was able to maintain more than 6% NRB standard in last 3 FY, 2009/10 to 2011/12. Hence, the core capital adequacy ratio of BOK is adequate and sufficient. It is also describable for KBL and LBL.

- The Tier II ratio of NIBL was maximum in FY 2007/08 with 3.96% and minimum in FY 2011/12 with 1.10%. The ratio is in continuous decreasing trend since 2007/08 till 2011/12. The continuous decrease owed due to decrease in supplementary capital and regular increasing in RWA during the period. Tier II capital of the bank in all years, is below the Tier I capital (6.50%, 10.53%, 11.45%, 12.12%, 11.35%). Likewise, Tier II ratio of BOK is distributed from minimum of 3.34% in FY 2008/09 to maximum of 5.01% in Fy 2002. The ratios of BOK were 3.59%, 3.34%, 5.01%, 3.85% and 2.96% in FY 2007/08 to 2011/12. Hence, the Supplementary capital ratio of both bank are within the boundary of NRB during the period. The ratio can be explained for KBL and LBL.
- Total Capital adequacy ratio of NIBL in the review period were 10.46%, 13.86%, 13.05%, 13.56%, 12.44%. The ratio of 13.86% was maximum in FY 2008/09 and ratio of 10.46% was minimum in FY 2007/08. The total capital adequacy ratio is fluctuating alternately from FY 2007/08 to FY 2011/12. In all the 5 years of the review period. In general, the bank was able to maintain CAR as per NRB standard during the study period. In the same way, Total capital adequacy ratio of BOK in the review period were 8.03%, 8.01%, 11.56%, 10.93% and 10.56% . The ratio of maximum of 11.56% in FY 2009/10 had minimum of 8.01% in FY 2008/09. However, the total capital ratio of the bank is above the NRB standard in all the years except in FY 2011/12 i.e. insufficient of capital in that year. It is same for KBL and LBL to explain.
- Assets composition of Everest bank like in every banks remained largely in the loans and investment in the last five financial years. In the study period of 5 years, the average composition of Cash & Bank Balance Money at Call, Investment, Loan & Advances, Fixed and Other Assets were 5.93%, 3.48%, 37.04%, 48.90%, 1.66% and 3.67% respectively. In the same way, the average composition of Cash & Bank Balance Money at Call, Investment, Loan & Advances, Fixed and Other Assets of BOK were 6.99%, 10.80%, 26.70%, 46.33%, 1.17% and 3.50% respectively during the study period. The ratio of KBL and LBL can also be verified.
- The NPL ratios of NIBL were distributed 7.14%, 5.54%, 3.35% and 1.32% during the FY 2009/10 to 2011/12 which was found below the industrial average in all years. Likewise, the NPL ratios of BOK were 15.16%, 8.35%, 10.08%, & 8.88% for the same period of review. Despite the industrial benchmark not appropriately justifiable due to high proportion of NPL of two biggest government banks, the trend speaks of NPL ratio of NIBL well in control and below international standard of 5% in general. It also shows efficient credit management and recovery efforts but NPL ratio of BOK was not sufficient in banking industry, it is because the NPL ratio of BOK were above international standard of 5% although the

ratios were below the industrial average. KBL and LBL Bank has same away to describe.

- The loan loss provisioning ratio of NIBL for the study period is in continuous decreasing trend. The ratio ranges from 7.11% in FY 2007/08 to 3.29% in FY 2011/12 with an average of 4.73%. The decreasing trend of NPL to total loan ratio also requires lower provisioning hence Loan loss ratio also decreased accordingly. It also indicates bank's quality of loan assets is getting better. Differently, the loan loss provisioning ratio of BOK for the study period was in increasing trend. The ratio ranges from 3.82% in FY 2007/08 to 7.70% in FY 2010/11 with an average of 6.45%. Hence, the increasing trend of NPL of BOK also requires the higher provision for loan loss. Hence, Loan loss provisioning also increased accordingly.
- The observed TOE to TOI ratio of NIBL fluctuated only in 2008/09 which was the maximum of all the review period years else the trend is in decreasing trend. The ratio has reached 46.49% in 2011/12 which is the minimum of all the years of the review period, which implies decreasing expenses with respect to income and is credited to good management quality. Likewise, the observed TOE to TOI ratio of BOK increased upto 2010/11 and then decreasing in year 2011/12. The ratios distributed from a minimum of 82.41% in FY 2008/09 to maximum of 85.41% in FY 2010/11. Decreasing trend of ratio is favorable on measure management quality of BOK.
- The Earnings per Employee in rupees during the study period, the ratio of NIBL at first decreased in 2008/09 and thereafter abruptly increased in 2009/10. Following 2 years showed continuous decrease. The mean earning per employee of the study period was Rs.1, 036,054. The trend is positive, which indicates the Earning per Employee is increasing over the study period. However the later periods it has shown decrement though in low level. This indicates that, in the later half of the review period the increased number of staff have decreased the earnings per employee with similar repercussion in terms of profitability. Whereas, the earning per employee of BOK were fluctuating over the study period. The mean earning of the employee is Rs. 640,032.00; the trend of ratio is negative, which indicates the earning of the employee is declining over the study period. However, the declining is not so sharp. This indicates that low or decreasing earning per employee can reflect inefficiencies as a result of overstaffing, with similar repercussions in term of profitability.
- The mean ROE of NIBL was 29.32%. The ratio is fluctuating in upward trend. The increasing trend of ratios implies that earning quality of bank is getting better. Hence the bank's ROE ratio is sound. In the same way, the mean value of ROE of

BOK is 16.85% which is above the 15% bench mark, it indicates the bank's ratio is better but it is in decreasing tendency.

- The mean ROA ratio of NIBL is 2.28%. The upward movement of ROA since FY 2007/08 is also supported by the positive slope of the trend line. Whereas, the mean ROA ratio of BOK is 1.14%. The ratio of the bank is in decreasing trend but mean ratio is above the benchmark 1%. Hence, both banks' mean ratio is above the 1% benchmark, which shows the quality of assets and their efficiency to generate return is better.
- The net interest margin of NIBL, despite fluctuated only once, the NIM ratio is in increasing trend. The mean ratio for the study period was found 4.64%. Throughout the review period the NIM ratio was found slightly above the generally accepted benchmark. This indicates bank's capacity to maintain higher interest margin than the benchmark in the later half of the review period, despite increase in earning assets. On the other hand, the mean ratio of NIM of BOK is 3.85% which is above than that of generally accepted benchmark. Hence, the bank's ratio is higher but it is in decreasing tendency.
- EPS of NIBL bank fluctuated only in the first year of the review period thereafter it increased continuously till the final year of the review period. The increasing trend of EPS is also supported by positive slope of the trend line. In contrary, the EPS of BOK is fluctuated over the study period. The slope of the trend line is decreasing, indicates more volatility of EPS during the study period.
- The vault to total deposit ratio of NIBL is less than the industry average in all observed years. The observed cash in vault ratio curve of NIBL compared with industrial average ratio was giving ripples like appearance which indicates fluctuation of ratio in alternate years. In the same way, the ratio maintained by BOK also below the industrial average in all the years during the study period. Which indicates the both banks are not following the directions of NRB in respect to the balance should be maintained at vault by the banks.
- The liquid assets to total deposit ratio of NIBL negatively varied with the industrial average in 2007/08. Thereafter, for the next four years till 2011/12, it varied positively with the industrial average. In 2011/12, the variance with the industrial average decreased to +9.16%. Overall, the bank held liquid assets percentage above the industrial average except in the initial period of 2007/08. This fact implies that the overall liquidity position of the bank is better than industrial average ratio. However the liquidity is in decreasing trend as the bank has switched to investing on more profitable assets. On the other hand, the ratio of NIBL is above the industrial average in all the years of study period. Hence, the performance measured in terms of this ratio is better than that of industry average.

This implies that the bank's liquidity position is overall better but this impacts profitability negatively.

