CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Nepal is a land-locked country surrounded to the east, west and south by the India and to the north by the people's Republic of china, is one of the least developed countries in the world which is directing her efforts in accelerating the peace of her economic development. Geographically, the country is at disadvantage in that, it is a land-locked country and the nearest sea-port is located at Bay of Bengal, Calcutta in India, 1126 k.m. to the south-east of the country ,which has greatly hindered it's foreign trade situation.

Nepal has an agro-based economy; most of the people are engaged in agriculture. The main reason of its agro-based economy is attributed to its geographical construction, where a major portion of the country is composed of hills and terai (plains lands) very suitable for agriculture. The other reason is due to its low literacy rate, which has restricted the people to primitive and traditional forms of occupation.

The growth of economic development is based on the entire banks and financial institution role. The more developed financial system of the world falls into three parts, the central bank, the commercial banks and others financial institution. The well established financial are the basis for the developed countries and also means for advancement of the developing countries. It is hence financial institution is taken as a catalyst in the process of economic growth of the country. In this contrary a bank is a financial institution which plays a significant role in the development of a country. It facilitates the growth of trade and industry of national economy. Hence bank is a resource for economic development which helps to build industrial environment and creates employment and investment opportunities to people. Therefore a bank is a business organization that receives and holds deposits of fund from other, makes loans or extend creates and transfer funds by written orders of depositors.

On 30th kartik, 1994 Nepal Bank limited was established for the first time to provide modern and organized banking facilities. Up to 2012,only NBL provided services to the public as an organized bank. Later, Nepal Rastra Bank act 2012 was made to established NRB as a central bank to manage, control and develop monetary system in Nepal . NRB was formally establish on

14th Baisakh 2013 and its capital at the starting time was 1 crore. Similarly, Rastriya Banijya Bank was set up in 2002 to fulfill the granting needs of the country. The birth of this bank brought a new landmark in the history of banking facility in the Nepal. Like other developed countries, Nepal also took the policy of open economy to develop good competition in the banking field. Hence, the joint venture banking company policy is taken. today, 23 commercial banks are operating to provide modern banking services and facilities to boost the economic condition of country.

The financial sector reform was initiated in mid-1980s under the liberal economic policy of HMG/N. under this policy HMG/N first opened the banking sectors to foreign investors. In July 1985, commercial banks were allowed , for the first time to accept current and fixed deposits on foreign currency(u.s. dollar & sterling pound). On may 26,1986,NRB deregulated the interest rate regime and authorized commercial banks to fix interest rate at any level above its minimum prescribed levels.

1.2 Commercial Bank

Nepal commercial Bank Act 2031 B.S. defines, ”A Commercial bank is a bank which deals in money exchange, accepting deposit, advancing loan and commercial transaction except specific banking related to co-operative, agriculture, industry and other objective.”

Commercial banks are those banks, which perform all kinds of banking functions as a accepting deposits, advancing credits, credit creation and agency function etc. They provide short term credit, medium credit and long term to trade and industry. They also operate off-balance sheet functions such as issuing guarantee, bonds, letter of credit etc. without the development of sound commercial banking; underdeveloped countries cannot hope to join the ranks of advanced countries. If industrial development requires the use of capital, the use of capital equipment will not be possible without the existence of banks to provide the necessary capital. Besides, industrial development will be impossible without the existence of markets to depose of the goods produced. On the other hand the services of the commercial banks will help to extend the market. The commercial banks pools together the savings of the community and arrange for product use. It fulfills the financial needs of modern business.

Commercial banks are the important financial institution in the economy. They are the vital medium for monetary policy transmission. The stability and profitability of commercial banks depends on the sound management of their assets and liabilities. Thus, the aim of every commercial banks management is to optimize the portfolio of assets and liabilities with regard to its specific business policy.

1.3 An overview of Credit Management

The credit policy of a firm provides the framework to determine whether or not to extend credit and how much credit to extend. The credit policy decision of a bank has two broad dimensions: credit standards and credit analysis. A firm has to establish and use standards in making credit decision, develop appropriate sources of credit information and methods of credit analysis.

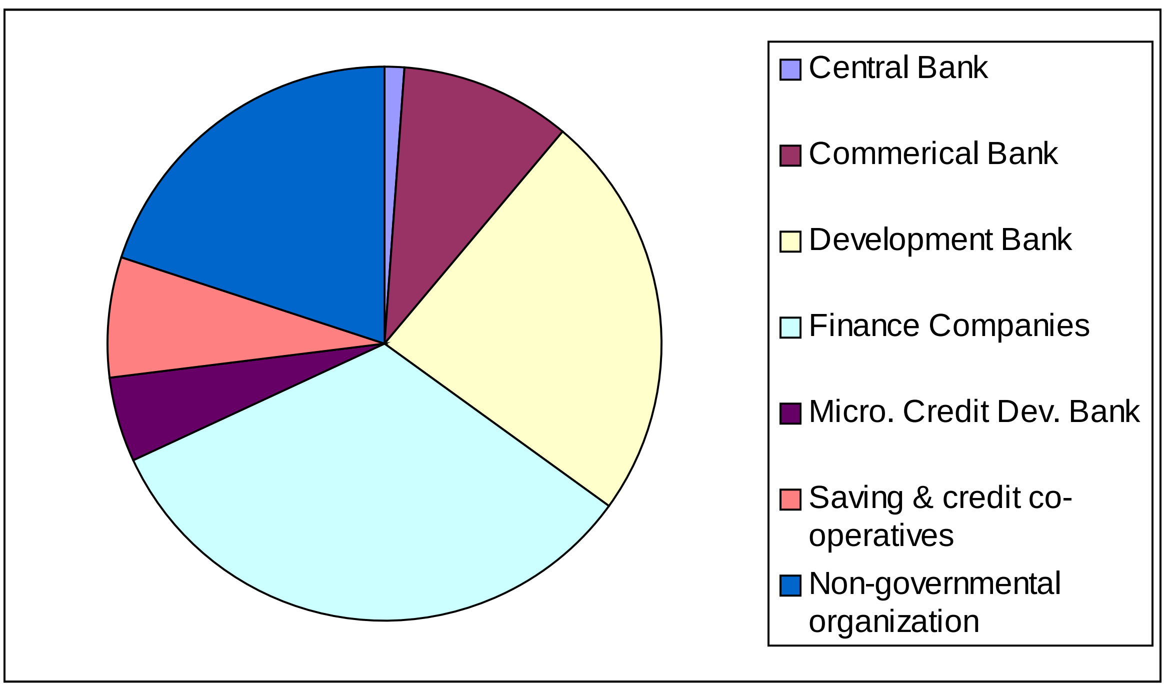
Credit management strongly recommends analyzing and managing the credit risks. Credit risk is defined as the possibility that a borrower will fail to meet its obligation in accordance with the agreed terms and conditions. Credit risk is not restricted to lending activities only but includes off-balance sheet and inter-bank exposures. The goal of the credit risk management is to maximize the bank's risk adjusted rate of return by maintaining the credit risk exposure within acceptable parameters. The financial system of Nepal composed of the following institutions.

Up to 11th chaitra 2064 (3/24/2008)

Organization	No. of institution	Percentage
Central Bank	1	1
Commercial Bank	23	10
Development Bank	58	24
Finance companies	79	33
Micro credit development Bank	12	5
Saving & credit co-operatives	16	7
Non-governmental organization	47	20
Total	236	

Chart 1

Financial System of Nepal



Source – www.nrb.org.np

1.4 Statement of problem

Nepal is a small country with small market. Economic condition of the country is degrading due to conflict since 2052 B.S. overall economic sectors either manufacturing or commercial sectors have undergone heavy losses. However the financial institution are increasing regularly. Liquidity is maximum with the financial institutions. Hence the banks & financial institutions are competing among themselves to advance credit to limited opportunity sectors. Due to unhealthy competition among the banks. The recovery of the banks credit is going towards negative trends. Therefore it is necessary to analyze the credit management or credit disbursement recovery provision for loss & write off of the credit. As the sample of commercial banks, BOK have been selected. The problems faced by the bank are as follows.

- Performance on the credit management is poor ,so the credit recovery process is slow.
- Due to lack of enough investment sectors , banks are competing unfairly in the limited area.
- The legal process in the recovery of credit is lengthy & ineffectiveness .
- Amount of non-performing credit is increasing.

1.5 Research questions

In this research there are many issues to be deal for the purpose of the study. The research attempts to sort out the answers to the following questions.

- What procedures are followed by bank while granting loan ?
- What are the types of credit & advances provided by this bank ?
- What are the recovery status of credit disbursed ?
- What are the strength and weakness in the credit management of this bank ?

What are the findings and suggestion?

1.6 Objectives of the Study

There is no doubt that the role of commercial banks is significant in the development of the country. Banks help in the development of the country by providing credit to the necessary sectors. The main objective of this study is to examine, analyze and interpret the credit management of BOK. However the specific objectives of this study are as follows .

- To assess the existing procedures while granting loan by the commercial banks .
- To analyze the credit and advance provided by this bank.
- To analyze the recovery status of credit disbursed.
- To identify the strength and weakness in credit administration of this bank.

To provide suggestions for the future betterment of credit management system in the commercial banks.

1.7 Significance of the Study

This study is important as it playing a vital role in the economic development of the country. The study is important to different person, sector as well as organization. Some of the major importance of the study can be listed as below.

- This study is valuable for researchers, scholars and student who want to further investigate about credit management.
- This study is useful to policy makers i.e. government for making plans and policies of the country.
- General interested outside parties such as- investors, customers(depositors as well as credit takers),competitors, personnel of banks, stockholders, dealers, and market makers can know about the credit management of the bank with the help of this study.
- The shareholders would get information about the banks credit management that would help to take a right decision to make investment on share of concerned bank .
- This study is useful to lender and borrower.

So, this study helps this bank to identify its hidden weakness regarding financial credit administration and necessity of the present study is justified.

1.8 Limitation of the Study

This study will be conducted with certain limitation. These major limitations encountered while preparing this report will be as follows.

- This research study largely depends on published documents such as balance sheet, profit and loss A/c statements, which are circulated at the close of the financial year.
- In this study only selected financial and statistical tools and techniques are used.
- Since this study is based on secondary data, the findings are based on the information provided by bank.

- This study has covered data of only five years i.e.2059/60 to 2063/64.(2003/04 to 2007/08)
- The other information is the lack of sufficient time and resources because the purpose of this thesis is only to fulfill the partial requirement for the master of business studies (MBS) of the management faculty.

Time and financial constraint will be also major obstacle of this study

1.9 Organization of the Study

This study will comprise the following chapters.

1. Chapter one

This chapter includes background of the study, statement of problem, research question, objective of the study, significance of the study, limitation of the study and organization of the study.

2. Chapter two

This chapter deals with review of literature. It will includes conceptual framework and related different studies.

3. Chapter three

This chapter deals with research methodology. It includes research design , data collection and methods of analysis and research variables.

4. Chapter four

This chapter deals with the presentation and analysis of data. It includes data processing, data analysis and interpretation.

5. Chapter five

This chapter is the last chapter. It covers the summary of whole study after which major conclusion and recommendations are specified.

CHAPTER – II

2.1 REVIEW OF LITERATURE

The review of literature is a crucial aspect of planning of the study. The main purpose of literature review is to find out what works have been done in the area of the research problem under study and what has not been done in the field of the research study being undertaken. For review study the researcher uses different books, reports, journals and research studies published by various institutions, unpublished dissertation (thesis) submitted by master level students have been reviewed. This chapter is divided into

- Conceptual review
- Review of related studies

2.1.1 Conceptual Review

The review of textbooks and other reference materials such as : newspaper, magazines, research articles, journals and past thesis have been included in this topic.

Johnson et.al.(1940), in his book entitled “commercial bank management” says that credit administration involves the creation and management of risk assets. The process of lending takes into consideration the people and system required for the evaluation and approval of loan requests, negotiation of terms, documentation, disbursement, administration of outstanding loans and workouts, knowledge of the process and awareness of its strength and weaknesses are important in setting objectives and goals for lending activities and for allocating available funds to various lending functions such as commercial, installment and mortgage portfolios.

Bhandari, Dr. (2003), in his book entitled “Banking and insurance management” says that in banking sector or transaction, an unavoidable ness of loan management and its methodology is regarded very important. Under this management, many subject matters are considered and thought. For example, there are subject matters like the policy of loan flow, the documents of loan flow, loan administration, audit of loan, renewal of loan, the condition of loan flow, the provision of security, the provision of the payment of capital and its interest and other such procedures. This management plays a great role in healthy competitive activities`.

Bhandari, D.p.(2004), in his book entitled " Rastriya Banijya Bank pratiyogita Digdarshan" says that portfolio management helps to minimize or manage the credit risk by spreading over the risk to various portfolios. These methods of managing credit risk are guided by the saying "DO NOT PUT ALL THE EGGS IN A SINGLE BASKET."

2.1.2 Concept of Commercial Banking

Course, H.D.(1963), in his book entitled " Management policies for commercial banks" says that commercial banks as financial institution perform a number of internal functions. Among them, providing credit is considered as most important one. "commercial banks bring into being the most important ingredient of the money supply, demand deposit through the creation of credit in the form of loan and investment."

Commercial bank act (1974) A.D. of Nepal has defined that "A commercial bank is one which exchanges money, deposits money, accepts deposits, grants loans and performs commercial banking functions and which is not a bank mean for co-operative, agriculture, industries for such specific purpose."

Groler incorporated (1984), "The Encyclopedia Americana" describes that A commercial bank is business organization that receives and holds deposit of fund from other makes loans or extends credits and transfers funds by written order of deposits.

The New encyclopedia Britannia,(1985) says that A commercial banks is a dealers in money and substitute for money such as cheques or bill of exchange. He also provides a variety of financial services.

Vaidya, s.(1999) "Banking management" says that the banks pool together the savings of community and arrange for their productive use. Commercial banks act as an intermediately accepting deposits and providing to the needy area. The main source of the commercial bank is current deposit, so they give more importance to the liquidity of investment and such they specialize in satisfying the short term credit needs of business other than the long term. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short term needs of trade and industry such as working capital financing. They cannot finance in fixed assets. They grant credits in the form of cash credits and overdrafts. A part from financing, they also render services like collection of bills and cheques, safe keeping of valuables, financial advising, etc to their customers.

Shekher and Shekher,(1999), “Banking theory and practice” says that commercial banks are organized as a joint stock company system, primarily for the purpose of earning a profit, they can be either of the branch banking types as we see in most of countries, with a large network branches like Nepal or of the unit banking type, as we see in the united states where a bank operations are confined to a single office or to a few branches within a strictly limited area.

2.1.3 Function of Commercial Banks

“The business of commercial banks is primarily is to hold deposits and make credits and investments with the object of securing profits for its shareholders. Its primary motive is profit; other consideration are secondary.”(Sudharsanam, D.P. 1976)

The major functions of commercial banks are as follows.

- Accepting deposit
- Advancing credit
- Agency services
- Credit creation
- Financing of foreign trade
- Safekeeping of valuables
- Etc

2.1.4 Concept of Credit

Credit is the amount of money lent by bank to the customers either on the basis of security.

“ Bank earn interest on credits and advances, which is one of the major sources of income for banks. Bank prepares credit portfolio, otherwise it will not only add bad debts but also affect profitability adversely.”(Varshney, N.P and Swaroop, G. 1994)

Credit policy provides guidelines for determining whether to extend credit to a customer and how much credit to extend.(Rana, S. 2002)

2.1.5 Types of Credit

- Overdraft

It refers the excess amount withdrawn over their deposits.

- Cash credit

The credit is not given directly in cash but deposit account is being opened on the name of credit taker and the amount credited to that account. In this way, every credit creates deposit.

- Term credit

It refers to money lent in lump sum to the borrowers. It is principal form of medium term debt financing having maturities of 1 to 8 years.

- Working capital credit

Difference between current assets and current liabilities is called working capital. It is granted to the customers to meet their working capital gap for supporting production process.

