Non Interest Income Effects on Total Income of Commercial Banks in Nepal

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RECOMMENDATION

This is to certify that the thesis:

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and found the thesis to be original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfilment of the requirements for Master's Degree in Business Studies (M.B.S.)

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ABBREVIATIONS

Adv.	Advances
ATMs	Automated Teller Machines
Agg.	Aggregrate
B/S	Balance Sheet
BOK	Bank of Kathmandu
BS	Bikram Sambat
Exp	Expenses
FD	Fixed Deposit
Fig.	Figure
FIs	Financial Institutions
FY	Fiscal Year
HB	Himalayan Bank
KB	Kumari Bank
RBI	Reserve Bank of India
Rs.	Rupee
SBI	State Bank of India
SLC	Standby Letters of Credit
TE	Technical Efficiency
NABIL	Nepal Arab Bank Limited
NBL	Nepal Bank Limited
NCC	Nepal Credit & Commerce Bank Limited
NEPSE	Nepal Stock Exchange
NGBL	Nepal Grindlays Bank Limited
NIB	Nepal Investment Bank
NIBL	Nepal Indosuez Bank Limited
NSBL	Nepal State Bank of India

CHAPTER I

INTRODUCTION

1.1 General Background:

Commercial banks are established with the view to provide short term debt necessary for trade and commerce of the country along with other ordinary banking business. They collect the surplus funds in the form of deposit, lending debts by discounting bills of exchange, accepting valuable goods in security, acting as an agent of the client, etc. (G.B.Upadhya and N.R. Tiwari, PMB in Nepal, 1980).

Commercial bank is a type of financial intermediary and a type of bank which is also known as business banking. It is a bank that provides checking accounts, savings accounts and money market accounts and that accepts time deposits (Steven M. Sheffrin, Economics: Principal in action, 2003). Commercial banks are major financial institutions, which occupy an important place in the framework of every economy because they provide capital for the development of industry, trade and business and other resources for deficit sectors by investing the savings collected as deposits. Therefore, commercial banks assist in feasible balance growth by reducing the regional disparity amongst the deposist and requirement of loans (M.N. Mishra, MB & IT, 1982).

In this way, they contribute to the economic growth of the nation. Beside this, Commercial Banks provide numerous services to their customers in view of facilitating their economic and social life. They work as an agent of customers to receive and make payment, pay and collect rent, pay insurance premium, provide references about the financial position of their customers, arrange the amount of foreign exchange required by various organizations and travelers. From these services, commercial banks become successful to generate large amount of non-interest income.

Commercial banks' operation record the economic pulse reflecting economic situation of the country (M.N. Mishra, Money Banking & Internationl Trade, 1982). Commercial banks serve large corporations, small businesses, as well as the general public. Despite recent consolidation in commercial banking, the industry continues to provide more career opportunities in finance than any other sectors in the financial services industry. Banking professionals have been fulfilling careers that allow for the establishment of a client base through extensive people to people interaction, as well as hands on business education. Commercial banks are already playing an increasingly dynamic and vital role in the economic development of the country.

1.2 Focus of the Study:

The topic itself is very clear about the focus of the study. This study aims to analyse the Non Interest Income's effects on total income of Commercial Banks in Nepal. Commercial bank is a financial intermediary which collects credit from lenders in the form of deposits and lends in the form of loans. A commercial bank holds deposits for individuals and businesses in the form of checking and savings accounts and certificates of deposit of varying maturities while a commercial bank issues loans in the form of personal and business loans as well as mortgages. Instead of banking services, commercial banks generate mainly two types of incomes such as interest and non-interest income. The income from loan and advances, investment, agency balances, money at call and short notice as well as other income are included in interest income. Companies sometimes keep their cash in short-term deposit investments such as certificates or deposit with maturities up to twelve months, savings account, and money market funds.

Similarly, the sum of all non interest income as filed with the Securities and Exchange Commission. This includes service charges on deposits, trust income, mortgage banking income, trading account income, credit card fees, foreign exchange income, gain/loss on the sale of loans, brokerage income and all other non interest income excluding gains and losses on securities.

However, this study focuses on non-interest income effects on total income of commercial banks. Thus, the whole energy and effort is concentrating on analysis of non-interest income effect on total income of sampled commercial banks.

Specifically, the study focuses on non-interest income in aggregate over the study period.

1.3 Statement of Problem:

An institution which accepts deposits makes business loans, and offers related services is known as commercial bank. Commercial banks also allow for a variety of deposit accounts, such as checking, savings and time deposit. These institutions are run to make a profit and owned by a group of individuals. Profit is very important for its future growth and expansion. Basically, there are two sources of income, interest and non-interest income of commercial banks. Generally, the income from loan and advances, investment, agency balances, money at call and short notice as well as other income are included in interest income. Income from commission and discount, exchange gain/loss, non-operating income/loss and other income are included in non-interest income. These days, an importance of non-interest income has been increasing because of its growing share to the total income.

Commercial banks are rendering their services for traders, businessmen and general people, etc. whereby they are generating large amount of non-interest income. So, fundamentally, investigation has been done into the overall aspect of non-interest income’s on total income of commercial banks. In summary study attempts to solve the following research problems:

a. Is the non-interest income helps to increased the total income of commercial banks?

b. What is the contribution of commission and discount with total income of commercial banks?

c. What is the trend of operating and non-operating inocme with total income of commercial banks?

d. What is the condition of exchange fluctuation income with respect to total income of commercial banks?

e. What is the trend of provision written back with total income of commercial banks?

f. What is the contribution of profit and loss from extraordinary activities with total income of commercial banks?

1.4 Objectives of the Study:

Objective is an end result of the planed activity. The study mainly aims to analyze the non-interest income's effect on total income of commercial banks. However the specific objectives set for the study are as follows:

a. To evaluate the contribution of non-interest income to the total income of commercial banks.

b. To analyze the commission and discount to the total income of commercial banks.

c. To analyze the trend of operating and non-operating inocme with Total income of commercial banks.

d. To analyze the exchange fluctuation income with respect to total income of commercial banks.

e. To analyze the trend of provision written back with total income of commercial banks.

f. To analyze the profit and loss from extra ordinary activities with total income of commercial banks.

1.5 Significance of the Study:

Research is a process of gathering of data, information and facts for the advancement of knowledge for the purpose of initiating, modifying or terminating a particular investment or group of investments. Research aims to gain knowledge and to add new literature to the existing field. The significance of this study lies mainly in gaining a very new knowledge of non-interest income's effect on total income of commercial banks in Nepal.

This study contributes to know various aspects of non-interest income of commercial banks and helps formulate an appropriate policy and strategy to generate large amount of non-interest income in the banks. This study is important for the commercial banks, researchers, scholars, students and many other parties.

It is expected that the present study adds up a drop of literature to the existing literature on commercial banks in Nepal.

1.6 Limitations of the Study:

Through this study is of great significance, it may have some limitations. The study area, research methodology, data sources, availability of review of literature, the researcher's own knowledge and experience count importance to provide the limitation to every study.

The limitations of the study are mentioned as follows:

a. The whole study is based on secondary data extracted from the annual reports of sampled commercial banks.
b. The study covers only five years of period beginning from the fiscal year 2061/062 to 2065/066.
c. There are two sources of income, interest income and non-interest income in commercial banks. This study more concentrated only on non-interest income of sampled commercial banks.

1.7 Organization of the Study:

The study has been organized into five chapters.

Chapter 1: Introduction

Chapter one is the introductory chapter. It provides a general background of the study, focus of the study, statement of problem, objectives, significance and limitations of the study.

Chapter 2: Review of the Literature:

The second chapter reviews the relevant theories and past empirical studies. It includes conceptual framework regarding non-interest income and other concerned aspects of the study. Previous studies done in the non-interest in international sector and studies done on the area by Nepalese scholars have been also presented.

Chapter 3: Research Methodology

Chapter three describes the research methodology followed in this study. This includes the research design, population and sample, nature and sources of data, data collection procedure, data processing and data analysis tools.

Chapter 4: Presentation and Analysis of Data:

Chapter four consists of presentation and analysis of data. The information obtained after collecting and processing the data have been presented in tables and figures. Moreover, the rules of the financial and statistical analysis are interpreted in the unit.

Chapter 5: Summary, Conclusions and Recommendations:

This final chapter is the major consideration of this study. This chapter presents summary, conclusions and recommendations of the study.

CHAPTER II

REVIEW OF LITERATURE

Conceptual foundation is a most important part of every study. Without clear concept on subject matter the study may not go through the right way. So, the review of literature is taken as an essential part, which works as a cornerstone of the study. It provides the guidelines for the study and helps to avoid the unnecessary dupliacation in research work.

A literature review is a body of text that aims to review the critical points of current knowledge and methodological approaches on a particular topic. Literature reviews are secondary sources and as such, do not report any new or original experimental work. The basic purpose of reviewing the literature is to gain knowledge of the past status on the study area. It is the foundation of the research. Extensive reading of the literature helps identify the gap between the work done in past and what is the proposed to be done in future.

The review of related topic “non-interest income” has been divided into two sections. The first section presents the conceptual framework and second one presents the review of related studies carried out in the study area.

2.1 Conceptual Framework:

This sub-chapter presents the conceptual aspect of the study. Conceptual framework is used in research to outline possible courses of action or to present a preferred approach to an idea. Conceptual framework includes the concept of commercial banks, historical development of commercial banks in Nepal, functions of commercial banks, assets and liability of commercial banks, concept of non-interest income of commercial banks, the regularity, technological and strategic drivers of non-interest income, source of income of commercial banks, interest expenses, non-interest expenses and net income of commercial banks.

2.1.1 Concept of Commercial Bank:

More often banks and commercial banks are interpreted as being synonym to each other but in reality they are two different areas of study. Commercial bank is one of the various types of bank and would need a separate identity before one should go any further to study about commercial banks.

There are several types of banks like commercial bank, central bank, industrial bank, agricultural bank, rural bank, co-operative bank, mutual fund, housing bank, equipment bank, etc. Commercial banks contribute significance in the financial system of a country. They pool together the savings of the community and arrange for their productive use. They supply the financial need of modern business by various means. They accept deposits from the public on the condition that they are repayable on demand or on short notice. Their business is confined to financing the short term needs of trade and industry such as working capital financing. They grant loans in the form of cash credits and overdrafts. Apart from financing, the role of commercial banks in modern age is more vital in agency service and general utility service. Under agency service, a commercial bank performs a number of activities on behalf of its customers. Commercial banks undertake the payment of subscriptions, insurance premium, rent, etc. and collection of cheques, bills, salaries, pensions, dividends, interest, etc. on behalf of customers. It also arranges the remit money from one place to another by means of cheques, demand drafts, money order, society for worldwide interbank, financial telecommunication, etc. Apart from agency services the commercial bank also renders some useful services known as general utility services which include safekeeping of valuables, providing assistance in foreign trade, issuing credit instruments like letters of credit and travelers' cheques, acceptance of bill of exchange, financial advising, offering security, brokerage service, etc. (Khadga and Singh, 2003).

A commercial bank is a financial intermediary which collects credit from lenders in the form of deposits and lends in the form of loans. A commercial bank holds deposits for individuals and businesses in the form of checking and savings accounts and certificates of deposit of varying maturities while a commercial bank issues loans in the form of personal and business loans as well as mortgages. The term commercial bank came about as a way to distinguish it from an "investment bank." The primary difference between a commercial bank and its counterpart is that a commercial bank earns revenue by issuing primary loans from its pool of deposits while an investment bank brings debt and equity offerings to market for a fee. Among its assets including loans, a commercial bank holds a portfolio of other securities to generate proprietary income.

Commercial banks engage in the following activities:

- processing of payments by way of telegraphic transfer, EFTPOS, internet banking, or other means.
- issuing bank drafts and bank cheques.
- accepting money on term deposit.
- lending money by overdraft, installment loan, or other means .
- providing documentary and standby letter of credit, guarantees, performance bonds, securities underwriting commitments and other forms of off balance sheet exposures.
- safekeeping of documents and other items in safe deposit boxes .
- sale, distribution or brokerage, with or without advice, of insurance, unit trusts and similar financial products as a “financial supermarket” .
- cash management and treasury services .
- merchant banking and private equity financing .
- traditionally, large commercial banks also underwrite bonds, and make markets in currency, interest rates, and credit-related securities, but today large commercial banks usually have an investment bank arm that is involved in the mentioned activities.

In this context, commercial banks are established with a view to provide short-term debt necessary for trade and commerce of the country along with other ordinary banking business. They collect the surplus funds in the form of deposit, lending debts by discounting bills of exchange, accepting valuable goods in security, acting as an agent of the client etc (G.B.Upadhya and N.R.Tiwari, *PM&B in Nepal*, 1980, pg.78). In the same way, principally a commercial bank accepts deposits and provides loans primarily to business firm (P.N.Abrol and O.P.Gupta, *CD*, 2002, pg.230). On the other hand, the broad concept of commercial bank holds that the commercial bank is a banking institution other than central bank. The commercial bank is only institution other than central bank permitted to accept demand and time deposit (H.D.Crosse, MP for CBs, 1963, pg.326).

2.1.2 Historical Development of Commercial Bank in Nepal

Nepal's first commercial bank, the Nepal Bank Limited, was established in 1937AD. The Government owned 51 percent of the shares in the bank and controls its operations to a large extent. Nepal Bank Limited is headquartered in Kathmandu and has branches in other parts of the country.

There were other government banking institutions as well. Rastriya Banijya Bank (National Commercial Bank), a state-owned commercial bank, was established in 1966 AD. The Land Reform Savings Corporation was established in 1966 AD to deal with finances related to land reforms.

There were two other specialized financial institutions also. Nepal Industrial Development Corporation, a state-owned development finance organization headquartered in Kathmandu, was established in 1959 AD with United State’s assistance to offer financial and technical assistance to private industries. Although the government invested in the corporation, representatives from the private business sectors also sat on the board of directors. The Co-operative Bank, which became the Agricultural Development Bank in 1967 AD, was the main source of financing for small agribusinesses and cooperatives. Almost 75 percent of the bank was state-owned; 21 percent was owned by the Nepal Rastra Bank, and 5 percent by cooperatives and private individuals. The Agricultural Development Bank also served as the government's implementing agency for small farmers' group development projects assisted by the Asian Development Bank and financed by the United Nations Development Programme. The Ministry of Finance reported in 1990 that the Agricultural Development Bank, which is vested with the leading role in agricultural loan investment, had granted loans to only 9 percent of the total number of farming families since 1965 AD.

Since the 1960s both commercial and specialized banks have expanded. More businesses and households had better access to the credit market although the credit market had not expanded.

In the mid-1980s, three foreign commercial banks opened their branches in Nepal. The Nepal Arab Bank was co-owned by the Emirates Bank International Limited (Dubai), the Nepalese Government, and the Nepalese public. The Nepal Indosuez Bank was jointly owned by the French Banque Indosuez, Rastriya Banijya Bank, Rastriya Beema Sansthan (National Insurance Corporation), and the Nepalese public. Nepal Grindlays Bank was co-owned by a British firm called Grindlays Bank, local financial interests, and the Nepalese public.

Nepal Rastra Bank was upgraded in 1956 as the central bank. Its function was to supervise commercial banks and to guide the basic monetary policy of the nation. Its major aims were to regulate the issues of paper money; secure countrywide circulation of Nepalese currency and achieve stability in its exchange rates; mobilize capital for economic development and for trade and industry growth; develop the banking system in the country, thereby ensuring the existence of banking facilities; and maintain the economic interests of the general public. Nepal Rastra Bank also was to oversee foreign exchange rates and foreign exchange reserves.

Prior to the establishment of Nepal Rastra Bank, Kathmandu had little control over its foreign currency holdings. Indian rupees were the prevalent medium of exchange in most parts of the country. Nepalese currency was used mostly in the Kathmandu valley and the surrounding hill areas. The existence of a dual currency system made it hard for the government to know the status of Indian currency holdings in Nepal. The exchange rates between Indian and Nepalese rupees were determined in the marketplace. Between 1932 and 1955, the value of 100 Indian rupees varied between Rs71 and Rs177. The government entered the currency market with a form of fixed exchange rate between the two currencies in 1958. An act passed in 1960 sought to regulate foreign exchange transactions. Beginning in the 1960s, the government made special efforts to use Nepalese currency inside the country as a medium of exchange.

It was only after the signing of the 1960 Trade and Transit Treaty with India that Nepal had full access to foreign currencies other than the Indian rupees. Prior to the treaty, all foreign exchange earnings went to the Central Bank of India, and all foreign currency needs were provided by the Indian government. After 1960 Nepal had full access to all foreign currency transactions and directly controlled its exports and imports with countries other than India.

As a result of the treaty, the government had to separate Indian currency (convertible currency because of free convertibility) from other currencies (nonconvertible currency because it was directly controlled by Nepal Rastra Bank). In 1991 government statistics still separated trade with India from trade with other countries.

2.1.3 Functions of Commercial Banks

Commercial banks are common in all industrialized countries all over the world. Because of the nature of the business and the structure of the industry have changed drastically in last decades, the role and importance of commercial banks have grown rapidly. Specially, commercial banks represent the largest group of depository institution measured by assets size. They perform functions similar to those of saving institutions and credit unions. They accept deposits and make loans. There are four major functions of commercial bank such as receiving and handling payments from its clients, making loan and investment and creating money by extension of credit (American Institute of banking "principle of Banking Operation," USA:1972, 345). Specially, commercial banks perform the following functions:

2.1.3.1 Accepting Deposits:

Accepting deposit is the oldest function of a bank and the banker used to charge commission for keeping the money in its custody when banking was developing as an institution. Now a day, a bank accepts mainly three kinds of deposits from its customers.

- **Fixed Deposit Accounts:** Money in these accounts is deposited for fixed period of time and cannot be withdrawn before the maturity period, usually the minimum term varies from 2-5 years. The rate of the interest on this account is higher than that on other types of deposits. The longer the period, the higher will be the rate of interest. Fixed deposits are also called Time deposits or Time Liabilities.

- **Current Account / Current Deposit Account:** These accounts are generally maintained by the traders and businessmen who have to make a number of payments every day. Money from these accounts can be withdrawn in as many times as much amount as desired by the depositors. Normally, no interest is paid on these accounts. Rather, the depositors have to pay certain incidental charges to the commercial banks for the services rendered by it. Current deposits are also called as Demand Deposits or Demand Liabilities.

- **Saving Deposit Account:** The aim of these accounts is to encourage thrift and mobilise small savings of the public. Certain restrictions are imposed on the depositors regarding the number of withdrawals and the amount to be withdrawn in a given period. Cheque facility is provided on request to the depositors. Rate of interest paid on these deposits is low as compared to that on fixed deposits.

- **Recurring Deposit Account:** The purpose of this account is to encourage regular savings by the public, particularly by the fixed income group. Generally, money in these accounts is deposited in monthly instalments for a fixed period and is repaid to the depositor along with interest on maturity.

- **Call Deposit Account:** Call deposit incorporates the characteristics of current and saving deposit. Current in the sense that deposits is withdrawn at call and saving in a sense that the deposit earns interest. Interest rate on call deposit is negotiable between the bank and the depositors and hence it is normally not announced in public.

2.1.3.2 Advanced Loan :

One of the primary functions of a commercial bank is to advance loans to its customers. A bank lends a certain percentage of the cash lying in deposits at a higher interest rate than it pays or such deposits. This is how it earns profits and carries or its business. The bank advances loans in the following ways:

- **Cash Credit:** It is a type of loan which is given to the borrower against his current assets, for e.g., stocks, shares, bonds, etc. Such loans are not based on personal security. The bank opens an account in the borrower's name and allows withdrawing the money borrowed from time to time, up to a certain limit as determined by the value of his/her current assets. Interest is charged for the amount withdrawn from the account.

- **Overdraft:** Commercial banks provide overdraft facilities to their customers through which they are allowed to withdraw more than their deposits. Interest is charged from customers only on the overdrawn amount.

- **Demand/Term Loan:** Demand loan is a loan provided on repayment basis and is not a running account. Demand/Term loan once granted will have a debit for the quantum sanctioned and thereafter only credits or repayment, normally personal in nature, are permitted. It is given against security and the security will be in the form of fixed assets or fixed deposits and it will never be given against stocks. These loans are granted to acquire fixed assets like machinery and construction works.

- **Discounting of Bills of Exchange:** One of the very popular type of lending by modern banks, here, is the holder of the bill of exchange which can be discounted at the bank. In bill of exchange, the debtor agrees the drawn bill upon him by the creditor and agrees to pay the amount mentioned at the time of maturity. Thus, the bank makes the payment and earn in the way of commission. Thus, it is a self-liquidating loan.

- **Money at Call / Call Money:** These loans are typically very short in period and the loan can be called back at a very short notice of time by the lending bank say even in one day to fourteen days. These types of loans are generally provided to other financial institutions.

2.1.3.3 Agency Function of Banks:

A bank acts as an agent of its customers in collecting and paying cheques, bills of exchange, drafts, dividends, etc. It also buys and sells shares, securities, debentures, etc. for its customers. Further, it pays subscriptions, insurance premium, rent, electricity and water bills and other similar charges on behalf of its clients. It also acts as a trustee and executor of the property and will of its customers. Moreover, the bank acts as a consultant to its clients. For some of these services, the bank charges a normal fee while it renders other free of charge.

- **Transfer of Funds:** Fund transfer from one place to another is the necessity of the today's world but the physical transfer of cash from one place to another involves monitory risks. The banks from one place to another place through different mechanism such as bank draft, fax, telex transfer (T.T), and so on. People transfer money to or from one country to another such as Nepalese who are in abroad for foreign employment send their earnings through foreign bank to Nepalese bank called as outward remittance. Or one can transfer money to another country from Nepal called as outward remittance. In export and import businesses, a firm needs to send/bring money from a country to another. A firm that needs to import raw materials for producing its goods opens LC in a bank or it may directly import without opening LC in case it pays to the party in advance called as outward remittance. Or a Nepalese firms export goods to a firm in abroad need to pay the bills to Nepalese party called as inward remittance.
- **Collection of Funds:** The bank collects the funds of its customers from other banks and credits to their accounts. The customers do have bills/cheques that need to be collected from the other banks in own country or foreign. A bank plays a role of intermediary in collecting funds from other banks. Banks collect bills or cheques through local clearing or outward bills collection (OBC) through their correspondent banks.

- **Purchase and Sale of Share and Securities:** The bank buys and sells stocks and shares of private companies as well as government securities on behalf of customers. Customers who wish to buy/sale securities and shares can get access through a bank which acts as an intermediary institution.

- **Trustee and Executor:** A bank is registered under the existing laws of the nation and operates subject to the rules and regulations laid down in the act. So, the bank preserves will of the customers and executes them after their deaths. This function of a bank is bound by specific laws and facilitates to customers in trust worthy way.