- NIBL has maintained cash reserve with NRB below the industry average. This implies the bank is not strictly following the directives of NRB in respect to balance must held in NRB. Likewise, BOK also has not maintained adequate cash reserve with NRB, which indicates the bank has not following the NRB directions in respect of balance, must be maintained with NRB. But in case of both banks the lack of balance in NRB does not conclude inadequate Cash Reserve Ratio at NRB. Since the calculation is based on year end volumes of deposit and NRB balances and NRB calculates CRR on weekly average balances, ratio is observed low which is a limitation of the study. However the ratio is increasing getting below the industry average.
- From FY 2008/09 to 2011/12, net financial assets (RSA-RSL) repricing in the short term maturity bucket ranging from 0-90 day to 271-365 days was found positive except in 2008/09. In the long term maturity bucket (>365 days) the gap was negative in all the years. The cumulative gap, CGAP of the RSAs and RSLs repricing in the short term maturity bucket (0-365 days) in all the years was found positive. The CGAP repricing in the long term maturity bucket was however found negative in all the years. The CGAP repricing over the one year maturity bucket was in continuous decreasing trend from 2008/09. The CGAP or the Interest rate Sensitivity ratio to the total earning assets over the short term horizon i.e. up to one year in continuous decreasing trend. The CGAP ratio repricing over the long term horizon has decreased to 0% in FY 2011/12. It indicates the RSAs/RSLs repricing in short term maturity bucket are highly sensitive to interest rate even though it is in decreasing trend. Comparatively the RSAs/RSLs of the bank repricing in the long term horizon are low sensitive to interest rate. In a rising interest environment, as it has maintained CGAP>0 (positive), the bank would profit over the 1-Year time horizon. Conversely, the bank would make loss if the interest rates are falling. With the simulated interest change by 1%, the NII of NIBL is highly sensitive due high CGAP ratio held in short term horizon. The CGAP trend in the short run is in decreasing trend hence it can be concluded the bank in later years, is keeping the mismatch (RSA-RSL) lower in the short run. This would make the bank less asset sensitive in future. Since the CGAP in the concluding 2 years 2010/11 and 2011/12 in the long term horizon is ZERO, the RSAs and RSLs remain unaffected by the fall or rise of the interest rates. Hence the bank is low sensitive to interest rate in the long horizon.
- In the same way, in case of BOK from FY 2008/09 to 2011/12, net financial assets (RSA-RSL) repricing in the short term maturity bucket ranging from 0-90 days to 271-365 days was found positive. But in the long term maturity bucket

(>365 days) the gap was negative in all the years except in FY 2008/09 which is positive by Rs. 678.70. The CGAP or the Interest rate Sensitivity ratio to the total earning assets over the short-term horizon i.e. up to one year was highest with 48.33% in 2008/09 and the lowest with 26.06%. The ratio is in continuous decreasing trend. The CGAP ratio to the earning assets over the long-term horizon was highest with 23.05% in 2008/09 and lowest with 0% in 2010/11 and 2011/12. It indicates the RSAs and RSLs repricing in short term maturity bucket are highly sensitive to interest rate even though it is in decreasing trend. Comparatively the RSAs and RSLs of the bank repricing in the long-term horizon is low sensitive to interest rate. As shown in the table above with the simulated interest change by 1%, it would make the NII of the bank sensitive by the quantity of CGAP held in the short term horizon. As seen from the trend of CGAP in the short run, it is in decreasing trend hence it can be concluded the bank in later years, is keeping the mismatch (RSA-RSL) lower in the short run. This would make the bank less asset sensitive in future. Since the CGAP in the concluding 2 years 2010/11 and 2011/12 in the long term horizon is ZERO, the RSAs and RSLs remain unaffected by the fall or rise of the interest rates. Hence the bank is low sensitive to interest rate in the long horizon.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is the important chapter for the research because this chapter is the extracts of all the previously discussed chapters. This chapter consists of mainly three parts: Summary, conclusion and recommendation. In summary part, revision or summary of all four chapters is made. In conclusion part, the result from the research is summed up and in recommendation part, suggestion and recommendation is made based on the result and experience of thesis. Recommendation is made for improving the present situation to the concerned parties as well as for further research.

5.1 Summary

Financial institution includes banks, finance companies, co-operative organizations and insurance companies. All of them do contribute something to the economy of the country. Financial institutions play a vital role in the proper functioning of an economy. Among them, banking sector plays an important role in the economic development of the country. Commercial banks are one of the vital aspects of this sector, which deals in the process of channel zing the available resources in the needed sectors. It is the intermediary between the deficit and surpluses of financial resource.

This study "A Study on assets utilization and its impact on capital structure of NIBL, KBL, BOK and LBL. and Everest Bank Ltd." is primarily prepared for the partial fulfillment of the requirement of the master of business studies (MBS). This study is mainly based on secondary and primary data provided by concern companies, security board of Nepal (SEBON) and respondents. Among the listed commercial banks NIBL, KBL, BOK and LBL " are selected as a sample of study. The main objective of the study is to assets the loan of sample bank. However due to the time and resource constraints all types of analysis are not conducted and information are gathered from the period of 2007/08 to 2011/12.

The collected information is presented analyzed and conclusion is drawn from the study.

Chapter One is concerned with the introduction of the whole study. It explained about the concentration of the study objectives and organization of the study which provides guideline for entire study.

Chapter Two is for the review as well as the review of related previous studies is conducted.

Chapter Three specifies the guidelines, tools and research design to achieve the objectives of the study.

In Chapter Four, the analysis of data, some statistical and financial tools are used. In this study Correlation Coefficient between figures as well probable error are considered as the main statistical tools in this study.

In chapter Five, main findings are concluded as the conclusion of the study. Based on the analysis and conclusion of the study some recommendations are made in this chapter.

5.2 Conclusion:

- ❖ The loan loss provisioning ratio of NIBL for the study period is in continuous decreasing trend. The ratio ranges from 7.11% in FY 2007/08 to 3.29% in FY 2011/12 with an average of 4.73%. The decreasing trend of NPL to total loan ratio also requires lower provisioning hence Loan loss ratio also decreased accordingly. It also indicates bank's quality of loan assets is getting better. Differently, the loan loss provisioning ratio of BOK for the study period was in increasing trend. The ratio ranges from 3.82% in FY 2007/08 to 7.70% in FY 2010/11 with an average of 6.45%. Hence, the increasing trend of NPL of BOK also requires the higher provision for loan loss. Hence, Loan loss provisioning also increased accordingly.
- ❖ The observed TOE to TOI ratio of NIBL fluctuated only in 2008/09 which was the maximum of all the review period years else the trend is in decreasing trend. The ratio has reached 46.49% in 2011/12 which is the minimum of all the years of the review period, which implies decreasing expenses with respect to income and is credited to good management quality. Likewise, the observed TOE to TOI ratio of BOK increased upto 2010/11 and then decreasing in year 2011/12. The ratios distributed from a minimum of 82.41% in FY 2008/09 to maximum of 85.41% in FY 2010/11. Decreasing trend of ratio is favorable on measure management quality of BOK.
- ❖ The bank maintained maximum Tier I ratio capital adequacy ratio i.e. 12.12% in FY 2010/11 and the minimum ratio of 6.50% was found in in FY 2007/08. The Tier I ratio increased continuously till FY 2010/11 and decreased thereafter by 0.77% in FY 2011/12. The reason of this decrease was due to comparatively high increase of RWA by 19.55% in FY 2011/12. In all the 5 years of the review period, the Tier I capital ratio was above the NRB standard with maximum positive variance of 6.62% in FY 2010/11 and minimum. Positive variance of 2.00% in FY 2007/08. The bank was able maintain more than 6% above the NRB requirements in Tier I ratio during the period 2008/09 to 2010/11 however it has

slightly decreased in 2011/12. In general, the bank has maintained Tier I capital adequately above the NRB standard during the study period. Similarly, Tier I ratio of KBL is distributed from the minimum of 4.44% in FY 2007/08 to maximum of 7.69% in FY 2011/12. The Core Capital (Tier I) of the bank in the increasing trend over the study period. The bank was able to maintain more than 6% NRB standard in last 3 FY, 2009/10 to 2011/12. Hence, the core capital adequacy ratio of BOK is adequate and sufficient. It is also describable for KBL and LBL.

- ❖ Assets composition of Everest bank like in every banks remained largely in the loans and investment in the last five financial years. In the study period of 5 years, the average composition of Cash & Bank Balance Money at Call, Investment, Loan & Advances, Fixed and Other Assets were 5.93%, 3.48%, 37.04%, 48.90%, 1.66% and 3.67% respectively. In the same way, the average composition of Cash & Bank Balance Money at Call, Investment, Loan & Advances, Fixed and Other Assets of BOK were 6.99%, 10.80%, 26.70%, 46.33%, 1.17% and 3.50% respectively during the study period. The ratio of KBL and LBL can also be verified.
- ❖ The NPL ratios of NIBL were distributed 7.14%, 5.54%, 3.35% and 1.32% during the FY 2009/10 to 2011/12 which was found below the industrial average in all years. Likewise, the NPL ratios of BOK were 15.16%, 8.35%, 10.08%, & 8.88% for the same period of review. Despite the industrial benchmark not appropriately justifiable due to high proportion of NPL of two biggest government banks, the trend speaks of NPL ratio of NIBL well in control and below international standard of 5% in general. It also shows efficient credit management and recovery efforts but NPL ratio of BOK was not sufficient in banking industry, it is because the NPL ratio of BOK were above international standard of 5% although the ratios were below the industrial average. KBL and LBL Bank has same away to describe.
- ❖ The Tier II ratio of NIBL was maximum in FY 2007/08 with 3.96% and minimum in FY 2011/12 with 1.10%. The ratio is in continuous decreasing trend since 2007/08 till 2011/12. The continuous decrease owed due to decrease in supplementary capital and regular increasing in RWA during the period. Tier II capital of the bank in all years, is below the Tier I capital (6.50%, 10.53%, 11.45%, 12.12%, 11.35%). Likewise, Tier II ratio of BOK is distributed from minimum of 3.34% in FY 2008/09 to maximum of 5.01% in Fy 2002. The ratios of BOK were 3.59%, 3.34%, 5.01%, 3.85% and 2.96% in FY 2007/08 to 2011/12. Hence, the Supplementary capital ratio of both bank are within the boundary of NRB during the period. The ratio can be explained for KBL and LBL.