- Hire purchase financing

Hire purchase credits are characterized by periodic repayment of principal and interest over the maturity of the credit. Hirer agrees to take the goods on hire at a stated rental including their repayment of principal as well as interest with an option to purchase.

- Housing credit

Financial institutions also extend housing credit to their customers just like: Residential building, commercial complex, construction of warehouse etc. it is given to those customer who have regular income.

- Project credit

Project credits are sort term credits made to developers for the purpose of completing proposed projects. Maturities on project credits range from 12 months to as long as 4 to 5 years, depending on the size of the specific project.(Johnson, et.al.1940)

2.1.6 Principal of Credit Policy

- Principal of safety fund

Banks should look the fact that is there any unproductive or speculative venture of the borrower.

- Principal of liquidit

Liquidity refers to pay on hands on cash when it in ceded without having to sell long-term assets at loss in unfavorable market.(American institute of banking, 1972)

- Principal of security

Security refers adequate values of collaterals, which ensure the recovery of credit correctly at the right time.

- Principal of profitability

Profitability denotes the value created by the use of resource is more than the total of the input resources. Bank should provide to such project that can provide optimum amount of return. For such purpose, bank should take a little bit risk by providing credit to venturous project.

2.2 Review of related Studies

2.2.1 Review of some articles and books

The need to borrow is greater today than ever before, partly because of the dependence of people upon complex money and credit economy that is subject to many uncertainties and partly as a result of desire for a constantly rising standard of living. He has also expressed his view on loan collection. 'The weaker the credit granting function is, the greater that task on the collection arise only because credit has been used. The credit granting and collection functions are not only interdependent but also interwoven. The more lenient the deliberate policy of risk selection , the more formidable is the collection task and the stricter the granting of credit, the less the burden on the collection function.(Beckman,1962)

The type of relationship to be investigated depends upon the objective and purpose of evaluation. The purpose of evaluation of financial statements diggers among various groups(creditors, shareholders, potential investors, management, government, labour leaders and so on) interested in the results and relationships reported in the financial statements. For example, short term creditors are primarily interested in judging the firm's ability to pay its currently- maturing obligation.(Khan, My and Jain, Pk 1983)

The investment (credit) policies of banks are conditioned to great extent by the by the national policy framework, every banker has to apply his own judgment for arriving at a credit decision, keeping his bankers credit policy also in mind.(Sing & Sing, 1983)

The banks are such types of institution, which deal with money. They deal with cash, credit and credit instruments. Good circulation of credit is very much important for the bank. Understand and unevenly flow of credit with adhoc decisions harms the economy and the bank as well.

In an article, Thakur, A.k.(2002), entitled " Risk management of commercial bank and financial institution" raises the issue of risk management in the banking sector. According to him, " Risk should be taken as one of the challenges of the banking industry but it is not sufficient to minimize the potential disasters. Banking risk should be managed as a separate part of the management."

In an article, Bhattrai , M.(2002), is trying to indicate the problem of banks bad debt and non performing assets. According to him, " If a bank cannot recover its loan lending, bank's cash flow will be badly affected." Similarly it can affect the close relationship between depositors.

In an article, Karki, Uma (2002), "Challenges of non-performing loan management in Nepal" has mentioned the causes of increasing trend of non-performing loan. She Identifies the major causes such as " poor loan analysis, guarantee oriented loan system, depreciation on valued assets, misuses of loan, lack of regular supervision of loan."

In an article, Ghimire, M (2004), " comparative analyze the role of RBB" is trying to analyze the role of RBB in the Nepalese banking industry. " He is trying to show the share of RBB in various aspect of Nepalese financial market such as in banking market, in the total deposit of commercial banks in Nepal, in loan market, in the capital fund and in the foreign exchange transaction."

In an article, pradhan, M.L.(2004), " Importance of credit information bureau and it's activities" is trying to identify the need of credit information bureau. In this article he is trying to dig out about the establishment of credit information bureau and major activities which are assured by the Nepal Rastra Bank act 2058 section 58.

An investment of money that is expected to generate additional money. Every investment entails some degree of risk; it requires a present certain sacrifice for a future uncertain benefit. The book describes various ways to select the investments that will provide the maximum future return at an acceptable level of risk. It examines such marketable financial instruments as common stocks, preferred stocks, bonds, put options, call options and futures contracts on the traditional commodities, financial futures and other investments, as well as the risks associated with each. It analysis these assets, the markets in which they are traded, the laws governing the trading, the valuation of the assets, the construction if a diversified portfolio and other important investment management techniques.(Francis, J.C , seventh edition)

The writers in their books opine that the factors like statutory directive, deposit mix, competition and quality of lending officials affect a bank's credit policy. Considering these factors, the credit policy should be carefully established, communicated properly to the lending officers. A sound credit policy should be based on the objectives like having good assets, contributing to the economic development, giving guidance to the lending officers, and establishing a standard for control. The proper implementation of such policy is ensured by periodic follow up. This helps take corrective actions if any drift between actual and standard is seen. The corrective action may vary as per the nature of deviation from proper education to lending officer to amendment of the policy.

2.2.2 Review of past thesis (Dissertation)

Chand, G.B. (1988), has submitted his thesis on " credit disbursement and repayment of agriculture development Bank Nepal". The problem of this research is the bank does not benefit small farmers (i.e. problem of balance development), the collection of credit is slow so it hinders the flow of capital required to develop economic growth. The main objectives of this research is to see the repayment situation, to find out the rate of growth of investment, to explain possible causes of non and delayed repayment. On the basis of finding the bank is recommended for the following points.

- There is systematic relationship between credit disbursement and repayment. The coefficient of correlation value as calculated is 0.94.which shows significance relationship.
- Repayment situation is satisfactory on production inputs and agro-based industry, warehouses and marketing percentage of repayment to due to the farm mechanization and irrigation and tea horticulture and livestock, poultry and fisheries in much less satisfactory.

- As a recommendation given by chand, ADB should play a significant role in such direction as to fulfill the credit demands of rural areas. For effective credit recovery from the borrowers or clients, credit should be channeled through the borrowers groups.

Shrestha, B.N.(1990), has submitted a thesis named " study of industrial credit provided by NIDC in sunsari district". The study found that the financial assistance provided by NIDC in different industrial sectors in sunsari district, the attitude of industrialists in regard to the performance of NIDC, to give suggestions to improve the role of NIDC.

On the basis of finding one of the most important policies of NIDC has adopted in investing its fund to the industries in security oriented rather than industrial development oriented, it seems that NIDC lack definite systematic and clear-cut long term financing policy, repayment and follow up activities followed by NIDC are not efficient as no taken side by side .

Gautam R. (2000), in his thesis entitled " investment analysis of finance company of Nepal" analyze that the interest rate of credit, the repayment of credit, collection of credit and so on. The study found that the use of funds towards the hire purchase credit is decreasing rapidly, As the direct data of good and bad credit was not available than the credit loss provision used to analyze the credit quality, credit loss is increasing every year significantly and should be controlled, the loss provision of some company is more alarming on individual analysis, the company having above average credit loss provision should rethink on their investment and repayment policy.

Pandey, M.P.(2001), in his study about " loan disbursement and collection of ADB" says that the bank must take loan outstanding into consideration at the time of targeting loan disbursement and collection. For loan recovery, he has expressed his view that in the case of borrowers who are able but do not their due loans, the banks must examine the borrower's past repayment records and corrective action must be rearranged after scrutinizing the exact causes of inability.

He suggest the bank that strict supervision must be made for issuing the memorandum letter supervisor must visit the field whether the borrowers utilize the total loan amount for concerned purpose. Supervisor must motivate the borrower to utilize the full amount in loan purpose.

Since overdue loan supervision is very weak, he has recommended the institution of a special cell in the bank as well as outside the bank to correctly monitor the progress of pos loan supervision to the appropriate authorities and create an atmosphere of strict financial discipline both in the borrowers as well as the bank.

Aryal, k. (2003), in his thesis " A evaluation of credit investment and recovery of financial public enterprises in Nepal" ; A case study of ADB/N. says that high interest rate of non-institutional sources, people are unable to pay their credit at fixed time. These institutions compel them to transfer their property to money lender resulting himself or herself as a landless person.

ADB/N is one of the major financial institution supporting for the people for the different purpose like agro, industries, tea, coffee, livestock farming etc. ADB/N provides the credit for individual and co-operative sector to all region of the country. Credit outstanding amount is increasing day by day but the collection amount is not good. However ADB/N has increased its effort to collect its credit. It is said that those people who really need do not receive sufficient amount of credit from ADB/N. so Mr. aryal choose this bank to analyze the credit disbursement and recovery pattern of ADB/N.

The study found that actual credit disbursement collection and outstanding are increasing in decreasing rate, yearly increase in credit disbursement is higher than that of collection, positive relation between credit disbursement and collection that is 0.996, targeted credit collection and disbursement fixed by planning and project department is not significantly different than the actual, most of the customers are unaware of the policy of the bank. On the basis of finding the bank is recommended for the following points.

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

Regmi, P.(2004), in his thesis entitled “credit management of commercial banks with reference to NB Bank and Bank of kathmandu.” His research major objectives relevant to my research are to analysis the credit and advances provided by two banks, to analyze the repayment of credit, to give suitable suggestions for improvement of present performance conditions and solution of different problems. The study found that Banks have invested money in granting credit and advances but the recovery process of the bank is slow. Efficiency in the management of credit is not satisfactory. As the overdue credit of the bank is increasing regularly and the income of the bank is on decreasing trend, if increases risk on the safety of the depositors. Therefore for the sake of security of bank depositors, NRB has ordered to all the banks to increase the capital. As the income of the banks are decreasing in the recent last years, its impact is directly on the shareholder’s income that is also decreasing in the last years of research period. On the other hand, the impact of overdue credit is seen clearly in the shareholders income also. Overdue credit has helped to decrease the income of shareholders.

Parajuli, R.(2004), in his thesis“ credit management of commercial banks in the context of financial sector reform program” states that the credit policy of a firm provides the framework to determine whether or not to extend credit and how much credit to extend. His major objectives are to find out the relevancy of the financial sector reform program, to measure the comparative output of credit management in joint venture bank and government bank, to examine the level of the non performing loan investments that exists with the banking industry.

The study found that concept of financial reform emerged since 1980s with the economic liberalization. HMG/N and NRB published the economic and monetary policy to support such reform as the result of these policies, various joint venture banks established in the private sector. NRB further liberalized the restrictive measures for providing banking and non-banking financial institutions and especially development banks and the finance companies were given more freedom in their business operation..

Adhikari, R.(2005), in his thesis“ risk and return analysis with reference to listed commercial Banks." He concludes that most of the investors invest keeping the return in mind but they are found unable to calculate the risk factor of security. Some of the investors use their funds in two or more securities but it is found that they do not make analysis before selecting security. They invest their funds in different securities on the basis of assumption and expectation. This study enables investors to put the return they can expect and the risk they may take into better perspective.

Rana, S.B.(2007), in his thesis "A comparative financial performance analysis of NABIL Bank Ltd. and Himalyan Bank Ltd." He conducted that both banks has utilized its deposits very efficiently on loan and advances but its return on investment of both the bank is not satisfactory. It found that both banks are using more debt in the capital structures. Both banks are able to earn high return on shareholder equity.

Thapa, S.(2007), in his thesis entitled "liquidity assessment of Bank of Kathmandu)" he conclude that Liquidity assessment is primarily based on the assessing liquidity of BOK. Its main objective is to find out the liquidity assessment of BOK, to examine the relationship between liquidity and profitability. In this study he uses various types of financial ratio and statistical tools to analyze and interpret the liquidity assessment of BOK. He has found that the liquidity position of the company is not matched with the standard ratio set for the liquidity. The standard current ratio is 2:1 where as the ratio is found only 1.21 in fiscal year 2062/063 and it is highest on fiscal year 2058/059 i.e. 1.29 but even that time the ratio was also less than standard. He also found that cash and Bank balance to total deposit ratio is not satisfactory as the average ratio. found out to be only 0.1408 which seems to be lacking of meeting their standard level. This shows that BOK is not capable to keep more cash balance against its various deposits and thus it defined that its liquidity position is not good i.e. under liquidity. So, he recommend to BOK by using different points.

- Standard liquidity ratio should be maintained.
- Improvements in company's performance.
- Establishment of information channel
- Ensure feeling of safety and security
- etc.

2.2.3 Review of NRB Directives for Commercial Banks

<u>As per NRB Act 2058 section79:</u>

i. Classification of loans are to be classified as per category under:

   (a) Pass. (b) Sub-standard. (c) Doubtful (d) Loss

ii. Pass loan includes the loan given against the security of gold, silver, deposit receipts, credit cards & the bonds and security of the government of Nepal.

iii. Bank are classified by NRB under:
   (Ka), (Kha), (Ga), and (Gha) category as per their performance.

iv. Financial statement guidelines: All the banks are to follow the following guidelines.
   - Accounting year be defined.
   - Statutory forms to be adopted given by NRB by all the banks.

v. Accounting principles and system to be adopts by banks. Banks are to keep their accounting as per Nepal Accounting standard (NAS) or International Accounting Standard (IAS).

vi. The format forms and headings as prescribed by NRB must be fully adhered and should not be changed by the banks. However, subheadings can be added under the main heading as necessary for the accounting works.

vii. Banks are to prepare P/L account; Balance sheet and other related statements and are to be submitted to NRB in according to the prescribed format after the audit of same within 15 days of the audit report.

viii. Banks are to publish their financial statement after making the audit of the same. Statement of profit & loss account, Balance sheet, Cash flow statement and related forms as per sub section 1,2,14,23,24,25,26,27 & 28 to be published in the National level newspaper for the information to general public.

ix. Commercial banks can use in addition different accounting format for its own internal operation and management and no bondage is made for such by NRB.

x. There may be difference between accounting profit and taxable profit.

xi. Risk minimizing guidelines.

To reduce the risk that result from the activities of commercial banks, NRB has given the following guidelines as per NRB Act 2012 (Amendment) section 22 & Commercial Bank Act 2031 (Amendment) section 38.

Classification of risk:

a) Liquidity risks
b) Interest related risks
c) Foreign exchange risk
d) Loan and investment related risks

xii. From the fiscal year 2059/60. The managing committee has to constitute audit committee having the outsider executives. The so formed committee has to evaluate the financial condition, internal control, audit programmer and the examination regarding the audit report. The chief executive officer of the bank cannot be the member of the audit committee if request.

xiii. As per the commercial Bank Act 2031, loan should not be granted to those firms, which are closely related to managers, shareholders, employees and their relatives.

xiv. The regulatory directives of NRB to Commercial banks are:

a) Loan transaction and management
b) Bad or loss loan
c) Loan portfolio
d) Loan policy and directives
e) Adequacy of capital fund
f) Assets and liabilities management
g) Internal audit and control
h) Quarterly progress report

xv. All Commercial banks are to compulsorily provide data information and other statistics to the NRB supervision department.

[Source: www.nrb.com]

CHAPTER – III

3. RESEARCH METHODOLOGY

3.1 Introduction

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objects in view.

Research methodology is way to solve systematically about the research problem. It may be understood as a science of studying how research is done scientifically. It is the overall framework for when / how to conduct, process, analyze and present data on tables and diagrams to find answer of this research problems / questions / objects.

Research is a systematic and organized effort to investigate a specific problem that needs a solution. It is the process of arriving at dependable solution to problem through the planned and systematic collection, analysis and interpretation of data. This process of investigation involves a series of well through out activities of gathering, recording analysis and interpreting the data with the purpose of finding answers to the problem.(wolf and pant, 1975). The main purpose of this chapter is to focus on different research methods and conditions used while conducting this study. To deal with the problem, this chapter focuses on research design, population and sampling, nature and sources of data, data collection procedures and statistical procedures of analysis data.

3.2 Research Design

This is an academic research. It describes the design used in the research activity. It is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.(Claire and others,1962) The study is based on certain research designs. Selection of appropriate research design is necessary to meet the objectives of the study. This study emphasizes on descriptive and analytical study of collected data over a period of time and it gives suggestion on the improvement of the capital structure. So this study is based on descriptive and analytical research designs.