- **Acts as Correspondent:** The bank may also act as a correspondent, agent or a representative of its customer. Global trade is widely practiced now days. A bank in a part of world does have a correspondent bank in other corner of the world. The channel of correspondence bank helps clients do their business operating in any corner of the globe. Imports and exports business heavily rely on banks as they act as a correspondent to their clients in another country. Personal remittances, too, flow in and out through the banks having correspondence with other banks.

- **Purchase and Sale of Foreign Exchange:** The bank also carries on the business of buying and selling foreign currencies. Generally exchange of foreign currencies in developed countries is done by Exchange Company/banks but due to lack of exchange banks in our country this function is done by commercial banks. Tourists carrying foreign currency (FCY) such as US dollars, Great Britain Pounds (GBP), EURO and so on can exchange their currencies in banks. This function has been facilitated many people across the world. People in need of FCYs also get easily in their home country provided the purpose of their need is as per central bank regulations regarding FCYs exchange.

- **Creation of Credit:** Creation of credit is one of the most important functions of commercial banks. In order to earn profits, they accept deposits and advance loans by keeping small cash in reserve for day-to-day transactions. When a bank advances a loan, customers need to open an account to draw money by cheque according to his needs. By granting a loan, the bank creates credit or deposit. Bank lending in productive sector has multiplier effect in the economy. It not only helps the particular borrower/ entrepreneur, it helps generate employment, contributes positively to international trade, and enhances national income and savings.

2.1.3.4 Miscellaneous Services:

Besides the above noted services, the commercial banks perform a number of other services. It acts as the custodian of the valuables of its customers by providing those lockers where they can keep their jewellery and valuable documents. It issues various forms of credit instruments such as cheques, drafts and traveller's cheque, etc. which facilitate their transactions. The bank also issues letter of credit and acts as a referee to clients. It underwrites shares and debentures of companies and helps in the collection of funds from the public. Moreover, it provides statistics on money market and business trends of the economy.

Assets and Liabilities of Commercial Banks

The instrument that shows the assets and liabilities of a commercial bank is its balance sheet. It is usually prepared at the end of each year. Therefore, the balance sheet of a bank is very important not only to its management but also to public since the bank deals in other people's money. In addition, the business of the bank or its financial position is reflected by the situation of its assets and liabilities i.e. its balance sheet. It also portrays the results of banks' operations during the year. The balance sheet may also be used as indicators of sources of funds and uses of the same. A bank should have well managed assets and liabilities regarding interest rate exposure. Likewise, it should be manage these assets and liabilities thus that the market value would not be affected due to changes in interest rate. Alternatively, it could adjust its portfolio of assets and liabilities considering profit because of up and down in rate (Ben Esty and others, "Bank on Corporation: ALM," Sept.1994, 33-52. June 7, 2006). The following are the items that appear in the assets and liabilities sides of the balance sheet.

Assets of the Bank: A bank's assets are grouped into four major sub categories:

- Cash and balances due from other depository institutions.
- Investment Securities
- Loans and leases
- Other assets.

Investment securities and loans and leases are the bank's earning assets. Cash and balance due from depository institutions consist of vault cash, deposits at the Central Bank, deposits at other financial institutions, and cash items in the process of collection. None of these items generate much income for the bank, but each is held because they perform specific functions. Vault cash is composed of the currency and coin needed to meet customer withdrawals. Deposits at the central bank are used primarily to meet legal reserve requirements to assist in cheque, clearing, wire transfers, and the purchase or sale of treasury securities. Deposits at other financial institutions are primarily used to purchase services from those institutions. These banks generally purchase services such as cheque collection, cheque processing, and investment advice from correspondent banks. Cash items in the process of collection are cheque written against accounts at other institutions that have been deposited at bank.

Credit is given to the depositor of these cheques only after they clear. Investment securities consist of items such as interest bearing deposit at other financial institutions, repurchase agreements, treasury and agency securities, securities issued by central bank and other debt and equity securities. These securities generate income for the bank and are used for liquidity risk management purpose. Investment securities are highly liquid, have low default risk and can usually be traded in secondary markets. Banks generally maintain significant amount of these securities to ensure that they can easily meet liquidity need that arise unexpectedly. However, because the revenue generated from investment securities is low compared to that from loans and leases, many banks attempt to minimize the amount of investment securities they hold.

Although banks with excess cash reserve invest some of this in interest earning liquid assets such as T-bills and sort term securities, they have the option to lend excess reserves for short intervals to other banks seeking increased short-term funding. The market for excess reserves is inter-bank dealing. In a inter bank transaction, the bank with excess reserves sells funds for one day to the purchasing bank. The next day, the purchasing bank returns the funds plus one day's interest reflecting the market rate. Since credit risk exposure exists for the selling bank, because the purchasing ban may be unable to repay the funds the next day, the seller may seek collateral backing for the one day funds loan. In the context of Nepalese banking sector banks generally do not seek collateral but set the limit of exposure to the other banks. In this transaction, the funds selling bank receives government securities as collateral from the funds-purchasing bank that is, the funds purchasing bank temporarily exchanges securities for cash. The next day, this transaction is reversed the funs purchasing bank sends back the funds it borrowed plus interest rate; it receives in return its securities used as collateral in the transaction.

Long-maturity investments such as NRB bonds usually offer somewhat higher expected returns that short maturity investment since they are subject to greater interest rate risk exposure. Treasury securities and NRB Bonds are fully backed by the government and thus carry no default risk.

Loans are the major items in a bank's balance sheet and generate the largest flow of revenue income. However, loans are also the least liquid asset item and the major source of credit and liquidity risk for most banks. Leases are used as alternatives to loans when the bank, as owner of a physical asset, allows a customer too use an asset in return for periodic lease payments. Loans are categorized as commercial and industrial loans, loans secured by real estate, individual or consumer loans, and other loans. Commercial and industrial loans are used to finance a firm's capital needs, equipment purchases, and plant expansion. Commercial loans can be made at either fixed rates or floating rates of interest. This rate remains in force over the loan contract period no matter what happens to market rates. The interest rate on revolving loans such as cash credit loan and overdraft loan can be adjusted periodically so that the interest rate risk is transferred in large part from the bank to the borrower. Commercial loans can be made for periods as short as few weeks to as long as eight years or more. Traditionally, short term commercial loans are used to finance credit needs that extend beyond one year, such as the purchase of real assets (machinery), new venture start-up costs, and payment increases in working capital. Commercial loans can secure or unsecured. A secured loan is backed by specific assets of the borrower: while an unsecured loan gives the lender only a general claim on the assets of the borrower should default occur.

However, in Nepalese banking sector all most all the loans are secured by collateral or fixed property such as real state, house building, equipments and machineries. Housing loans are primarily mortgage loans which are generally long-term loans with an average maturity of approximately 10 years. Housing loans are made to purchase, construct and repair a house. Another major category of loans is the individual or consumer loan for example personal and auto loans. Commercial banks, finance companies and co-operatives also provide consumer loan financing. It can be in the form of auto loan, personal loan, educational loan etc. Each loan category entails a wide variety of characteristics that must be evaluated to determine the risk involved, whether the bank should grant the loan, and if so, at what price.

Unearned income and the allowance (reserve) for loan and lease losses are contra-assets accounts that are deducted from gross loans and leases on the balance sheet to create net loans and leases. Unearned income is the amount of income that the bank has received on a loan from a customer but has not yet recorded as income on the income statement. Over the life of the loan, the bank earns interest income and accordingly transfers it out of unearned income into interest income. The allowance for loan and lease losses is an estimate by the bank's management of the percentage of the gross loans (and leases) that will not be repaid to the bank. Although the maximum amount of the reserve is influenced by tax laws, the bank's management actually sets the level based on loan growth and recent loan loss experience. The allowance for loan losses is an accumulated reserve that is adjusted each period as management recognizes the possibility of additional bad loans and makes appropriate provisions for such losses. Actual losses are then deducted from, and recoveries are added to (referred to as net write-offs), their accumulated loan and lease loss reserve balance. Investment securities plus net loans and lease are the earning assets of a depository institution. It is these items in the balance sheet that generate the most interest income.

Other assets in the bank's balance sheet consists of items such as premises and fixed assets, other real estate owned (collateral seized on defaulted loans), investments in unconsolidated subsidiaries, intangible assets (i.e. goodwill and mortgage servicing rights) and other (i.e. deferred taxes, prepaid expenses, and mortgage servicing fees receivables). These accounts are generally a small part of the bank's overall assets.

Liabilities of the Bank: A bank's liabilities consist of various types of deposit accounts and other borrowings used to fund the investments and loans on the asset side of the balance sheet. Liabilities vary in terms of their maturity, interest payments, check-writing privileges, and deposit insurance coverage. A bank acquires funds by issuing (selling) liabilities, which are consequently also referred to as sources of funds. The funds obtained from issuing liabilities are used to purchases income- earning assets.

Current accounts are transaction accounts held by individuals, business firms, corporations and other institutions that pay no explicit interest. Saving deposits are all saving accounts other than current accounts. In saving accounts and current accounts some minimum balance should be kept.

The major categories of time deposits are fixed deposit. Fixed deposits are fixed maturity instruments. Although the size, maturity and rates on these FDs are negotiable, most banks issue standardized FDs.

Deposits can be separated as foreign from domestic deposits on the balance sheet but it is not generally practiced in Nepal. Foreign deposits are generally large and held by corporations with a high level of international transactions activities. The liabilities described above are all deposit liabilities, reflecting deposit contracts issued by banks in return for cash. However, banks not only fund their assets by issuing deposits but borrow in various markets for purchased funds since the funds generated from these purchases are not deposits; they are subject to neither reserve requirements nor deposit insurance premium payments. The banks can also borrow funds from other banks for certain period; generally short term of 2/4 days and these transactions can be rolled over each day if the contemporary is willing. Some banks, in search of stable sources of funds with low withdrawal risk, have begun to issue subordinated notes and debentures, often in the five to seven years range. These notes are especially attractive because they are subject to neither reserve requirements nor deposit insurance premiums and some can serve capital for the bank to satisfy NRB regulations regarding minimum capital requirements. Banks facing temporary liquidity crunches can borrow from the central bank's discount window at the discount rate. Since this rate is not market determined and usually lay below government security rates, it offers a very attractive borrowing opportunity of a bank with deficient reserves as the reserve maintenance period comes to an end.

Some banks separate core deposits from purchased funds on their balance sheets. The stable deposits of the bank are referred to as core deposits. These deposits are not expected to be withdrawn over short periods of time and are therefore a permanent source of funding of the Bank. Core deposits generally are defined as demand deposits, current accounts, and saving accounts. Purchased funds are more expensive and volatile source of funds because they are high rate sensitive as these funds are more likely to be immediately withdrawn or replaced as rates on competitive instruments change. Banks also list other liabilities that do not require interest to be paid. These items consist of accrued interest, deferred taxes, dividends payables and minority interest in consolidated subsidies and other miscellaneous claims.

2.1.4 Concept of Non-interest Income

Bank and creditor income’s are derived primarily from fees. For example non-interest income includes deposit and transaction fees, insufficient funds (NSF) fees, annual fees, monthly account service charges, inactivity fees, check and deposit slip fees, etc. Institutions charge fees that provide non-interest income as a way of generating revenue and ensuring liquidity in the event of increased default rates.

Sources of income other than earning from loans and securities are called simply non-interest income. In other words, non-interest income is an important income to banks which is received through operating on and off balance set activities such as trust department services, service charges on deposit accounts, trading assets and liabilities (Sounders and Cornett, FMIs: A Modern Perspective, 132).

There are rapid diversifications in the various sectors causing more fluctuation in interest rates as well as other matters also. In this condition, commercial banks are contributing their effort more aggressively towards generating large amount of fee income through selling services such as security brokerage, insurance and trust services rather than income generated from loans. Bankers now come to know that the fee incomes or service charges are the promising channel for boosting their income. Such incomes definitely are assisting more adequately to commercial banks insulating from fluctuations in interest rates. (Ross, Commercial Bank Management, 132).

Likewise, a common view today arising enthusiastically in the banking sectors is that most banks must rely on non-interest income more whereas less to net interest income to be successful. It can be categorized as highest earning banks that basically generate income from non-interest income. However, some of the fee incomes are stable whereas others are highly volatile due to cyclical activities. Thus, an important issue has came along to the bank managers is that to obtain higher profit, it is necessary to make an appropriate customer and business mix focusing on fee based revenues (Timothy W. Koch and S. Scott Macdonald, BM, 5th ed., Banglore: Eastern Press Pvt.Ltd., 2004, 195).

The factors related to non-interest income that makes it volatile should be sensitively consider while formulating an appropriate whether customer or business mix. They are low switching costs for non-interest activities, high operating leverage due to that amplifies revenue volatility into higher profit volatility and higher financial leverage due to difference in regulatory capital requirement (Kevin J. Stirioh, "Do CBBD," Journal of Financial Service Research 25, April 2004: 135-160, June 16, 2006).

2.1.5 The Regulatory, Technological and Strategic Drivers of Non-interest Income:

Over the past two decades the banking industry has been transformed by sweeping deregulation and rapid technological advances in information flows, communications, infrastructure, and financial markets. Deregulation fostered competition between banks, non-banks, and financial markets where none existed before. In response to these competitive threats and opportunities, many banks embraced the new technologies that drastically altered their production and distribution strategies and resulted in large increases in non-interest income. In contrast, many other banks have continued to use traditional banking strategies for which non-interest income remains relatively less important.

Banking industry deregulation removed a whole host of restrictions that had stunted the evolution of the banking industry, constrained the efficiency of financial product markets and extended the lives of thousands of poorly run and sub optimal sized commercial banks. Banks gradually abandoned bundled pricing of retail deposit products in which they compensated depositors for below-market interest rates by providing a "bundle" of products free of charge (e.g., check printing, safety deposit boxes and travelers' checks) in favor of explicit fees for individual retail deposit products. As a result, such a business model generate large amount of non-interest income. Similarly, the regulation related to allowed banks to expand further into financial services activities accelerated to traditional bank intermediation, large banking companies take quick advantage of this regulation to expand into nontraditional activities such as securities underwriting, insurance sales, retail brokerage that generated non-interest income. Thus, favorable regulation related with non-interest income in banks.

Advances in information and communications technology (e.g., the Internet, ATMs), new intermediation technologies (e.g., loan securitizations, credit scoring), and the introduction and expansion of financial instruments and markets (high-yield bonds, commercial paper, financial derivatives) all would have occurred in the absence of deregulation. But deregulation allowed banks to achieve the scale to use these new technologies more efficiently, and the increased competition induced by deregulation provided banks with the incentives to adopt and adapt these new technologies. Many of these new technologies have emphasized non-interest income while de-emphasizing interest income at banks. Banks can extract fee income from customers willing to pay a "convenience premium" for doing their banking at ATMs or over the Internet. Banks can earn loan origination, loan securitization, and loan servicing fees to offset the interest income that they lost with the disintermediation of consumer lending (e.g., mortgages, credit cards). Banks can earn fees from selling backup lines of credit to firms that float commercial paper rather than borrowing from banks.

By most accounts, deregulation and technological advances have fostered increased competitive rivalry among banks and non-banks alike. This provided to banks' business customers various alternatives to take banking services. Meanwhile, well manage banks responded to these competitive pressure by becoming more cost efficient and more revenue efficient. This included offering customers and attractive provision of new or non-traditional fee based products, selling increased amounts of existing fee based products, pricing fee based products more efficiently. Moreover, they are improving the quality of fee based products and services so that they commanded at higher prices.

Similarly, the commercial banks are strengthening their two divergent banking strategies due to fog of deregulation and technological changes in which non-interest income plays different roles. In the first of these the strategies, large banks take advantage of economics of scale in production, marketing, securitization and servicing of consumer loans. Although, these banks operate with very low unit costs, they tend to earn very low interest margins because the products they produces are essentially financial commodities and the market they sell them into are extremely competitive. So far, this model large amount of non-interest income is essential to be profitable. In the second of these two strategies, small community banks operating in local markets develop relationship with their depositors and their borrowers. They add value to their depositors' relationship through person to person contact at branch offices and they make loans to informational opaque, small idiosyncratic borrowers who do not have direct access to financial markets. Although these small, locally focused banks operate with relatively high units costs, they can earn market returns because they earn high interest margins. Likewise, they pay low interest rates to a loyal base of low cost core depositors and they charge high interest rates to borrowers over which they have market power. Non interest income is less important for these banks, although at the margin these banks' attention to high levels of service quality will command higher fees for any given product (Robert De Yung and Tara Rice, "NII and FP at US Commercial Banks, " *The Financial Review* 39, no.1, Feb. 2004 :106-108. June 2, 2006).

2.1.6 Sources of Income of Commercial Banks

There are two sources of income of commercial banks. They are Interest and Non-Interest income. They can be described as follows:

Interest Income: Companies sometimes keep their cash in short-term deposit investments such as certificates or deposit with maturities up to twelve months, savings account, and money market funds. The cash placed in these accounts earn interest for the business, which is recorded on the income statement as interest income. For some companies interest income is small or meaningless. For others, such as an insurance company that generates profit by investing the money it holds for policyholders into interest paying bonds, it is a crucial part of the business.

Interest and fee generated from loans which represents normally two third or more of the total revenues of banks is known as interest income. It is usually followed in importance by investment earnings from taxable and tax exempt securities. However, the relative importance of income items fluctuates from year to year with shifts in interest rates and loan demand (Ross, Commercial Bank Management, 130).

Similarly, we introduce interest income in the commercial banks as the largest income generating category. This includes interest and fee income on loans and leases. Likewise, interest received from investments securities is also included as interest income. Interest income is recorded on an accrued basis. Thus, loans on which interest payments are past due can still be recorded as generating income for a bank (Sounders and Cornett, FMI: A Modern Perspective, 380).

Non-interest Income: Bank and creditor's income is derived primarily from fees. Examples of non-interest income include deposit and transaction fees, insufficient funds (NSF) fees, annual fees, monthly account service charges, inactivity fees, check and deposit slip fees, etc. Institutions charge fees that provide non-interest income as a way of generating revenue and ensuring liquidity in the event of increased default rates.

Today's world is rapidly developing towards the extraordinary modernization. Various aspects of general people and overall business activities have been changed on these terms. In this context, commercial banks are diversifying in their services in miscellaneous forms. Specially such services have been helpful to attract customers' attention facilitating in their lifestyles as well as transactions. As a result, such services are becoming a better source of income to the commercial banks. In another words, the incomes generated through such services are taken as non interest income to commercial banks. Specially, incomes as non interest income are obtained by providing various services or performing different activities which can be explained as follows:

- **Commissions Received from Agency Services:** Commercial banks accept deposits in different account from their customers. Therefore, the various responsibilities, which they have to be done, are performed by banks on behalf of its customers in basing their accounts. In another words, it performs making, processing and collection of payments (Meir Kohn, FIMs, 1999, 131). For example, a commercial bank undertakes the payment of subscriptions, insurance premium, rent, etc. and collection of cheques, bills, salaries, pensions, dividends, interest, etc. on behalf of its customers. The bank charges a small amount of commission for these services.
- **Commission Received from Bills Collection and Purchase:** Bills collection and purchase is one of the important functions of financial

institutions. Though, such services are provided only those customers who have bank account to handle transactions. Generally, there are two types of bills in the banks to clean bills such as: cheque, draft or pay order and documentary bills letter of credit or other promissory notes. For the collection and speedy payments of the amount of the bills, it has been made provision of modern system like SWIFT. Sometimes, customers may have immediate need of cash. However, it takes time to get payments of cheque in the regular process. In such a situation, they can get payment presenting cheque, draft in the bank as well as financial institution.

The bank purchases bills only of those faithful as well as higher-class customers because, sometimes, it may have a problem due to the fraud cheque or zero amounts in the bank balance. Therefore, banks and financial institutions approve the limitation of bills purchased in every fiscal year and they performed the transaction within such limitation. Performing bill purchase banks and financial institutions receive commission from customers. (Regmi, Modern Banking System of Nepal, 250-251)

- **Commission Received from Issue of Standby Credit Letters:** One of the most rapidly growing of all markets in recent years has been the market for financial guarantees, instruments used to enhance the credit standing of a borrower to help ensure lenders against default on the borrower's loans and to reduce the borrowers' financing cost. In short, financial guarantees are designed to ensure the timely repayment of the principal and interest from a loan even if the borrower goes bankrupt or cannot perform a contractual obligation. One of the most popular guarantees in the banking community is the standby letter of credit (SLC). SLC may include performance bond guarantees in which a bank guarantees a building or their project will be completed on time or in default guarantees, under which bank pledges the repayment of defaulted guarantees, under which bank pledges the repayment of defaulted corporate notes and state and local government bonds when the borrowers can not pay. These standby letters enable borrowing customers to get the credit they require at lower cost and on more flexible terms. In order to sell these guarantees successfully, however, the bank must have higher credit ratings than its customers.

A SLC is a contingent obligation of letter's issuer. The issuing bank or non bank firm, in return for a fee agrees to guarantee the credit of its customer of guarantee the fulfilment of a contract made by its customer with a third party. Involving in providing service, letter of credit the bank earns a fee usually around 0.5 percent to 1 percent of the amount of credit.

- **Receive Commission from Remittance Business:** Remittance is a simple and easier way of fund transfer from one place to another place. It is assumed as most important function for assisting to move forward the fund transfer activities of general people and businesspersons or traders. The significant changes in the information technology such as: ATM, Internet banking, e-baking and tele- banking, it has helped to well develop the remittance business in an appropriate manner. Due to the globalization of remittance, a customer of the bank is able to transfer funds anywhere and any time. At present, the widely used to Debit Card and Credit Card, definitely, are facilitating the remittance business in banking market. Performing the remittance business, banks and financials institutions obtain commission from their customers (Yogendra Regmi, *M*BS of Nepal, 2005).

- **Investment Banking and Merchant Banking Services:** Specially, investments bankers can provide better services like assisting one firm or another to issue securities as a cost below that of running on in house security issuance division considering interest to protect and maintain its reputation for honesty. (Zvi Bodie and others, Investments, 4th ed.) On the other hand, merchant bank acts as middlemen between the business corporation and the investors assisting business corporation to raise funds for long time capital requirement by issue of bonds. Likewise, it underwrites the fresh issue of shares and debentures of business corporation. In this context, banks today are following in for steps of leading financial institutions all over the globe in offering investment banking and merchant banking services to corporations. These services include identifying possible merger targets, financing acquisitions of other companies, dealing is security underwriting, providing strategic marketing advice and offering hedging services to protect their customers against risk from fluctuating world currency prices and changing interest rates. Instead of such useful services, bank charges certain fee to customers which are also a part of non-interest income.