- ❖ Total Capital adequacy ratio of NIBL in the review period were 10.46%, 13.86%, 13.05%, 13.56%, 12.44%. The ratio of 13.86% was maximum in FY 2008/09 and ratio of 10.46% was minimum in FY 2007/08. The total capital adequacy ratio is fluctuating alternately from FY 2007/08 to FY 2011/12. In all the 5 years of the review period. In general, the bank was able to maintain CAR as per NRB standard during the study period. In the same way, Total capital adequacy ratio of BOK in the review period were 8.03%, 8.01%, 11.56%, 10.93% and 10.56% . The ratio of maximum of 11.56% in FY 2009/10 had minimum of 8.01% in FY 2008/09. However, the total capital ratio of the bank is above the NRB standard in all the years except in FY 2011/12 i.e. insufficient of capital in that year. It is same for KBL and LBL to explain.
- ❖ The Earnings per Employee in rupees during the study period, the ratio of NIBL at first decreased in 2008/09 and thereafter abruptly increased in 2009/10. Following 2 years showed continuous decrease. The mean earning per employee of the study period was Rs.1, 036,054. The trend is positive, which indicates the Earning per Employee is increasing over the study period. However the later periods it has shown decrement though in low level. This indicates that, in the later half of the review period the increased number of staff have decreased the earnings per employee with similar repercussion in terms of profitability. Whereas, the earning per employee of BOK were fluctuating over the study period. The mean earning of the employee is Rs. 640,032.00; the trend of ratio is negative, which indicates the earning of the employee is declining over the study period. However, the declining is not so sharp. This indicates that low or decreasing earning per employee can reflect inefficiencies as a result of overstaffing, with similar repercussions in term of profitability.
- ❖ The mean ROE of NIBL was 29.32%. The ratio is fluctuating in upward trend. The increasing trend of ratios implies that earning quality of bank is getting better. Hence the bank's ROE ratio is sound. In the same way, the mean value of ROE of BOK is 16.85% which is above the 15% bench mark, it indicates the bank's ratio is better but it is in decreasing tendency.
- ❖ The mean ROA ratio of NIBL is 2.28%. The upward movement of ROA since FY 2007/08 is also supported by the positive slope of the trend line. Whereas, the mean ROA ratio of BOK is 1.14%. The ratio of the bank is in decreasing trend but mean ratio is above the benchmark 1%. Hence, both banks' mean ratio is above the 1% benchmark, which shows the quality of assets and their efficiency to generate return is better.
- ❖ The net interest margin of NIBL, despite fluctuated only once, the NIM ratio is in increasing trend. The mean ratio for the study period was found 4.64%.

Throughout the review period the NIM ratio was found slightly above the generally accepted benchmark. This indicates bank's capacity to maintain higher interest margin than the benchmark in the later half of the review period, despite increase in earning assets. On the other hand, the mean ratio of NIM of BOK is 3.85% which is above than that of generally accepted benchmark. Hence, the bank's ratio is higher but it is in decreasing tendency.

- ❖ EPS of NIBL bank fluctuated only in the first year of the review period thereafter it increased continuously till the final year of the review period. The increasing trend of EPS is also supported by positive slope of the trend line. In contrary, the EPS of BOK is fluctuated over the study period. The slope of the trend line is decreasing, indicates more volatility of EPS during the study period.
- ❖ In the same way, in case of BOK from FY 2008/09 to 2011/12, net financial assets (RSA-RSL) repricing in the short term maturity bucket ranging from 0-90 days to 271-365 days was found positive. But in the long term maturity bucket (>365 days) the gap was negative in all the years except in FY 2008/09 which is positive by Rs. 678.70. The CGAP or the Interest rate Sensitivity ratio to the total earning assets over the short-term horizon i.e. up to one year was highest with 48.33% in 2008/09 and the lowest with 26.06%. The ratio is in continuous decreasing trend. The CGAP ratio to the earning assets over the long-term horizon was highest with 23.05% in 2008/09 and lowest with 0% in 2010/11 and 2011/12. It indicates the RSAs and RSLs repricing in short term maturity bucket are highly sensitive to interest rate even though it is in decreasing trend. Comparatively the RSAs and RSLs of the bank repricing in the long-term horizon is low sensitive to interest rate. As shown in the table above with the simulated interest change by 1%, it would make the NII of the bank sensitive by the quantity of CGAP held in the short term horizon. As seen from the trend of CGAP in the short run, it is in decreasing trend hence it can be concluded the bank in later years, is keeping the mismatch (RSA-RSL) lower in the short run. This would make the bank less asset sensitive in future. Since the CGAP in the concluding 2 years 2010/11 and 2011/12 in the long term horizon is ZERO, the RSAs and RSLs remain unaffected
- ❖ NIBL has maintained cash reserve with NRB below the industry average. This implies the bank is not strictly following the directives of NRB in respect to balance must held in NRB. Likewise, BOK also has not maintained adequate cash reserve with NRB, which indicates the bank has not following the NRB directions in respect of balance must be maintained with NRB. But in case of both banks the lack of balance in NRB does not conclude inadequate Cash Reserve Ratio at NRB. Since the calculation is based on year end volumes of deposit and NRB balances and NRB calculates CRR on weekly average balances, ratio is observed

low which is a limitation of the study. However the ratio is increasing getting below the industry average.

- ❖ The vault to total deposit ratio of NIBL is less than the industry average in all observed years. The observed cash in vault ratio curve of NIBL compared with industrial average ratio was giving ripples like appearance which indicates fluctuation of ratio in alternate years. In the same way, the ratio maintained by BOK also below the industrial average in all the years during the study period. Which indicates the both banks are not following the directions of NRB in respect to the balance should be maintained at vault by the banks.
- ❖ The liquid assets to total deposit ratio of NIBL negatively varied with the industrial average in 2007/08. Thereafter, for the next four years till 2011/12, it varied positively with the industrial average. In 2011/12, the variance with the industrial average decreased to +9.16%. Overall, the bank held liquid assets percentage above the industrial average except in the initial period of 2007/08. This fact implies that the overall liquidity position of the bank is better than industrial average ratio. However the liquidity is in decreasing trend as the bank has switched to investing on more profitable assets. On the other hand, the ratio of NIBL is above the industrial average in all the years of study period. Hence, the performance measured in terms of this ratio is better than that of industry average. This implies that the bank's liquidity position is overall better but this impacts in profitability negatively.
- ❖ From FY 2008/09 to 2011/12, net financial assets (RSA-RSL) repricing in the short term maturity bucket ranging from 0-90 day to 271-365 days was found positive except in 2008/09. In the long term maturity bucket (>365 days) the gap was negative in all the years. The cumulative gap, CGAP of the RSAs and RSLs repricing in the short term maturity bucket (0-365 days) in all the years was found positive. The CGAP repricing in the long term maturity bucket was however found negative in all the years. The CGAP repricing over the one year maturity bucket was in continuous decreasing trend from 2008/09. The CGAP or the Interest rate Sensitivity ratio to the total earning assets over the short term horizon i.e. upto one year in continuous decreasing trend. The CGAP ratio repricing over the long term horizon has decreased to 0% in FY 2011/12. It indicates the RSAs/RSLs repricing in short term maturity bucket are highly sensitive to interest rate even though it is in decreasing trend. Comparatively the RSAs/RSLs of the bank repricing in the long term horizon are low sensitive to interest rate. In a rising interest environment, as it has maintained $CGAP > 0$ (positive), the bank would profit over the 1-Year time horizon. Conversely, the bank would make loss if the interest rates are falling. With the simulated interest change by 1%, the NII of NIBL is highly sensitive due high CGAP ratio held in short term horizon. The

CGAP trend in the short run is in decreasing trend hence it can be concluded the bank in later years, is keeping the mismatch (RSA-RSL) lower in the short run. This would make the bank less asset sensitive in future. Since the CGAP in the concluding 2 years 2010/11 and 2011/12 in the long term horizon is ZERO, the RSAs and RSLs remain unaffected by the fall or rise of the interest rates. Hence the bank is low sensitive to interest rate in the long horizon.

5.2 Recommendations:

- ❖ The increasing trend of interest paid borrowing exceeded the increasing trend of interest earned. The bank needs to review the trend and it is possible only when the capital and assets management is improved. The net profit of the bank was fluctuating, so do the earnings per shares. To stabilize net profit and earning per shares, total expenditure and total income should be under control. To control total income and total expenditure, the bank in effect needs to control deposit and total investment.
- ❖ The net worth of the JVs was low as compared to the total deposit and total liabilities. So the banks needs to increase it's net worth to reduce the risk. An increase in net worth will help to reduce the fluctuation on net profit.
- ❖ Total deposit is the major source of JVs fund. The trend of deposit collection of all Nepalese commercial banks are highly fluctuated over the study period. Therefore, all Nepalese commercial banks are strongly recommended to provide incentive for attracting deposit.
- ❖ Nepalese commercial Banks deal with big industries, corporate, houses, multinational companies, large NGO and INGO. They neglect the small depositors. The minimum level Bank balance needed to open an Account in this Bank is very high. So all JVs are suggested to set a more convenient minimum balance requirement to open an account. JVs should encourage the small depositors for promoting small investors.
- ❖ Because of limited capital the Bank is not able to serve the large customers which will harm the bank's business ultimately. So it is necessary to increase the capital although the bank is issuing the bonus shares in the vary near future and offering the right issue too.
- ❖ Profitability ratios of all JVs such as return on investment, return on total assets are not satisfactory. If resources held idle, banks have to bear more cost and result would be lower profit margin. So, it is recommended to utilize its resources in more profitable sector.