3.3 Populations and Sample

There are 23 commercial banks currently operating in Nepal as per mid January 2008 as published website i.e. www.nrb.org.np . So , the total number of commercial bank operated in Nepal is the population of the study and the BOK is taken as a sample. For the present study as the researcher could provide a detail picture of the credit position.

This study on credit management of BOK is based on the financial statement of the concerned bank from fiscal year 059/60 to 063/64 (2003/4 to 2007/8). In this study the mentioned five year period data of BOK is taken as the sample period. BOK is taken as a sample for the purpose of the study.

To select the sample, sampling technique has been used. Random sampling method is adopted for the selection of the sample.

3.4 Selection Criterion

Since this bank is selected because of easily available of necessary data i.e. annual report in website as well as published book and other material that is necessary to complete my thesis. Moreover, BOK is one of the leading bank in the context of our country Nepal which has greatly contributed in the development, So considering its contribution to the development to the country, I select this bank. Some other reasons also:

- Better market coverage
- Better customer compliance
- Feasibility in data collection
- Etc

3.5 Nature and Sources of Data

The main source of data for this research study is secondary data. The primary data are also collected from the field ender questionnaire and direct observation. The researcher uses two types sources of data collection.

- **Primary data**

The primary data are those which are collected a fresh and for the first time and thus happen to be original in character. Primary data has been collected through questionnaire distributed to the respondents. Interview with staffs, officers and authorized persons has been conducted directly in the process of primary data collection.

- **Secondary data**

The secondary data, on the other hand are those, which have already been collected by someone else and already been passed through the statistical process. The main source of data for this study are the secondary data. The major sources of secondary data for this study are as follows.

- Annual reports of the bank
- Financial statement of the bank
- Nepal Rastra bank magazines
- Different related books from library
- Journals from newspapers
- Various internet websites
- Previous studies and reports
- Other published materials.

3.6 Data analysis tools

Financial statements are prepared with the help of financial transactions, which has placed during the financial year. But information provided by the financial statements is not enough and end itself. Companies cannot get the meaningful conclusion from these statements alone. The information provided by the financial statements is useful in making through analysis and interpretation. To make rational decision, in keeping with the objectives of the firm, the financial manager most has analytical tools.(Van Horne, 1994).

In this way all the tools used in this study can be classified into two categories**: Financial tools and Statistical tools.**

3.6.1 Financial tools

Financial tools basically help analyze the financial strength and weakness of a firm. It helps to analysis the capital structure. For the sake of analysis, various financial tools were used. The basic tools used were ratio analysis. Beside it income and expenditure analysis and cash flow analysis have been used.

3.6.1.1 Ratio analysis

Ratio analysis is a powerful and the most widely used tool of financial analysis. It is a part of the whole process of analysis of financial statements of any business or industrial concerned especially to take output and credit decisions. Ratio analysis is used to compare firms or to it overtime.

It is defined as the systematic use ratio to interpret the financial statement so that strengthen and weakness of a firm of as well as its historical performance and current financial can be determined (Khan & Jain, 1997). It is the process of determining and interpreting numerical relationship based on financial statements. To evaluate the performance of any bank by creating the ratio from the figures of different accounts consisting in balance sheet and income statements is known as ratio analysis (Dangol, R , 1994). Ratio analysis is the systematic use of ratio to interpret the financial statements. So that the strengths and weakness of a firm as well as its historical performance and current financial condition can be determined (Khan & Jain, 1982).

Ratio can be classified into:

A. Liquidity Ratio
B. Activity / Efficiency Ratio
C. Leverage Ratio
D. Profitability Ratio
E. Other Ratios

The brief of these ratios are mentioned as follows.

A. Liquidity Ratio

This ratio measures the liquidity position of a firm. Liquidity ratios measure the firm's ability to fulfill its short-term commitments out of current or liquid assets. These ratio focus on current assets and liabilities and are used to ascertain the short term solvency position of a firm.

Liquidity ratios are used to measure the ability of a firm to meet its short-term obligations and from them the present cash solvency as well as ability to remain solvent in the event of adversities of the same can be examined (Van Horne, J.C., 1994). To find out the ability of banks to meet their short-term obligations, which are likely to mature in the short period, these ratios are calculated.

i. Cash and Bank Balance to Total Deposit Ratio

This ratio shows the ability of banks immediate funds to cover their deposit. Higher the ratio shows higher liquidity position and ability to cover the deposits and vice versa. This ratio is computed by:

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

ii. Cash and Bank Balance to Current Deposit Ratio

This ratio computed to disclose the soundness of the finance company to pay total calls made of current deposits. It can be expressed as:

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

B. Activity / Efficiency Ratio

It is also known as turnover or assets management ratio; measures how efficiently the firm employs the assets. Turnover means the number of times and assets flow through a firm's operations and into sales. (Kulkarni, P.V., 1994)

This ratio indicates how quickly certain current assets are converted into cash. This ratio measures the effectiveness of assets utilization. Reflecting the management efficiency to use available resources. Various ratios are examined under this heading.

i. Credit and Advances to Total Deposits Ratio

Commercial banks utilize the outsider's fund for profit generation purpose. Credits and advances to deposit ratio shows whether the banks are successful to utilize the outsiders funds(i.e. total deposits) for the profit generating purpose on the credit and advances or not. The ratio can be calculated by:

$$\text{Credit and Advances to Total Deposits Ratio} = \frac{\text{Credit and Advances}}{\text{Total Deposits}}$$

ii. Credit and Advances to Fixed Deposits Ratio

Fixed deposits are the long-term interest bearing obligations and credits and advances is the major sources of investment to generate the income by the commercial banks. This ratio measures how many times the amount is used in credits and advances in comparison to fixed deposit for the income generating purpose. The ratio is slightly differ with the former one, because it only includes the fixed deposits, where as the former on includes all the deposits. The following formula is used to obtain this ratio.

$$\text{Credit and Advances to Fixed Deposits Ratio} = \frac{\text{Credit and Advances}}{\text{Fixed Deposits}}$$

iii. Credit and Advances to Total Assets Ratio

It measures the ability in mobilizing total assets into credits and advances for generating income. It is calculated as :

$$\text{Credit and Advances to Total Assets Ratio} = \frac{\text{Credit and Advances}}{\text{Total Assets}}$$

iv. Performing Assets to Total Assets Ratio

It is useful to know the fact that whether the good credit is increasing or not. We can generate more earning by increasing good credit and reducing bad and inferior credit. It teaches us to invest sources of final only on good credit (i.e. profitable venture). It is computed as :

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

v. Credit Loss Provision to Credit and Advances Ratio

It measures the percentage of credit loss provision on credit and advances. Credit loss provision on credit is given to reduce risk of non-payment of released credit. It is computed as :

$$\text{Credit Loss Provision to Credit and Advances Ratio} = \frac{\text{Total Credit Loss Provision}}{\text{Total Credit Due}}$$

vi. Overdue Credit to Total Credit Ratio

It shows the percentage of non-performing credits to total credits. Banks performance is good if the percentage is low and vice versa. It also shows the credit recovery efficiency of the bank. It is calculated by :

$$\text{Overdue Credit to Total Credit Ratio} = \frac{\text{Overdue Credit}}{\text{Total credit}}$$

C. Leverage Ratio

The leverage ratio indicate the extent to which debt financing is being used by a firm. It is the measure of long term solvency of a firm. The use of finance is refers by financial leverage. When a firm borrows money, it promise to make series of fixed payments, which create financial leverage. These ratios indicate mix of funds provided by owners and lenders. This ratio highlights the long term financial health, debt servicing capacity and strength and weakness of the firm. Following ratios are included under leverage ratios.

i. Long Term Debt to Net Worth Ratio

It measures the relative proportion of outsiders and owner's funds employed in the total capitalization. Here long term debt includes the amount of fixed deposits and credits of the bank and net worth includes paid up capital, reserve and surplus and undistributed profit. It is computed as:

$$\text{Long Term Debt to Net Worth Ratio} = \frac{\text{Long Term Debt}}{\text{Net Worth}}$$

ii. Long Term Debt to Total Assets Ratio

This ratio is calculated to find out the proportion of the outsider's fund and owners fund to finance for the total assets. It also called the proportion of outsider's claim and insider's claim on total assets of the bank. It is calculated as follows:

$$\text{Long Term Debt to Total Assets} = \frac{\text{Long Term Debt}}{\text{Total Assets}}$$

D. Profitability Ratio

Profitability is the net end results of a number of corporate policies and decisions. Profitability is the key factor that measures how effectively the firm is being operated and managed. Profit is very essential for the survival and growth of the business. Profitability ratio is calculated to measure the overall efficiency of the business. Profitability ratios are used to analyze the financial strengths and weakness of a firm. The following are the major profitability ratio:

i. Net Profit to Total Assets Ratio (ROA)

This ratio measures the relationship between the total assets and NPAT. It measures the productivity of the assets and determines how effectively the total assets have been used by the managements. It is computed as:

$$\text{Return on Assets (ROA)} = \frac{\text{NPAT}}{\text{TA}}$$

Where, NPAT = Net profit after tax

TA = Total Assets

ii. Net Profit to Total Deposit Ratio

It is used for measuring the internal rate of return from deposits. Higher ratio indicates the return from investments on loan and advances are better utilized and lower rate indicates the funds are not properly mobilized.

$$\text{Net Profit to Total Deposit Ratio} = \frac{\text{NPAT}}{\text{TD}}$$

Where, NPAT = Net profit after tax

TD = Total Deposit

iii. Return On Total Investment (ROI)

It measures the companies return from investment or the capacity of company to generate profit from its investment. Return denotes NPAT, investment covers owner's equity as well as loans and deposit. It is computed as:

$$\text{Return on Investment (ROI)} = \frac{\text{NPAT}}{\text{T I}}$$

Where, NPAT = Net profit after tax

T I = Total Investment

iv. Interest Income to Total Credit and Advances

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

$$\text{Interest Income to Total Credit and Advances} = \frac{\text{Interest Income}}{\text{Total credit and advances}}$$

E. Other Ratios

i. Earning Per Share (EPS)

EPS indicates the rupee amount earned per share of outstanding common stock. It tell us what profit the common shareholders for every share held have earned. A company can decide whether to increase or reduce the no. of shares on issue. This is calculated as :

$$EPS = \frac{\text{Net profit after taxes}}{\text{No. of common stock outstanding}}$$

ii. Price Earning Ratio (P/E Ratio)

The P/E Ratio is widely used by the security analysts to value the firm's performance as expected by investors. It is the ratio between market price per share and EPS. This represents the amount which investors are willing to pay for each rupee of the firm's earnings. The higher P/E ratio indicates the greater confidence of investor in the firm's future. It is calculated as :

$$\text{P/E Ratio} = \frac{MPS}{EPS}$$

Where , MPS = Market Price Per Share

EPS = Earning Per Share

iii. Capital Fund Ratio

It shows how much the bank is sound on the basis core capital fund and secondary capital fund. Bank should maintain the directives given by NRB on Capital fund. It is calculated as :

$$\text{Capital Fund Ratio} = \frac{\text{Primary Capital + Supplementary Capital}}{\text{Weighted Average Assets}}$$

Where,

Weighted Average Assets = Risk weighted on balance sheet items + Risk weighted on off balance items.

3.6.2 Statistical Tools

Statistical tools help to analyze the relationship between two or more variables. In this research, the following statistical tools are used.

3.6.2.1 Arithmetic mean or Average

The average value is a single value within the range of the data that is used to represent all the values in the series since an average is somewhere within the range of the data, it is also called a measure of central value. It represents the entire data by a single value. It is calculated as

$$\text{Mean}(\overline{\varepsilon}) = \frac{\varepsilon}{\rho}$$

Where, X = Arithmetic average

ε = Summation for total values of the variables

N = No. of items

3.6.2.2 Standard deviation(S.D.)

S.D. is one of the tools to analyze the data. This tool helps to find out the fluctuation of and consistency of the specified variables. It is used as absolute measure of dispersion or variability. It is calculated as:

$$\pm = \sqrt{\frac{\varepsilon^{2}}{\rho} Z \frac{\varepsilon}{\rho}^{2}}$$

$\pm$ = Standard deviation

$\frac{\varepsilon^{2}}{\rho}$ = Sum of Squares of observation

$\frac{\varepsilon}{\rho}^{2}$ = Sum of Squares of mean

3.6.2.3 Coefficient of variation (C.V.)

The c.v. is the relative measure based on the standard deviation and is defined as the ratio of the s.d to the mean expressed in percent (Shrestha, K.N. , 1991). It is a suitable measure for comparing variability of two series with same or different units. A series with smaller c.v. is said to be less variable or more consistent or more homogeneous or more uniform or more stable than the others and vice versa. It is calculated as :

$$\text{C.V.} = \frac{\pm}{\bar{\varepsilon}}$$

Where,

$\bar{\varepsilon}$ = Mean

$\pm$ = Standard deviation

3.6.2.4 Correlation Coefficient (r)

It is the relationship between two or more variable. It is the statistical technique which measure the degree of relationship between the variables. Correlation analysis does not tell anything about cause and effect relationship. There are three types of Correlation:

Simple, partial and multiple. But our concern is only the simple correlation. A method of measuring correlation is called Karl Pearson’s Coefficient of Correlation. It is computed as :

$$r = \frac{\rho \quad \varepsilon\psi\, Z \quad \varepsilon \quad \psi}{\sqrt{\rho \quad \varepsilon^{2}\, Z f \quad \varepsilon\, \mathring{A}}\sqrt{\rho \quad \psi^{2}\, Z f \quad \psi \mathring{A}}}$$

Where ,

r= Correlation coefficient

N= No. of observations.

x and y are variables .

The value of Correlation Coefficient ranges from -1 to +1 .

If r= o, there is no relationship the variables.

If r= 1, Correlation is perfectly positive

If r= -1, Correlation is perfectly negative

Closer the value of r to1 or -1, the higher relationship between the variables.

3.6.2.5 Coefficient of Determination (r^2)

It explains the variation percent derived in dependent variable due to the anyone specified variable; it denotes the fact that the independent variable is good predictor of the behaviour of the dependent variable. It is square of correlation coefficient.

3.6.2.6 Probable Error (P.E.)

The P.E. of correlation coefficient is applicable for the measurement of reliability of the computed value of the correlation coefficient ‘r’.

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

Where ,

r= Correlation Co-efficient

N = NO. of Pairs of Observations.

If correlation (r)< PE, it is insignificant. So perhaps there is no evidence of correlation.

If correlation (r)>PE, it is significant.

3.6.2.7 Trend analysis

Trend analysis measures the scenario of the variables for the different period. This tools is used to find out the trend of different financial indicators. To find out the actual situation of the different factors for various years, trend analysis is most useful. It does not provide the analytical figures as cause and effects but it shows the actual figures. It may be downward sloping and upward sloping of constant over the period.

CHAPTER – IV

4. PRESINTATION AND ANALYSIS OF DATA

This chapter deals with presentation and analysis of relevant data of BOK in order to fulfill the objectives of this study. To obtain best result, the data have been analyzed according to the research methodology as mentioned in third chapter. To achieve the objective set in chapter first, data are presented and analyzed in this chapter. On the whole this chapter is related to quantity analysis of various ratios such as liquidity ratio, profitability ratio to make the result realistic and complete to the possible extent. In order to find out strength and weakness of bank in terms of their financial performance, various ratios have been calculated which are presented as follows.

4.1 Ratio Analysis

Ratio analysis has been already discussed in previous chapter. In this chapter following ratios are used to analyze the financial data in sequential order of subject matter.