- **Service Charge Received from Safekeeping of Valuables in Secure Vault:** From the long time ago, banks have been providing the services of safekeeping of valuables, gold, securities owned by their customers in secure vaults. As modern bank also receives these from its customers, valuables such as securities, jewellers, documents of title to goods, etc. for safe custody. The bank acts as the custodian of the valuables belonging to the customers. He receives them and returns them back when demanded. Thus, providing such services to customers, banks obtains service charge as non interest income.

- **Service Charge Received from Providing Financial Advice:** One of the most important services of commercial banks is financial advice to their customers. In these days, many aspects of the human beings have influenced by internal and external environmental factors. On these terms, they might have confussion to take an appropriate decision for mobilization of their funds so that they will be able to proper utilization. Therefore, bankers have long been asked for financial advices by their customers, particularly when it comes to the use of credit and saving or investing of funds. Likewise, today, many banks offer a wide range of financial advisory services for their business customers from helping finances planning to consult about marketing opportunities in national and international level. Banks take service charges from their customer for such services, which is a part of source of non-interest income.

- **Service Charge Received by Carrying out Currency Exchange:** Foreign currency exchange is very important to develop cross boarder financial market as well as facilitated smoothly operation of business among different countries (Johnson, *Financial Institutions and Markets,* 106). Likewise the need to exchange currencies has been increasing because of demand of exchange in an international trade and investment over the year. Foreign currency exchange market represents a global tele-communications network among the large commercial banks that serve as financial intermediaries for such exchange (Jeff Madura, *FMI*, 5th ed., Florida: South Western College Publishing, 2001, 401). Meanwhile, currency exchange services are found that the bank has started from its history. Specially, under the currency exchange activities a bank performed trading of one form of currency to another in return for fee considering the comfort ability to respective parties. However, in today's financial market place trading in foreign currency is carrying out primarily by the largest banks due to the risks involved and the expertise required carry out such transaction. As a result, an income is received to the bank as service charge carrying out currency exchange. It is also a source of non interest income.

- **Fee Receive from Assisting in Foreign Trade:** Foreign trade is very important for the economic development of the country because any nation cannot be independent itself in an every aspect. Therefore, it is assumed as an engine of economic growth (Shyam Joshi, Economic Policy Analysis, Kathmandu: Teleju Prakshan, 2059,). Basically, different countries are engaged in the foreign trade. At that time, there occurs problem of payment through currencies with respective countries. So the bank assists the traders engaged in foreign trade by solving such problems. For example, in Nepalese context, the bank discounts the bill of exchange drawn by Nepalese exporter or the foreign importers and enables the exporters to receive money in the home currency. Similarly, it also accepts the bills drawn by foreign exporters. Therefore, banks act as a facilitator to those businessmen who are engaged in foreign trade. Instead of bank's services, it charges fee to the traders. It is a kind of source of non interest income to the bank.

- **Fee Received from Security Brokerage and Security Underwriting Services:** Commercial banks are trying to become financial departmental stores with multipurpose financial firms. It is focusing all of its efforts to fulfil all the financial service needs of their customers in one spot. One of the biggest of all banking services targets in recent years has been dealing in securities is buy and sell orders for security trading customers referred to as security brokerage services. Likewise, marketing of new securities to raise funds for corporations and other institutions referred to as security underwriting services. From these services banks earn fee income, which can be included in non interest income.

- **Fee Received from Trust Services:** Banks have managed the financial affairs and property of individuals and business firms for many years. They execute such services which are often based on the value of properties of the amount of funds under management. This property management function is known as trust services. In these days, also most banks offer both personal trust services to individual and families as well as commercial trust services to corporation and other business. Through a personal trust department, customers can set aside funds for the education of their children, for example, with the bank managing and investing the money until it is needed. Even more commonly, banks acts as trustees for wills, managing deceased customer's estate by paying claims against the estate, keeping valuable assets safe and productively invested and seeing to it that the legal heirs receive their rightful inheritance. In the same way, many banks provide trust and custodial services as portfolio of securities management for corporation, institutions and individuals. Also, they execute purchase and issuance of securities in mergers and acquisitions (Kohn, *Financial Institutions and Markets,* 232). For trust services, bank charges fee to customers and it is an item of non interest income sources.

- **Fee Received from Cash Management Services:** As per the past experiences, banks have found some of the services like cash management services which they provide for themselves are also useful for their customers as most prominent services. Under the cash management services, bank agrees to handle cash collection and disbursement for a business firm. Similarly, bank wisely invests any temporary cash surpluses in short term interest bearing securities and loans until the cash is needed to pay bills. That's way, knowing the role and importance of such services, there is a growing trend in banking today offering similar services for their customers. Basically, the reason behind this trend arose largely is the competitions from brokerage companies and other financial conglomerates that offer consumers special brokerage accounts with wide array of associated financial services including investing in mutual funds, writing checks and using credit cards for instant loans. From such services, bank generates fee income.

- **Fee Received from Dealing of Forward Contract:** A forward contract is an agreement between a customer and a bank to exchange one currency for another on a particular future date at a specified rate. In another word, the counterparties are made an agreement in forward contract at present in order to exchange at a future date (Richar M.Levich, IFMs: Price and Policies, USA. 1998,). Banks engage in forward contracts with customers because customers desire to hedge their exchange rate risk. The bank can serve as an intermediary and accommodate both requests. It can earn transaction fee from such services, which is also an item of non interest income.

- **Non-operating Income as a Non-Interest Income:** Most of the non-interest incomes are obtained through banking services as well as performing various activities with respect to requirement of clients. However, it is the non operating income that is received from profit on sale of investment and assets. Similarly, the losses on these items are taken as expenses. The dividend received from different financial institutions such as commercial banks, rural development banks, financial institutions and other organized institutions are also incorporated in non operating income. Likewise, subsidies received from Nepal Rastra Bank, which includes reimbursement of losses of specified branches, income subsidies, exchange counter are also included in non operating income. So, income from other items such as amortization of goodwill, lease hold assets written off and other income are also accumulated in non operating income.

2.1.7 Interest Expenses, Non interest Expenses and Net Income of Commercial Banks

Interest Expenses: Interest expense, defined as a non-operating expense on the income statement, occurs anywhere money is borrowed. Interest expenses are considered as a part of a company's financing activities. The interest expense represents the company's cost of borrowing money. It is calculated as the interest rate multiplied by the principal amount of the loan or debt. Interest expense can be interest payments on loans, bonds, or other debt instruments.

Interest expense is a cost associated with borrowing money. It must be reported on income statements and balance sheets, and there are certain types of interest expenses which may be tax deductable. The interest expense includes interest paid on a debt in a given accounting period, and it can also include points paid to secure a loan at a lower interest rate along with prepayment penalties for loans which are repaid early. Lenders usually provide people with interest statements which they can used to determine the amount of their interest expense in a given period.

Interest expenses is the sum of interest paid on all interest bearing liabilities including transaction accounts, time and saving deposits, short term non-core liabilities and long term debt. Gross interest income minus gross interest expense is labeled net interest income (Coach and Macdonald, Bank Management, 108).

Non-interest Expenses: A fixed operating cost is that a financial institution must incur, such as anticipated bad debt provisions. Non-interest expenses can include employee salaries and benefits, equipment and property leases, taxes, loan loss provisions and professional service fees. Companies will counterbalance non-interest expenses by generating revenue through non-interest income.

The expenses entitled to wages, salaries to wages, salaries and other personnel expenses are an important item that has been rapidly increasing in recent years in the banking firms. Similarly, under the non-interest expenses category, the cost of bank furniture and equipment also can be included. Likewise, other numerous small expenses items like legal fees, office fees, office supplies and repair costs are also taken as non-interest expenses (Ross, *Commercial Bank Management,* 132).

Net Income: We get income or loss before taxes after the deduction of both non-interest expenses including the annual provision for loan losses and interest expenses from the sum of interest and non-interest income. Then after, the applicable taxes in association with government and local taxes should be deducted again from net income or loss after tax. The boards of directors usually divide the net income after taxes into two categories. One of these two categories into which some funds may separate to in the form of dividend to the stockholders. The second portion of these categories, usually that represents largest part, will go into retained earnings which is also called undivided profit in the bank's capital accounts. Specially, it is made such provision of retained earning in order to assist the institution's future growth and prosperities (Ross, Commercial Bank Management, 132-134).

2.2 Review of Related Studies

Different research works have been carried out by different scholars within the various geographical regions. More specifically, this study is related with non-interest income and operating efficiencies of commercial banks or the area of the study.

2.2.1 Review of Articles:

This section presents the review of relevant study and research articles. The related websites will also be consulted.

Young and Rice have conducted a research on non-interest income and financial performance at U.S. Commercial banks in 2004. (Young and Rice, "Non-interest Income and Financial Performance"). Researchers have been used a number of different ways to measure the incidence of non-interest income at commercial banks such as non-interest income as a percentage of bank assets and non-interest inocme as a percentage of bank operating income which have increased over time for large (assets greater than 1 billion) and small (asset less than 1 billion) U.S. commercial banks between 1984 and 2001. They have persented non-interest income comprises a large portion of commercial bank income today than in 1984 as well as non-interest income ratios are larger and have grown more quickly over tiem as large banks than small banks. Likewise, they have indicated that the large industry aggregate ratio indicate that the lion's share of total non-interest income is being generated by a small number of banks. Basically, researcher have mainly tried to analyzes which bank characteristics, market conditions and tehnological developments have been closely associated with the increases in various types of non-interest incoem at U.S. commercial banks over the past two decades and whether increase in various types of non-interest income have been associated with improved or worsened bank financial performance. for the empirical analysis they had set data containing 37,175 year-end observations of 4.712 U.S. commercial banksfrom 1989 through 2001. There were sophisticated economic model and strong statistical tool like robustness tests and regression has been employed for analysis. Researchers have concluded that large banks generate relatively more non-interest income; that relationship banking tends to generate non-interest income and that some technological advance (e.g. cashless transactions, mutual funds) are associated with increased non-interest income while other technological advance e.g. loan securitization are associated with reduced non-interest income at banks. Further, they have concluded that marginal increased in non-interest income have been associated with higher profits, more variable profits and on net a worsening of the risk-return trade for the average commercial bank during their sample period.

In the study on condition and performance of commercial banks has stated that a major contributor to the industry's profitability has been growht in non-interest income. (Comptoller of the currency Administration of National Banks, US Department of the Treasury, "Condition and Performance of Commercial Banks,"). Furthermore, growing reliance on non-interest income as a percentage of operating revenue for banks means changes in the type of activities bank enter and may mean changes in the characteristics of the revenue stream which bank receive.

Non-interest income varies with size, holding company affiliation and with proximity to an urban location. banks that are part of one bank or multi bank holding company structure on average earn more in there operating revenue from non-interest income than independent banks. Similarly, banks that are located in an urban setting an average earn more of their operating income than rural banks.
Banks and banking companies that have more non-interest income as a percentage of operating revenue may have more variability in their earning. This has justified by scholars by looking at the variability of returns for both small banks and large banking companies in relation to the percent that non-interest income contributed to operating revenue between 1994 and 1999. They have found positive correlation between a banks reliance on non-interest income for operating revenue and the level and variability of bank profitability.

Stiroh has conducted a study on diversification in banking is non-interest income the answer (Kevin J. Stiroh, "DB: Is Non-interest Income the Answer?" August 14, 2006). In this study, he has indicated that the U.S. banking industry is steadily increasing its reliance on non-traditional business activities that generate fee income, trading revenue and other types of non-interest income. This paper asses potential diversification benefits from this shift. At the aggregate level, declining volatility of net operating revenue reflects reduced volatility of net interest income, rateher than diversification benefits form non interest income, which is quite volatile and has become more correlated with net interest income. At the bank level, growht rates of net interest income and non interest income have also become more correlated in recent years. Finally, greatere reliance on non-interest income particularyly trading revenue is associated with higher risk and lower risk adjusted profits. These results suggest little obvious diversification benefit from the ongoing shift toward non interest income.

FDIC has carried out a study in new reporting offers insight into bank activities in 2002 (FDIC, "New Reporting Offers Insight into Bank Activities," FDIC, August 14, 2006). In this study, it is stated that non interest income has become more important for banks as non bank competition for loan customers, especially in sectors suchas home mortgage lending and lending to large commercialborrowers, has limited growht in net interest income. At the same time, banks' enhanced ability tomarket and deliver fee earning transactional services, made possible by advances in telecommunications and data processing, and the development of new financial products, aided by deregulation and innovation, have produced a growing number of sources of non interest income. This trend has been evident at both large and small banks, although larger banks have consistently obtained a significantlay greater share of their revenues from non-interest sources. greater diversification in revenues should promote greater stability and consistency in bank earnings. While some non interest revenue sources are sensitive to conditions in financial markets, and may be more volatile over time than net interest income, other non interest revenues, botably those obtained from transaction based services, should be less susceptible to cyclical influences. The report format introduced in the first quarter of 2001 still includes previous components of non interest income like fiduciary income, deposit service charges and trading revenues, but it now also breaks out income from investment banking services, revenues from venture capital investment, servicing fees, income from asset securitization activities, insurance commissions and fees, and proceeds from sales of loans, other real estate and other assets.

Craigwell and Maxwell have conducted a study on non-interest income and financial performance at commercial banks in Barbados. (Rodnald Craigwell and Chanelle Maxwell, "Non-interest income and Financial performance at

Commercial banks in Barbados"). This study discuses the trends in non-interest income at commercial banks in Barbados between 1985 and 2001, as well as investigates the determinants of non-interest income and its impact on commercial bank financial performance. The paper reveals that the incidence of non-interest income in Barbados declined over the period, contrary to the findings in Jamaica and Trinidad and Tobago as well as the wider developed world. A review of literature and a panal data regression model condition that the result for barbados may be attributed to the absence of some of the factors that were pinnacle to the generation of non-interest income in developed countries, such as deregulation and technological change especially for the development of loan rectifications and credit scoring. The empirical evidence supports bank characteristics and the ATM technology as the most influential factors shaping the trend of non-interest income in the banking industry in Barbados and suggest that non-interest income is positively related to both bank profitability and earning volatility.

2.2.2 Review of Dissertation:

There are several thesis works will be conduct ahead by vaious researchers regarding the different aspect of commercial banks such as financial performance investment policy, dividend policy, capital structure, interest rate sturcture, resource mobilization.

- Joshi conducted a study on commercial banks of Nepal with reference to financial analysis of Rastria Banijya Bank. (Joshi Deepak, "A study on CBs of Nepal.") The objective of the study was to provide conceptual framework of commercial bank and to analyze and interpret those financial variables of RBB on qualitative and quantitative performance basis. the study was based on the financial data of FY 2041/42 through 2045/46. Researcher has used various financial ratios like current, liquidity funded debt to total capitalization and funded debt equity in this study. The researcher had drawn the conclusion that performance of RBB was not satisfactory during the study period. Further, the researcher concluded that bank had not been managed in true professional approach but had managed in bureaucratic approach to sustain with political environment rather than commercial environment.

- Adhikari conducted a study on evaluation of the financial performance of Nepal Bank Ltd. (Adhikari Dev R., "Evaluating the FP of NB Ltd."). The objective of the study was to evaluate the financial performance of Nepal Bank Ltd. The study has been limited to FY 2038/39 through 2046/47. The main indicators of financial performance used were financial ratios, current, loan to deposit, return on capital, return in net worth, return total assets, earning per share, dividend per share, pay out and net worth per share Vs market price per share. The researcher conducted that the bank had not managed investment porfolio efficiently. operational efficiency was not satisfactory. During the study period, except liquidity position, all other financial indicator was not satisfactory.

- Gurung Conducted a research on financial study of Joint Venture Banks in Nepal in 1995. (Gurung Vikram C. "A financial study of JVBs in Nepal."). The objective of this study was to examine the financial strengths and weaknesses of Nepal grindlays Bank Ltd. (NGBL) and Nepal Indosuez Bank Ltd. (NIBL). The study has covered the period of seven fiscal years i.e. FY 1986/87 through 1992/93. In this study, he has used financial ratio Viz. Karl Pearson's Coefficient of Correlation. The researcher has on the basis of different financial indicators, found that performance of NGBL is better than that of NIBL.

- Karki has Carried out a study on investment policy and practices as a case study of Nepal SBI Bank Limited in 2005. (Karki Dependra, "IPP: A case study of Nepal SBI bank Ltd."). The basic objective of that study was to analyze the general investment policy of NSBL. The study has covered the period of five fiscal years i.e. 1999/00 through 2003/04. In that study, he has used various financial and simple statistical tools. The researcher has found that the bank has stable investment policy to invest its most of the funds into the private sectors and only a very small portion to the

Government sectors. Moreover, on the basis of the trend analysis NSBL for the next five years, he has concluded that the bank has not been pleasingly sucessful to adopt an appropriate investment policy to achieve high growh ratio and generate high income from the available resoruce.

- Singh has done a study on resource mobilization by Nepalese commercial Banks. (Krishna singh Om, "A Brief Study on Resource Utilization by Nepalise commercial Banks."). The objective of the study was to evaluate the commercial banking activities for the period of mid-July 1972 through mid-July 1978. He has used Karl Pearson coefficient of correlation along with financial tools. He drew the conclusion that commercial banks were not efficient in utilization of collected deposits. Further, he concluded that the expansion of branches in rural areas was unsatisfactory during the study period.

- K.C. has done a study on dividend policy of Joint Venture banks in Nepal in 1991.(K.C. Pramesh.,"Dividend Policy of Joint Venture Banks in Nepal" Master diss., Tribhuvan University, 1991). The objective of this study was to provide conceptual framework of dividend mosels and to analysis the financial variables affecting the stock value and interpret the implication of paying divident in dividend valuation models. The study has covered the time span of FYs 1984/85 through 1988/90. In this study, various financial ratios hae been analyzed with the help of two types of analytical toos-investment and statistical tools. Investment toos consist of dividend payout ratio, earning pershare, return and paid-up capital, retention ratio and dividend valuation model. In addition to the coefficient of correlation, the researcher has used financial toos in this study. The researcher concluded that earning per share of all three joint ventures banks (Nepal Arab Bank Ltd., Nepal Indesuez Bank Ltd., and Nepal Grindlays Bank Ltd.) were satisfactory and actual capitalization rate was higher than the normal capitalization rate.

- Paudel carried out a study on comparative analysis of financial performance between Nepal bank Ltd (NBL) and Nepal Grindlays Bank Ltd. (NGBL).(Paudel Ramji, "A Comparative Analysis of Financial Performance between Nepal Bank Ltd. and Nepal Grindlayas Bank Ltd."). The basic objective of that study was to provide comparative financial performance of NBL and NGBL. Only five fiscal years financial performance beginning from FY 2047/48 through Fy 2051/052 was analyzed. In that study, financial and statistical tools were used to evaluate performance of banks. The financial tools were liquidity, activity, profitability, structural and income and expenditure ratios. Further, the researcher used the method of least square to find out the trend of different financial indicator like earning per share, dividend per share and net profit, loans and market value per share. On the basis of different indicators, he found that the performance of NGBL is better that of NBL.

- Sharma conducted a research on capital tructure of selected commercial banks in Nepal in 2005. (Sharma Resham raj, "A study on Capital Structure of Selected Commercial Banks in Nepal"). The objective of the study was to analyze the proportion of total debt and equity capital as well as the supplementary capital adequacy of the commercial banks. The study was based on the financial data of five years i.e. 2056 B.S. to 2060 B.S. In that study, financial and statistical tools were used to study the capital structure of commercial banks. In financial tools, capital adequacy ratio, core capital adequacy ratio, supplementary capital ratio, total debt to equity ratio, interest coverage ratio were use. On the other hand, average, standard deviation, coefficient of variation, least square trend analysis was used in statistical tools. Through his study he brought out the conclusion that the banks are using the higher proportion of total debt in their total financing and the outsiders have invested more in total assets of the banks as compared to the owners. Moreover, the Nepalese commercial banks are highly levered and they are taking higher advantage of leverage in owning total assets as a result there is lower margin of safety to the outsiders in these institutions. Furthermore, he drew the conclusion that the supplementary capital of the banks is sufficient or adequate. However, the banks are trying to decrease the contribution of supplementary capital in capital adequacy due to declining tendency of the ratio.

- Bohara has done a study on financial performance of Nepal arab Bank Ltd. (NABIL) and Nepal Industrial Bank Ltd. (NIBL) in 1992. (Bohara, Bhoj Raj, "A Comparative study of the Financial Performance of Nepal Arab Bank. Ltd, and Indesuz Bank Ltd,"). The basic objectives of this study were to highlight on the functions and policies of joint venture banks and to evaluate the comparative financial performance of NABIL and NIBL. The study has covered the five fiscal years 1986/87 through 1990/91. In this study, financial tools along with statistical tools have been used. Different rations-liquidity, activity coverage leverage, profitability and othere indicators like earning per share, dividend per share market value of book value ratio have been used to evaluate the performance of NABIL and NIBL. In statistical tool, the least square method has been employed. The researcher has, on the basis of different financial indicators, concluded that performance of NABIL is better than that of NIBL. The researcher further concluded that bank performance couldnot be judged solely in term of profit as it may have earned profit by maintaining adequate liquidity and safety position. The researcher has recommended to NIBL to extend their banking facilities even in the rural areas by opening up branches besides the imporovement in maintaining the adequate capital structure by increasing equity base.

Research Gap:

Research is searching something new again and again. So it is never ending process. Different scholar and researcher have been conducted in the past on Non Interest Income and Financial Performance at Commercial Banks, Financial Analysis of Commercial Banks, Investment Policy and Capital Structure as well as Dividend Policy of Commercial Banks. The Scholors are mainly emphasized on profitability, liquidity and leverage of the commercial banks. Similarly, they have brought widen information like non-interest income as a percentage of bank operating income, impact of deregrlation and technological advances to increase non interest income, general investment policy, form of capital structure and influencing factors for dividend payment of commercial banks. However nobody researchers do not have try to attempt to conduct research on non-interest income of Nepalese Commercial banks which is assumed as an emerging aspect in commercial banking sectors in these days. Therefore, an effort has been contributed to study about the non-interest income on total income of commercial banks in Nepal and it covers the date from fiscal year 2061/2062 to 2065/2066 only.

CHAPTER III

RESEARCH METHODOLOGY

This chapter provides the overall framework or plan for the collection, presentation and analysis of data required to fulfil the objectives of the study. It also specifies the method and procedure adopted for acquiring the information which is needed to solve the research problems. This chapter includes research design, population and sample, nature and sources of data, methods of data collection, data analysis tools and limitations of methodology.