- ❖ The current ratios of selected JVs are not satisfactory. It is below the standard level of 2:1. Therefore all JVs are suggested to improve current ratios.
- ❖ All JVs are recommended to adopt the liberal lending policy and invest more percentage amount of Total deposits in loan and advances to earn interest which is the main sources of the income.

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Appendix

Total Operating Expenses to Total Operating Revenues Ratio

NIBL

FY (as at mid July)	<u>2007/08</u>	<u>2008/09</u>	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>
Total Operating Expenses (TOE) (in million)	1,049.00	1,185.36	745.71	697.42	668.70
Total Operating Revenues (TOI) (in million)	1,573.06	1,639.12	1,340.50	1,333.65	1,438.44
TOE /TOI Ratio (%)	66.69	72.32	55.63	52.29	46.49

BOK

FY (as at mid July)	<u>2007/08</u>	<u>2008/09</u>	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>
Total Operating Expenses (TOE) (in million)	1,043.32	1,298.19	1,154.77	1,242.18	1,256.56
Total Operating Revenues (TOI) (in million)	1,242.70	1,575.23	1,389.79	1,454.30	1,519.62
TOE /TOI Ratio (%)	83.96	82.41	83.09	85.41	82.69

KBL

FY (as at mid July)	<u>2007/08</u>	<u>2008/09</u>	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>
Total Operating Expenses (TOE) (in million)	980.00	1,284.23	875.54	875.54	776.98
Total Operating Revenues (TOI) (in million)	1,454.09	1,567.23	1456.87	1345.98	1567.90
TOE /TOI Ratio (%)	67.39	81.94	60.009	65.04	49.49

LBL

FY (as at mid July)	<u>2007/08</u>	<u>2008/09</u>	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>
Total Operating Expenses (TOE) (in million)	923.87	1324.6	1145.65	1345.51	1349.67
Total Operating Revenues (TOI) (in million)	1,098.98	1654.98	1256.77	1376.76	1487.90
TOE /TOI Ratio (%)	84.06	80.03	91.15	97.73	90.70

Source: Annual reports.

Earnings per Employee

NIBL

	2007/08	2008/09	2009/10	2010/11	2011/12
Net Profit (Rs.)	291,376,140	271,638,612	416,235,811	455,311,222	518,635,749
Number of Employees	388	382	326	372	426
Earning per Employee (Rs.)	750,969.00	711,096.00	1,276,797.00	1,223,955.00	1,21,7,455.00

BOK

	2007/08	2008/09	2009/10	2010/11	2011/12
Net Profit (Rs.)	199,380,000	277,039,000	235,023,000	212,132,000	263,052,000
Number of Employees	311	359	357	385	455
Earning per Employee (Rs.)	641,158.00	771,588.00	658,263.00	550,909.00	578,242.00

KBL

	2007/08	2008/09	2009/10	2010/11	2011/12
	231,326,321	234,453,908	321,235,798	445,234,656	509,615,456
	438	393	354	392	498
	528142.28	596574.82	907445.75	1135802.69	1023324.20

LBL

	2007/08	2008/09	2009/10	2010/11	2011/12
	176,230,000	298,033,000	217,028,000	278,107,000	301,098,000
	341	459	398	398	466
	516803.51	649309.36	545296.48	698761.30	646133.0472

Source: Annual reports.

Return on Equity

NIBL

Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Net Profit After Taxes (in million)	291.38	271.64	416.24	455.31	518.64
Shareholders' Equity (in million)	1,062.85	1,146.43	1,314.19	1,481.68	1,657.64
Return on Equity (%)	27.41	23.69	31.67	30.73	31.29

BOK

Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Net Profit After Taxes (in million)	194.40	277.00	235.00	212.10	263.10
Shareholders' Equity (in million)	870.60	1,198.40	1,501.50	1,906.00	2,292.10
Return on Equity (%)	22.90	23.11	15.65	11.13	11.48

KBL

Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Net Profit After Taxes (in million)	231.58	298.54	512.24	541.31	509.64
Shareholders' Equity (in million)	1,162.55	1,207.23	1,245.19	1,391.87	1,567.98
Return on Equity (%)	19.92	24.72	41.13	38.89	32.50

LBL

Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Net Profit After Taxes (in million)	167.90	298.00	287.00	205.00	255.40
Shareholders' Equity (in million)	980.44	1,098.40	1,403.40	1,804.00	2,345.50
Return on Equity (%)	17.12	27.13	20.45	11.36	10.88

Source: Annual reports.

Return on Assets

NIBL

Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Net Profit After Taxes (million)	291.38	271.64	416.24	455.31	518.64
Total Assets (million)*	18,175.59	17,528.57	16,437.17	16,633.04	17,064.02
Return on Assets (%)	1.60	1.55	2.53	2.74	3.04

BOK

Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Net Profit After Taxes (million)	194.40	277.00	235.00	212.10	263.10
Total Assets (million)*	15,863.70	19,500.60	21,315.80	24,197.90	25,729.80
Return on Assets (%)	1.26	1.42	1.11	0.88	1.02

KBL

Year (as at mid July)	2007/08	2008/09	2009/10	2010/11
Net Profit After Taxes (million)	211.54	298.84	435.94	489.31
Total Assets (million)*	18765.59	17,528.57	15,786.09	15678.78
Return on Assets (%)	1.12	1.70	2.76	2.74

LBL

Year (as at mid July)	2007/08	2008/09	2009/10	2010/11
Net Profit After Taxes (million)	194.40	277.00	235.00	212.10
Total Assets (million)*	15,863.70	19,500.60	21,315.80	24,197.90
Return on Assets (%)	1.22	1.42	1.11	0.88

Net Interest Margin

NIBL

Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Net Interest Income (in million)	688.34	658.11	500.52	718.67	825.20
Earning Assets (in million)	16,551.30	15,668.78	14,457.33	14,994.67	15,721.83
Net Interest Margin (%)	4.16	4.20	4.85	4.81	5.25

BOK

Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Net Interest Income (in million)	488.90	591.90	570.90	647.10	754.40
Earning Assets (in million)	9,441.00	13,098.00	18,714.20	21,020.00	22,212.00
Net Interest Margin (%)	5.18	4.52	3.05	3.08	3.40

KBL

Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Net Interest Income (in million)	598.98	786.09	500.52	875.12	987.76
Earning Assets (in million)	12567.09	15985.23	13456.66	116785.34	17895.45
Net Interest Margin (%)	4.76	4.20	4.85	4.81	5.25

LBL

Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Net Interest Income (in million)	564.65	654.43	675.36	786.04	876.39
Earning Assets (in million)	10987.32	12367.00	17890.56	20234.98	23453.56
Net Interest Margin (%)	5.13	4.52	3.05	3.08	3.40

Source: Annual reports.

Earning Per Share

NIBL

Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Net Profit (in million)	291.38	271.64	416.24	455.31	518.64
No. of Shares (in Million)	4.92	4.92	4.92	4.92	4.92
Earning Per Share	59.26	55.25	84.66	92.61	105.49

KBL

Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Net Profit (in million)	199.40	277.00	235.00	212.10	263.10
No. of Shares (in Million)	2.40	3.00	3.90	4.29	5.3625
Earning Per Share	83.08	92.33	60.26	49.44	49.06

NIBL

Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Net Profit (in million)	301.09	287.90	489.90	567.90	509.56
No. of Shares (in Million)	6.98	5.87	4.89	6.98	6.89

Earning Per Share	43.13	55.25	84.66	92.61	105.49
KBL					
Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Net Profit (in million)	178.98	345.00	345.00	452.89	345.20
No. of Shares (in Million)	3.45	4.00	6.80	4.68	4.98
Earning Per Share	51.07	92.33	60.26	49.44	49.06

Source: Annual Report

Core Capital Adequacy Ratio

NIBL

Fiscal Year	Core Capital (Million)	RWA (Million)	Core Capital To RWA %	Min. NRB Standard %*	Variance (+/-%)
2007/08	1,032	NA	6.50	4.50	+2.00
2008/09	1,112	10,564	10.53	4.50	+6.03
2009/10	1,277	11,146	11.45	5.00	+6.45
2010/11	1,439	11,872	12.12	5.50	+6.62
2011/12	1,611	14,193	11.35	5.50	+5.85

BOK

2007/08	580	13,059	4.44	4.50	-0.06
2008/09	699	14,957	4.67	4.50	+0.17
2009/10	835	12,746	6.50	5.00	+1.50
2010/11	1,039	14,681	7.10	5.50	+1.60
2011/12	1,297	16,861	7.70	5.50	+2.20