4.1.1 Liquidity Ratio

To analyze the financial performance of the firm, liquidity ratio is one of the powerful tools. An attempt has been made to analyze and interpret the credit management of BOK by calculating cash and bank balance to total deposit and cash and bank balance to current deposit ratio.

a. **Analysis of Cash and Bank Balance to Total Deposit Ratio**

Table No. 1 In million

Cash and Bank Balance to Total Deposit Ratio

Fiscal Year	Cash and Bank Balance (Rs)	Total Deposit (Rs)	Ratio (%)
2003/04	692.712	6170.712	11.23
2004/05	782.882	7741.645	10.11
2005/06	740.521	8942.749	8.28
2006/07	728.697	10485.359	6.95
2007/08	1315.904	12388.927	10.62
Mean $(\bar{\varepsilon})$			9.44
S.D $(\pm)$			1.59
C.V. $\frac{\pm}{\varepsilon}$			16.84

The ratio of BOK is decreasing in the earlier 4 years and increasing in the last year. The lowest ratio is 6.95% in the fiscal year 2006/07 and the highest ratio is 11.23% in the fiscal year 2003/04. The average ratio in the study period is 9.44%. Now this bank has sufficient cash and bank balance to meet the depositors demand. Standard deviation is 1.59% and c.v. is 16.84% .

b. Analysis of Cash and Bank Balance to Current Deposit Ratio

Table No. 2 In million

Cash and Bank Balance to Current Deposit Ratio

Fiscal Year	Cash and Bank Balance (Rs)	Current Deposit (Rs)	Ratio (times)
2003/04	692.712	935.732	0.74
2004/05	782.882	997.891	0.78
2005/06	740.521	1302.636	0.57
2006/07	728.697	1409.104	0.52
2007/08	1315.904	1661.775	0.79
Mean $(\bar{\varepsilon})$			0.68
S.D. $(\pm)$			0.11
C.V. $\frac{\pm}{\varepsilon}$			16.18%

The ratio of BOK are 0.74, 0.78, 0.57, 0.52, 0.79 times respectively in research period from 2003/04 to 2007/08. The average ratio is 0.68. The standard deviation is 0.11 and the c.v. is 16.8%.

Although enough cash and bank balance is more important from the viewpoint of liquidity. But if such kind of liquidity higher than standard the chance of profit making by utilizing the cash may be lost. Therefore, cash and bank balance should be maintained at that level that is necessary. BOK, the sample bank should increase its efficiency to meet the demand of depositors by keeping low cash and bank balance.

4.1.2 Activity / Efficiency Ratio

It measures how effectively the company employs its resources. The following ratio are used under activity turnover ratio.

a. Analysis Credit and Advances to Total Deposits Ratio

Table No. 3 In million

Credit and Advances to Total Deposits Ratio

Fiscal Year	Total Credit and Advances(Rs)	Total Deposit (Rs)	Ratio(times)
2003/04	4856.033	6170.712	0.79
2004/05	6008.312	7741.645	0.78
2005/06	6182.045	8942.749	0.69
2006/07	7488.701	10485.359	0.71
2007/08	9694.102	12388.927	0.78
Mean (ε)			0.75
S.D. (±)			0.03
C.V. $\frac{\pm}{\varepsilon}$			4%

From the above table-3, the average ratio of credit and advances to total deposits is 0.75 or 75%. The fluctuation in the ratio is not too high. Under study period, starting from 2003/04 the ratio goes from 0.79 to 0.78, 0.69, 0.71, 0.78 in the last year being 0.69 as the lowest ratio in the fiscal year 2005/06 and 0.79 as the highest ratio in the fiscal year 2003/04. Standard deviation and c.v. is small i.e. 0.03 and 4% respectively. It means the ratio is very consistent.

It is clear from the above table total deposits are the main sources of bank to provide credit and advances because the ratio for the commercial bank is around 80%. Large percentage almost 80% of total deposits goes as credit and advances to customers. Therefore it shows that, banks are heavily depended on credit and advances to make profit from their investment. Table no. 3 shows that as the deposits increases, the credit and advances also increases and vice versa. Therefore it indicates that there is strong relationship between total deposits and total credits and advances, which can be proved by the statistical tools correlation.

Graph No. 1

Relationship between credit and advances and total deposits of BOK

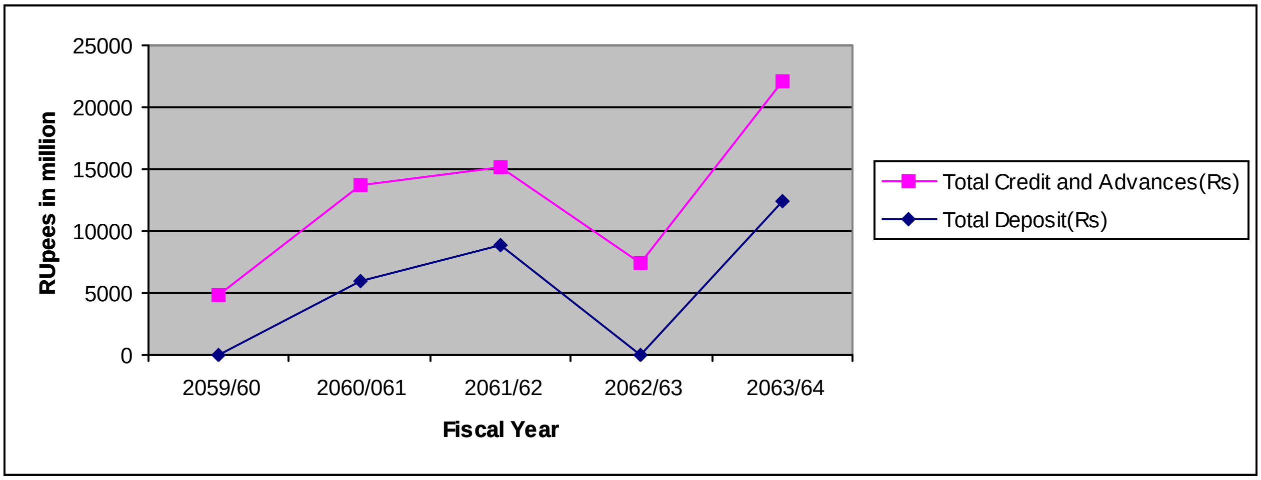


Table no. 4

Correlation between total deposits and credit and advances

Particulars	BOK
r	0.98
S.E.(r)	0.018
P.E.(r)	0.012
6 P.E.	0.072
r^2	0.9604

There is high degree of relationship between total deposits and credit and advances of. BOK has 0.98. correlation is highly significant as the correlation(r) of BOK is greater than 6 P.E. as shown in table no.4. correlation of determination(Total deposit and credit and advances) is 0.9604, which tells 96.04% changes in credit and advances is affected by total deposits.

b. Analysis of Credit and Advances to fixed Deposit Ratio

Table No. 5 In million

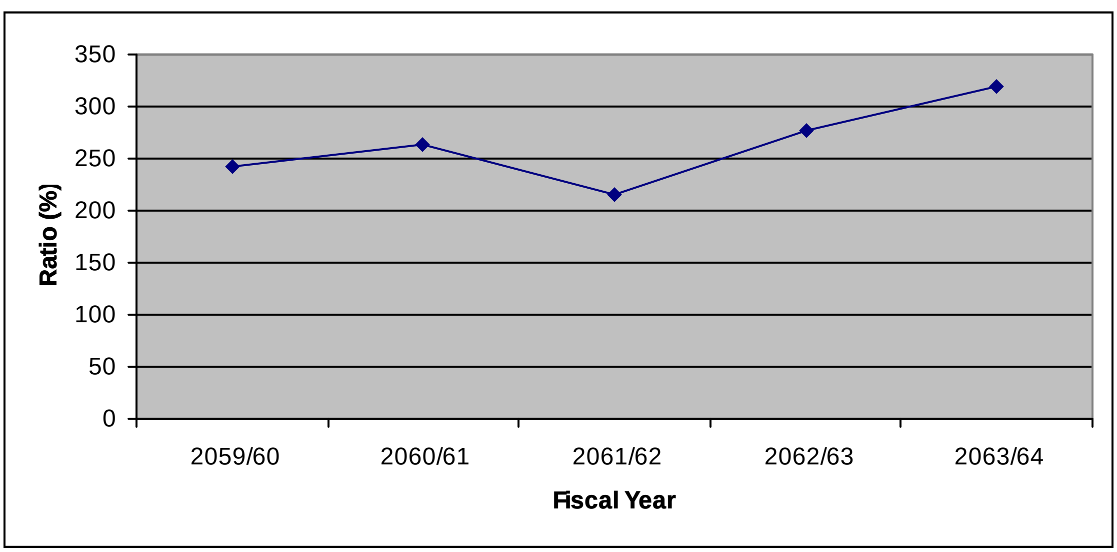
Credit and Advances to Fixed Deposits Ratio

Fiscal Year	Total Credit and Advances(Rs)	Fixed Deposit(Rs)	Ratio(%)
2003/04	4856.033	1990.935	243
2004/05	6008.312	2279.713	264
2005/06	6182.045	2878.868	215
2006/07	7488.701	2709.754	276
2007/08	9694.102	3037.171	319
Mean ($\bar{\varepsilon}$)			263.4
S.D ($\pm$)			34.67
C.V. $\frac{\pm}{\varepsilon}$			13.16

The ratio credit and advances to fixed deposits is volatile in the research period. The ratio is 243% in the fiscal year 2003/04, 264% in 2004/05, 215% in 2005/06, 276% in 2006/07 and 319% in 2007/08. Due to volatility, the s.d. is slightly high that is 34.67%, the mean ratio is 263.4% and the consistency is satisfactory i.e. 86.84%.

Graph no. 2

Relationship between credit and advances and fixed deposits of BOK



c. Analysis of Credit and Advances to Total Assets Ratio

Table No. 6 In million

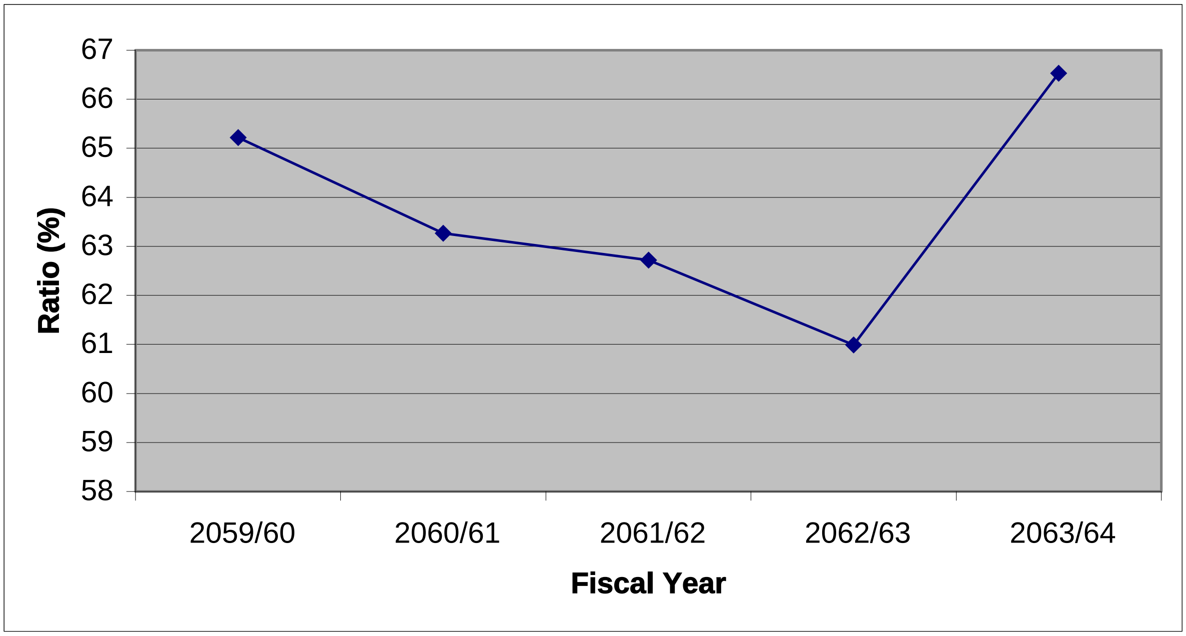
Credit and Advances to Total Assets Ratio

Fiscal Year	Total Credit and Advances(Rs)	Total Assets(Rs)	Ratio(%)
2003/04	4856.033	7444.817	65.22
2004/05	6008.312	9496.345	63.27
2005/06	6182.045	9857.130	62.72
2006/07	7488.701	12278.329	60.99
2007/08	9694.102	14570.099	66.53
Mean			63.73
S.D.(±)			1.94
C.V. $\frac{\pm}{\varepsilon}$			3.04

The ratio credit and advances to total assets ratio is in decreasing trend except in the last year. The ratio is highest in the fiscal year 2007/08(66.53%) and the lowest in the fiscal year 2006/07(60.99%). It indicates that it has not fluctuating more as supported by the S.d.(1.94%). The mean ratio is 63.73% , it shows the bank has capability to utilize its assets to gain income. Consistency in the utilization of assets in the form of credit and advance is satisfactory i.e. 96.96%.

Graph no. 3

Relationship between credit and advances to Total Assets Ratio of BOK



d. Analysis of Performing Assets to Total Assets Ratio

Table No. 7 In million

Performing Assets to Total Assets Ratio

Fiscal Year	Performance Assets(Rs)	Total Assets(Rs)	Ratio(%)
2003/04	4435.159	7444.817	59.57
2004/05	5608.375	9496.345	59.06
2005/06	5873.539	9857.130	59.59
2006/07	7285.076	12278.329	59.33
2007/08	9450.806	14570.099	64.86
Mean ∫ε ƒ			60.48
S.D.(±)			2.20
C.V. $\frac{\pm}{\varepsilon}$			3.64

Performing assets to total assets ratio of BOK is 59.57% (2003/04), 59.06%(2004/05), 59.59%(2005/06), 59.33%(2006/07) and 64.86%(2007/08). Average ratio is 60.48%, which indicates that non-performance assets is almost 39%. Consistency in the ratio is high as it is almost 96%. It is necessary to decrease non-performing assets otherwise bank may go to liquidation.