Methodology can properly refer to the theoretical analysis of the methods appropriate to a field of study or to the body of methods and principles particular to a branch of knowledge. Management research methods have basically categorized into four types – Policy research, Managerial research, Action research and Evaluation research. Each of these research methods has its own purpose. Hence the methodology and the research instrument used for each research instrument used for each research methods are different.

3.1 Research Design:

Research design is an integrated framework of the overall study that guides the researcher in formulating, implementing and controlling the research work. This study is designed within the framework of descriptive technique to evaluate the different aspect of non-interest income on total income of sampled commercial banks. Descriptive research seeks to find out the fact by the help of sufficient data and information. Here, financial and statistical tools are applied to examine facts on non-interest income on total income. So, analytical research design has also been used. Therefore, both analytical and descriptive research will be ascertained wherever and whenever required.

3.2 Population and Sample:

Population is a set of groups, individuals and elements having the same nature, important and existence. Similarly, the sample is only the portion or subset of the population. In this study, commercial banks are taken as population, which have completed of operation five years by the fiscal year of 065/66 and listed in Nepal stock exchange. There are altogether 26 commercial banks in Nepal out of which only 23 commercial banks meet the earlier stated criteria. So, 15 commercial banks are taken as the population. From the population only 5 commercial banks are drawn as sample. For sampling purpose, simple random sampling lottery method has been used for sampling.

3.3 Nature and Sources of Data:

This study will be based on secondary data. In this study annual reports of the respective commercial banks are used for major source of data. The necessary data and information have acquired form NRB bulletin and its official websites, various publications dealing in the subject matter of the study, different articles published in journals, NEPSE reports and concerned websites also.

3.4 Data Collection Procedures:

As mentioned earlier that this study is based on secondary data. Annul reports and other information of respective commercial banks has been obtained from head office and official websites of these banks. In this way NRB publication are collected from the website of NRB. Other information, literature review are collected from the Western Regional Library Pokhara, different journals, magazines as well as published and unpublished reports document by the concerned authorities.

3.5 Data Processing:

In this study necessary data have been taken out from the published documents and audited financial statements are recorded in Master Sheet manually. Then data have been entered into the Spread Sheet to work out the financial ratio and prepared the necessary figure. Then different financial ratios have been worked out with the help of computer program like Microsoft Excel and Microsoft word.

3.6 Data Analytical Tools:

In this study, financial and statistical tools have been used for data analysis. Data has been analyzed using appropriate tools according to the pattern of data available to meet the objective of the study. Data has been presented in tables and figures as required. The collection of data has been organized, tabulated, processed and analyzed using financial data and statistical tools as described in the resulting section.

3.6.1 Financial Tools

- **Net Non-Interest Income with Total Income:** Net interest income with total income is the expression of net non-interest income with total income. Net non-interest income measures the commission and discount, operating and non-operating income, exchange fluctuation income, provision written back, profit/loss from extra-ordinary activities. Whereas total income measures the loans, advance and overdraft, on investment, on agency balance and on money at call and short notice. For the purpose of study, following model is used to determine net non-interest income with total income:

$$\frac{\text{Net non-interest income}}{\text{Total income}}$$

- **Commission and Discount with Total Income:** Commission is a service charge assessed by a broker or investment advisor in return for providing investment advice or handling the purchase or sale of a security. Most major, full-service brokerages derive most of their profits from charging commissions on client transactions. Commissions vary widely from brokerage to brokerage.

  Commission and discount measures the bills purchased and discounted, commission, and others. The local currency and foreign currency are included in bills purchased and discounted such as letter of credit, guarantee, collection fee, remittance fee, credit cards, share underwriting/issues, Government transaction, EPra. Commission, exchange fee are included in commission. It is calculated by:

$$\frac{\text{Commission and Discount}}{\text{Total Income}}$$

- **Operating and non-operating Income with Total Income:** Operating income is a measure of a company's earning power from ongoing operations, equal to earnings before deduction of interest payments and income taxes. It also called operating profit or EBIT (earnings before interest and taxes). Operating income includes the rent on safe deposit lockers, issue and renewal of credit cards, issue and renewal of ATM card, Telex/T.T, service charges and renewal fees.

  Such as non-operating income is the portion of an organization's income that is derived from activities not related to its core operations. Non-operating income would include such items as dividend income, profits (and losses) from investments, gains (or losses) incurred due to foreign exchange, asset write-downs and other non-operating revenues and expenses. Profit/loss on sale of investment, profit/loss on sale of assets, dividend and subsidies received from Nepal Rastra bank are included in non-operating income. It is calculated by:

$$\frac{\text{Operating and non-operating income}}{\text{Total income}}$$

- **Exchange Fluctuation Income with Total Income:** Exchange fluctuation income includes the revaluation gain and trading gain (Except INR exchange fee). It is calculated by

$$\frac{\text{Exchange Fluctuation Income}}{\text{Total Income}}$$

- **Provision Written Back with Total Income:** Provision is a legal clause or condition contained within a contract that requires or prevents either one or both parties to perform a particular requirement by some specified time. Specified requirements can include, but are not limited to, sunset, soft call, anti-dilution, and anti-greenmail provisions. Provision written back includes the loan loss provision written back, non banking assets provision written back, investment provision written back and other assets provision written back. It is calculated by:

$$\frac{\text{Provision Written Back}}{\text{Total Income}}$$

- **Profit/loss From Extra-Ordinary Activities with Total Income:** Extra-ordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly. Profit/loss from extra-ordinary activities includes recovery of written off loan, voluntary retirement scheme expenses, loans written-off, other expenses/income. The following model is used to work out profit/loss from extra-ordinary activities with total income:

$$\frac{\text{Profit/loss from Extra-Ordinary Activities}}{\text{Total Income}}$$

- **Growth Ratio:** Growth ratio of interest income and non interest income are calculated by using the following model:

  $Dn = Do\ (1+g)^{n}-1$

Where,

Dn = Total growth ratio of total interest income and total non interest income in nth year.

Do = Total growth ratio of interest income and non interest income in an initial year.

g = Growth

n = Total number of years

Statistical Tools

- **Average:** In this study, a simple arithmetic average has been used to find out the average value of net non interest margin, burden ratio, efficiency ratio, operating risk ratio, earnings spread and expense ratio of sampled commercial banks. The average is expressed as:

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

Where,

x = Mean of the Values

N = Number of Pairs of observations.

- **Standard Deviation:** A measure of the dispersion of a set of data from its mean. The more spread apart the data, the higher the deviation. Standard deviation is calculated as the square root of variance. In this study, standard deviation has been employed to know the dispersion of net non-interest margin, burden ratio, efficiency ratio, operating risk ratio, earnings spread and expense ratio of sampled commercial banks in absolute term. Standard deviation is determined in the following way:

$$\sigma = \sqrt{\frac{\sum (x-\bar{x})^2}{n-1}}$$

σ = lower case sigma

$\sum$ = capital sigma

$\bar{x}$ = x bar

- **Coefficient of Variation:** The coefficient of variation represents the ratio of the standard deviation to the mean, and it is a useful statistic for comparing the degree of variation from one data series to another, even if the means are drastically different from each other. In this study, the coefficient of variation is undertaken to compare the variability of net non-interest margin, burden ratio, efficiency ratio, operating risk ratio, earning spread and expense ratio of the sampled commercial banks. Symbolically, the coefficient of variation is defined as:

$$\text{Coefficient of Variation} = \frac{\textbf{Standard Deviation}}{\textbf{Expected Return}}$$

- **Karl Person's Coefficient of Correlation:** In this study, Karl Person's coefficient of correlation is calculated in order to examine the relationship between non-interest income and total income, non-interest income and interest income as well as non-interest income and non-interest expense of the sampled commercial banks. It is obtained by using the following formula:

$$r = \frac{\sum(X-\mu_X)(Y-\mu_Y)}{N\,\sigma_X\,\sigma_Y}$$

Where,

σx = Standard deviation of series X

σy = Standard deviation of series y

N = No. of pairs of observations

Probable error (P.E.) helps to interpret the valued as well as measures the reliability of the coefficient of correlation. Probable error is below:

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

- P.E = Probable error
- r = Pearson’s correlation coefficient
- N = Number of observations

- **Least Square Trend Analysis:** Least square trend analysis has been used to find out the trend of net non-interest margin, burden ratio, burden ratio, efficiency ratio operating risk ratio, earnings spread and expense ratio of sampled commercial banks. The general equation use for trend is given below:

$$Y = a + bX$$

Where,

Y = Dependent variables

X = Coded time in year

a = Y – Intercept

b = Slope of the trend line

In this above model,

$$b = \frac{n\Sigma ty - (\Sigma t)\ (\Sigma y)}{n\Sigma t^2 - (\Sigma t)^2}$$

$$a = \frac{\Sigma y}{n} - b\ \frac{\Sigma t}{n}$$

3.7 Limitation of the Methodology

This study is carried out without the framework of descriptive research design. so it is difficult to eliminate the limitations of the descriptive research in which the study as well as the methodology is bounded only those commercial banks are taken as the population, which have completed five years of operation by fiscal year 2065/066. Therefore, the study may not be able to represent the whole scenario of commercial banks.

Simple random sampling lottery method is used to draw the sample, which is not free from the criticism. Therefore, it also imposes to draw the line of limitation. Finally, different tools are used to analyze the collected data, which are based on certain assumptions. Therefore, reliability of the analysis depends upon the circumstance on which the models are based.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

This chapter deals with the presentation and analysis of collected data from different sources. Here, different tools and techniques as mentioned in research methodology section have been practically applied to analyze the data. Thus financial and statistical tools have been employed to analyze the data.

4.1 Presentation and Analysis of Data

4.1.1 Analysis of Gross Revenue

The gross revenue represents the amount of revenue received by commercial banks over specified period of time. Basically, gross revenue of commercial banks includes interest income and non-interest income except cost incurred. Table 4.1 presents the interest income, non-interest income and total income as well as percentage of interest and non-interest income to the total income in individual and aggregate of sampled commercial banks over the period.

As shown in Table 4.1, in the case of BOK, contribution of interest income to the total income is maximum of 80.30 percent in FY 2061/062 and minimum of 77.93 percent in FY 2063/064. It is declining continuously up to third fiscal year and has slightly fluctuated over the final fiscal year of study. On the other hand, contribution of non-interest income to the total income is maximum of 22.07 percent in FY 2063/064 and minimum of 19.65 percent in FY 2061/062. It is slightly increasing up to third fiscal year and has slightly fluctuating over the final fiscal year of study period.

In the case of NCC, contribution of interest income to the total income is maximum of 87.17 percent in FY 2061/062 and minimum of 46.27 percent in FY 2064/065. It is declining continuously up to FY 2064/065 and has increased in last fiscal year of study. On the other hand, contribution of non-interest income to the total income is maximum of 53.73 percent in FY 2064/065 and minimum of 11.83 percent in FY 2061/062 of the study period. It is increasing in the FY 2064/065 of study and has declined in last fiscal year of study. Nevertheless, there is somehow better contribution of non-interest income to the total income during the study period.

In the case of Himalayan Bank the contribution of interest income to the total income is maximum of 82.15 percent FY 2061/062 of study and minimum of 73.61 percent in FY 2064/065 of the study. It is fluctuating over the study period. On the other hand, contribution of non-interest income to the total income is maximum of 26.39 percent in FY 2064/065 and minimum of 17.35 percent in FY 2061/062 of study. It is also fluctuating over the study period.

In the case of Kumari bank, contribution of interest income to the total income is maximum of 92.78 percent in FY 2061/062 of study and minimum of 87.02 percent in FY 2065/066 of study. It is fluctuated over the second last fiscal year and again decreasing in last fiscal year of study period. On the other hand, contribution of non-interest income to the total income is maximum of 12.98 percent in FY 2065/066 of study and minimum of 7.22 percent in the FY 2061/062 of study. It is also fluctuating over the second last fiscal year and again slightly increasing over the last fiscal year of study period.

In case of Nepal Investment bank, contribution of interest income to the total income is maximum of 83.34 percent in FY 2065/066 of study and minimum of 77.41 percent in FY 2061/062 in study period. It is fluctuating over the second last fiscal year of study and slightly increased in last fiscal year of study. On the other hand, contribution of non-interest income to the total income is maximum of 22.59 percent in FY 2061/062 and minimum of 16.66 percent of FY 2065/066 of study. It is also fluctuating over the last fiscal year of study and slightly decreased in last fiscal year of study period.

Among these sampled commercial banks, contribution of non-interest income to the total income ranges from 7.22 percent in (Kumari Bank) to 53.73 percent in (NCC). Moreover, it is a bit better only in BOK and NCC in later years of study. On the basis of these facts, contribution of non-interest income to the total income of BOK and NCC are found somehow good in later year of study whereas other banks like HB and NIB have not so good contribution. Furthermore, it is found nominal contribution of non-interest income to the total income in KB bank over the study period.

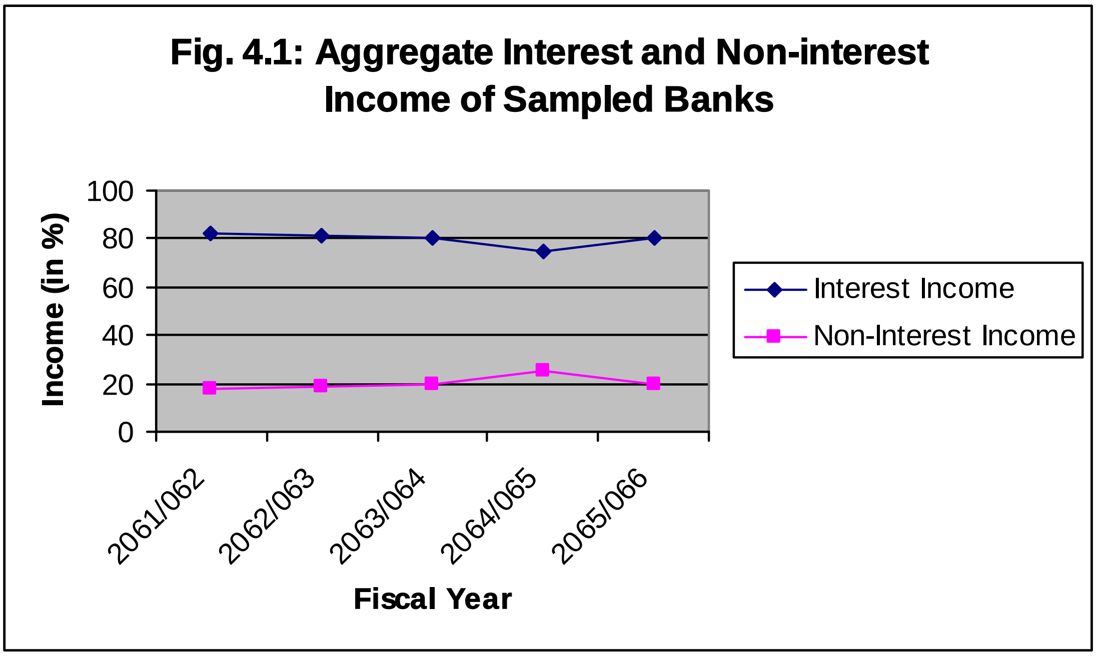
The aggregate contribution of interest income to the total income is maximum 82.70 percent in FY 2061/062 and minimum of 74.36 percent of FY 2064/065. It is slightly decreased in second last fiscal year and increased in last fiscal year of study. On the other hand, aggregate contribution of non-interest income to the total income is maximum of 25.64 percent in FY 2064/065 of study and minimum of 17.30 percent of 2061/062 of study. It is slightly increased in second last fiscal year and decreased in last fiscal year. The observed values of aggregate contribution of interest income and non-interest income to the aggregate total income of five commercial banks are shown in fig 4.1.

As shown in Fig. 4.1, aggregate percentage contribution of interest income to the total income has stable during the fiscal year 2063/064 and thereafter it is slightly came down in fiscal year 2064/065 and again in same range as before in last fiscal year of study period. But aggregate percentage contribution of non-interest income to the total income has stable during the fiscal year 2063/064 and thereafter it is slightly increased in fiscal year 2064/065 and again decreased in same range as before in last fiscal year of study. In this context there are strong presence of aggregate percentage of both interest income and non-interest income to the total income in sampled commercial banks.

Table 4.1: Structure of Gross Revenue

Fiscal Year		2061/62		2062/63		2063/64		2064/65		2065/66	
		Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Bank Of Kathmandu	Interest Income	607.10	80.35	718.12	80.28	819.00	77.93	1034.16	79.69	1347.76	79.07
	Non-Interest Income	148.46	19.65	176.46	19.72	231.99	22.07	263.60	20.31	356.66	20.93
	Total Income	**755.56**	**100.00**	**894.58**	**100.00**	**1050.99**	**100.00**	**1297.76**	**100.00**	**1704.42**	**100.00**
Nepal Credit & Commerce	Interest Income	541.85	88.17	562.78	84.95	474.41	84.75	576.61	46.27	758.36	64.20
	Non-Interest Income	72.73	11.83	99.67	15.05	85.36	15.25	669.49	53.73	422.80	35.80
	Total Income	**614.58**	**100.00**	**662.45**	**100.00**	**559.77**	**100.00**	**1246.10**	**100.00**	**1181.16**	**100.00**
Himalayan Bank	Interest Income	1446.47	82.15	1626.47	77.31	1775.58	78.53	1963.65	73.61	2342.20	79.77
	Non-Interest Income	314.21	17.35	477.25	22.69	485.44	21.47	704.01	26.39	593.94	20.23
	Total Income	**1760.68**	**100.00**	**2103.72**	**100.00**	**2261.02**	**100.00**	**2667.66**	**100.00**	**2936.14**	**100.00**
Kumari Bank	Interest Income	499.92	92.78	605.53	89.94	791.28	90.56	957.25	88.33	1374.72	87.02
	Non-Interest Income	38.91	7.22	67.73	10.06	82.44	9.44	126.41	11.67	205.10	12.98
	Total Income	**538.83**	**100.00**	**673.26**	**100.00**	**873.72**	**100.00**	**1083.66**	**100.00**	**1579.82**	**100.00**
Nepal Investment Bank	Interest Income	886.80	77.41	1172.74	80.25	1584.99	79.26	2194.28	79.78	3267.94	83.34
	Non-Interest Income	258.83	22.59	288.68	19.75	414.79	20.47	556.14	20.22	653.29	16.66
	Total Income	**1145.63**	**100.00**	**1461.42**	**100.00**	**1999.78**	**100.00**	**2750.42**	**100.00**	**3921.23**	**100.00**
Aggregate	Interest Income	3982.14	82.70	4685.64	80.85	5445.26	80.73	6725.95	74.36	9090.98	80.29
	Non-Interest Income	833.14	17.30	1109.79	19.15	1300.02	19.27	2319.65	25.64	2231.79	19.17
	Total Income	**4815.28**	**100.00**	**5795.43**	**100.00**	**6745.30**	**100.00**	**9045.60**	**100.00**	**11322.77**	**100.00**

Source: Annual Report of Sampled Ban



4.1.2 Analysis of Non-interest Income

Non-interest income is becoming increasingly important because of pricing pressure on net income of commercial banks. It is composed largely of trust income which reflects what a bank earns from operating a trust department and fees, and deposit services charges, which reflect charges on checking account activity, safe deposit boxes and many other transactions. These later items typically generate size of non-interest income. Trading revenue reflect commissions and profits or gain from operating a trading account and thus, from making a market in securities. The entries like other foreign transactions and other non-interest income reflect gains and losses on all non-trading foreign transactions and all other fee-based income, respectively. These categories of income have increased in relative importance for many banks as a result of deregulation's impact on the permissible financial services.

Here as non-interest income different components such as commission and discount, other operating income, exchange gain, non-operating income/loss, provision written bank as well as profit/loss from extra-ordinary activities are included. Table 4.2 presents the components of non-interest income of sampled commercial banks during the study period of last five fiscal years.

As presented in table 4.2, in the case of BOK, percentage of commission and discount has decreased in fiscal year 2062/063 and then it has continuously increased in fiscal year 2064/064. Thereafter, it is again decreased in the last fiscal year. Likewise, percentage of other operating income is fluctuate over the FY 2064/065 and slightly increased in last fiscal year of study period. However, percentage of exchange fluctuation income is decreased in FY 2063/064 and increased in last fiscal year of study period. Similarly, percentage of non-operating income/loss, the bank has fluctuated over the study period. In the same way, percentage of provision written back there is no provision written back in first fiscal year then after it is fluctuating over study period. So, the percentage of profit/loss from extra-ordinary activities there is no any activities in first fiscal year and then the bank has to be suffered lose in FY 2062/063 though it has to be succeeding in FY 2063/064 and again it suffered in loss in FY 2064/065 then after it is succeed in last fiscal year of study period. It is fluctuated over the study period.

In the case of NCC, percentage of commission and discount has continuously declining in FY 2064/065 and then it has slightly increased in last fiscal year. Likewise, percentage of other operating income has fluctuated over the study period. However, percentage of exchange fluctuation income, it has moved down in FY 2064/065 and then it has moved slightly upward in last fiscal year of study period. Similarly, as non-operating income/loss in percentage, the bank has suffered in the first fiscal year and they are fluctuating over the study period. In the same way, percentage of provision written back, here is no provision written back in first fiscal year then after it is fluctuating over study period. So, profit/loss from extra-ordinary activities there is no any activities in first fiscal year and after that bank has to suffer lost continuously in last fiscal year of study period.

In the case of Himalayan Bank, percentage of commission and discount has fluctuated over the last fiscal year of study period. Likewise, percentage of other operating income has been decreased in FY 2063/064 and then slightly increased in FY 2064/065 and again slightly decreased in last fiscal year of study period. However, percentage of exchange fluctuation income, it has moved down in FY 2064/065 and then it has moved upward in last fiscal year of study period. Similarly, as non-operating income/loss in percentage, it has slightly fluctuated in FY 2063/064 and again increased in FY 2064/065 and decreased in last fiscal year of study. In the same way, percentage of provision written back there is no provision written back in first fiscal year then after it is fluctuating in FY 2064/065 and then it remarkably decreased in last fiscal year over study period. So on, profit/loss from extra-ordinary activities there is no any activities in first fiscal year and then the bank has to be succeed to make income in FY 2062/063 though it has to be suffered in FY 2063/064 again it has succeed in FY 2064/065 then after it has to be suffered lost in last fiscal year of study period. It is also fluctuated in whole study period.

In the case of Kumari Bank, the percentage of commission and discount has fluctuated over the last fiscal year of study period. Likewise, percentage of other operating income has increased in FY 2063/064 and then slightly decreased in last fiscal year of study period. However, percentage of exchange fluctuation income is fluctuating over the study period. Similarly, as non-operating income/loss in percentage, suffered in lost in FY 2062/063 and then fluctuated over the study period. In the same way, percentage of provision written back there is no any income in FY 2061/062 then after it is increased in FY FY 2063/064 and decreased in FY 2064/065 and again remarkably increased in last fiscal year of study. So, for profit/loss from extra-ordinary activities there is no any activities in first and second fiscal year and then the bank has to be suffered in whole year of study period.