Source : Annual Reports

KBL

Fiscal Year	Core Capital (Million)	RWA (Million)	Core Capital To RWA %	Min. NRB Standard %*	Variance (+/-%)
2007/08	832	9380	8.86	4.50	+4.36
2008/09	1,103	5637	19.56	4.50	+15.06
2009/10	1098	9,146	12	5.00	+7
2010/11	1039	10345,	10.043	5.50	+4.5
2011/12	1,061	12,193	8.70	5.50	+3.2

LBL

2007/08	420	11,356	4.44	3.69	-0.75
2008/09	509	12,254	4.15	4.67	-0.52
2009/10	935	12,746	6.50	5.00	+1.50
2010/11	1,125	10,681	10.53	5.50	+1.60
2011/12	1,226	15,262	8.03	5.50	+2.53

Source : Annual Reports

. Supplementary Capital Adequacy NIBL

Fiscal Year	Supplementary Capital (Million)	RWA (Million)	Supplementary To RWA %	Max.NRB Standard %*	Variance (+/-%)
2007/08	630	N/A	3.96	6.50	+2.54
2008/09	353	10,564	3.34	10.53	+7.19
2009/10	178	11,146	1.60	11.45	+9.85
2010/11	167	11,872	1.43	12.12	+10.69
2011/12	156	14,193	1.10	11.35	+10.25

BOK

Fiscal Year	Supplementary Capital (Million)	RWA (Million)	Supplementary To RWA %	Max.NRB Standard %*	Variance (+/-%)
2007/08	469	13,059	3.59	6.50	+2.91
2008/09	500	14,957	3.34	10.53	+7.19
2009/10	639	12,746	5.01	11.45	+6.14
2010/11	565	14,681	3.85	12.12	+8.27
2011/12	499	16,861	2.96	11.35	+8.39

KBL

Fiscal Year	Supplementary Capital (Million)	RWA (Million)	Supplementary To RWA %	Max.NRB Standard %*	Variance (+/-%)
2007/08	530	14250	3.71	6.50	+2.71
2008/09	234	9,564	2.44	10.53	+8.09
2009/10	244	12345	1.97	11.45	+9.47
2010/11	324	11,472	2.82	12.12	+12.09
2011/12	158	12,123	1.30	11.35	+10.04

LBL

Fiscal Year	Supplementary Capital (Million)	RWA (Million)	Supplementary To RWA %	Max.NRB Standard %*	Variance (+/-%)
2007/08	229	10,131	2.26	6.50	+4.23
2008/09	245	13,123	1.86	10.53	+8.66
2009/10	567	9,987	5.67	11.45	+5.77
2010/11	379	11,476	3.30	12.12	+8.81
2011/12	498	14,153	3.51	11.35	+7.83

Source: Annual Reports,

Total Capital Adequacy Vs NRB Standard & Industrial Average

NIBL

Fiscal Year	Total Capital (Million)	RWA (Million)	Total Capital To RWA %	Min. NRB Standard %	Variance %	Industry Average%
2007/08	1,662	NA	10.46	8.00	+2.46	11.18
2008/09	1,464	10,564	13.86	9.00	+4.86	13.82
2009/10	1,455	11,146	13.05	10.00	+3.05	11.95
2010/11	1,609	11,872	13.56	11.00	+2.56	11.62
2011/12	1,766	14,193	12.44	11.00	+1.44	NA

BOK

Fiscal Year	Total Capital (Million)	RWA (Million)	Total Capital To RWA %	Min. NRB Standard %	Variance %	Industry Average%
2007/08	1,049	13,059	8.03	8.00	+0.03	11.18
2008/09	1,199	14,957	8.02	9.00	-1.97	13.82
2009/10	1,474	12,746	11.56	10.00	+1.56	11.95
2010/11	1,604	14,681	10.93	11.00	-0.07	11.62
2011/12	1,796	16,861	10.65	11.00	-0.35	NA

KBL

Fiscal Year	Total Capital (Million)	RWA (Million)	Total Capital To RWA %	Min. NRB Standard %	Variance %	Industry Average%
2007/08	1,490	9089	16.39	8.00	+8.39	11.18
2008/09	1,378	10,564	13.04	9.00	+4.04	13.82

2009/10	1,233	11,146	11.06	10.00	+1.06	11.95
2010/11	1,567	11,872	13.56	11.00	+2.56	11.62
2011/12	1,876	14,193	13.21	11.00	+2.21	NA

LBL

Fiscal Year	Total Capital (Million)	RWA (Million)	Total Capital To RWA %	Min. NRB Standard %	Variance %	Industry Average%
2007/08	1,200	11,234	10.68	8.00	-2.68	11.18
2008/09	1098	13045	8.41	9.00	+0.59	13.82
2009/10	1,267	11,234	11.27	10.00	-1.27	11.95
2010/11	1,476	15467	9.54	11.00	+1.45	11.62
2011/12	1,356	15478	8.76	11.00	+2.24	NA

Source: Annual Reports,

Table 4.10: Bank Asset Composition (in %)

NIBL

	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
Cash & Bank Balance	<u>4.43</u>	<u>5.96</u>	<u>6.91</u>	<u>5.79</u>	<u>3.25</u>	<u>5.93</u>
Industry Average*		9.81	8.46	9.77	N/A	
Money at Call or Short Notice	<u>2.85</u>	<u>0.18</u>	<u>4.05</u>	<u>5.49</u>	<u>5.05</u>	<u>3.48</u>
Industry Average*		2.11	1.69	2.15		
Investment (At Cost)	<u>41.95</u>	<u>46.51</u>	<u>36.41</u>	<u>34.85</u>	<u>24.83</u>	<u>37.04</u>
Industry Average*		20.78	23.32	21.86	N/A	
Loans, Advances & Overdrafts & Bills						
Purchases & Discounted	<u>45.32</u>	<u>42.2</u>	<u>46.83</u>	<u>48.91</u>	<u>61.59</u>	<u>48.97</u>
Industry Average(Loans, Adv & B/P)*		47.13	47.38	47.42	N/A	
Fixed Assets	<u>1.35</u>	<u>1.35</u>	<u>1.52</u>	<u>2.02</u>	<u>2.10</u>	<u>1.66</u>
Industry Average*		0.88	0.93	0.92	N/A	
Other Assets	<u>4.11</u>	<u>3.81</u>	<u>4.28</u>	<u>2.94</u>	<u>3.16</u>	<u>3.67</u>
Industry Average*		19.29	18.23	17.87	N/A	

BOK

	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
Cash & Bank Balance	<u>5.69</u>	<u>7.36</u>	<u>5.93</u>	<u>8.18</u>	<u>7.78</u>	<u>6.99</u>
Industry Average*		9.81	8.46	9.77	N/A	
Money at Call or Short Notice	<u>29.51</u>	<u>20.80</u>	<u>1.65</u>	<u>0.62</u>	<u>1.43</u>	<u>10.80</u>
Industry Average*		2.11	1.69	2.15		
Investment (At Cost)	<u>13.97</u>	<u>20.90</u>	<u>42.96</u>	<u>42.10</u>	<u>36.12</u>	<u>26.70</u>

<i>Industry Average*</i>		20.78	23.32	21.86	N/A	
Loans, Advances & Overdrafts & Bills						
Purchases & Discounted	<u>45.54</u>	<u>46.23</u>	<u>44.84</u>	<u>44.82</u>	<u>50.21</u>	<u>46.33</u>
<i>Industry Average(Loans, Adv & B/P)*</i>		47.13	47.38	47.42	N/A	
Fixed Assets	<u>1.22</u>	<u>1.08</u>	<u>1.50</u>	<u>0.90</u>	<u>1.16</u>	<u>1.17</u>
<i>Industry Average*</i>		0.88	0.93	0.92	N/A	
Other Assets	<u>4.07</u>	<u>3.63</u>	<u>3.12</u>	<u>3.38</u>	<u>3.30</u>	<u>3.50</u>
<i>Industry Average*</i>		19.29	18.23	17.87	N/A	

KBL

	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
Cash & Bank Balance	<u>5.43</u>	<u>5.06</u>	<u>5.31</u>	<u>4.67</u>	<u>4.05</u>	<u>4.91</u>
<i>Industry Average*</i>		9.81	8.46	9.77	N/A	
Money at Call or Short Notice	<u>3.12</u>	<u>0.25</u>	<u>4.95</u>	<u>5.70</u>	<u>5.87</u>	<u>3.97</u>
<i>Industry Average*</i>		2.11	1.69	2.15		
Investment (At Cost)	<u>42.05</u>	<u>44.21</u>	<u>35.32</u>	<u>33.25</u>	<u>22.73</u>	<u>35.51</u>
<i>Industry Average*</i>		20.78	23.32	21.86	N/A	
Loans, Advances & Overdrafts & Bills						
Purchases & Discounted	<u>42.22</u>	<u>45.3</u>	<u>46.83</u>	<u>49.11</u>	<u>51.51</u>	<u>46.99</u>
<i>Industry Average(Loans, Adv & B/P)*</i>		32.13	47.21	43.32	N/A	
Fixed Assets	<u>1.35</u>	<u>1.35</u>	<u>1.52</u>	<u>2.02</u>	<u>2.10</u>	<u>1.66</u>
<i>Industry Average*</i>		0.88	0.93	0.92	N/A	
Other Assets	<u>3.11</u>	<u>4.81</u>	<u>3.33</u>	<u>2.43</u>	<u>2.34</u>	<u>3.67</u>
<i>Industry Average*</i>		19.29	18.23	17.87	N/A	