Graph no. 4

Status of performing assets as comparison to total assets

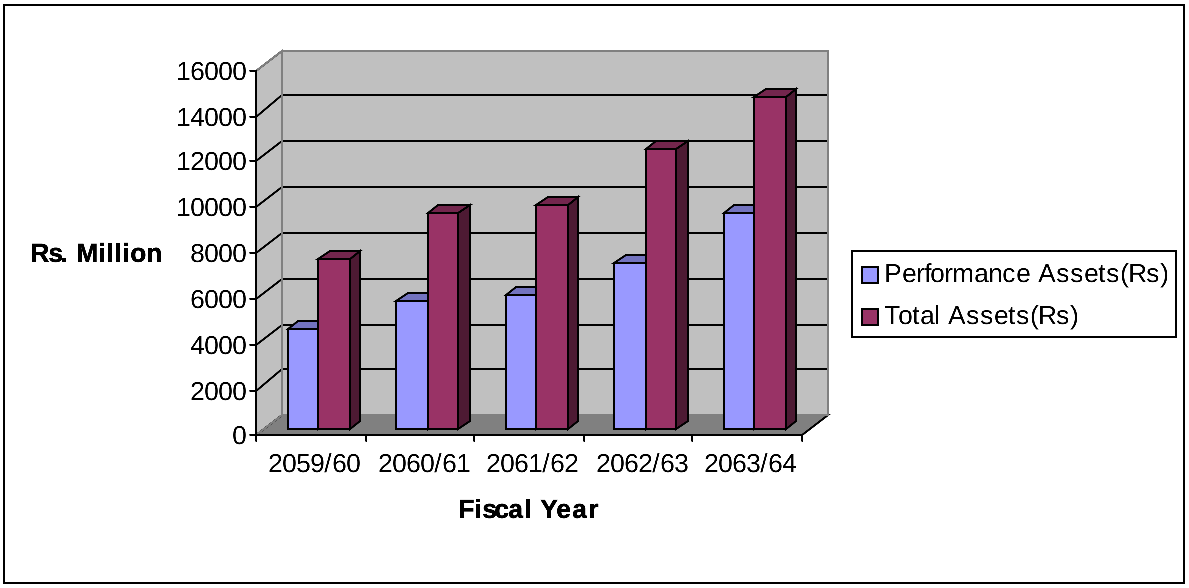


Table. 8

Correlation between Performing Assets to Total Assets

Particulars	BOK
r	**0.99**
P.E.(r)	**0.006**
6 P.E.	**0.036**
r2	**0.9801**

There is high degree of correlation (0.99) between performing assets and total assets. Correlation (r) is greater than 6 P.E. therefore it is valid. Change in total assets result is 98.01%. change in performing assets. Correlation is highly significant.

e. Analysis of Credit loss Provision to Total Credit and Advances Ratio

Table No. 8 In million

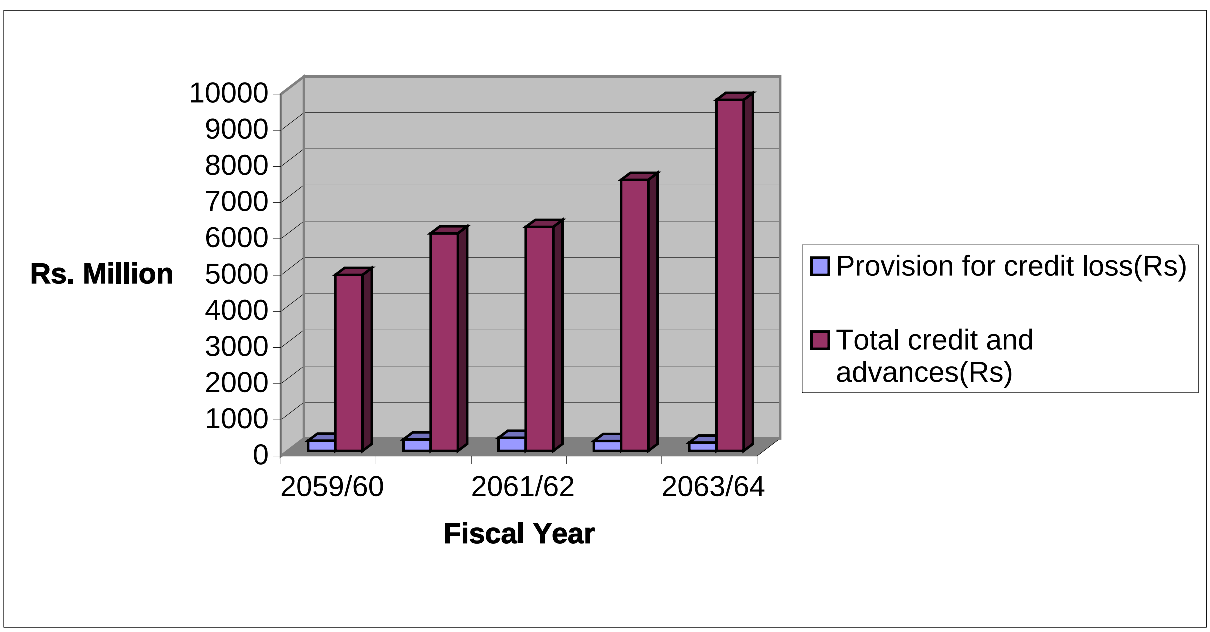
Credit loss Provision to Total Credit and Advances Ratio

Fiscal Year	Provision for credit loss(Rs)	Total credit and advances(Rs)	Ratio(%)
2003/04	276.375	4856.033	5.69
2004/05	313.333	6008.312	5.21
2005/06	361.613	6182.045	5.85
2006/07	269.466	7488.701	3.60
2007/08	229.618	9694.102	2.37

Provision for credit loss is fluctuating year by year. In the first year the ratio provision for credit loss to total credit and advances is 5.69% likewise in second year 5.21%, in third year 5.85%. Then after third year the ratio is decreasing trend because the policy of the NRB for provision for credit loss has been highbred, therefore the ratio has moved downwards in the last two years.

Graph no. 5

Status of Provision for loan loss of BOK



f. **Analysis of Overdue Credit to Total Credit Ratio**

Table No. 9 In million

Overdue credit to Total Credit Ratio

Fiscal Year	Ratio(%)
2003/04	8.67
2004/05	6.66
2005/06	4.99
2006/07	2.72
2007/08	2.51
Mean	5.11

The overdue credit to total credit of this bank is low. The average ratio of the bank in the period is 5.11%. It indicates that the bank is able to collect its credit in the right time. Overdue credit is the major cause of lower/higher profit of the bank. Effective credit management should be applied to collect its credit in time. The ratio is in decreasing trend that is better for the future.

4.1.3 Leverage Ratio

This ratio indicates the extent to which debt financing is being used by a firm. The use of finance is refers by financial leverage. This ratio focus the long-term financial health, debt servicing capacity and strength and weaknesses of the firm. Following ratios are included under leverage ratios.

a) **Analysis of Long Term Debt to Net Worth Ratio**

Table No. 10 In million

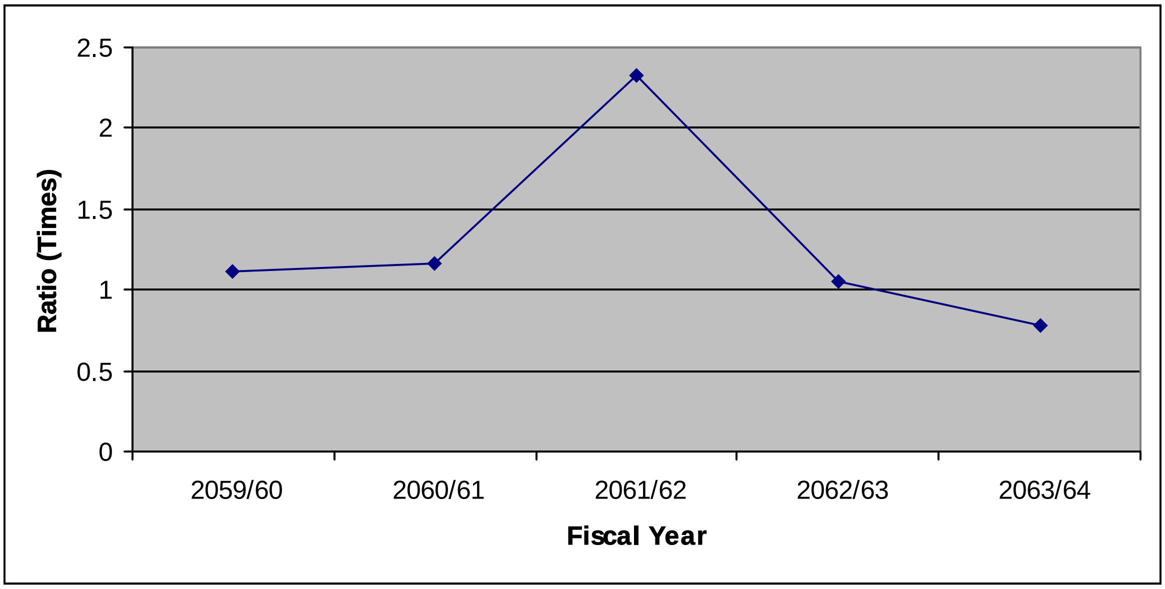
Long Term Debt to Net Worth Ratio

Fiscal Year	Long Term Debt(Rs)	Net Worth (Rs)	Ratio(Times)
2003/04	3780.327	3395.227	1.11
2004/05	4974.775	4288.162	1.16
2005/06	4665.017	2003.126	2.33
2006/07	6195.915	5878.726	1.05
2007/08	6252.232	8039.185	0.78
Mean			1.29

The ratio is in mixed trend but in overall, the ratio may be called as a downward trend as we can see in the above table no. 10. The ratio is 1.11, 1.16, 2.33, 1.05, 0.78 times in 1^{st}, 2^{nd}, 3^{rd}, 4^{th},5^{th} years of the research period. Due to high burden from the high capital gearing ratio, bank has slowly shifted towards low gearing capital structure in recent years. Low gearing structure keeps bank away from probable liquidation.

Graph no. 6

Relationship between long term debt to net worth Ratio of BOK



b) Analysis of Long Term Debt to Total Assets Ratio

Table No. 11 In million

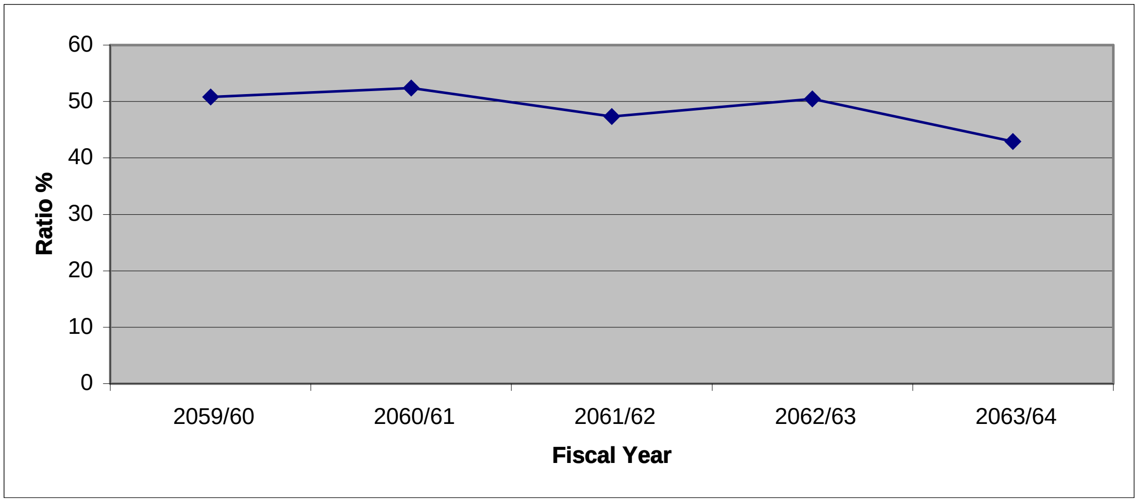
Long Term Debt to Total Assets Ratio

Fiscal Year	Long Term Debt(Rs)	Total Assets(Rs)	Ratio(%)
2003/04	3780.327	7444.817	50.78
2004/05	4974.775	9496.345	52.39
2005/06	4665.017	9857.130	47.33
2006/07	6195.915	12278.329	50.46
2007/08	6252.232	14570.099	42.91
Mean			48.77

Long term Debt to Total Assets ratio stood as 50.78%, 52.39%, 47.33%, 50.46%, and 42.91% from the 1st year to last year of the study period respectively. The average ratio is 48.77%. It means almost 49% of total assets is financed by the outsiders fund to meet its financial needs.

Graph no. 7

Relationship between long-term debt to total assets Ratio of BOK



c) Analysis of Total Assets to Net Worth Ratio

Table No. 12 In million

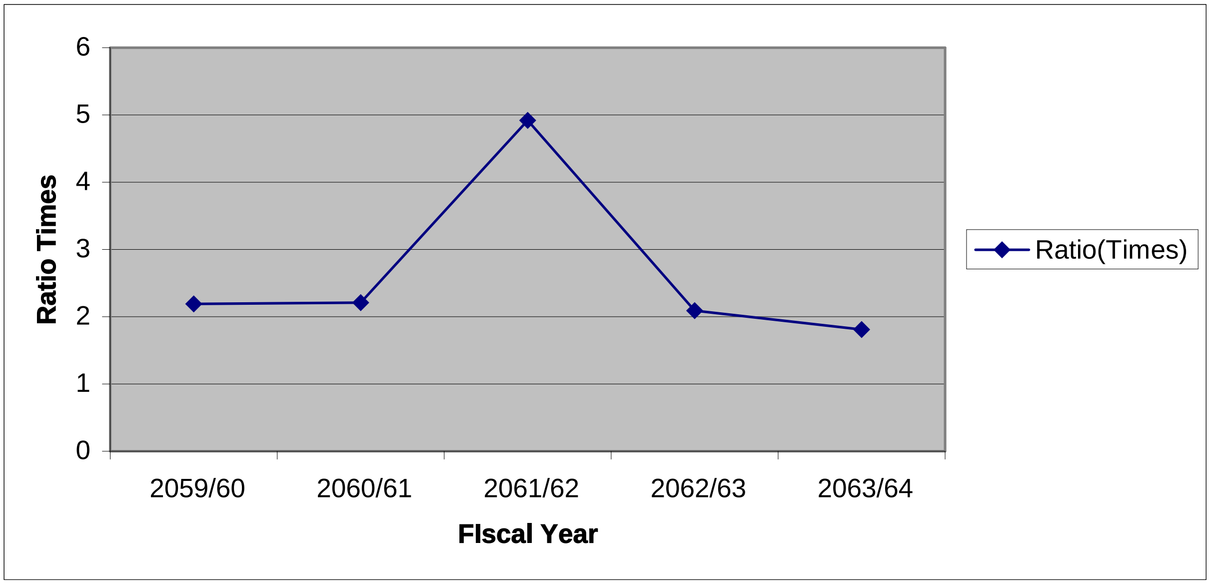
Total Assets to Net Worth Ratio

Fiscal Year	Total Assets(Rs)	Net Worth(Rs)	Ratio(Times)
2003/04	7444.817	3395.227	2.19
2004/05	9496.345	4288.162	2.21
2005/06	9857.130	2003.126	4.92
2006/07	12278.329	5878.726	2.09
2007/08	14570.099	8039.185	1.81
Mean			2.64

Total Assets to Net Worth Ratio of bank is decreasing. It is 2.19 times in first year of study period and 1.81 times in the last year of study period. The average ratio at that is 2.64 times. Although the amount of total assets is increasing, the assets to net worth ratio are decreasing because of high rate of increase in net worth.

Graph no. 8

Relationship between total assets to net worth Ratio of BOK



4.1.4 Profitability Ratio

Profit is very essential for the survival and growth of the business. Profitability ratio is calculated to measures the overall efficiency of the business.

The major profitability ratios are as follows.

a) Analysis of Net Profit to Total Assets Ratio(ROA)

Table No. 13 In million

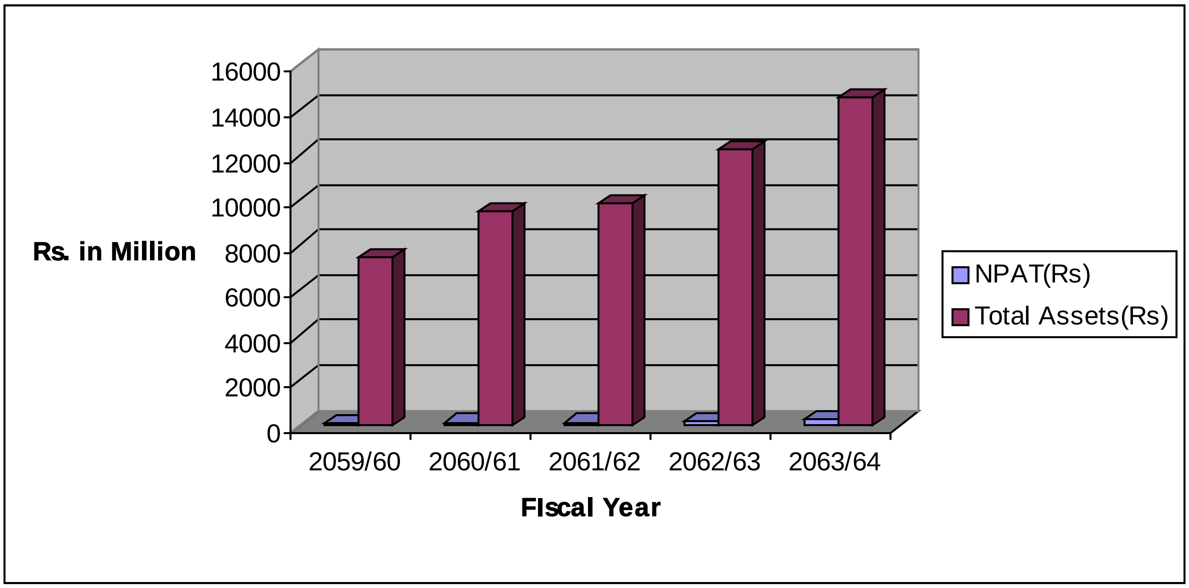
Net Profit to Total Assets Ratio

Fiscal Year	NPAT(Rs)	Total Assets(Rs)	Ratio(%)
2003/04	82.128	7444.817	1.103
2004/05	127.473	9496.345	1.342
2005/06	139.530	9857.130	1.416
2006/07	202.440	12278.329	1.649
2007/08	262.387	14570.099	1.801

ROA of this bank has increased from beginning to ending i.e. the trend is in increasing from its beginning. The ROA is 1.103% in the fiscal year 2003/04 and able to continue the increasing process in the further year and reach to 1.801% in the fiscal year 2007/08. The above calculation shows that ROA is very satisfactory and is in increasing trend over the 5 years. The ratio is highest i.e.1.801% in the fiscal year 2007/08. To sum up measuring the profitability ratio over 5 years, ROA of BOK seems to be satisfactory because of its increasing trend from beginning year.