Table 4.2: Non Interest Income

Fiscal Year		2061/62		2062/63		2063/64		2064/65		2065/66	
		Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Bank Of Kathmandu	Commission and Discount	72.35	48.73	70.78	40.11	97.43	42.00	129.42	49.10	150.92	42.31
	Other Operating Income	4.47	3.01	16.97	9.62	19.00	8.19	23.17	8.79	43.22	12.12
	Exchange Fluctuation Income	72.11	48.57	78.96	44.75	80.83	34.84	93.77	35.57	136.04	38.14
	Non Operating Income / loss	-0.47	-0.32	1.09	0.62	-2.78	-1.20	0.81	0.31	-2.03	-0.57
	Provision written Back			103.87	58.86	37.10	16.00	61.83	23.46	21.58	6.05
	Profit/loss from extra-ordinary activities			-95.21	-53.96	0.41	0.18	-45.40	-17.22	6.93	1.94
	Total Income	**148.46**	**100.00**	**176.46**	**100.00**	**231.99**	**100.00**	**263.60**	**100.00**	**356.66**	**100.00**
NCC	Commission and Discount	37.87	52.07	37.47	37.59	31.77	37.22	34.23	5.11	55.45	13.11
	Other Operating Income	26.13	35.93	20.10	20.16	36.26	42.48	75.76	11.32	76.17	18.02
	Exchange Fluctuation Income	10.55	14.50	13.77	13.81	5.94	6.96	18.47	2.75	20.31	4.80
	Non Operating Income / loss	-1.82	-2.50	4.69	4.71	2.91	3.41	29.56	4.42	6.30	1.49
	Provision written Back			95.78	96.10	50.90	59.63	733.49	109.56	300.77	71.14
	Profit/loss from extra-ordinary activities			-72.14	-72.37	-42.42	-49.70	-222.02	-33.16	-36.20	-8.56
	Total Income	**72.73**	**100.00**	**99.67**	**100.00**	**85.36**	**100.00**	**669.49**	**100.00**	**422.80**	**100.00**
Himalayan Bank	Commission and Discount	132.82	42.27	165.45	34.67	193.22	39.80	202.89	28.82	284.30	47.87
	Other Operating Income	41.30	13.14	52.32	10.96	40.33	8.31	62.10	8.82	46.34	7.80
	Exchange Fluctuation Income	137.30	43.70	198.13	41.51	151.64	31.24	192.60	27.36	249.98	42.09
	Non Operating Income / loss	2.79	0.89	1.89	0.40	3.50	0.72	9.70	1.38	3.81	0.64
	Provision written Back			56.56	11.85	412.65	85.00	184.11	26.15	19.48	3.28
	Profit/loss from extra-ordinary activities			2.90	0.61	-315.89	-65.07	52.61	7.47	-9.97	-1.68
	Total Income	**314.21**	**100.00**	**477.25**	**100.00**	**485.44**	**100.00**	**704.01**	**100.00**	**593.94**	**100.00**

Kumari Bank	Commission and Discount	23.08	59.32	26.28	38.80	40.76	49.44	48.49	38.36	79.10	38.57
	Other Operating Income	2.61	6.71	10.00	14.76	15.28	18.53	17.81	14.09	19.75	9.63
	Exchange Fluctuation Income	14.99	38.52	26.37	38.93	20.29	24.61	41.81	33.07	59.00	28.77
	Non Operating Income / loss	-1.77	-4.55	-0.04	-0.06	0.67	0.81	15.59	12.33	1.11	0.54
	Provision written Back			5.12	7.56	6.26	7.59	7.24	5.73	47.02	22.93
	Profit/loss from extra-ordinary activities					-0.82	-0.99	-4.53	-3.58	-0.88	-0.43
	Total Income	**38.91**	**100.00**	**67.73**	**100.00**	**82.44**	**100.00**	**126.41**	**100.00**	**205.10**	**100.00**
Nepal Investment Bank	Commission and Discount	93.55	36.14	115.94	40.16	163.90	39.51	215.29	38.71	262.79	40.23
	Other Operating Income	56.57	21.86	35.90	12.44	47.32	11.42	66.38	11.94	87.57	13.40
	Exchange Fluctuation Income	102.52	39.61	125.75	43.56	135.36	32.63	165.84	29.82	185.33	28.37
	Non Operating Income / loss	6.19	2.39	0.39	0.14	1.43	0.34	7.05	1.27	2.95	0.45
	Provision written Back			10.70	3.71	66.78	16.10	101.58	18.27	114.65	17.55
	Profit/loss from extra-ordinary activities										
	Total Income	**258.83**	**100.00**	**288.68**	**100.00**	**414.79**	**100.00**	**556.14**	**100.00**	**653.29**	**100.00**
Aggregate	Commission and Discount	359.67	43.17	415.92	37.47	527.08	40.54	630.32	27.17	832.56	37.30
	Other Operating Income	131.08	15.73	135.29	12.19	158.19	12.17	245.22	10.57	273.05	12.23
	Exchange Fluctuation Income	337.47	40.50	442.98	39.92	394.06	30.31	512.49	22.09	650.66	29.15
	Non Operating Income / loss	4.92	0.59	8.02	0.72	5.72	0.44	62.71	2.70	12.14	0.54
	Provision written Back			272.03	24.51	573.69	44.13	1088.25	46.91	503.50	22.56
	Profit/loss from extra-ordinary activities			-164.45	-14.82	-358.72	-27.59	-219.34	-9.46	-40.12	-1.80
	Total Income	**833.14**	**100.00**	**1109.79**	**100.00**	**1300.02**	**100.00**	**2319.65**	**100.00**	**2231.79**	**100.00**

Source: Annual Report of Sampled Bank

In the case of Nepal Investment Bank, percentage of commission and discount has been slightly up and down in the last fiscal year of study period. Likewise, percentage of other operating income has decreased in FY 2063/0634 and then slightly increased in last fiscal year of study period. However, percentage of exchange fluctuation income has moved upward in FY 2063/064 and then it has moved downward till last fiscal year of study period. Similarly, as non-operating income/loss in percentage, the income has been fluctuated in FY 2063/064 and again increased in FY 2064/065 and then decreased in last fiscal year of study. In the same way, percentage of provision written back there is no provision of written back in fist fiscal year then after it is increased in the FY 2064/064 and slightly decreased in last fiscal year of study. So, profit/loss from extra-ordinary activities there is no any activities in whole study period.

In the fiscal year of study, the percentage of non-interest income is found maximum on commission and discount in BOK, HB, KB and NIB over the study period. Similarly, in other operating income the percentage is better in NCC over the study period and rest of the banks were found minimum percentage rather than NCC. Likewise, in exchange fluctuation income is maximum on BOK, HB, KB and NIB over the study period and NCC has income less than other banks. However, percentage of non-operating income/loss in NCC, HB, KB and NIB has to be income over the study period. Likewise percentage of BOK is lost over the study period. In the same way, percentage of provision written back of NCC was found better than other banks and rest of the banks are found satisfactory. So, the percentage of profit/loss from extra-ordinary activities all the banks are in loss. NCC and KB were in loss in each and every year but BOK’s income in FY 2063/064 and FY 2065/066 was found satisfactory. In this way HB has good position in this regard of income in FY 2062/063 and FY 2064/065.

While, the concentration of this research is to explore-out non-interest income, an inherent with respect to first as well as final fiscal year of study, it is found to be an improved condition in final fiscal year. Though, it is not remarkable for those banks. It helps to draw the conclusion that the sampled commercial banks are not satisfactorily achieving progress to generate higher non-interest income in this current fiscal year.

In aggregate, percentage from commission and discount is maximum over the study period. Likewise, percentage from profit/loss from extra-ordinary activities is minimum in aggregate over the study period. It is in loss over the study period.

Fig. 4.2: Aggregate Non-Interest Income

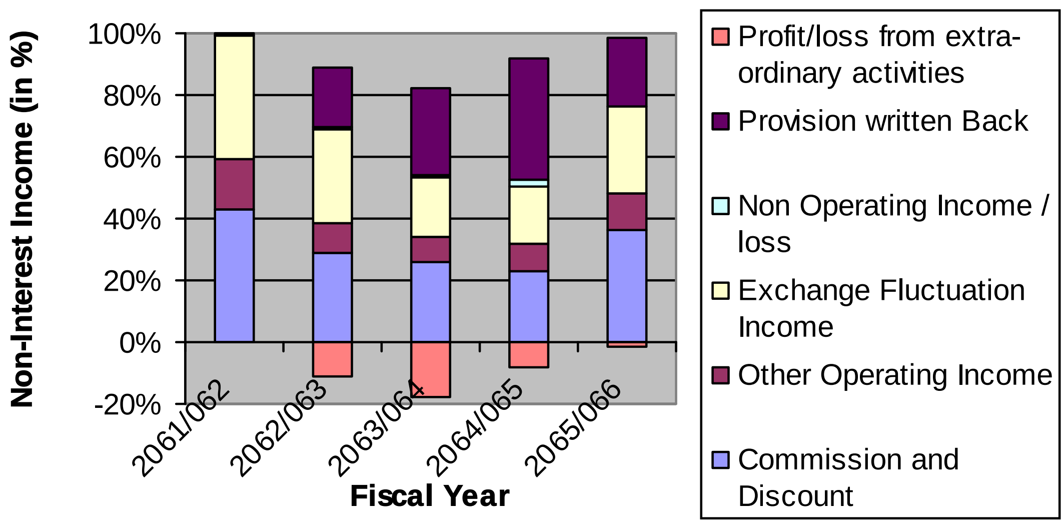


Fig 4.2 exhibits observed aggregate percentage of different components of non-interest income of sampled commercial banks during the study period. As in the figure, there is highest portion of commission and discount and lowest one of profit/loss from extra ordinary activities in most of the fiscal years. It indicates that commercial banks are generating higher non-interest income from commission and discount whereas lower from profit/loss from extra ordinary activities.

4.1.3 Analysis of Net Non-interest Income with Total Income

Net interest income with total income is the expression of net non-interest income with total income. Net non-interest income includes the commission and discount, Operating and non-operating income, Exchange fluctuation income, Provision written back, Profit/loss from extra-ordinary activities. Whereas total income measures the Loans, advance and overdraft, investment, agency balance and money at call and short notice. Table 4.3 shows the net non-interest income effects on total income of the sampled commercial banks in individual and aggregate over the study period.

As shown in Table 4.3, non-interest income with total income of BOK is distributed as a minimum of 0.20 percent in FY 2061/062, FY 2062/063 and FY 2064/065 and maximum of 0.22 percent in FY 2063.064 of study period. It is in same range in first and second fiscal year and fluctuating during the study period. Similarly, the net non-interest income with total income of NCC bank ranges from a minimum of 0.12 percent in FY 2061/062 and maximum of 0.54 percent in FY 2064/065 of study period. It is slightly increased in Fiscal Year 2062/063 and in the same ratio in FY 2063/064 and then it is fluctuated over the study period.

Table 4.3: Net Non-interest income with Total Income

(in percent)

Fiscal Year	BOK	NCC	HB	KB	NIB	Aggregate
2061/062	0.20	0.12	0.18	0.07	0.23	0.16
2062/063	0.20	0.15	0.23	0.10	0.20	0.18
2063/064	0.22	0.15	0.21	0.09	0.21	0.18
2064/065	0.20	0.54	0.26	0.12	0.20	0.26
2065/066	0.21	0.36	0.20	0.13	0.17	0.21
Average	**0.21**	**0.26**	**0.22**	**0.10**	**0.20**	**0.20**
S.D	**0.02**	**0.08**	**0.01**	**0.01**	**0.02**	**0.02**
C.V	**0.10**	**0.31**	**0.05**	**0.10**	**0.10**	**0.001**

Likewise, net non-interest income with total income of HB is distributed as a minimum of 0.18 percent in FY 2061/062 and maximum of 0.26 percent in 2064/065 of study period. It is fluctuated over the last fiscal year of study period. Therefore, the net non-interest income with total income of KB is minimum of 0.07 percent in FY 2061/062 and maximum of 0.13 percent in FY 2065/066 of study period. It is also fluctuated over the second last fiscal year and again slightly increased in last fiscal year of study period. At the end, the net non-interest income with total income to NIB is minimum of 0.17 in FY 2065/066 and maximum of 0.23 percent in FY 2061/062 of study period. It is also fluctuated over the second last fiscal year and again decreased in last fiscal year of study period.

The average values of net non-interest income with total income are 0.21, 0.26, 0.22, 0.10, and 0.20 respectively. It is maximum of 0.26 in NCC and minimum of 0.10 in KB. Therefore, NCC has been able to collect more non-interest income than other banks. On the other hand, coefficient of variation is highest of 0.31 in NCC and lowest of 0.05 in HB. It indicates that the net non-interest income with total income is fluctuating in NCC with higher variation while it is fluctuating in HB with lower variation.

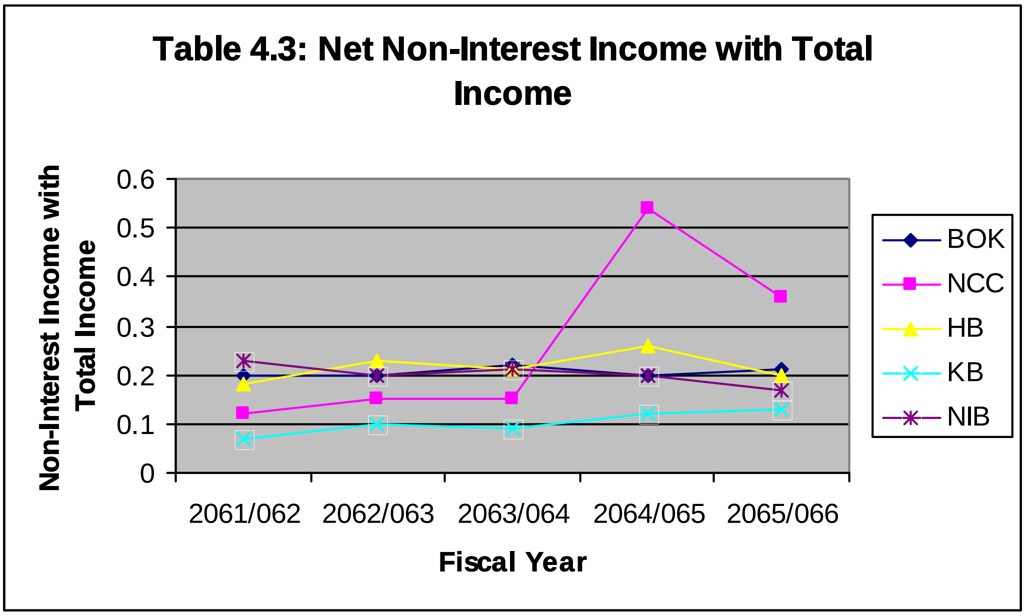


Fig 4.3 shows the observed net non-interest income with total income of sampled commercial banks during the study period. As shown in Fig. 4.3, net non-interest income with total income of BOK has in same ratio in second fiscal year and fluctuating trend prevailed over the study period. Similarly, the net non-interest income with total income of NCC is increased in second fiscal year and in the same ratio of third fiscal year then after it is fluctuated again over the study period. Likewise, the income of HB is fluctuating over the last fiscal year of study period. However, the income of KB is also fluctuating in second last fiscal year and again slightly increased in last fiscal year of study period. So on, in NIB is also fluctuating over the second last fiscal year and also decreased in last fiscal year of study period.

Net non-interest income with total income in aggregate of sampled commercial banks is given in last column of Table 4.4 The aggregate average of net non-interest income with total income is 0.10 and coefficient of variation is 0.001.

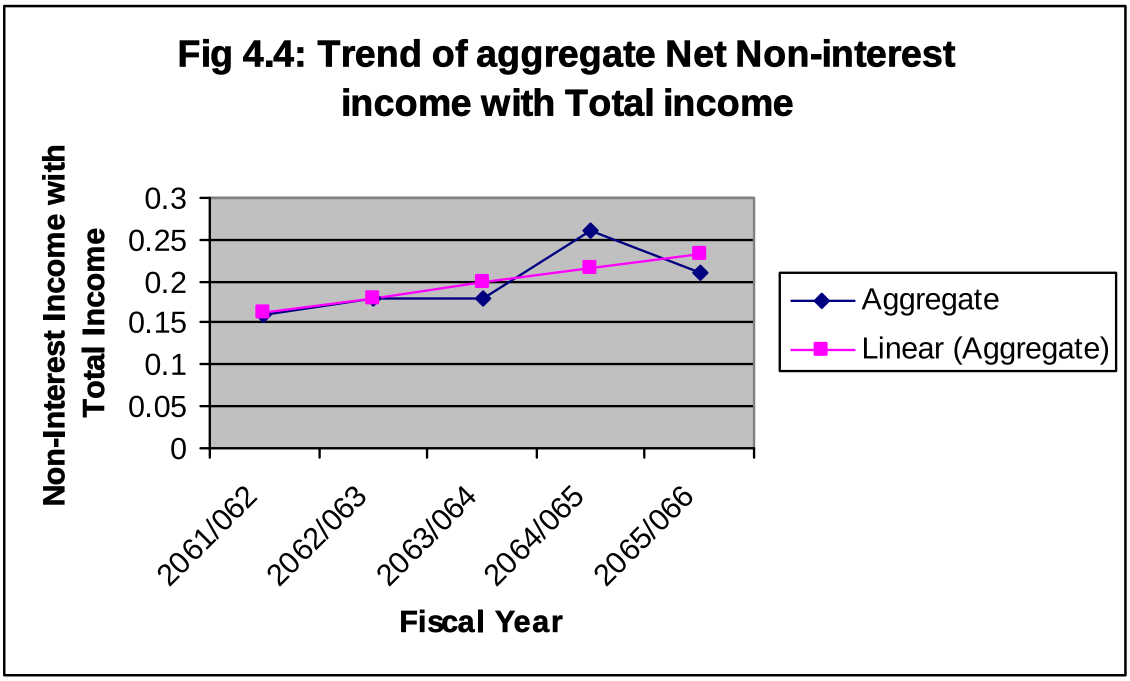


Fig. 4.4 exhibits the observed aggregate net non-interest income with total income with least square trend line. As exhibited in Figure 4.4, the income

increased continuously in FY 2064/065 and then decreased in last fiscal year of study period. The equation of linear aggregate is Y = 0.144+0.018X. The slope of trend line of the aggregate net non-interest income with total income indicates the increasing trend of net non-interest income with total income.

4.1.4 Analysis Commission and Discount with Total Income

Commission and discount measure the bills purchased and discounted, commission, and others of the commercial banks. The local currency and foreign currency are included in bills purchased and discounted such as letter of credit, guarantee, collection fee, remittance fee, credit cards, share underwriting/issues, government transaction, EPra. commission, exchange fee are included in commission.

As shown in table 4.4, the commission and discount with total income of BOK is maximum of 0.10 percent in FY 2061/062 and FY 2064/065 and minimum of 0.08 percent in FY 2062/063 of study period. The ratio has fluctuated in third fiscal year and again slightly increased in second last fiscal year, again decreased in last fiscal year of study period. Likewise commission and discount with total income of NCC bank ratio is maximum of 0.06 percent on first, second and third fiscal year and minimum of 0.03 percent on second last fiscal year. It is continuously in same ratio in first to third fiscal year and slightly decreased in second last fiscal year and again increased in last fiscal year of study period. Moreover, commission and discount with total income of HB is maximum of 0.10 percent in FY 2065/066 and minimum of 0.08 percent in the first, second and second last fiscal year of study period. It is in same ratio in first and second fiscal year and fluctuated over the study period. So the commission and discount with total income of KB is maximum of 0.05 percent in third and last fiscal year and minimum of 0.04 percent on the first, second and second last fiscal year of study period. It is in the same ratio in first and second fiscal year and fluctuated over the study period. At the end, the commission and discount with total income of NIB is maximum of 0.08 percent in whole fiscal years except in last fiscal year. It is in the same ratio in the first to second last of fiscal year and slightly decreased in last fiscal year of study period.

Table 4.4: Commission and Discount with Total Income

(in percent)

Fiscal Year	BOK	NCC	HB	KB	NIB	Aggregate
2061/062	0.10	0.06	0.08	0.04	0.08	**0.072**
2062/063	0.08	0.06	0.08	0.04	0.08	**0.068**
2063/064	0.09	0.06	0.09	0.05	0.08	**0.074**
2064/065	0.10	0.03	0.08	0.04	0.08	**0.066**
2065/066	0.09	0.05	0.10	0.05	0.07	**0.072**
Average	**0.092**	**0.052**	**0.086**	**0.044**	**0.078**	**0.0704**
S.D	**0.003**	**0.006**	**0.004**	**0.003**	**0.002**	**0.0017**
C.V	**0.033**	**0.115**	**0.047**	**0.068**	**0.026**	**0.0241**

The average commission and discount with total income of sampled commercial banks is maximum of 0.092 in BOK and minimum of 0.044 in KB. On the other hand, the coefficient of variation is highest in NCC with 0.115 and it is less variable in NIB with 0.026. Therefore, the ratio is more variable in NCC and it is less variable in NIB. Fig. 4.5 shows the commission and discount with total income of sampled commercial banks during the study period.

As shown in Fig 4.5, the commission and discount with total income of BOK is fluctuated over the study period. Likewise, the commission and discount with total income of NCC is in the same ratio over the third fiscal year and fluctuated over the study period. Therefore, the commission and discount with total income of HB and KB is in the same ratio of second fiscal year and fluctuated over the last fiscal year of study period. Similarly, the commission and discount with total income of NIB is in the same ratio in second last fiscal year and slightly decreasing in last fiscal year of study period.

In aggregate, burden ratio of sampled commercial banks is given in the last column of Table 4.5. It is fluctuating from the beginning fiscal year to the end of fiscal year. It ranges from a minimum of 0.066 in FY 2064/065 to maximum of 0.074 in FY 2063/064. The aggregate average of commission and discount with total income is 0.0704 percent and coefficient of variation is 0.0241.