LBL

	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
Cash & Bank Balance	<u>4.54</u>	<u>6.32</u>	<u>4.23</u>	<u>7.98</u>	<u>8.56</u>	<u>6.32</u>
<i>Industry Average*</i>		9.81	8.46	9.77	N/A	
Money at Call or Short Notice	<u>28.11</u>	<u>19.70</u>	<u>2.55</u>	<u>0.32</u>	<u>1.20</u>	<u>10.37</u>
<i>Industry Average*</i>		2.11	1.69	2.15		
Investment (At Cost)	<u>14.07</u>	<u>19.70</u>	<u>40.96</u>	<u>41.20</u>	<u>37.02</u>	<u>30.59</u>
<i>Industry Average*</i>		20.78	23.32	21.86	N/A	
Loans, Advances & Overdrafts & Bills						
Purchases & Discounted	<u>55.54</u>	<u>42.23</u>	<u>40.74</u>	<u>42.82</u>	<u>51.21</u>	<u>46.50</u>
<i>Industry Average(Loans, Adv & B/P)*</i>		47.13	47.38	47.42	N/A	
Fixed Assets	<u>1.24</u>	<u>1.34</u>	<u>1.30</u>	<u>0.80</u>	<u>1.06</u>	<u>1.148</u>
<i>Industry Average*</i>		0.88	0.93	0.92	N/A	
Other Assets	<u>4.13</u>	<u>4.03</u>	<u>4.02</u>	<u>3.98</u>	<u>3.40</u>	<u>3.91</u>
<i>Industry Average*</i>		19.29	18.23	17.87	N/A	

Source: Annual Reports

Non Performing Loan Ratio. (Rs. In Millions)

NIBL

	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
Non-Performing Loan	<u>NA</u>	<u>557</u>	<u>450</u>	<u>287</u>	<u>145</u>	<u>287.8</u>
Total Loan	<u>8324</u>	<u>7802</u>	<u>8114</u>	<u>8549</u>	<u>10947</u>	<u>8747.20</u>
NPL Ratio (%)	<u>NA</u>	<u>7.14</u>	<u>5.54</u>	<u>3.35</u>	<u>1.32</u>	<u>2.87</u>
<i>Industry Average*</i>	29.31	30.41	28.68	22.77	N/A	

BOK

	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
Non-Performing Loan	<u>NA</u>	<u>1367</u>	<u>797.6</u>	<u>1092.8</u>	<u>1147.5</u>	<u>880.98</u>
Total Loan	<u>7224.7</u>	<u>9015.3</u>	<u>9557.1</u>	<u>10844.6</u>	<u>12919.6</u>	<u>9912.26</u>
NPL Ratio (%)	<u>NA</u>	<u>15.16</u>	<u>8.35</u>	<u>10.18</u>	<u>8.88</u>	<u>8.51</u>
<i>Industry Average*</i>	29.31	30.41	28.68	22.77	N/A	

KBL

	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
Non-Performing Loan	<u>NA</u>	<u>402</u>	<u>523</u>	<u>232</u>	<u>150</u>	<u>261.4</u>
Total Loan	<u>8112</u>	<u>7241</u>	<u>7020</u>	<u>8143</u>	<u>9,443</u>	<u>7991.8</u>
NPL Ratio (%)	<u>NA</u>	<u>7.14</u>	<u>5.54</u>	<u>3.35</u>	<u>1.32</u>	<u>2.87</u>
<i>Industry Average*</i>	29.80	28.20	28.54	23.55	N/A	

LBL

	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
Non-Performing Loan	<u>NA</u>	<u>1432</u>	<u>842.6</u>	<u>769.7</u>	<u>1422.5</u>	<u>893.36</u>
Total Loan	<u>8113.7</u>	<u>9012.3</u>	<u>7786.1</u>	<u>11657.6</u>	<u>12543.6</u>	<u>9822.66</u>
NPL Ratio (%)	<u>NA</u>	<u>14.16</u>	<u>6.85</u>	<u>10.18</u>	<u>8.88</u>	<u>8.51</u>
<i>Industry Average*</i>	29.31	29.33	28.21	20.23	N/A	

Source: Annual Reports,

Loan Loss Provisioning (%)**NIBL**

	2007/08	2008/09	2009/10	2010/11	2011/12
Total Loan Loss Provision (in Million)	591.80	363.95	357.73	358.66	360.57
Total Loan & Advances	8,324.44	7,801.85	8,113.68	8,548.66	10,946.74
Total Provision to Total Loans (%)	7.11	4.66	4.41	4.20	3.29

BOK

	2007/08	2008/09	2009/10	2010/11	2011/12

Total Loan Loss Provision (in Million)	-	344.50	643.40	842.80	967.80
Total Loan & Advances	7224.70	9015.30	9557.10	10,844.60	12919.60
Total Provision to Total Loans (%)	-	3.82	6.73	7.77	7.49

KBL

	2007/08	2008/09	2009/10	2010/11	2011/12
Total Loan Loss Provision (in Million)	675.20	423.24	357.73	358.66	380.53
Total Loan & Advances	7,324.44	7,561.85	8,013.48	7,548.66	9,999.74
Total Provision to Total Loans (%)	9.21	5.597	4.464	4.75	3.80

LBL

	2007/08	2008/09	2009/10	2010/11	2011/12
Total Loan Loss Provision (in Million)	-	304.60	543.40	742.70	963.80
Total Loan & Advances	7112.70	9345.30	9557.10	10,144.60	11519.60
Total Provision to Total Loans (%)	-	3.25	5.68	7.32	8.36

Source Annual Reports, 2007/08, 2008/09, 2009/10, 2010/11, 2011/12

Liquid Assets to Total Deposit Ratio

NIBL

Fiscal Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Liquid Assets (in million Rs.)	4,068.42	5,805.46	5,882.07	5,970.25	4,224.49
Total Deposits (in million Rs.)	15,839.01	15,506.43	13,447.66	14,119.03	14,586.61
Liquid Assets/Total Deposits (%)	25.69	37.44	43.74	42.29	28.96
*Industrial Average (%)	32.50	32.40	29.00	20.20	19.80
Variance from Industrial avg (%)	-6.81	+5.04	+14.74	+22.09	+9.16

BOK

Fiscal Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Liquid Assets (in million Rs.)	5,446.50	7,192.60	8,658.80	8,281.70	8,613.50
Total Deposits (in million Rs.)	14,082.50	17,613.60	18,595.20	21,002.80	22,760.90
Liquid Assets/Total Deposits (%)	36.68	40.84	41.19	39.43	37.84
*Industrial Average (%)	32.50	32.40	29.00	20.20	19.80
Variance from Industrial avg (%)	+6.18	+8.44	+12.19	+19.23	+18.04

KBL

Fiscal Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Liquid Assets (in million Rs.)	5467.90	6754.96	5,882.07	8769.24	5627.27

Total Deposits (in million Rs.)	14356.60	16543.63	13,447.66	14,119.03	16573.37
Liquid Assets/Total Deposits (%)	38.08	37.44	43.74	42.29	28.96
*Industrial Average (%)	32.50	32.40	29.00	20.20	19.80
Variance from Industrial avg (%)	+5.58	+5.04	+14.74	+22.09	+9.16

LBL

Fiscal Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Liquid Assets (in million Rs.)	6534.89	8567.43	9876.45	9234.54	9546.50
Total Deposits (in million Rs.)	15672.14	15647.23	17657.54	20647.60	34212.90
Liquid Assets/Total Deposits (%)	41.69	40.84	41.19	39.43	37.84
*Industrial Average (%)	32.50	32.40	29.00	20.20	19.80
Variance from Industrial avg (%)	+9.19	+8.44	+12.19	+19.23	+18.04

Source: Annual Report, * Banking and Financial Statistics, NRB, No.43, July, 2004,pp: 4-10

NRB Balance to Total Deposit Ratio

NIBL

Fiscal Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
NRB Balance (in million Rs.)	512.07	506.67	892.75	606.69	389.71
Total Deposit less Margin & FCY Dep.(million)	14,082.50	17,613.60	18,595.20	21,002.80	22,760.90
NRB Balance/ Total Deposit (%)	4.65	6.10	3.74	5.38	7.13
Industrial Average (%)*	11.40	12.50	13.40	8.90	9.70
Diff. From industrial average (%)	-6.87	-8.09	-4.14	-3.08	-6.15

BOK

Fiscal Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
NRB Balance (in million Rs.)	655.30	1,073.20	695.40	1,130.00	1,623.90
Total Deposit less Margin & FCY Dep.(million)	11,306.48	11,489.78	9,642.07	10,415.51	10,963.69
NRB Balance/ Total Deposit (%)	4.53	4.41	9.26	5.82	3.55
Industrial Average (%)*	11.40	12.50	13.40	8.90	9.70
Diff. From industrial average (%)	-6.75	-6.40	-9.66	-3.52	-2.57

KBL

Fiscal Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
NRB Balance (in million Rs.)	675.07	897.54	987.30	765.69	489.71
Total Deposit less Margin & FCY Dep.(million)	15678.70	16897.40	17846.45	22,002.80	22,660.90
NRB Balance/ Total Deposit (%)	4.30	6.10	3.74	5.38	7.13
Industrial Average (%)*	11.40	12.50	13.40	8.90	9.70
Diff. From industrial average (%)	-7.09	-8.09	-4.14	-3.08	-6.15

LBL

Fiscal Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
NRB Balance (in million Rs.)	595.30	1,173.20	595.40	1,030.00	1,023.90
Total Deposit less Margin & FCY Dep.(million)	11,246.48	11,789.78	9,742.07	11,415.51	9,963.69
NRB Balance/ Total Deposit (%)	5.29	4.41	9.26	5.82	3.55
Industrial Average (%)*	11.40	12.50	13.40	8.90	9.70
Diff. From industrial average (%)	-6.10	-6.40	-9.66	-3.52	-2.57

Source: Annual Report, *Banking and Financial Statistics, NRB, No.43, July, 2004.pp: 4-10.