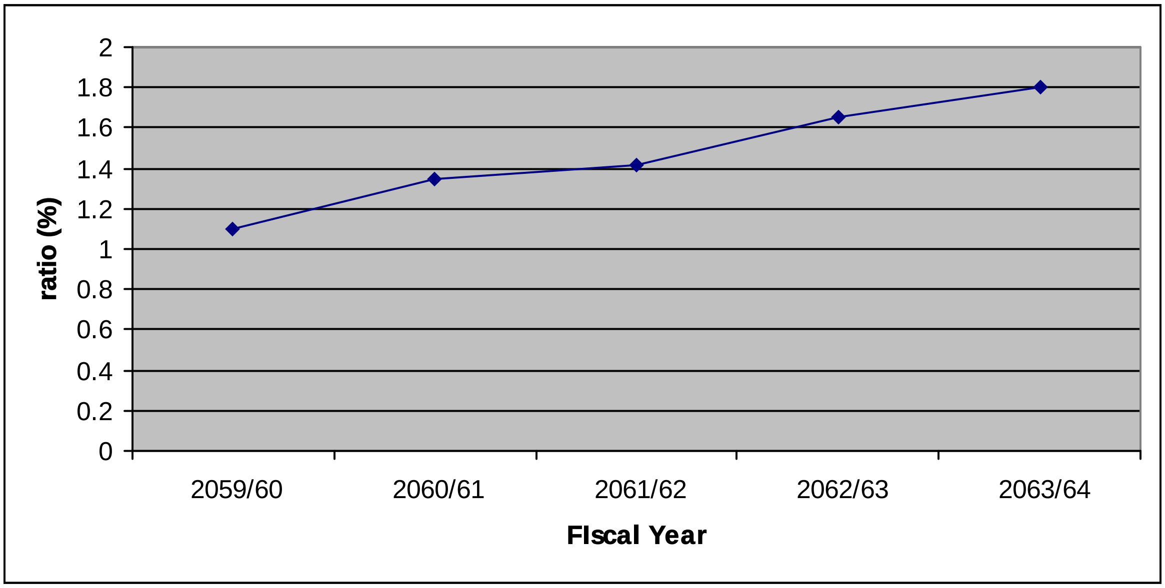
Graph no. 9

Showing the relationship between NPAT and Total Assets



Graph no. 10

Trend of Net Profit to Total Assets Ratio



b) Analysis of Net Profit to Total Deposit Ratio

Table No. 14 In million

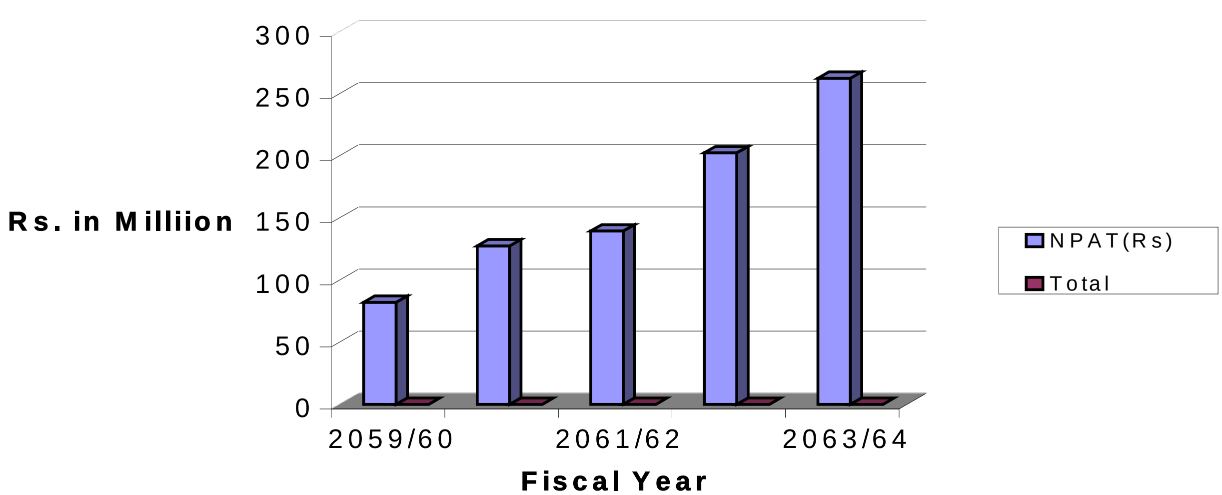
Net Profit to Total Deposit Ratio

Fiscal Year	NPAT(Rs)	Total Deposit(Rs)	Ratio(%)
2003/04	82.128	6170.712	1.33
2004/05	127.473	7741.645	1.65
2005/06	139.530	8942.749	1.56
2006/07	202.440	10485.359	1.93
2007/08	262.387	12388.927	2.12

The above table reveals increasing trend in the beginning period which was heightening up to the fiscal year 2004/05 but unable to continue the increasing process and start decreasing in the fiscal year 2005/06. once again it showed an increasing trend from fiscal year 2006/07. thus measuring the profit ability ratio over 5 years all seem to be able to meet satisfactory level in an average except fiscal year 2004/05.

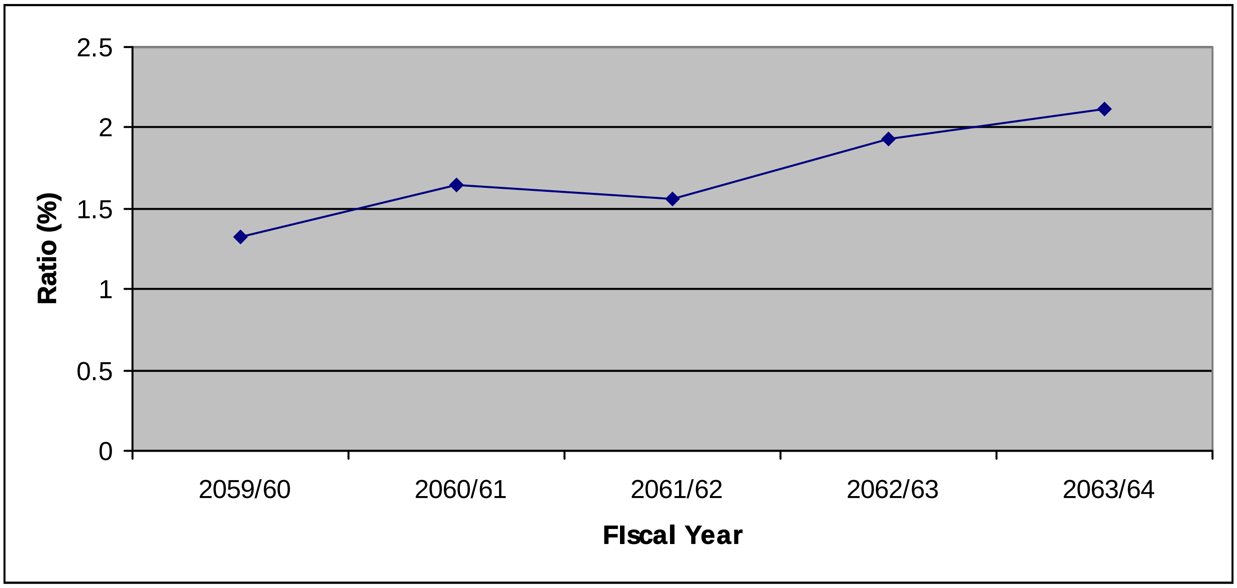
Graph no. 11

Showing the relationship between NPAT and Total Deposit



Graph no. 12

Trend of Net Profit to Total Deposit Ratio



c) Analysis of Return On Total Investment (ROI)

Table No. 15 In million

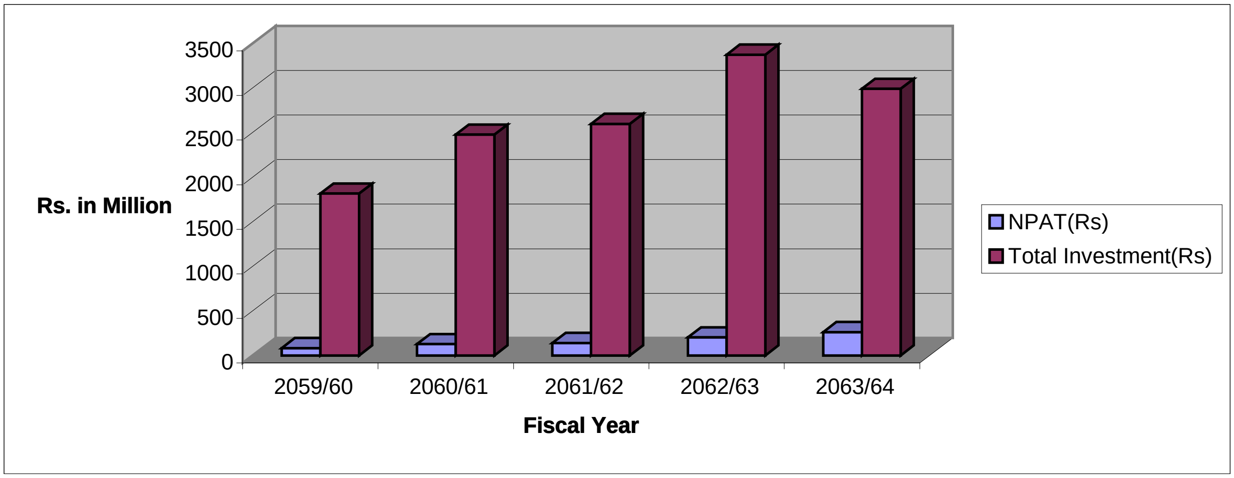
Return On Total Investment

Fiscal year	NPAT(Rs)	Total Investment(Rs)	Ratio(%)
2003/04	82.128	1816.15	4.52
2004/05	127.473	2477.41	5.15
2005/06	139.530	2598.25	5.37
2006/07	202.440	3374.71	5.99
2007/08	262.387	2992.43	8.77

ROI of the bank has increasing position from fiscal year 2003/04 to 2007/08. The highest ROI during study period is 8.77 in the year 2007/08. The ratio is increasing gradually from the fiscal year 2003/04 to 2007/08 but in the fiscal year 2007/08 the ratio is heavily increase as compare to above fiscal year. Therefore the ratio of the year 2007/08 shows satisfactory results as there is higher increasing position.

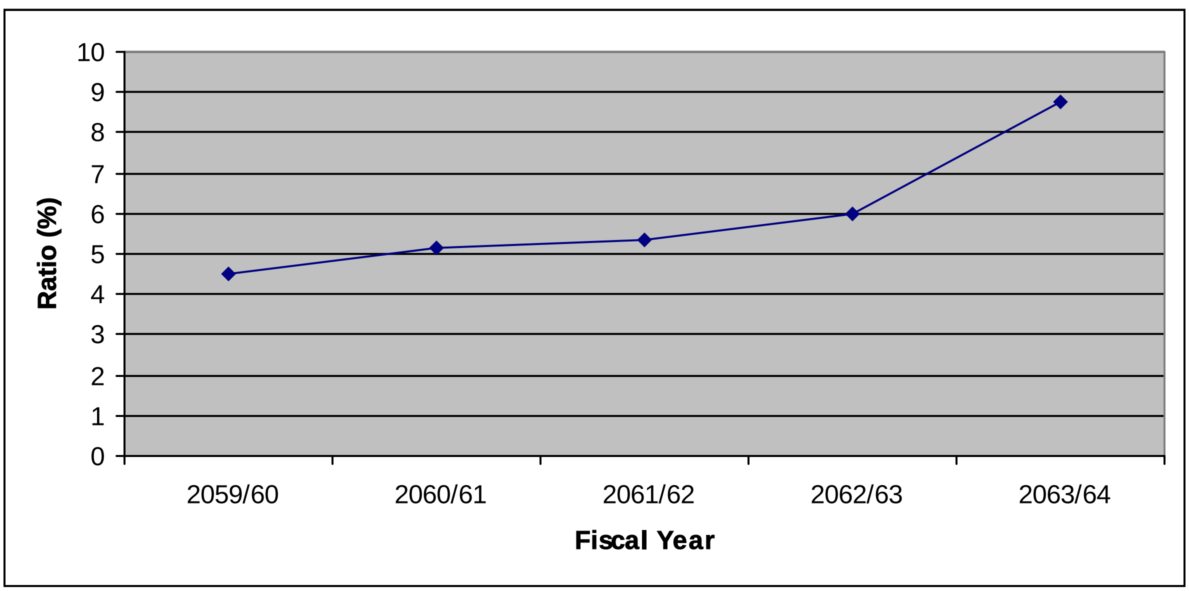
Graph no. 13

Showing the relationship between NPAT and Total Investment



Graph no. 14

Trend of Net Profit to Total Investment Ratio



d) Analysis of Interest Income to Total Credit and Advances

Table No. 16 In million

Interest Income to Total Credit and Advances

Fiscal Year	Interest Income (Rs)	Total Credit and Advances(Rs)	Ratio(%)
2003/04	496.809	4856.033	10.23
2004/05	567.096	6008.312	9.44
2005/06	607.096	6182.045	9.82
2006/07	718.121	7488.701	9.59
2007/08	819.004	9694.102	8.45
Mean (ε)			9.51
S.D.(±)			0.6
C.V. $\frac{\pm}{\varepsilon}$			6.31

The average ratio is 9.51% and standard deviation in the ratio is very small 0.6%. on the other hand consistency is high i.e. more than 93%. Bank should balance between risky loan and safety loan. Risk loan provide good return and this type of loan carry more risk of default. On the other hand safety loan provide regular return. In conclusion the bank’s interest income to credit and advances ratios is in satisfactory level.

Table no. 17

Correlation between Interest Income and credit and advances

Particulars	Ratio (%)
r	**0.99**
P.E.(r)	**0.006**
6 P.E.	**0.036**
r2	**0.9801**

Coefficient of correlation is 99%, which shows high positive correlation between interest income and credit and advances. If credit and advances increases, interest income also increases and vice versa. 6P.E. is lesser than r therefore the correlation of coefficient should be significant. Coefficient of determination(r2) tells that 98.01% of total changes in the interest income is affected by changes in loan and advances.

4.1.5 Other Ratios

The other ratio are as follows.

i. Earning Per Share (EPS)

It is also called shareholders income per share.