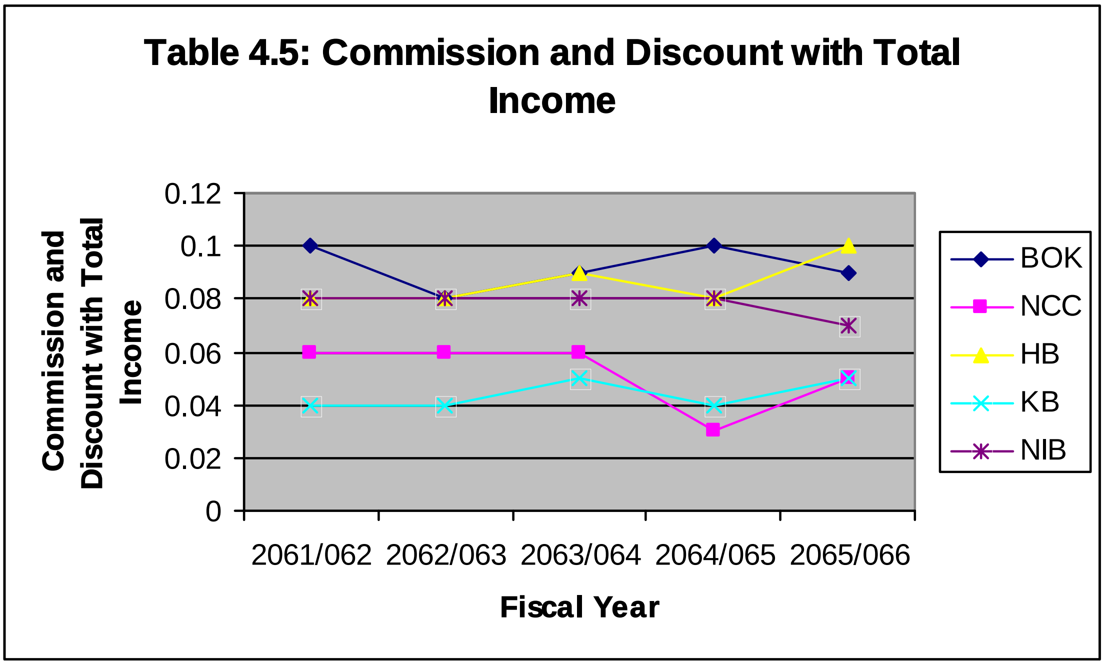
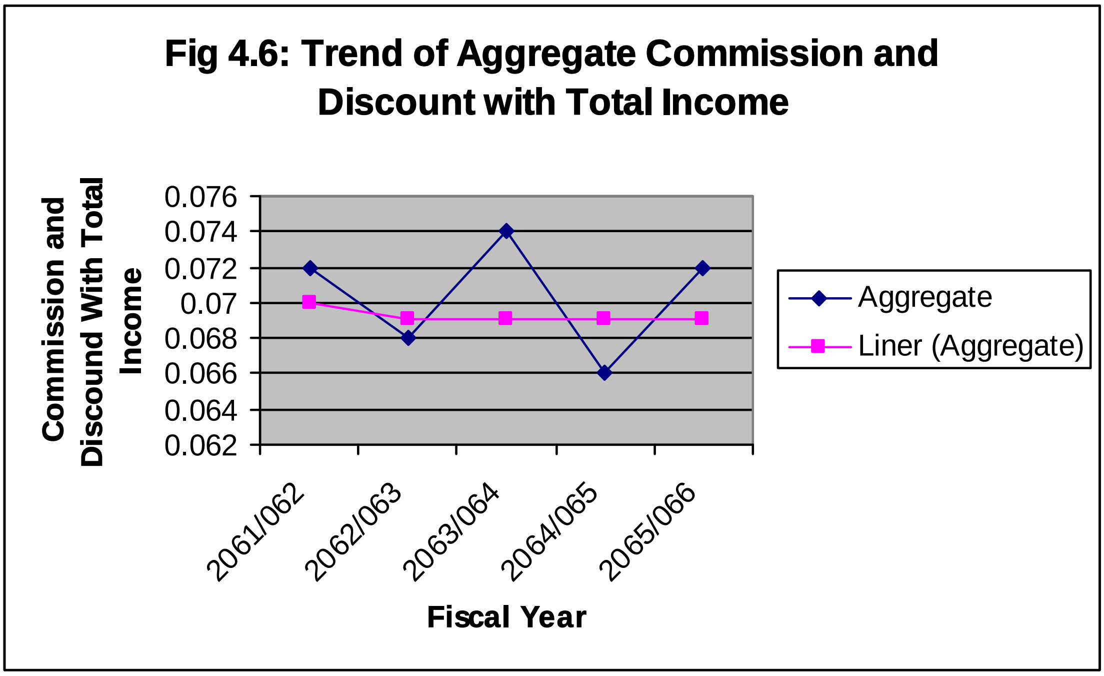


Fig. 4.6 exhibits the observed aggregate commission and discount with total income with least square trend line.

As shown in Fig. 4.6, the aggregate commission and discount with total income has fluctuated over the study period. The slope of equation is Y = 0.0698-0.0002X. The slope of trend line is determined by the least square method is negative. Thus, the negative slope of trend line of the aggregate commission and discount with total income indicates the decreasing trend of burden ratio.



4.1.5 Analysis of Operating and Non-Operating Income with Total Income

Operating income includes the rent on safe deposit lockers, issue and renewal of credit cards, issue and renewal of ATM card, Telex/T.T, service charges and renewal fees such as profit/loss on sale of investment, profit/loss on sale of assets, dividend, subsidies received from Nepal Rastra bank and others are included in non-operating income.

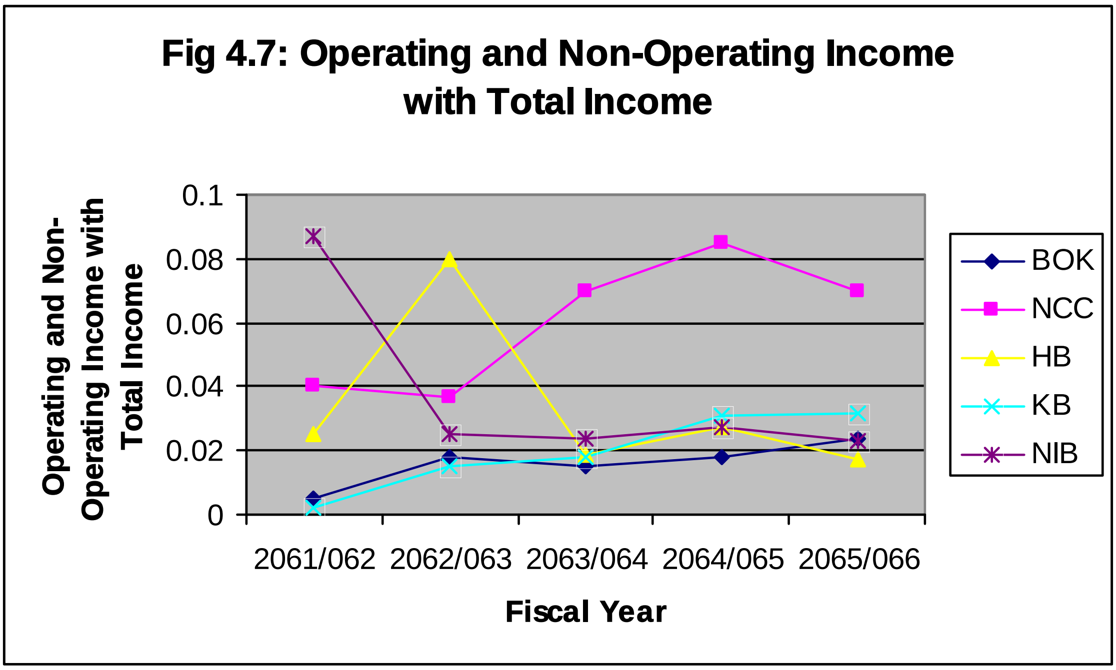
Table 4.5: Operating and Non-Operating Income with Total Income

(in percent)

Fiscal Year	BOK	NCC	HB	KB	NIB	Aggregate
2061/062	0.005	0.040	0.025	0.002	0.087	**0.032**
2062/063	0.018	0.037	0.080	0.015	0.025	**0.035**
2063/064	0.015	0.070	0.019	0.018	0.024	**0.029**
2064/065	0.018	0.085	0.027	0.031	0.027	**0.038**
2065/066	0.024	0.070	0.017	0.032	0.023	**0.033**
Average	**0.016**	**0.302**	**0.034**	**0.020**	**0.037**	**0.033**
S.D	**0.003**	**0.009**	**0.012**	**0.005**	**0.012**	**0.014**
C.V	**0.188**	**0.030**	**0.353**	**0.250**	**0.324**	**0.424**

Table 4.5 shows the observed Operating and Non-Operating income of last five fiscal years in individual and aggregate basis. As exhibited in Table 4.5, the operating and non-operating income of BOK is fluctuated over the FY 2064/065 and again increased in last fiscal year. It is distributed from minimum of 0.005 percent in first fiscal year to maximum of 0.024 percent in last fiscal year of study period. Similarly, the operating and non-operating income of NCC is up and down in third fiscal year and again increased in second last fiscal year and decreasing in the end of fiscal year of study period. It is minimum of 0.037 percent in second fiscal year to maximum of 0.085 percent in second last fiscal year of study period. Likewise, operating and non-operating income of HB is fluctuating over the last fiscal year of study period. It is minimum of 0.017 percent in last fiscal year and maximum of 0.080 percent in second fiscal year. So on, the operating and non-operating income of KB is increasing in last fiscal year of study period. It is minimum of 0.002 percent in first fiscal year to maximum of 0.032 percent in last fiscal year of study period. At the end, the operating and non-operating income of NIB is continuously decreasing in third fiscal year and slightly increasing in second last fiscal year and again decreased in last fiscal year of study period. It is minimum of 0.023 in last fiscal year to maximum of 0.087 in first fiscal year of study period.

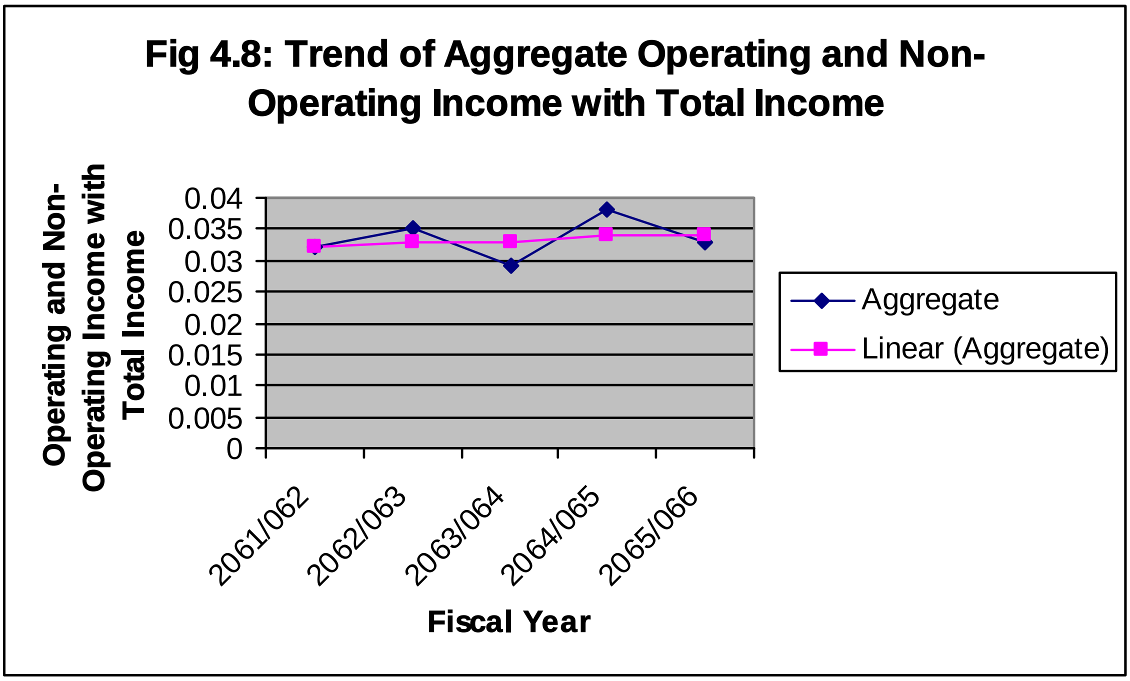
The average operating and non-operating income is maximum of 0.030 percent in NCC and minimum of 0.016 percent in BOK. On the basis of average income, BOK has been able to control its non-interest expenses relatively to adjusted operating income while it is not been the same in NCC. On the other hand, coefficient of variation is highest of 0.353 percent in NIB and lowest of 0.03 percent in NCC. Fig 4.8 shows the observed efficiency ratio of sampled commercial banks during the study period.



As shown in Fig 4.7, operating and non operating income of BOK is slightly fluctuating in second last fiscal year and increase in last fiscal year of study. Similarly, the operating and non-operating income of NCC is fluctuating in third fiscal year and again continuously increasing in second last fiscal year and decreasing in last fiscal year of the study. Likewise, the income of HB is fluctuating over the last fiscal year of study period. So, the income of KB is continuously increasing over the last fiscal year of study period. At the end, the income of NIB is continuously decreasing over the third fiscal year and increasing in second last fiscal year and again decreased in last fiscal year of the study.

The aggregate operating and non-operating income of sampled commercial banks is given in last column of Table 4.5. It is fluctuating over the last fiscal year of study. The average aggregate operating and non-operating income is 0.033 and coefficient of variation is 0.424.

As in Figure 4.8 shows the aggregate operating and non-operating income with least square trend line. It shows that the aggregate operating and non-operating income with total income has in the same ratio in last fiscal year. The slope of equation is Y = 0.0319+0.0005X. The slope of the trend line determined by the least square method is positive. The slope of trend line of the aggregate operating and non-operating income with total income indicates the slightly fluctuated trend of operating and non operating income with total income.



4.1.6 Analysis of Exchange Fluctuation Income with Total Income

Exchange fluctuation income includes the revaluation gain and trading gain (Except INR exchange fee).

As presented in Table 4.6, Exchange fluctuation income with total income of BOK is minimum of 0.072 percent in second last fiscal year on maximum of 0.095 percent in first year of study period. It is decreasing in FY 2064/065 and slightly increased in last fiscal year of study. Likewise, the exchange fluctuation income with total income of NCC is fluctuated over the last fiscal year of the study. The income is maximum of 0.021 percent in FY 2062/063 to minimum of 0.011 percent in FY 2063/064. Similarly, the income of HB is fluctuated over the second last fiscal year and again increased in last fiscal year of study. The income is maximum of 0.094 in second fiscal year to minimum 0.067 in FY 2063/064. So on, the income of KB is also fluctuated over the last fiscal year of study. The income is maximum of 0.039 in second and fourth fiscal year of study to minimum of 0.028 in first fiscal year of study period. At the end, the income of NIB is continuously decreased in last fiscal year of study. Its income is maximum of 0.089 in first fiscal year to minimum of 0.047 in last fiscal year of study period.

Table 4.6: Exchange Fluctuation Income with Total Income

Fiscal Year	BOK	NCC	HB	KB	NIB	Aggregate
2061/062	0.095	0.017	0.078	0.028	0.089	**0.061**
2062/063	0.088	0.021	0.094	0.039	0.086	**0.066**
2063/064	0.077	0.011	0.067	0.023	0.068	**0.049**
2064/065	0.072	0.015	0.072	0.039	0.060	**0.049**
2065/066	0.080	0.017	0.085	0.037	0.047	**0.053**
Average	**0.082**	**0.016**	**0.079**	**0.033**	**0.070**	**0.056**
S.D	**0.0038**	**0.0015**	**0.0043**	**0.0036**	**0.0071**	**0.0036**
C.V	**0.0463**	**0.0938**	**0.0544**	**0.1091**	**0.1014**	**0.0643**

The average Exchange fluctuation incomes with total income are 0.082, 0.016, 0.079, 0.033, 0.070 in BOK, NCC, HB, KB, NIB respectively. The average income is maximum of 0.082 in BOK and minimum of 0.016 in NCC. On the other hand, coefficient of variation is highest of 0.1091 in KB and lowest of 0.0463 in BOK.

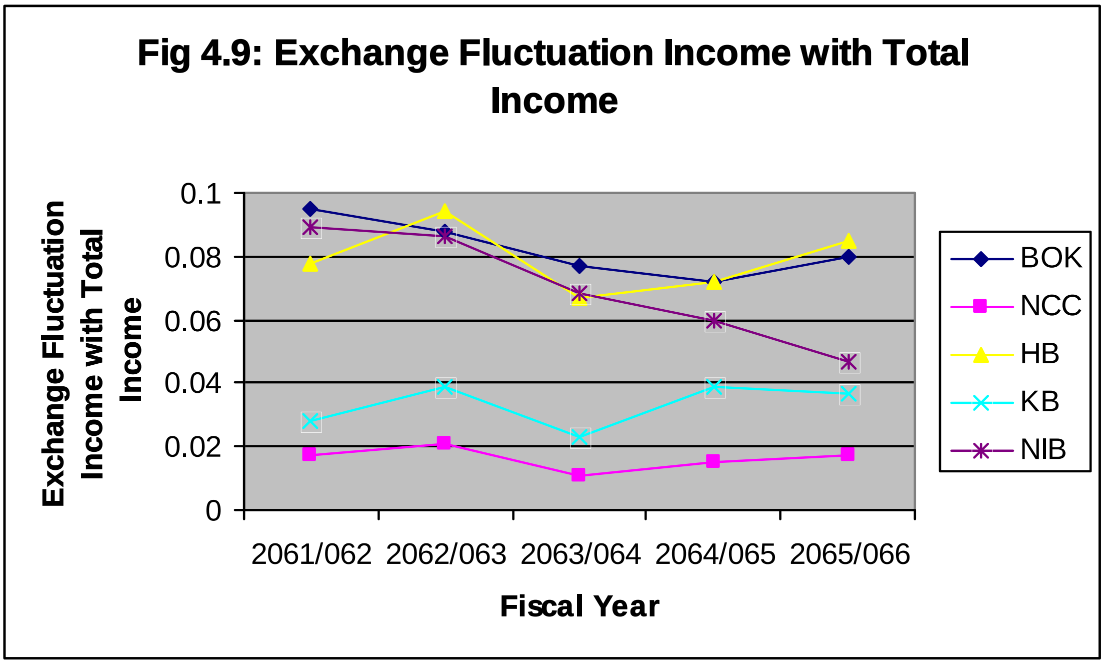


Figure 4.9 shows the observed exchange fluctuation income with total income of sampled commercial banks over the study period. The exchange fluctuation income with total income of BOK is decreasing over the second last fiscal year and slightly increasing over the last fiscal year of study. Likewise, the income of NCC and KB are fluctuating from the initial fiscal year to at the end of fiscal year of study period. However, the ratio of HB is fluctuating over the last fiscal year and again increasing in last fiscal year of study period. At the end, the ratio of NIB is continuously decreased in last fiscal year of study.

The aggregate exchange fluctuation income with total income is given in the last column of Table 4.6. It is minimum of 0.049 percent in third and fourth year to maximum of 0.066 percent in FY 2062/063. The ratio is fluctuating during the third year of study and in the same ratio of fourth year and again increased in last fiscal year of study period. Likewise, aggregate average of exchange fluctuation income with total income is 0.056 and coefficient of variation is 0.064.

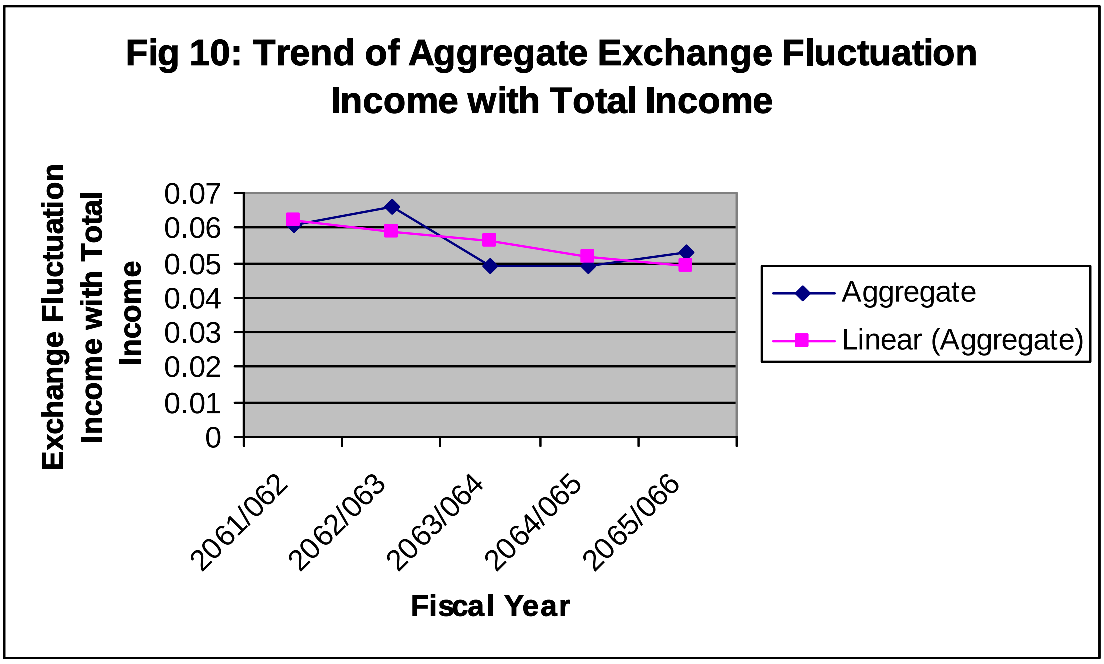


Figure 4.10 shows the aggregate exchange fluctuation income with square trend line. The income has increased in FY 2062/063 and move downward in FY 2063/064 and in the same range in FY 2064/065. Likewise, it is again moved upward in FY 2065/066. The slope of equation is Y = 0.0655-0.0033X. The slope of the tread line decreased by the least square method is negative which indicate that the slope of trend line of the aggregate exchange fluctuation income with total income is decreasing trend of exchange fluctuation income.

4.1.7 Analysis of Provision Written Back with Total Income

Provision written back includes the loan loss provision written back, non banking assets provision written back, investment provision written back and other assets provision written back. Table 4.7 presents the earnings spread of sampled commercial banks during the study period.