Cash at Vault to Total Deposit Ratio

This ratio shows the percentage of total deposits held as cash in hand at vault. This ratio is computed by dividing cash at vault by total deposits. Cash and foreign currencies in hand are included as cash in vault. Total Deposit means Current, Savings and Fixed Deposit Account as well as Call Account deposit and certificates of deposits. For the purpose, deposits held in convertible foreign currency, employees guarantee amount and margin account will not be included (NRB Directive Manual, 2004). NIBL

Fiscal Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Cash in Vault (in million Rs.)	208.48	318.16	187.78	286.89	146.35
Total Deposit less Margin & FCY Dep.(in million)	11,306.48	11,489.78	9,642.07	10,415.51	10,963.69
Cash at Vault / Total Deposits (%)	1.84	2.77	1.95	2.75	1.33
*Industrial Average (%)	2.80	2.80	3.20	2.90	1.80
Diff. From industrial average (%)	-0.96	-0.03	-1.25	-0.15	-0.47

BOK

Fiscal Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Cash in Vault (in million Rs.)	134.00	149.90	462.80	382.70	274.00
Total Deposit less Margin & FCY Dep.(in million)	14,082.50	17,613.60	18,595.20	21,002.80	22,760.90
Cash at Vault / Total Deposits (%)	0.95	0.85	2.49	1.82	1.20
*Industrial Average (%)	2.80	2.80	3.20	2.90	1.80
Diff. From industrial average (%)	-1.85	-1.95	-0.71	-1.08	-0.60

KBL

Fiscal Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Cash in Vault (in million Rs.)	287.89	318.16	234.33	243.89	167.74
Total Deposit less Margin & FCY Dep.(in million)	10988.42	12893.70	9,234.76	11234.51	12765.43
Cash at Vault / Total Deposits (%)	2.62	2.77	1.95	2.75	1.33
*Industrial Average (%)	2.80	2.80	3.20	2.90	1.80
Diff. From industrial average (%)	-0.18	-0.03	-1.25	-0.15	-0.47

LBL

Fiscal Year (as at mid July)	2007/08	2008/09	2009/10	2010/11	2011/12
Cash in Vault (in million Rs.)	155.00	149.90	462.80	382.70	274.00
Total Deposit less Margin & FCY Dep.(in million)	13765.50	17,613.60	18,595.20	21,002.80	22,760.90
Cash at Vault / Total Deposits (%)	1.12	0.85	2.49	1.82	1.20
*Industrial Average (%)	2.80	2.80	3.20	2.90	1.80
Diff. From industrial average (%)	-1.85	-1.95	-0.71	-1.08	-0.60

Source: Annual Report, *Banking and Financial Statistics, NRB, No.43, July, 2004.pp: 4-10.

GAP ANALYSIS OF NEPAL INVESTMENT BANK.

a. 2008/09

	1-90	91-180	181-270	271-365	>365	Total
RSA (Millions)	8,556.30	1,187.30	1,055.20	1,008.10	5,223.20	17,030.10
RLAs (Millions)	1,719.40	1,452.50	38.10	366.70	11,982.60	15,559.30
GAP _i (RSA-RSL) (millions)	6,836.90	(265.20)	1,017.10	641.40	(6,759.40)	1,470.80
CGAP _i (RSA-RSL) (millions)	6,836.90	6,571.70	7,588.80	8,230.20	1,470.80	1,470.80
RSA/RSL	4.98	0.82	27.70	2.75	0.44	1.09
CGAP _i Ratio[CGAP/Total RSAs](%)	40.15%	38.59%	44.56%	48.33%	8.64%	8.64%
R(%)				1%	1%	
NII (millions) = CGAP x R				82.30	14.71	
%Change in NII				0.48%	0.09%	

b. 2009/10						
	1-90	91-180	181-270	271-365	>365	Total
RSA (Millions)	6,329.00	1,180.70	1,694.70	1,412.00	5,320.10	15,936.50
RLAs (Millions)	2,225.40	1,126.70	52.90	357.30	10,646.70	14,409.00
GAP (RSA-RSL) (millions)	4,103.60	54.00	1,641.80	1,054.70	(5,326.60)	1,527.50
CGAP _i (RSA-RSL) (millions)	4,103.60	4,157.60	5,799.40	6,854.10	1,527.50	1,527.50
RSA/RSL	2.84	1.05	32.04	3.95	0.50	1.11
CGAP _i Ratio[CGAP/Total RSAs](%)	25.75%	26.09%	36.39%	43.01%	9.58%	9.58%
R(%)				1%	1%	
NII (millions) = CGAP x R				68.54	15.28	
%Change in NII				0.43%	0.10%	

c. 2010/11						
	1-90	91-180	181-270	271-365	>365	Total
RSA (Millions)	5,335.80	1,700.80	1,551.40	2,741.00	5,775.40	17,104.40
RLAs (Millions)	3,205.40	1,529.60	345.20	307.30	11,716.90	17,104.40
GAP _i (RSA-RSL) (millions)	2,130.40	171.20	1,206.20	2,433.70	(5,941.50)	-
CGAP _i (RSA-RSL) (millions)	2,130.40	2,301.60	3,507.80	5,941.50	-	-
RSA/RSL	1.66	1.11	4.49	8.92	0.49	1.00
CGAP _i Ratio[CGAP/Total RSAs](%)	12.46%	13.46%	20.51%	34.74%	0.00%	0.00%
R(%)				1%	1%	
NII (millions)= CGAP x R				59.42	-	

% Change in NII	0.35%	0%
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d. 2011/12						
	1-90	91-180	181-270	271-365	>365	Total
RSA (Millions)	4,690.40	1,441.50	661.20	2,026.10	8,730.00	17,549.20
RLAs (Millions)	2,794.20	780.00	325.30	346.90	13,302.70	17,549.10
GAP _i (RSA-RSL) (millions)	1,896.20	661.50	335.90	1,679.20	(4,572.70)	0.10
CGAP _i (RSA-RSL) (millions) (a)	1,896.20	2,557.70	2,893.60	4,572.80	0.10	0.10
RSA/RSL	1.68	1.85	2.03	5.84	0.66	1.00
CGAP _i Ratio[CGAP/Total RSA](%)	10.81%	14.57%	16.49%	26.06%	0.00%	0.00%
R(%)				1%	1%	
NII (millions)=CGAP x R				45.73	0.00	
%Change in NII				0.26%	0%	

GAP ANALYSIS OF BANK OF KATHMANDU.

a. 2008/09						
	1-90	91-180	181-270	271-365	>365	Total
RSA (Millions)	7,852.40	1,250.30	9,87.20	1,173.40.	11,235.20	22,498.70
RLAs (Millions)	5,235.10	756.60	552.70	211.30	10,556.50	17,312.20
GAP _i (RSA-RSL) (millions)	2,617.30	493.70	434.30	962.10	678.70	5,186.50
CGAP _i (RSA-RSL) (millions)	2,617.30	3,111.00	3,545.30	4,507.40	5,186.10	18,867.10
RSA/RSL	1.50	1.65	1.79	5.55	1.06	1.30
CGAP _i Ratio[CGAP/Total RSAs](%)	11.63%	13.83%	15.31%	20.03%	23.05%	83.86%
R(%)				1%	1%	
NII (millions) = CGAP x R				45.07	51.86	
%Change in NII				0.20%	0.23%	

b. 2009/10						
	1-90	91-180	181-270	271-365	>365	Total
RSA (Millions)	4,235.10	1,256.60	1,068.30	887.80	8,235.40	15,683.20
RLAs (Millions)	1,524.50	546.10	456.10	387.60	11,527.10	16,211.50