Table No. 18

Earning Per Share

Fiscal Year	EPS (Rs)
2003/04	17.72
2004/05	27.50
2005/06	30.10
2006/07	43.67
2007/08	43.50
Mean ∫ε A	32.50

The EPS of BOK is increasing trend except last year. In last year EPS of BOK is slightly decreasing due to loss in profit as well as low capital gearing ratio. The average income is Rs 32.5 that is not fully satisfaction level.

ii. Price Earning Ratio (P.E. Ratio)

Fiscal Year	P.E. Ratio (Times)
2003/04	11.18
2004/05	7.20
2005/06	14.29
2006/07	19.46
2007/08	31.61

P.E. Ratio of BOK is 11.18 times in 1st year, 7.20 times in 2nd year, 14.29 times in 3rd year, 19.46 times in 4th year and 31.61 times in the 5th year of the research period. The ratio is decreasing only one year i.e.060/61 and the ratio going up to fiscal year 063/64. it shows the good position of BOK.

iii. Capital Fund Ratio

Table 20 I

Capital fund Ratio

Fiscal Year	Primary capital fund Ratio (%)	Secondary capital fund Ratio (%)	Total capital fund ratio(%)
2003/04	10.44	1.61	12.05
2004/05	10.14	1.02	11.16
2005/06	10.02	1	11.02
2006/07	10.71	3.81	14.52
2007/08	9.32	3.06	12.38

Primary capital fund ratio and total capital fund ratio required to the bank as per the rules and regulations of NRB is fulfilled in the last 2 years of research period.

iv. Analysis of Weighted Average Interest Rate Spread

Weighted Average Interest Rate Spread

Fiscal Year	EPS (Rs)
2003/04	3.33
2004/05	3.41
2005/06	3.95
2006/07	3.37
2007/08	4.04
Mean	3.62

4.2 Major Finding of Study

This study is concerned with the credit management of BOK from the financial point of view. From the analysis of the data revealed by different financial tools, the following findings have been derived.

i. BOK is full-fledged commercial bank, it provides services to clients such as : credit and advances, consortium finance, working capital credit, term credit, Demand credit , trade finance (import-export) , hire purchase credit and letter of credit, bills purchase, bank guarantee and others. BOK'S major objectives are as to maximize the wealth of shareholders, to provide modern services to its customers, to help the monetary policy taken by the central bank ' NRB' and ultimately to help to reduce the poverty of the country.

ii. The mean ratio of cash and bank balance to total deposit is 9.44%. likewise BOK has cash and bank balance 0.68 times of current deposits. It shows that cash and bank balances of BOK is high. So BOK can meet the demand of depositors.

iii. Exact 75% of total deposits of BOK is utilized in credit and advances. It shows bank's major sector of investment is granting credit to its customers. Correlation of coefficient of BOK shows that there is high degree of correlation between credit and advances to total depositors. For BOK, correlation of coefficient if 0.98. As the total deposits increases, credit and advances also increases and vice-versa.

iv. Fixed deposits are the main sources of granting credit. Of BOK total credit and advances is almost 265%. Fixed deposits have positive correlation impact on credit and advances. On average BOK have been almost 65% of total assets in the form of credit and advances.

v. Performing assets to total assets ratio of BOK is fluctuating in the research period. The correlation between performing assets and total assets is highly positive for BOK. The high correlation suggest to increase the amount of total assets. The performing assets ratio suggest that bank should be more conscious to decrease the amount of non-performing assets. Credit and advances should be invested in more secured area and the recovery process should be more effective.

vi. Provision for credit losses also indicate that the non-performing credits are increasing. In another words, the recovery of the credit is not satisfactory. As the non-performing credit increases, bank should increase its provision for credit loss. Provision for credit loss for bank has fluctuating in the research period of 5 years.

vii. Overdue credit of BOK is low i.e. almost 6% in average in the research period. It indicates that the BOK is able to collect its credit on right time. That means BOK has kept more provision for non-performing credit.

viii. Banks have invested money in granting credit and advances but the recovery process of the bank is slow. Efficiency in the management of credit is not satisfactory.

ix. The net profit to total assets is found to be in increase trend i.e. 1.103 in the fiscal year 059/60 and 1.801 in the fiscal year 063/64. It indicates the satisfactory return of assets of BOK over five years because of its increasing trend from its beginning.

x. The net profit of total deposit ratio of BOK range from 1.33 to 2.12 times. This shows the fluctuation trend of net profit to total deposit.

xi. The ROI shows the increasing trend in the fiscal year 2003/04 i.e.4.52% and in the fiscal year 2007/08 i.e.8.77%. It shows the satisfactory result.

xii. Interest income to total credit and advances ratio is fluctuating trend in the research period. Correlation coefficient of this ratio is 99% which is greater than 6P.E. so, there is significant relationship between interest income and total credit and advances.

xiii. Strength : In terms of liquidity BOK is strong position. It can satisfy the demand of current and saving depositors. BOK have provided modern facilities to its customers and have used modern technology. So BOK can attract good customers as comparison to the Nepal's two old banks: Nepal Bank limited and RBB

xiv. Weakness : BOK have not opened its branches all over the country. It has very few branches. So BOK is unable to grab opportunity from all over the Nepal. In BOK as well as other commercial banks, there is presence of nepotism and favoritisms in the process of recruitment, placement and promotion etc. Therefore, capable employees switch the bank if they get more opportunity from other banks.

CHAPTER – V

5. SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

At the end after concluding all the parts, the final and most important task is to enlist financial issues and challenges of the study and give suggestions for future improvements. This chapter not only covers to pinpointing errors and mistakes but also to correct them and give direction for further growth and improvements. Credit administration involves the creation and management of credit and advances. Portfolio management helps to minimize or management the credit risks by spreading over the risk to various portfolios. Bank earn interest on credits and advances, which is one of the major sources of income for banks.

Commercial banks are those banks, which works from commercial view point. They perform all kinds of banking functions such as accepting, deposits, advancing credits, credit creation, agency function e.t.c. commercial banks play an important role in the economic development of the country as they provide capital for the development of industry, trade as well as agriculture by disbursing the saving collected as deposits from the public. The primary objective of such banks is to earn profit by granting loan and advances to people associated with various fields like, trade, agriculture, industry etc. how well a bank manage its investment has great deal to do with the economic health of the country because bank loans support the growth of new business and trade and empowers the economic activities of the country. Presently there are 23 commercial banks operation in Nepal, out of total population of 23 commercial banks, BOK was taken as sample using judgemental sampling method. Basically the study has been organized into five main chapters consisting of introduction, review of literature, research methodology, presentation and analysis of data and finally summary, conclusion and recommendation.

The first chapters deal with the Background of study, major problem faced by bank in present time, different objective of the study are set toward which the whole study is oriented or directed. Importance of study to different sectors, scholars, researchers, general public, student, policy makers are pinpointed and the major limitations of study are analyzed in first chapter.

Chapter second deals with the review of literature. In this chapter different research studies conducted by different research studies conducted by different researcher in related field are analyzed. Different books, journals, unpublished thesis of past research, provision of NRB regarding credit as well as the gap of past studies is tried to fulfill in this chapter.

Chapter third deals with the research methodology adopted for the present study of credit. The main objective of this phase is to present the necessary data and information regarding the credit management to evaluate and present them in a systematic way and to measure potential condition of bank. It includes research design, population and sample, nature and sources of data i.e. primary and secondary data using different tools such as financial tools- Ratio analysis and statistical tools- correlation analysis, trend analysis, mean, standard deviation to present the data in systematic manner.

Chapter four is the major part of the study and this chapter deals with the presentation and analysis of data using different financial as well as statistical tools. In this chapter five years data of BOK from 059/60 to 063/64 have been presented and analyzed using different financial tools like ratio analysis- liquidity ratio, profitability ratio, utilization ratio as well as statistical tools- correlation analysis, trend analysis, mean, c.v., s.d., have been used to present them in the tabulated as well as in the graph and figure to find out the strength and weakness of bank in terms of financial performance to achieve the target set in chapter first.

5.2 Conclusion

Liberalization of financial sector started in 1980s with an aim to streamline it. After that the financial sector widened with more banks and financial institutions. The total no. of commercial banks are 23, 79 finance companies, 58 development banks are served their customer now. Even the financial sector developed rapidly in quantity. Bit in terms of quality it is far behind the developed countries. Banks come into existence mainly with the objectives of collecting idle funds, mobilizing them into production sector and causing an overall economic development. The bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society they are serving.

- Now, in Nepal many banks and other financial institutions are functioning to collect deposits and invest money some where in the invest able sectors. Therefore monetary have been increased since liberalization policy taken by the government. Heavy remittance has also help to increase the amount of deposits of the bank. On the other hand, due to political crisis, economic sectors have been fully damaged. Most of the projects have been withdrawn due to security problem. Therefore, banks have maximum liquidity due to lack of safety investment sectors.

- BOK have utilized most funds in the form of credit and advances. 75% of total deposits of the bank have been forwarded to customers as a credit and advances. Therefore, it is the major part of utilizing deposits and income generating sectors. If the banks have high deposits, bank can provide money to its customers as credit and advances. Therefore there is highly positive correlation between total deposits and credit and advances. Correlation coefficient between total deposits and credit and advances of BOK is 98%. So BOK is providing different schemes to attract good customers, banks have issued the deposits to the needy area to make profit for the bank.
- Provision for credit loss have been increasing for BOK in 1st 3 years, due to economic crisis in the country, credit takers are not getting good return from their investment sectors. On that situation, credit customers do not return money of the bank in the stipulated time period, therefore the non-performing credit of the banks increases. As the non-performing credit increases, bank should increase its provision for credit loss. But last 2 period of research period BOK provision for credit loss have been decreasing. So now gradually gradually the condition of credit loss is going to be controlling.

5.1 Recommendation

After highlighting on the performance of BOK, reviewing the various literatures concerning the study and using appropriate model to present and analyze the data in suitable forms, the following recommendation and suggestion have been forwarded on the basis of findings of analysis and conclusions drawn upon thereafter. So that they will help bank to strengthen weaker aspects of their activities. The recommendation are presented as below.

- Cash and bank balance of BOK is high. Bank's efficiency should be increased to satisfy the demand of depositors at low level of cash and bank balance. Unused cash and bank balance do not provide return to the bank. Therefore some percentage of the cash and bank balance should be invested somewhere in profitable sectors.
- Performing assets of BOK is low. It means non-performing assets of BOK is high. Non – performing assets do not provide return to the banks, therefore banks should increases its effort to recover its credit department, so that credit officers will increase their effort to

recover the credit of the bank. On the other hand at the time of granting credit , bank should analysis the project report thoroughly. Whether the project is genuine or not, whether the project can generate sufficient income in time to pay the credit of bank, should be analyzed detail. Collateral should be enough to recover the credit, in case of customer fails to pay the credit.

- As there is highly positive correlation between total deposit and credit and advances for BOK, it is recommended to increase it's total deposit to make more credit and advances.
- Banks should avoid extending credits merely based on oral information presented at the credit interview. Historical financial and trade records, as well as realistic cash flow projections should be obtained for proper assessment of the proposal.
- Some customers are unsatisfied with the service charges, A/c maintenance charges and interest of credit; therefore banks should decrease service charges, A/c maintenance charges and interest charges.
- Bank should regularly follow the credit customer to confirm that whether the customers have utilized their credit for the same purpose committed at time of taking credit from the bank.
- Banks should strictly band the policy of nepotism and favoritism. On the basis of capability and efficiency, employees recruitment, placement and promotion should be executed.
- International relation of the BOK is few; therefore BOK should make negotiations with the international banks to increases its transactions in the international area.
- Information about the banks should be available freely and cheaply. This is possible only by applying modern advanced technology, good computer networking, expertise and well trained personnel which are the main requisite for the efficient and well managed task.
- It is very important to have frequent sharing of experience by conducting a seminar at least one or twice in a year. It is a media through which a bank could exchange idea of people along with their service.
- The service should be extended by opening branch not only in capital but also in remote area of country to serve people of lower level.
- A recent study in USA found that fraud and mismanagement are the most potential reasons of failure of banks. So the quality of loan portfolio, the adequacy of capital and the soundness of management should always and strictly be supervised in bank.

- The loans are provided or forwarded mostly to the higher class businessman and industrialist. A few percentage of total credit should be granted to weaker section of society. Thus bank should diversify their loans in deprived sectors as more as possible.

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APPENDICES

Appendix-1

Profile of Bank of Kathmandu

Introduction

Bank of kathmandu Ltd . was established in 28 Falgun 2051(March 12,1995)with authorized capital of Rs. 1000 million with the objectives of stimulating the Nepalese economy and taking it to new heights. BOK aims to add the nation's economy and become globally competitive.

BOK has the following Objectives:(Sources : Annual Report of BOK)

- To contribute to the sustainable development of the nation by mobilizing domestic savings and channeling them into productive areas.
- To use the latest banking technology to provide better, reliable and efficient services at a reasonable cost.
- To facilitate trade by making financial transactions easier, faster and more reliable through relationship with foreign banks and money transfer agencies.
- To contribute to the overall socio-economic development of Nepal.

Mission of the Bank

The main mission of BOK is to become the "Bank of choice" by dedicating the process and growth of the institution to the community, customers, employees and stockholders by :

- Promoting economic growth and becoming a caring corporate citizen.
- Providing excellent customer services through personalized quality services and products.
- Including modern technologies of banking that add value to customer services
- Following strict risk control mechanism
- Enhancing shareholders value
- Providing challenging career and learning opportunities for employees.

Vision of BOK

Every bank has some vision of future and mission toward which the bank is directed.

- To become a significant contributor to the economic development of Nepal by distinguishing the bank as an efficient, competitive, safe and top-quality financial institution.

Future plans and strategies

The bank has formulated or adopted following plans in order to make operations strong, able and competitive in the future. The future plans and programme of BOK can be listed as follows.

- To enhance use of technology, introducing new products and services and improving overall efficiency.
- To establish new branches and outlets.
- To mobilize funds in an optimal manner and provide new services that offer higher returns.
- To strengthen the information system for monitoring of funds and reducing risks on loans and investment.
- To be customer driven and spread services in various geographic locations.
- To enhance network and reach.

Services offered by BOK

a. Customer	b. Remittance	c. Other Service
Saving Deposit	SWIFT Transfer	Safe Deposit Lockers
General Saving Deposit	Demand Draft	ATM/ Debit Card
Sajilo Bachat Khata	Traveler Cheque	Gift Cheque
Ladder Saving Account	BOK Money Transfer	Utility Bill Payment
	Cash Management	Silver Sale
		International Banking
		International Trade
		Mobile Banking
		Real Time Anywhere Banking
		Loan
		➢ Business Loan
		➢ Consumer Loan
		➢ Vehicle Loan
		➢ Education Loan
		➢ Housing Loan
		➢ Personal Loan

Shareholders Position

Particular	Share Capital	%
1. Promoter	252170000	42
2. General Public	350971300	58
Total	**603141300**	**100**

Source: Annual Report (BOK)

Capital Structure

Particulars	**No. of Shares**	**Price per share**	**Total Amount**
Authorised Capital	10000000	100	1000000000
Issued Capital	6061733	100	606173300
Paid up Capital	6031413	100	603141300

Source: Annual Report (BOK)

Head Office and Branches

Head Office	Branch Office
Kamal Pokhari	Amlekhgunj
	New Road
	Jawalakhel
	Biratnagar
	Nepalgunj
	Dhangadi
	Hetauda
	Pokhara
	Butwal
	Thamel
	Birgunj
	Janakpur
	Itahari
	Kohalpur
	Gangabu
	Tatopani

Source: Annual Report (BOK)

Management Team

Mr. Radhesh Pant	Managing Director
Mr. Ajay Shrestha	Chief Operating Officer
Mr. Chetan Bar Singh Thapa	Head- Central Logistic
Mr. Uday Krishna Upadhaya	General Manager
Mr. Kiran Bohora	Head- Central Officer
Mr. Manish Kumar Singh	Head- Corporate Finance, Treasury / Company Secretary
Mr. Ram Pratap Yadav	Head- Corporate Banking
Mr. Binod Nar Sing Shrestha	Head- Business Development and Services
Mr. Aananda Pandey	Head- Business Bank
Mr. Dibya Chandra Shrestha	Head- Internal Audit and Compliance
Mr. Misrilal Prasad Yadav	Head- Legal Advisor
Mrs. Anupa Rajbhandari	Head- Retail Credit
Mrs. Himani Pant	Head- Reconciliation & Treasury Back Office
Mr. Pranab Dawadi	Head- Card Department
Mr. Anilratna Tuladhar	Head- International Trade
Mr. Bikash Khenal	Head- Loan Risk Management
Mr. Amit Bahadur Chand	Head- Corporate Loan
Mr. Raj Rimal	Head- Corporate Loan
Mr. Bighyan Ghimire	Head- Corporate Loan
Mr. Ganesh Lamshal	Head- Branch Operator
Mr. Sailesh Joshi	Head- Account & Financial Analysts