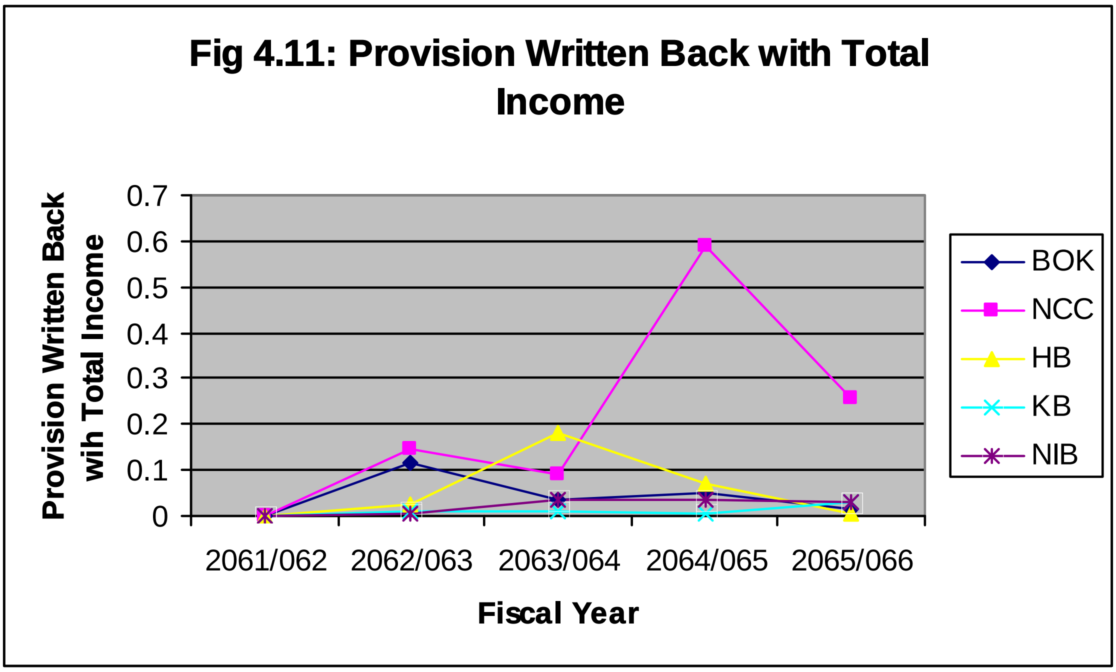
Provision written back with total income of BOK is maximum of 0.116 percent in FY 2062/063 and minimum of 0.000 in FY 2061/062. There is no any amount of such in the first fiscal year. It is fluctuated over the study period. Likewise, the income of NCC is maximum of 0.589 percent in FY 2064/065 and minimum of 0.000 in FY 2061/062. There is also no any amount of it in the first fiscal year. It has fluctuated over the study period. Furthermore, the income of HB is maximum of 0.183 percent in FY 2063/064 and minimum of 0.000 in FY 2061/062. It is fluctuated over the second last fiscal year and again decreased in last fiscal year of study. So, the income of KB is maximum of 0.030 in FY 2065/066 and minimum of 0.000 in FY 2061/062. There is no any amount in first fiscal year. It is in same ratio in second and third fiscal and fluctuated over the last fiscal year of study. At the end, the income of NIB is maximum of 0.037 in FY 2064/065 and minimum of0.000 in first fiscal year of study. There is also no any amount of first fiscal year. It is continuously increased in second last fiscal year and slightly decreased in last fiscal year of study period.

Table 4.7: Provision Written Back with Total Income

Fiscal Year	BOK	NCC	HB	KB	NIB	Aggregate
2061/062	0.000	0.000	0.000	0.000	0.000	**0.000**
2062/063	0.116	0.145	0.027	0.008	0.007	**0.061**
2063/064	0.035	0.091	0.183	0.008	0.033	**0.070**
2064/065	0.048	0.589	0.069	0.007	0.037	**0.150**
2065/066	0.013	0.255	0.007	0.030	0.029	**0.067**
Average	**0.042**	**0.216**	**0.057**	**0.011**	**0.021**	**0.070**
S.D	**0.018**	**0.097**	**0.033**	**0.005**	**0.009**	**0.021**
C.V	**0.429**	**0.449**	**0.579**	**0.455**	**0.429**	**0.300**

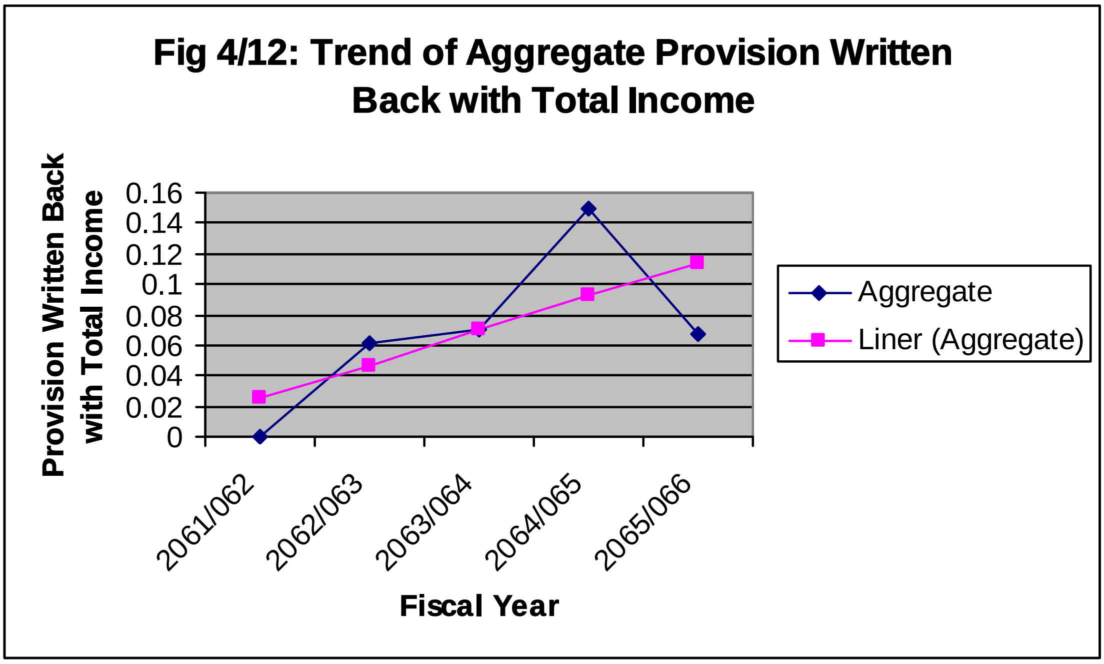
The average provision written back with total income is maximum of 0.216 percent in NCC and minimum of 0.011 percent in KB. Therefore, on the basis of average value, NCC has more provision written back whereas it is less in KB. On the other hand, coefficient of variation is highest in 0.579 in HB and lowest in 0.429 in BOK and NIB. It indicates that the provision written back is more variable in NCC while it is less variable in BOK and NIB.

As shown in figure 4.11, provision written back with total income of BOK and NCC is fluctuated over the study period. So, the provision written back with total income of HB is fluctuated in second last fiscal year and again decreased in last fiscal year of study. Likewise, the provision written back with total income of KB is in same ratio of first and second fiscal year and fluctuated over the last fiscal year of study. At the end, provision written back with total income of NIB is continuously increased in second last fiscal year and slightly decreased in last fiscal year of study.



The aggregate provision written back with total income of sampled commercial banks is given in last column of Table 4.7. It is maximum of 0.150 in FY 2064/065 and minimum of 0.000 in 2061/062. There is no any income of first fiscal year of every sampled bank. The aggregate provision written back with total income is 0.070 and its coefficient of variation is 0.300.

The figure 4.12 shows the observed aggregate provision written back with least square trend line. It shows that the income is fluctuated over the study period. The slope of equation is Y = 0.0027+0.0223X. The slope of trend line of provision written back with total income is increasing in the sample commercial banks and it indicates the increasing trend of provision written back with total income.



4.1.8 Analysis of Profit/Loss from Extra-Ordinary Activities with Total Income

Profit/loss from extra-ordinary activities includes recovery of written off loan, voluntary retirement scheme expenses, loans written-off and other expenses/income. Table 4.8 exhibits the expense ratio in individual and aggregate during the study period.

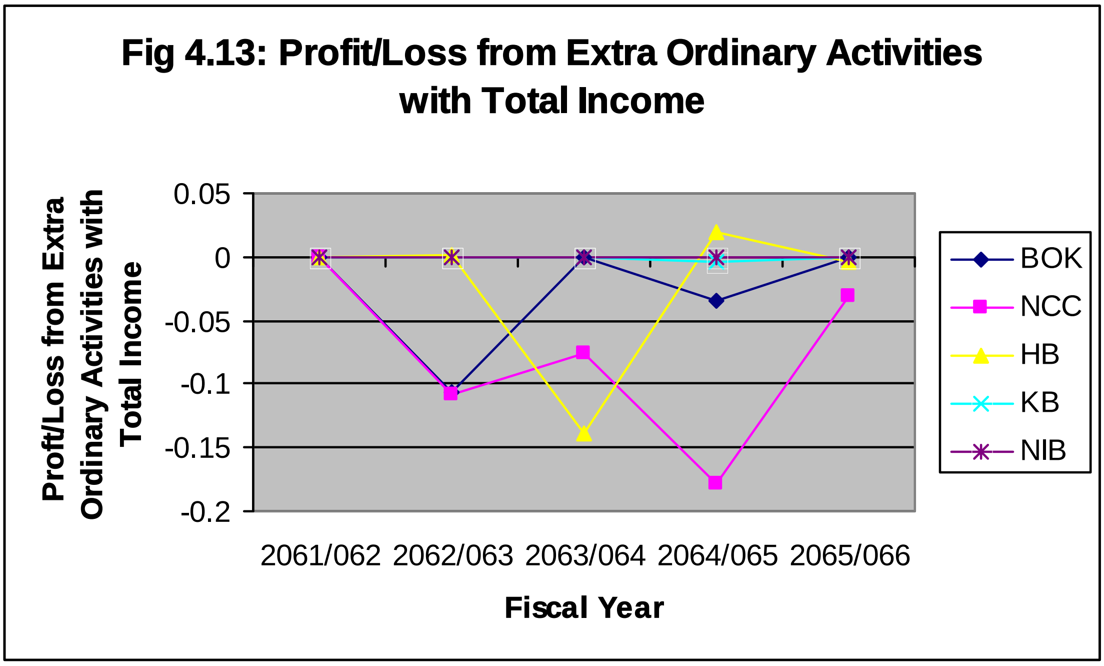
As exhibited in Table 4.8, profit/Loss from extra-ordinary activities with total income of BOK is maximum of 0.0004 percent in initial year and third fiscal year of study and minimum of 0.0000 in first fiscal year of study. There is no any amount in first fiscal year and negative income in second and fourth fiscal year of study. It is fluctuated over the last final year of study period. Likewise, the income of NCC, there is no any income in the first year and is in negative income in every year except in the first fiscal year. It is fluctuates over the study. Similarly, the income of HB is maximum of 0.0197 in FY 2064/065 and minimum of first fiscal year in initial year of study. It is fluctuated over the last/ final year of study. There is no any amount in first fiscal year and negative income in third and last fiscal year of study. So, the income of KB is negative in third to last fiscal year of study and there is no any amount of first and second fiscal year of study. Finally, there is no any income in profit/loss from extra-ordinary activities with of NIB over the study period.

Table 4.8: Profit/Loss from Extra-Ordinary Activities with Total Income

Fiscal Year	BOK	NCC	HB	KB	NIB	Aggregate
2061/062	0.0000	0.0000	0.0000	0.0000	0.0000	**0.0000**
2062/063	-0.1064	-0.1089	0.0014	0.0000	0.0000	**-0.2139**
2063/064	0.0004	-0.0758	-0.1397	-0.0009	0.0000	**-0.2160**
2064/065	-0.0350	-0.1782	0.0197	-0.0042	0.0000	**-0.1977**
2065/066	0.0004	-0.0306	-0.0034	-0.0006	0.0000	**-0.0342**
Average	**-0.1406**	**-0.3935**	**-0.122**	**-0.0057**	**0.0000**	**-0.6618**
S.D	**0.0225**	**0.0278**	**0.0327**	**0.0010**	**0.0000**	**0.0508**
C.V	**-0.1600**	**-0.0706**	**-0.2680**	**-0.1754**	**0.0000**	**-0.0768**

The average profit and loss from extra-ordinary activities with total income of the sampled commercial banks is negative in every bank except NIB. There is no any amount in NIB bank in P/L from extra-ordinary activities. On the other hand, coefficient of variation is also negative except in NIB. Figure 4.13 shows the observed P/L from extra ordinary activities with total income of sampled commercial banks within study period.

As shown in Figure 4.13, the profit/loss from extra-ordinary activities of BOK is negative in the second and fourth fiscal year and it is fluctuated over the study period. Likewise, the income of NCC is negative in every year expect in first fiscal year. There is no any amount in first fiscal year. Similarly, the income of HB is negative in the third and last fiscal year and it is also fluctuated over the study period. So, the income of KB is negative in the third to last fiscal year and there is no any amount in first and second fiscal year of study. Finally, there is no any income of NIB in profit/loss from extra-ordinary activities.



The profit/loss from extra-ordinary activities with total income in aggregate of sampled commercial banks is given in the last column of Table 4.9. The aggregate income is negative in every fiscal year except the first fiscal year. There is no any income in the first fiscal year of any bank. The aggregate average profit/loss from extra-ordinary activities with total income ratio is 0.6618 and its coefficient of variation is -0.0768.

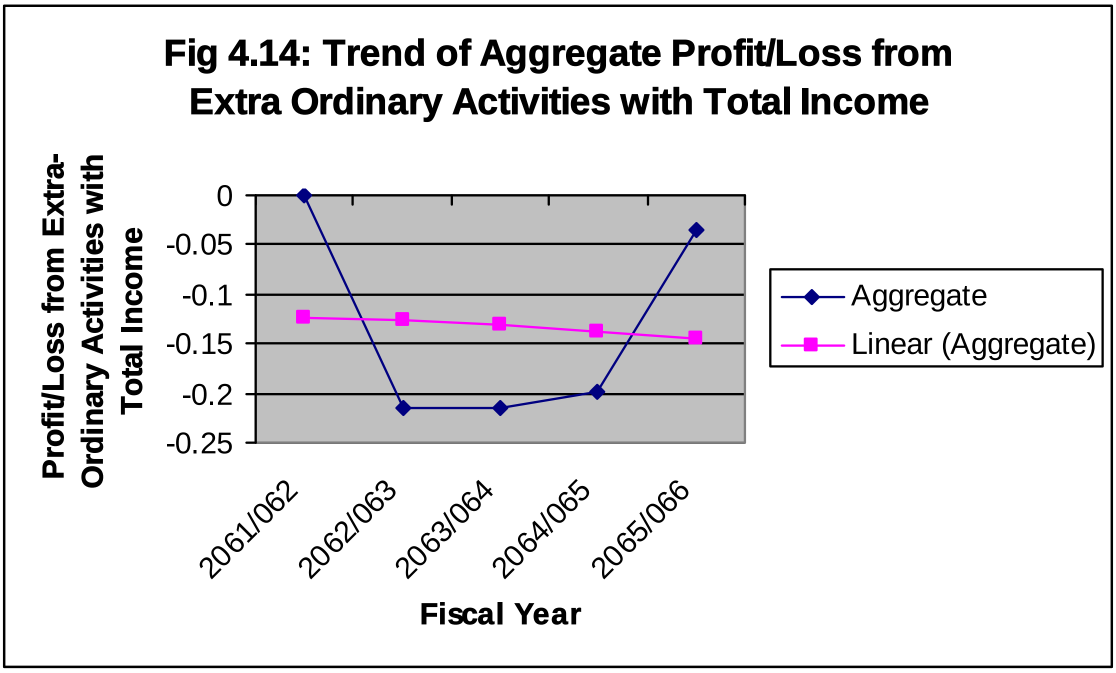


Figure 4.14 shows the observed aggregate profit/loss from extra ordinary activities with total income of sampled commercial banks with least square trend line. The slope of equation is Y = -0.1167-0.00522X. The slope of the tread line decreased by the least square method is negative which indicates that the slope of trend line of the aggregate profit/loss from extra-ordinary activities with total income is decreasing trend of profit/loss from extra-ordinary activities.

4.1.9 Growth Ratios

With regard to this part of the study, growth ratios are calculated. It assists to know about the banks whether they are performing well or not. So, higher the growth ratio, the bank has better performance. Growth ratio interest income and non-interest income of sampled commercial banks in individual and aggregate are given in Table 4.9.

Table 4.9: Growth Ratio of Interest and Non-Interest Income

(in Percent)

Banks					
BOK	Interest Income	1.18	1.07	1.01	1.07
	Non-Interest Income	1.19	1.15	1.04	1.08
NCC	Interest Income	1.04	0.92	1.07	1.07
	Non-Interest Income	1.37	0.93	1.97	0.89
HB	Interest Income	1.12	1.04	1.03	1.04
	Non-Interest Income	1.52	1.01	1.13	0.96
KB	Interest Income	1.21	1.14	1.06	1.09
	Non-Interest Income	1.74	1.10	1.15	1.13
NIB	Interest Income	1.32	1.16	1.11	1.10
	Non-Interest Income	1.11	1.20	1.10	1.04
Aggregate	Interest Income	1.18	1.08	1.07	1.08
	Non-Interest Income	1.33	1.08	1.21	0.99

Source: Annual Reports of Sampled Banks.

As presented in Table 4.9, growth ratio of both interest and non-interest income of BOK is slightly decreasing and at the end it is slightly increased. It is satisfactory in the study period. Similarly, the interest and non-interest income of NCC is fluctuating over the study period. Likewise, the interest income of HB and KB is slightly decreased and the end of study it is again slightly increased and non interest income is fluctuated over the study period of both banks. So, the interest income of NIB is slightly decreased over the study period and non-interest income is fluctuating and at the end of study it is again decreased. The aggregate of interest income of BOK, NCC, HB, KB, NIB are 1.18 percent, 1.08 percent, 1.07 percent, 1.08 percent respectively and aggregate of non-interest income are 1.33 percent, 1.08 percent, 1.21 percent, 0.99 percent respectively.

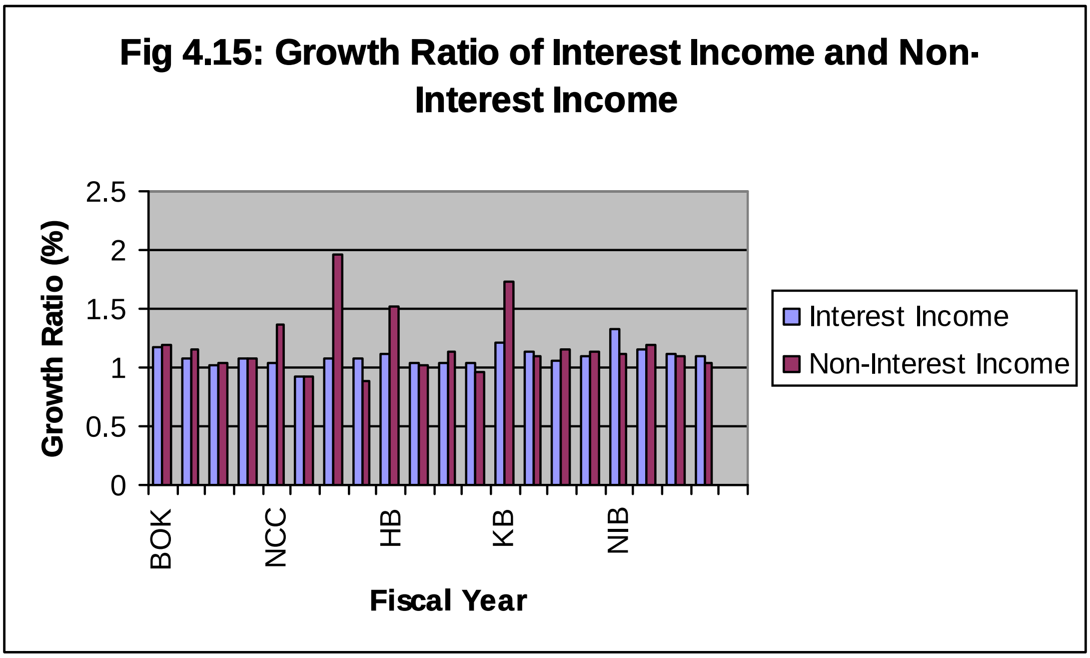


Figure 4.15 shows growth ratio of sampled commercial banks during the study period. The growth ratios of interest income and non interest income are positive in all the banks.

4.1.10 Measuring Correlation between Different Variables

The correlation between non-interest income and total income, non-interest income and interest income describe the degree of relationship between these two items. It explains whether there is positive or negative as well as no correlation between these variables. Also, it shows the degree of relationship between these items.

Table 4.10: Correlation between Different Variables

Variables	Correlation Coefficient (r)	P.Er.	6*P.Er.	Remarks
Non-interest Income and Total Income	0.936	0..037	0.224	r>6*P.Er.
Non-interest Income and Interest Income	0.889	0.063	0.378	r>6*P.Er.

Source: Annual Reports of Sampled Banks

As shown in Table 4.10, the correlation coefficient between non-interest income and total income of sampled commercial banks is 0.936 and probable error multiplied by 6 is found 0.224. Since, r is positive and r>6*P.Er., it can be interpreted that there is a strong positive correlation between non-interest income and total income and strongly significant during the study period.

Likewise, the correlation coefficient between non-interest income and total interest income is 0.889 and the probable error multiplied by 6 is found 0.383. This indicates the relationship between the non-interest income and interest income is positive and strongly significant over the study period.

4.2 Major Findings of the Study

The major findings of the study are as follows:

4.2.1 Among the sampled commercial banks, contribution of non-interest income to the total income ranges from a minimum of 7.22 percent in KB in FY 2061/062 and maximum of 53.73 percent in NCC in 2064/065. Moreover, contribution of non-interest income to the total income of BOK, NCC, HB and NIB are found somehow better in later year of study period whereas other bank like KB is not so better contribution. Furthermore, it is found nominal contribution of non-interest income to total income in KB over the study period.

4.2.2 The aggregate contribution of interest income to the total income is maximum of 82.70 percent in the initial year and minimum of 74.36 percent in FY 2064/065 of study. It slightly decreased in FY 2064/065 and increased in last fiscal year of study. On the other hand, aggregate contribution of non-interest income to the total income is maximum of 25.64 percent in FY 2065/066 and minimum of 17.30 percent in first fiscal year of study. It is also slightly increased in FY 2064/065 and decreased in last fiscal year of study.

4.2.3 Net non-interest income with total income of BOK is in same ratio in the first and second fiscal year and then fluctuated over the study period. Similarly, the income of NCC is increased in the second fiscal year and in same ratio in third fiscal year and again increasing up to second last fiscal year and decreased in last fiscal year of study. So, the income of HB is fluctuated over the study period. At the end, the income of KB and NIB is fluctuated over the study period except in last fiscal year of study. Likewise, the aggregate income of sampled commercial banks has fluctuated over the study period whereas second and third fiscal year is in same ratio. Thus, the slope of trend line is in increasing trend.