GAP (RSA-RSL) (millions)	2,710.60	710.50	612.20	500.20	(3,291.70)	1,241.80
CGAP _i (RSA-RSL) (millions)	2,710.60	3,421.10	4,033.30	4,533.50	1,241.80	15,940.30
RSA/RSL	2.78	2.30	2.34	2.29	0.71	0.97
CGAP _i Ratio[CGAP/Total RSAs](%)						
R(%)	17.28%	21.81%	25.72%	28.91%	7.92%	101.64%
NII (millions) = CGAP x R				45.34	12.42	
% Change in NII				0.29%	0.08%	

c. 2010/11						
	1-90	91-180	181-270	271-365	>365	Total
RSA (Millions)	5,224.20	1,800.40	1,945.30	2,324.10	4,875.20	16,169.20
RLAs (Millions)	2,945.90	1,413.60	978.80	648.50	8,746.20	14,733.00
GAP _i (RSA-RSL) (millions)	2,278.30	386.80	966.50	1,675.60	(3,871)	-
CGAP _i (RSA-RSL) (millions)	2,278.20	2,665.10	3,631.60	5,307.20	-	-
RSA/RSL	1.77	1.27	1.99	3.58	0.56	1.10
CGAP _i Ratio[CGAP/Total RSAs](%)	14.09%	16.48%	22.46%	32.82%	0.00%	0.00%
R(%)				1%	1%	
NII (millions)= CGAP x R				53.07	-	
% Change in NII				0.33%	0%	

d. 2011/12						
	1-90	91-180	181-270	271-365	>365	Total
RSA (Millions)	4,786.60	1,666.10	978.20	1,926.10	10,542.20	19,899.20
RLAs (Millions)	2,945.20	1,045.60	542.30	768.20	11,286.90	16,588.20
GAP _i (RSA-RSL) (millions)	1,841.40	620.50	435.90	1,157.90	(744.70)	2,629.50
CGAP _i (RSA-RSL) (millions) (a)	1,841.40	2,461.90	2,897.80	4,055.70	3,311.00	14,567.80
RSA/RSL	1.63	1.59	1.80	2.51	0.93	1.20
CGAP _i Ratio [CGAP/Toal RSA](%)	9.25%	12.37%	14.56%	20.38%	0.00%	73.20%
R(%)				1%	1%	

GAP ANALYSIS OF KUMARI BANK LIMITED

a. 2008/09						
	1-90	91-180	181-270	271-365	>365	Total
RSA (Millions)	8756.40	1,750.30	6,98.20	1,173.40.	14567.20	78654.70
RLAs (Millions)	4,235.10	956.60	552.70	211.30	12345.50	18976.20

GAP _i (RSA-RSL) (millions)	2,617.30	593.70	434.30	962.10	678.70	4,186.50
CGAP _i (RSA-RSL) (millions)	2,617.30	4534.00	3,545.30	4,507.40	5,186.10	19872.10
RSA/RSL	1.50	1.65	1.79	5.55	1.06	1.30
CGAP _i Ratio[CGAP/Total RSAs](%)	11.63%	13.83%	15.31%	20.03%	23.05%	83.86%
R(%)				1%	1%	
NII (millions) = CGAP x R				45.07	51.86	
%Change in NII				0.20%	0.23%	

b. 2009/10

	1-90	91-180	181-270	271-365	>365	Total
RSA (Millions)	5643.10	1345.98	1,951.30	887.80	4,235.40	16758.20
RLAs (Millions)	1,678.50	879.10	456.10	387.60	112,527.10	15780.50
GAP (RSA-RSL) (millions)	2,980.20	790.50	612.20	500.20	(36291.70)	1,376.80
CGAP _i (RSA-RSL) (millions)	2,710.60	3,421.10	4,033.30	4,533.50	1,241.80	14780.30
RSA/RSL	2.78	2.30	2.34	2.29	0.71	0.97
CGAP _i Ratio[CGAP/Total RSAs](%)	17.28%	21.81%	25.72%	28.91%	7.92%	101.64%
R(%)				1%	1%	
NII (millions) = CGAP x R				45.34	12.42	
%Change in NII				0.29%	0.08%	

c. 2010/11

	1-90	91-180	181-270	271-365	>365	Total
RSA (Millions)	6547.932	1898.40	1,945.30	2,324.10	4,875.20	16,169.20
RLAs (Millions)	2,945.90	1,413.60	978.80	648.50	8,746.20	14,733.00
GAP _i (RSA-RSL) (millions)	2,278.30	386.80	966.50	1,675.60	(3,871)	-
CGAP _i (RSA-RSL) (millions)	2,278.20	2,665.10	3,631.60	5,307.20	-	-
RSA/RSL	1.77	1.27	1.99	3.58	0.56	1.10
CGAP _i Ratio[CGAP/Total RSAs](%)	14.09%	16.48%	22.46%	32.82%	0.00%	0.00%
R(%)				1%	1%	
NII (millions)= CGAP x R				53.07	-	
%Change in NII				0.33%	0%	

d. 2011/12

RSA (Millions)	1-90	91-180	181-270	271-365	>365	Total
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	4,0386.6					
	0	1,366.10	978.20	1,926.10	10,542.20	19,899.20
RLAs (Millions)	2,945.20	1,045.60	542.30	768.20	11,286.90	16,588.20
GAP _i (RSA-RSL) (millions)	1,841.40	620.50	435.90	1,157.90	(744.70)	2,629.50
CGAP _i (RSA-RSL) (millions) (a)	1,841.40	2,461.90	2,897.80	4,055.70	3,311.00	14,567.80
RSA/RSL	1.63	1.59	1.80	2.51	0.93	1.20
CGAP _i Ratio[CGAP/Toal RSA](%)	9.25%	12.37%	14.56%	20.38%	0.00%	73.20%
R(%)				1%	1%	

GAP ANALYSIS OF LAXMI BANK.

a. 2008/09						
	1-90	91-180	181-270	271-365	>365	Total
RSA (Millions)	7,852.40	1,250.30	9,87.20	1,173.40.	11,235.20	22,498.70
RLAs (Millions)	5,235.10	756.60	552.70	211.30	10,556.50	17,312.20
GAP _i (RSA-RSL) (millions)	2,617.30	493.70	434.30	962.10	678.70	5,186.50
CGAP _i (RSA-RSL) (millions)	2,617.30	3,111.00	3,545.30	4,507.40	5,186.10	18,867.10
RSA/RSL	1.50	1.65	1.79	5.55	1.06	1.30
CGAP _i Ratio[CGAP/Total RSAs](%)	11.63%	13.83%	15.31%	20.03%	23.05%	83.86%
R(%)				1%	1%	
NII (millions) = CGAP x R				45.07	51.86	
%Change in NII				0.20%	0.23%	
b. 2009/10						
	1-90	91-180	181-270	271-365	>365	Total
RSA (Millions)	4,235.10	1,256.60	1,068.30	887.80	8,235.40	15,683.20
RLAs (Millions)	1,524.50	546.10	456.10	387.60	11,527.10	16,211.50
GAP (RSA-RSL) (millions)	2,710.60	710.50	612.20	500.20	(3,291.70)	1,241.80
CGAP _i (RSA-RSL) (millions)	2,710.60	3,421.10	4,033.30	4,533.50	1,241.80	15,940.30
RSA/RSL	2.78	2.30	2.34	2.29	0.71	0.97
CGAP _i Ratio[CGAP/Total RSAs](%)	17.28%	21.81%	25.72%	28.91%	7.92%	101.64%
R(%)				1%	1%	
NII (millions) = CGAP x R				45.34	12.42	
%Change in NII				0.29%	0.08%	

c. 2010/11						
	1-90	91-180	181-270	271-365	>365	Total
RSA (Millions)	5,224.20	1,800.40	1,945.30	2,324.10	4,875.20	16,169.20
RLAs (Millions)	2,945.90	1,413.60	978.80	648.50	8,746.20	14,733.00
GAP _i (RSA-RSL) (millions)	2,278.30	386.80	966.50	1,675.60	(3,871)	-

CGAP _i (RSA-RSL) (millions)	2,278.20	2,665.10	3,631.60	5,307.20	-	-
RSA/RSL	1.77	1.27	1.99	3.58	0.56	1.10
CGAP _i Ratio[CGAP/Total RSAs](%)	14.09%	16.48%	22.46%	32.82%	0.00%	0.00%
R(%)				1%	1%	
NII (millions)= CGAP x R				53.07	-	
%Change in NII				0.33%	0%	
d. 2011/12						
	1-90	91-180	181-270	271-365	>365	Total
RSA (Millions)	4,786.60	1,666.10	978.20	1,926.10	10,542.20	19,899.20
RLAs (Millions)	2,945.20	1,045.60	542.30	768.20	11,286.90	16,588.20
GAP _i (RSA-RSL) (millions)	1,841.40	620.50	435.90	1,157.90	(744.70)	2,629.50
CGAP _i (RSA-RSL) (millions) (a)	1,841.40	2,461.90	2,897.80	4,055.70	3,311.00	14,567.80
RSA/RSL	1.63	1.59	1.80	2.51	0.93	1.20
CGAP _i Ratio[CGAP/Toal RSA](%)	9.25%	12.37%	14.56%	20.38%	0.00%	73.20%
R(%)				1%	1%	
NII (millions)=CGAP x R				40.56	33.11	
%Change in NII				0.20%	0%	