Board of Directors

Sanjay Bahadur Shah	Chairman
Radesh panth	Managing Director
Sita Ram Thapaliya	Director
Rita Malla	Director
Bal Ram Neupane	Director
Bishnu Prasad Banjade	Director
Sudarshan Raj Paudel	Director
Santa Bir Sing Thapa	Director

Appendix-2

List of Commercial Bank

S.N.	Name	Operation Date
1.	Nepal Bank Limited	1994 / 07 / 03
2.	Rastriya Banijya Bank	2022 / 10 / 10
3.	Agriculture Development Bank	2024 / 11 / 07
4.	Nabil Bank Limited	2041 / 03 / 29
5.	Nepal Investment Bank Limited	2042 / 11 / 26
6.	Standard Chartered Bank, Nepal Limited	2043 / 10 / 16
7.	Himalayan Bank Limited	2049 / 10 / 05
8.	Nepal Bangladesh Bank Limited	2050 / 02 / 22
9.	Nepal SBI Bank Limited	2050 / 03 / 23
10.	Everest Bank Limited	2051 / 07 / 01
11.	Bank of Kathmandu Limited	2051 / 11 / 28
12.	Nepal Credit & Commerce Bank Limited	2053 / 06 / 28
13.	Nepal Industrial & Commercial Bank Limited	2055 / 04 / 05
14.	Lumbini Bank Limited	2055 / 04 / 01
15.	Machhapuchhre Bank Limited	2057 / 06 / 17
16.	Kumari Bank Limited	2057 / 12 / 12
17.	Laxmi Bank Limited	2058 / 12 / 21
18.	Siddhartha Bank Limited	2059 / 09 / 09
19.	Global Bank Limited	2063 / 09 / 18
20.	Citizens Bank International Limited	2064 / 03 / 07
21.	Prime Bank Limited	2064 / 06 / 07
22.	Sunrise Bank Limited	2064 / 06 / 25
23.	Bank of Asia Nepal Limited	2064 / 06 / 25

Source: NRB Website

Appendix-3

ANNUAL BALANCE SHEET

BANK OF KATHMANDU

Balance sheets as on 31st Ashar 2060(2059/60)

Rs.(In Million)

Capital & Liabilities	Amount	Assets	Amount
Capital	463.581	Cash Balance	157.400
Reserves and Surplus	115.552	Bank Balance	535.311
Deposit	6170.712	Money at call	30.350
Borrowing	498.236	Investment	1816.149
Bills Payable	35.144	Loan & Advances	4542.700
Other Liabilities	161.592	Fixed Assets	93.642
		Other Assets	269.265
Total	7444.817	Total	7444.817

Balance sheets as on 31st Ashar 2061(2060/61)

Rs.(In Million)

Capital & Liabilities	Amount	Assets	Amount
Capital	463.581	Cash Balance	139.220
Reserves and Surplus	187.164	Bank Balance	643.662
Deposit	7741.644	Money at call	272.321
Borrowing	912.150	Investment	2477.409
Bills Payable	38.709	Loan & Advances	5646.698
Other Liabilities	153.095	Fixed Assets	83.625
		Other Assets	233.408
Total	9496.343	Total	9496.343

Balance sheets as on 31st Ashar 2062(2061/62)

Rs.(In Million)

Capital & Liabilities	Amount	Assets	Amount

Capital	463.581	Cash Balance	161.470
Reserves and Surplus	257.157	Bank Balance	579.051
Deposit	8942.748	Money at call	328.874
Borrowing	6.000	Investment	2598.253
Bills Payable	19.874	Loan & Advances	5912.579
Other Liabilities	167.770	Fixed Assets	95.231
		Other Assets	181.672
Total	9857.130	Total	9857.130

Balance sheets as on 31st Ashar 2063(2062/63)

Rs.(In Million)

Capital & Liabilities	**Amount**	**Assets**	**Amount**
Capital	463.581	Cash Balance	184.020
Reserves and Surplus	376.153	Bank Balance	544.678
Debentures & Bonds	200.000	Money at call	594.047
Deposit	10485.359	Investment	3374.712
Borrowing	553.180	Loan & Advances	7259.083
Bills Payable	11.622	Fixed Assets	110.745
Proposed & Dividend	98.712	Non Banking Assets	7.356
Other Liabilities	89.723	Other Assets	203.689
Total	12278.329	Total	12278.329

Balance sheets as on 31st Ashar 2064(2063/64)

Rs.(In Million)

Capital & Liabilities	**Amount**	**Assets**	**Amount**

Capital	603.141	Cash Balance	219.043
Reserves and Surplus	378.837	Bank Balance	1096.862
Debentures & Bonds	200.000	Money at call	259.279
Deposit	12388.927	Investment	2992.434
Borrowing	730.000	Loan & Advances	9399.328
Bills Payable	25.777	Fixed Assets	320.846
Proposed & Dividend	135.575	Non Banking Assets	3.626
Other Liabilities	107.840	Other Assets	278.683
Total	14570.099	Total	14570.0998

Appendix-4

Cash and Bank Balance to Total Deposits Ratio

BOK:

$$\text{Mean} = \frac{11.23 + 10.11 + 8.28 + 6.95 + 10.62}{5}$$

$$= \frac{47.19}{5}$$

$$= 9.44\%$$

Standard Deviation:

Fiscal Years	Ratio (x)	ε^{2}
2059/60	11.23	126.113
2060/61	10.11	101.212
2061/62	8.28	68.5584
2062/63	6.95	48.3025
2063/64	10.62	112.784
	$\phi\varepsilon = 47.19$	$\phi\varepsilon^{2} = 457.97$

$$\pm = \sqrt{\frac{\varepsilon^{2}}{\rho} Z \left(\frac{\varepsilon}{\rho}\right)^{2}}$$

$$\pm = \sqrt{\frac{457.97}{5} Z \left(\frac{47.19}{5}\right)^{2}}$$

$$= 1.59\ \%$$

Appendix-5

Cash and Bank Balance to Current Deposits Ratio

BOK:

Mean = <u>0.74 + 0.78 + 0.57 + 0.52 + 0.79</u>

5

$= \frac{3.4}{5}$

$= 0.68$ i.e. 68%

Standard Deviation:

Fiscal Years	Ratio (x)	x2
2059/60	0.74	0.55
2060/61	0.78	0.61
2061/62	0.57	0.32
2062/63	0.52	0.27
2063/64	0.79	0.62
	$\phi\varepsilon = 3.4$	$\phi\varepsilon^{2} = 2.37$

$$\pm = \sqrt{\frac{\varepsilon^{2}}{\rho} Z \; \frac{\varepsilon}{\rho}^{2}}$$

$$\pm = \sqrt{\frac{2.37}{5} Z \; \frac{3.4}{5}^{2}}$$

$$= 0.11$$

Appendix-6

Credit and Advances to Total Deposits Ratio

BOK:

Mean = <u>0.79 + 0.78 + 0.69 + 0.71 + 0.78</u>

5

= $\frac{3.75}{5}$

= 0.75 i.e. 75%

Standard Deviation:

Fiscal Years	Ratio (x)	x2
2059/60	0.79	0.62
2060/61	0.78	0.61
2061/62	0.69	0.48
2062/63	0.71	0.50
2063/64	0.78	0.61
	$\phi\varepsilon = 3.75$	$\phi\varepsilon^2 = 2.82$

$$\pm \quad = \sqrt{\frac{\varepsilon^2}{\rho} Z \left(\frac{\varepsilon}{\rho}\right)^2}$$

$$\pm \quad = \sqrt{\frac{2.82}{5} Z \left(\frac{3.75}{5}\right)^2}$$

= 0.03

Appendix-7

' 0000000'

Correlation between Credit and advances to Total Deposits

Fiscal Years	Credit & Advances (X1)	Total Deposits (X2)	X1X2	$x1^2$	$x2^2$
2059/60	485	617	299245	235225	380689
2060/61	601	774	465174	361201	599076
2061/62	618	894	552492	381924	799236
2062/63	748	1048	783904	559504	1098304
2063/64	969	1238	1199622	938961	1532644
	$\sum X_1 = 3421$	$\sum X_2 = 4571$	$\sum X_1X_2 = 3300437$	$\sum X_1^2 = 2476815$	$\sum X_2^2 = 4409949$

$$r = \frac{N\sum X_1X_2 - \sum X_1 \sum X_2}{\sqrt{N\sum X_1^2 - (\sum X_1)^2}\sqrt{N\sum X_2^2 - (\sum X_2)^2}}$$

$$= \frac{5x3300437 - 3421x4571}{\sqrt{5x2476815 - (3421)^2}\sqrt{5x4409949 - (4571)^2}}$$

= 0.98

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

$$P.E = 0.6745 \times \frac{(1 - 0.98^2)}{\sqrt{N}}$$

$$= 0.6745 \times \frac{0.0396}{2.2361}$$

= 0.012

Appendix-8

Credit and Advances to Fixed Deposits Ratio

BOK:

Mean = 243 + 264 + 215 + 276 + 319

5

= $\frac{1317}{5}$

= 263.4%

Standard Deviation:

Fiscal Years	Ratio (x)	x2
2059/60	243	59049
2060/61	264	69696
2061/62	215	46225
2062/63	276	76176
2063/64	319	101761
	$\phi\varepsilon$ = 1317	$\phi\varepsilon^2$ = 352907

$$\pm = \sqrt{\frac{\varepsilon^2}{\rho} Z \frac{\varepsilon}{\rho}^2}$$

$$\pm = \sqrt{\frac{352907}{5} Z \frac{1317}{5}^2}$$

= 34.67%

Appendix-9

Credit and Advances to Total Assets Ratio

BOK:

Mean = $\frac{65.22 + 63.27 + 62.72 + 60.99 + 66.53}{5}$

$= \frac{318.73}{5}$

$= 63.73\%$

Standard Deviation:

Fiscal Years	Ratio (x)	x2
2059/60	65.22	4253.65
2060/61	63.27	4003.09
2061/62	62.72	3933.80
2062/63	60.99	3719.78
2063/64	66.53	4426.24
	$\phi\varepsilon = 318.73$	$\phi\varepsilon^2 = 20336.56$

$$\pm = \sqrt{\frac{\varepsilon^2}{\rho} Z \left(\frac{\varepsilon}{\rho}\right)^2}$$

$$\pm = \sqrt{\frac{20336.56}{5} Z \left(\frac{318.73}{5}\right)^2}$$

$$= 1.94\%$$

Appendix-10

Performing Assets to Total Assets Ratio

BOK:

$\text{Mean} = \frac{59.57 + 59.06 + 59.59 + 59.33 + 64.86}{5}$

$= \underline{302.41}$

5

= 60.48%

Standard Deviation:

Fiscal Years	Ratio (x)	x2
2059/60	59.57	3548.59
2060/61	59.06	3488.08
2061/62	59.59	3550.97
2062/63	59.33	3520.05
2063/64	64.86	4206.82
	$\phi\varepsilon$ = 302.41	$\phi\varepsilon^{2}$ = 18314.51

$$\pm = \sqrt{\frac{\varepsilon^{2}}{\rho} Z \left(\frac{\varepsilon}{\rho}\right)^{2}}$$

$$\pm = \sqrt{\frac{18314.51}{5} Z \left(\frac{302.41}{5}\right)^{2}}$$

$$= 2.20\%$$

Appendix-11

‘ 0000000’

Correlation between Performing Assets to Total Asses Ratio

Fiscal Years	Performance Assets (X1)	Total Assets (X2)	X1X2	x12	x22
2059/60	443	744	329592	196249	553536

2060/61	561	949	532389	314721	900601
2061/62	587	985	578195	344569	970225
2062/63	728	1227	893256	529984	1505529
2063/64	945	1457	1376865	893025	2122849
	$\Sigma X_1 = 3264$	$\Sigma X_2 = 5362$	$\Sigma X_1 X_2 = 3710297$	$\Sigma X_1^2 = 2278548$	$\Sigma X_2^2 = 6052740$

$$r = \frac{n\Sigma X_1 X_2 - \Sigma X_1 \Sigma X_2}{\sqrt{n\Sigma X_1^2 - (\Sigma X_1)^2}\sqrt{n\Sigma X_2^2 - (\Sigma X_2)^2}}$$

$$= \frac{5x3710297 - 3264x5362}{\sqrt{5x2278548 - (3264)^2}\sqrt{5x6052740 - (5362)^2}}$$

= 0.99

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

$$P.E = 0.6745 \times \frac{(1 - 0.99^2)}{\sqrt{N}}$$

$$= 0.6745 \times \frac{0.0199}{2.2361}$$

= 0.006

Appendix-12

Interest Income to Total Credit and Advances

BOK:

$$\text{Mean} = \frac{10.23 + 9.44 + 9.82 + 9.59 + 8.45}{5}$$

$$= \frac{47.53}{5}$$

= 9.51%

Standard Deviation:

Fiscal Years	Ratio (x)	x2
2059/60	10.23	104.65
2060/61	9.44	89.11
2061/62	9.82	96.43
2062/63	9.59	91.97
2063/64	8.45	71.40
	$\phi\varepsilon = 47.53$	$\phi\varepsilon^{2} = 453.56$

$$\pm = \sqrt{\frac{\varepsilon^{2}}{\rho} Z \left(\frac{\varepsilon}{\rho}\right)^{2}}$$

$$\pm = \sqrt{\frac{453.56}{5} Z \left(\frac{47.53}{5}\right)^{2}}$$

$$= 0.6$$

Appendix-13

‘ 0000000’

Correlation between Interest Income to Total Credit and Advances

Fiscal Years	Interest Income (X1)	Total Credit & Advances (X2)	X1X2	x12	x22
2059/60	497	486	241542	247009	236196
2060/61	567	601	340767	321489	361201

2061/62	607	618	375126	368449	381924
2062/63	718	749	537782	515524	561001
2063/64	819	969	793611	670761	938961
	$\sum x_1 = 3208$	$\sum x_2 = 3423$	$\sum x_1 x_2 = 2288828$	$\sum x_1^2 = 2123232$	$\sum x_2^2 = 2479283$

$$r = \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^2 - (\sum x)^2}\sqrt{n\sum y^2 - (\sum y)^2}}$$

$$= \frac{5x2288828 - 3208x3423}{\sqrt{5x2123232 - (3208)^2}\sqrt{5x2479283 - (3423)^2}}$$

= 0.99

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

$$P.E = 0.6745 \times \frac{(1 - 0.99^2)}{\sqrt{N}}$$

$$= 0.6745 \times \frac{0.0199}{2.2361}$$

= 0.006

Appendix-14

QUESTIONNAIRE

Dear Respondent,

I have been conducting a research “credit management of commercial banks with reference to BOK” in the partial fulfillment of the requirement of the degree of masters of Business studies. This questionnaire has been developed and presented before you as a part of this study.

I request you to fill it up at the best of your knowledge to provide your valuable answer to the research problem. Your views kept confidential and will not be published anywhere. Your kind co-operation will be useful to complete this study successfully.

I shall highly oblige for your prompt as far as possible.

Thanking you.

Krishna Gautam

Thesis supervisor

Prakash Parajuli

M.B.S.2ND year

L.B.C.

Devinagar

Appendix-15

A survey

On

Credit management of Bank of Kathmandu

Name of Respondent:

Designation:

Qualification:

Signature:

Tenure of service:

Please tick the correct answer

Would you please answer the following question properly and tick on the one answer

1. What is the credit position of BOK?

   a) Good b) Very good c) Satisfactory

   d) Is to be improved

2. Is there any problem in the bank related with credit policy?

   a) Yes b) No

3. What are the major kinds of loans?

   a) Hire purchase b) Fixed assets deposit

   c) Housing loan d) Term loan

4. Are you satisfied with the lending policy of your bank?

   a) Yes b) No

5. Do you think existing structure of BOK is perfect for healthy growth?

   a) Yes b) No c) I don't know

, 6. Is there any drawback related with credit policy of your bank?

   a) Yes b) No

7. Do your bank obeying NRB directives sincerely?

   a) Yes b) No

8. What is your opinion for the improvement of credit management of BOK ?

   ………………………………………………………………………………..

   ………………………………………………………………………………..

   ……………………………………………………………………………….