4.2.4 The commission and discount with total income of BOK is slightly fluctuated in third fiscal year and again increased in the fourth fiscal year and decreased in last fiscal year of study. Similarly, the income of NCC is in same ratio in first to third fiscal year and fluctuated over the study. So, the income of HB and KB is in same ratio in first and second fiscal year and fluctuated over the study period. At the end, the income of NIB is in same ratio over the second last fiscal year and slightly decreased in last fiscal year of study. Likewise, aggregate commission and discount with total income has fluctuated over the study period. The slope of the trend line is positive. Thus the commission and discount with total income is in sharply increasing trend.

4.2.5 The operating and non-operating income with total income of BOK is fluctuated in second last fiscal year and slightly increased in last fiscal year of study. Similarly, the income of NCC is fluctuated in third fiscal year and again increased in fourth fiscal year and decreased in last fiscal year of study. So, the income of HB is fluctuated over the study period. Likewise, the income of KB is increasing in last fiscal year of study. At the end, the income of NIB is decreasing in third fiscal year and then fluctuated in last fiscal year of study. In this way, the aggregate of sampled commercial banks of operating and non-operating income is fluctuated over the study period. The slope of trend line is in positive. Thus the operating and non-operating income is in increasing trend.

4.2.6 The exchange fluctuation income with total income of BOK is decreasing in second last fiscal year and increased in last fiscal year of study. Similarly, the income of NCC and HB is fluctuated in second last fiscal year and both increased in last fiscal year of study. So, the income of KB is fluctuated over the study period. At the end, the income of NIB is continuously decreasing in last fiscal year of study. Likewise, the aggregate of exchange fluctuation income with total income is fluctuated over third fiscal year and the same range in third and fourth fiscal year and again increased in last fiscal year of study. The slope of the trend line is positive. The exchange fluctuation income with total income shows the decreasing trend.

4.2.7 The regarding the provision written back with total income there is no any amount in first fiscal year of every bank. The income of BOK and NCC is fluctuated over the study period. Similarly, the income of HB is fluctuated in second last fiscal year and again decreased in last fiscal year. So, the income of KB is in same ratio in second and third fiscal year and fluctuated over the study period. At the end, the income of NIB is increasing in second last fiscal year and slightly decreased in last fiscal year of study. Likewise, the aggregate of provision written back with total income is increasing in second last fiscal year and slightly decreased in last fiscal year of study. The slope of the trend line is positive. Thus the provision written back with total income shows the increasing trend.

4.2.8 Regarding the profit/loss from extra-ordinary activities with total income there is also no any amount in first fiscal year of every bank. The income of BOK is negative in second and fourth fiscal year and in same ratio in third and last fiscal year. Similarly, the income of NCC is negative in every year. So on, the income of HB is negative in third and last fiscal year of study. Likewise, the income of KB is zero in second year also and negative in third to last fiscal year. At the end, there is no any amount of NIB in every year. In this way, the aggregate income of profit/loss from extra-ordinary activities with total income is negative in every year. The slope of the trend line is negative. Thus the profit/loss from extra-ordinary activities with total income shows the decreasing trend.

4.2.9 The aggregate growth ratio of interest income of BOK, NCC, HB, KB, NIB are 1.18, 1.08, 1.07, 1.08 percent respectively. Similarly, aggregate growth ratio of non-interest income of BOK, NCC, HB, KB, NIB are 1.33, 1.08, 1.21, 0.99 percent respectively.

4.2.10 In aggregate, the correlation coefficient between non-interest income and total income of sampled commercial banks is 0.936 and probable error multiplied by six is 0.224. Similarly, correlation coefficient between non-interest and interest income is 0.889 and probable error multiplied by six is 0.378.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter presents summary, conclusions and recommendations of the study. Firstly, it summarizes the whole study, secondly it draws the conclusions and finally forwards the recommendations.

5.1 Summary

The study was carried out as an academic requirement for Master's of Business Studies on the topic of "Non-interest Income Effect on Total Income of Commercial Banks in Nepal." The study was started with the objective to find out the facts about the non-interest income of commercial banks in Nepal. The analysis of financial statement is done to obtain a better insight into non-interest income. Non-interest income has become a most popular aspect in the commercial banking sector today. Most of the banks rely on non-interest income more whereas less on net interest income. It is because of the growing share of non-interest income to the total income. In this context, commercial banks are diversifying in their services with an appropriate customer and business mix focusing on fee based revenues. Thus, an effort was devoted to analyze the non-interest income effect on total income of commercial banks in Nepal.

The study was conducted with the general objective to analyze the non-interest income effects on total income of the commercial banks in Nepal. In addition, specific objectives of the study are to analyze the contribution of each components of non-interest income of the sampled commercial banks in the period of fiscal year 2061/062 to fiscal year 2065/066. Relevant literature was reviewed in order to build up the conceptual foundation and to find out the clear destination of the research work. Concept of commercial banks, historical development of banking industry in Nepal, function of commercial banks, assets and liabilities of commercial banks, concept of non-interest income, the regulatory, technological and strategic diverse of non-interest income, sources of income of commercial banks and net income of commercial banks were reviewed as conceptual review. On the other hand, review of articles and review of dissertations were included in research review section of the study.

The research covers only five year period from FY 2061/062 to FY 2065/066. It is concerned with the study on non-interest income effect on total income of commercial banks. Thus, the study was designed within the framework of descriptive and analytical research design and the analysis has been made in the same manner. For the study propose, altogether 26 commercial banks in Nepal out of which only 23 commercial banks meet the earlier stated criteria. So, 15 commercial banks are taken as the population. From the population only 5 commercial banks are drawn for the study by applying simple random sampling technique. The required data and information were collected from secondary sources such as annual reports, various publications dealing in the subject matter of the study etc. Financial ratios, simple Mathematics and Statistical tools have been implied to get the meaningful result of the collected data in this research work.

The analysis has been made with the analysis of Total income, non-interest income, trend of ratios, growth ratios and correlation between different variables of the sampled commercial banks during the period of last five fiscal year.

The contribution of non-interest income to the total income is not so remarkable in the banks. Similarly, aggregate contribution of interest income is increasing over the study period whereas percentage of non-interest income is increased in second final year and slightly decreased in last fiscal year of study. However, there are still strong contributions of interest income to the total income over the study period. The sampled banks are generating maximum portion of non-interest income from exchange fluctuation income and minimum from profit/loss from extra-ordinary activities in aggregate and in most of the banks in individual.

The net non-interest income with total income is in fluctuating trend in most of the sampled banks and very few in decreasing trend of income. But the aggregate net non-interest income with total income is in increasing trend in second last fiscal year and decreasing in last fiscal year of study. It indicates that the non-interest income is declining in the commercial banks.

In individual, the commission and discount with total income are fluctuating in most of the sampled banks and also have same ratio in two or three years. On the other hand, aggregate of commission and discount with total income is fluctuating. It means the ratios are not stable.

In individual, the operating income with total income is fluctuating in most banks except in KB and NIB. KB is in increasing way and NIB is in decreasing way. The aggregate income of operating income with total income is decreased in second last fiscal year and increased in last fiscal year.

In individual, the exchange fluctuation income with total income is fluctuating in some banks and some of them are in decreasing and some of them banks are increasing. The aggregate trend of exchange fluctuating income with total income is decreased in second last fiscal year and increased in last fiscal year.

In individual, the Non-operating income with total income is negative in BOK, NCC and KB in some of the year and some of them are fluctuating. The aggregate of operating income with total income is highly fluctuated in sampled commercial bank.

In individual, there is no any income in first fiscal year of every bank but from the second year some of them are in fluctuating trend and decreasing in last year in the provision written back with total income The aggregate trend of provision written back with total income is increasing in second last fiscal year and then decreasing in last fiscal year of study.

In individual, the profit/loss from extra-ordinary activities with total income of NCC and KB are negative in every fiscal year of study period. There is no any income in first fiscal year in every bank. From NIB there is no any income from profit/loss from extra-ordinary activities in any years. But the trend of aggregate profit/loss from extra ordinary activities is negative in every year. It assumes that profit/loss from extra ordinary activities is not a good source of income.

The growth ratios of interest income and non-interest income both are found positive in all cases over the study period. The overall study shows that the interest income is maximum in NIB and non-interest income in NCC.

5.2 Conclusions

Based on major findings, following conclusions have been drawn.

5.2.1 The range of contribution of non-interest income to the total income is minimum of 7.22% in KB to maximum of 53.73% in NCC. It shows that in individual, NCC is generating highest percentage of non-interest income whereas lowest by KB among the sampled commercial banks. Moreover, somehow better contribution was found in NCC, BOK, HB and NIB and nominal contribution in KB. It helps to conclude that NCC, BOK, HB and NIB are generating a bit better non-interest income whereas it is not better in KB in later fiscal year of study.

5.2.2 Though, aggregate percentage contribution of interest income to the total income is slightly decreased while it is increased in last fiscal year and in non-interest income, it is slightly increased in second last fiscal year and decreased in last fiscal year over the study period. There are wide differences between these two types of incomes. It reveals that there are still strong contributions of interest income and weaker of non-interest income to the total income.

5.2.3 The net non-interest income with total income of ;

- In BOK total non-interest income contributed more income to generate strong income of total income. These incomes have increased upto third fiscal year and slightly decreased in second last fiscal year and again increased in last fiscal year of study. It is assumed as somehow favourable for commercial banks with respect to interest income.
- The non interest income of NCC is also able to generate more income with total income. The incomes have highly increased in second last fiscal year, and as well highly decreased in last fiscal year. It show that overall income of this bank is fine but highly increasing and decreasing gives negative impact to the bank.
- So, the non interest income of HB is fluctuating over the study period since the income is decreased in last fiscal year. It indicates that non interest income is not satisfactory.
- Likewise, the income of KB is also fluctuated during the study period. Although the profit from income is not that bad per annum but still it has not much as expected.
- At the end, the income of NIB is decreasing in overall study period. So it indicates that there is a probability of decreasing of income in the coming year.
- On the other hand, fluctuating trend of aggregate net non-interest income with total income is in increasing trend in second last fiscal year and decreasing in last fiscal year of study. So, it indicates that non-interest income of these banks is not satisfactory.

5.2.4 The percentage of commission and discount with total income ;

- The BOK is fluctuated over the third fiscal year and again increased in second last fiscal year and again slightly decreased in last fiscal year of study. It indicates it is satisfactory to increase non-interest income.
- The income of NCC is in same ratio in first to third year and fluctuating in decreasing rate over last fiscal year. It indicates it is satisfactory to increase non-interest income.
- The amount of HB is in same ration in first and second fiscal year and fluctuating in increasing rate of last fiscal year. So, it is also satisfactory to increase non-interest income.
- The amount of KB is in same ration in first and second fiscal year and fluctuating in last fiscal year. So, it is also satisfactory to increase non-interest income.
- At the end, the income of NIB is in same ratio in first to second last fiscal year and slightly decreased in last fiscal year. So, it is also satisfactory to increase non-interest income.
- On the other hand, the aggregate of commission and discount with total income is fluctuating in increasing rate. So, it is satisfactory to increased non-interest income.

5.2.5 The percentage of operating and non-operating income with total income;

- The income of BOK is fluctuating in second last fiscal year and again increasing in last fiscal year. It is successfully increased non-interest income with total income.
- The income of NCC is fluctuating in third fiscal year and again increased in second last fiscal year and decreased in last fiscal year. It is not satisfactory in result.
- The income of HB is fluctuating in last fiscal year of study. So, it indicates it is not satisfactory in result.

- The KB is increasing in last fiscal year. So, it indicates, it is successfully increased non-interest income with total income.
- At the end, the income of NIB is decreasing in third fiscal year and increased in second last fiscal year and again decreased in last fiscal year. It indicates NIB is poor in operating and non-operating income.
- On the other hand, aggregate operating and non-operating income with total income is fluctuating in last fiscal year. It is good in overall to increasing non-interest income.

5.2.6 The percentage of exchange fluctuation income with total income ;

- The income of BOK is decreasing in second last fiscal year and again increased in last fiscal year. In indicates it is satisfactory in result.
- Similarly, the income of NCC is fluctuated in second last fiscal year and again increased in last fiscal year. It indicates it is satisfactory in result but it contributes minimum rate to compare other sampled banks.
- The income of HB is fluctuating over the second last fiscal year and again increased in last fiscal year. It indicates it is satisfactory to increase non-interest income.
- The income of KB is fluctuating in last fiscal year of study. It show it is not so good but overall rate is fine.
- Likewise, the income of NIB is decreased in last fiscal year. So, it indicates it is too poor to increased non-interest income.
- On the other hand, the aggregate exchange fluctuation income with total income is fluctuating in third fiscal year of study and again same ration in second last fiscal year and increasing in last fiscal year of study. So, it indicates it helps to increased non-interest income. It is satisfactory result regarding it.

5.2.7 Regarding the provision written back with total income ;

- In every sampled commercial bank, there is no any income in first fiscal year.

- In BOK and NCC, the income is fluctuating over the last fiscal year. So, it has not well for there increment but overall income is fine.
- Similarly, the income of HB is increasing in second last fiscal year and highly decreased in last fiscal year. So, it indicates it has not well for there increment but overall income is fine.
- The income of KB is in same rate in second and third fiscal year and slightly decreased in fourth fiscal year and again highly increased in last fiscal year. So, it indicates the increasing rate is fine but overall income is not good.
- At the end, the income of NIB is increasing in second last fiscal year and again decreased in last fiscal year. So, it indicates it is satisfactory n result.
- On the other hand, the aggregate of provision written back with total income is increasing in second last fiscal year and again decreased in last fiscal year. It indicates it is satisfactory to control non-interest income.

5.2.8 The income of profit/loss from extra-ordinary activities with total income ;

- In every sampled commercial bank there is no any income of first fiscal year.
- In BOK the income should be negative in second and fourth fiscal year. In average then income should be negative. It indicates it is too poor to increased non-interest income.
- The income of NCC and KB are negative in every bank. It is also poor to increased non-interest income.
- So on, the income of HB is also negative in third and last fiscal year. In average it is also negative. So it is also poor to increased non-interest income.

- At the end, there is no any contribution from NIB from profit/loss from extra-ordinary activities.
- On the other hand, the aggregate of profit/loss from extra-ordinary activities with total income are negative in every year. So, it indicates there is no good contribution to increased non-interest income.

5.2.9 The growth ratios of interest income are and non-interest income both found positive in all cases over the study period. In interest income it is maximum in NIB and non-interest income in NCC. The aggregate interest income of growth ratios is slightly decreased and again increased in last study period and aggregate of non-interest income is fluctuating over the study period.

5.2.10 In aggregate, the correlation between non-interest income and total income, non-interest income and interest income as well as probably error multiplied by six shows the positive correlation and strongly significant in both cases.

5.3 Recommendations

On the basis of findings and conclusions of the study, following recommendations have been presented.

5.3.1 There are still strong contribution of percentage of interest income and weaker of non-interest income to the total income over the study period. However, non-interest income is assumed as a most important source of banks revenue in these days. So the banks are recommended to contribute meaningful efforts to enhance percentage of non-interest income to the total income.

5.3.2 The percentage of net non-interest income is maximum only on commission & discount and exchange fluctuation income in most of the sampled banks during the study period. It is not so appropriate. So, the commercial banks are advised to extend more seriously there access in other different sources of fee income such as services charges, renewal fees, remittance fee, letter of credit, credit cards, rental on safe deposit lockers etc. It provides benefits for both banks and customers. For banks, it make assurance of consistent non-interest income while for customers, it assist to facilitate their life as well as transactions.

5.3.3 The percentage of non-interest income with total income ;

- BOK indicates the percentage of non-interest income contributed more income to generate strong income of total income. These incomes have in same ratio in first and second fiscal year a slightly fluctuated over the study period. It is assumed as somehow favourable for commercial banks with respect to interest income. So, it recommended to continue there income.
- The non interest income of NCC is also able to generate more income with total income. The incomes have highly increased in second last fiscal year, and as well highly decreased in last fiscal year. It indicates that overall income of this bank is fine but highly increasing and decreasing gives negative impact to the bank. So it recommended examining the components of non-interest income.
- The non interest income of HB and KB is fluctuating over the study period since the income is decreased in last fiscal year. It indicates that non interest income is not satisfactory. So, it advise to enhance the ability to collect non-interest income from every service.
- At the end, the income of NIB is decreasing in overall study period. So it indicates that there is a probability of decreasing of income in the coming year. So, the bank is advised to monitor in regular basis and take necessary action to overcome from the prevailing situation.
- On the other hand, fluctuating trend of aggregate net non-interest income with total income is in increasing trend in second last fiscal year

and decreasing in last fiscal year of study. So, it indicates that non-interest income of these banks is not satisfactory. So, it recommended maintaining declining rate.

- The aggregate net non-interest income of all sampled banks is good in this service except KB. Thus KB examine there defect and try to maintain there cost

5.3.4 The commission and discount with total income are the most favourable income to increase non-interest income with total income.

- The BOK is fluctuated over the third fiscal year and again increased in second last fiscal year and again slightly decreased in last fiscal year of study. In overall it is good income. It shows it is satisfactory to increase non-interest income. So, recommended to continue there process.
- The income of NCC is in same ratio in first to third year and slightly fluctuating in decreasing rate over last fiscal year. It shows it is satisfactory in overall to increase non-interest income. So, it also recommended to continue there process.
- The amount of HB is in same ration in first and second fiscal year and fluctuating in increasing rate of last fiscal year. So, it is also satisfactory to increase non-interest income.
- The amount of KB is in same ration in first and second fiscal year and slightly fluctuating in last fiscal year. It helps to increase non-interest income in low rate from this service to compare other sample banks. So, it collects more revenue from this service.
- At the end, the income of NIB is in same ratio in first to second last fiscal year and slightly decreased in last fiscal year. It is also satisfactory to increase non-interest income. So, the bank continue there process to increase non-interest income..

- On the other hand, the aggregate of commission and discount with total income is fluctuating in increasing rate. Fluctuating rate is not good but it fluctuated high price. So, it is good to increased non-interest income.

5.3.5 The overall operating and non-operating income with total income is not so good result. It is not in negative but not in satisfactory.

- The income of BOK is too poor to increased total non-interest income from this service. It is fluctuating. So, the recommendation is to maintain increasing income.
- Similarly, the overall income of NCC is better contribution to the total non-interest income to compare other sampled banks. In individual it is fluctuating in third fiscal year and again increased in second last fiscal year and decreased in last fiscal year. So, the fluctuating margin is not good in bank. So, banks are recommended to maintain increasing income.
- The income of HB is fluctuating during the study period. Thus, the bank is recommended to maintain increasing income.
- Likewise, the income of KB is continuously increased in last fiscal year of study. But the overall income is increasing not as expected. So it advised to continue such condition in future and also maintain there revenue.
- At the end, the income of NIB is decreasing in third fiscal year and increasing in second last fiscal year again decreasing in last fiscal year. So, it advises to maintain decline ratio.
- The aggregate income of operating and non-operating is fluctuating over the study period. So, bank recommended to maintain increased efficiency.

5.3.6 The overall exchange fluctuation income with total income is satisfactory.

- The overall total income of BOK is better then other sampled commercial bank. It is decreasing in fourth fiscal year but increased in last fiscal year. So, it advised to maintain declining ratio in this bank.
- Similarly, the overall income of NCC is not good but it is fluctuating in third fiscal year and increasing in last fiscal year. So, it recommended maintaining increasing fluctuation.
- The overall income of HB is also in good. It is fluctuated in last fiscal year and again increased in last year. So, it recommended maintaining increasing rate.
- Likewise, the overall income of KB is also not so good. It is fluctuating over the study period. So, it is a recommendation is to maintain smaller exchange fluctuation.
- At the end, the income of NIB is also fine in overall but it is decreasing continuing in last fiscal year. So, it is advised to maintain declining exchange fluctuation.
- On the other hand, the aggregate of exchange fluctuation income with total income is fluctuated in third fiscal year and again same rate in forth fiscal year and increasing in last fiscal year. So, it recommended to continuing to increasing there income.

5.3.7 The income from provision written back with total income is good in overall. But there is no any income in first fiscal year of any sampled bank.

- The income of BOK is in decreasing trend. It is highly decreased from first to last fiscal year. So, it is advised to maintain declining ratio.
- Similarly, the income of NCC is highly fluctuated over the study period. Overall it is good but for the fluctuating ratio it shows to maintain increasing provision.

- The income of HB is not in lost in the overall period but its fluctuating ratio is not good. So, it reveals that there are urgently should applied the necessary corrective measure to break up such fluctuation income.
- Likewise, the overall income of KB is not so good. But the fluctuating ratio is good. So, it is recommended to enhance the ability to collect non-interest revenue and continue such condition.
- At the end, the over income of NIB is also not so good. It is increasing in second last fiscal year and decreasing in last fiscal year. So, it recommended maintaining declining income in this bank.
- On the other hand, the aggregate of provision written back with total income is good in overall. But the income is increasing in third fiscal year and decreasing last fiscal year of study period. So, it recommended maintaining declining income.

5.3.8 The income from profit/loss from extra ordinary activities is not good performance of commercial bank. It is negative income in whole year except third and last fiscal year of BOK. It is adversely affecting non-interest income. Thus, it is necessary to make positive as well as increasing income.

- From NIB there is no any income in any year.
- The aggregate of profit/loss from extra ordinary activities are in negative. So, the banks are advised to enhance the ability to collect non-interest revenue stemming from both service charges and other service fees relative to the amount of non-interest cost incurred.

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APPENDIX-1

List of Total Commercial Banks in Nepal

S.N.	Names	Operation Date
1	Nepal Bank Limited	1937/11/15
2	Rastriya Banijya Bank	1966/01/23
3	Agriculture Development Bank Ltd.	1968/01/02
4	Nabil Bank Limited	1984/07/16
5	# Nepal Investment Bank Limited	1986/02/27
6	Standard Chartered Bank Nepal Ltd.	1987/01/30
7	# Himalayan Bank Limited	1993/01/18
8	Nepal SBI Bank Limited	1993/07/07
9	Nepal Bangladesh Bank Limited	1994/06/05
10	Everest Bank Limited	1994/10/18
11	# Bank of Kathmandu Limited	1995/03/12
12	Nepal Credit and Commerce Bank Ltd	1996/10/14
13	Lumbini Bank Limited	1998/07/17
14	# Nepal Industrial & Commercial Bank Ltd	1998/07/21
15	Machhapuchhre Bank Limited	2000/10/03
16	# Kumari Bank Limited	2001/04/03
17	Laxmi Bank Limited	2002/04/03
18	Siddhartha Bank Limited	2002/12/24
19	Global Bank Ltd.	2007/01/02
20	Citizens Bank International Ltd.	2007/06/21
21	Prime Commercial Bank Ltd	2007/09/24
22	Sunrise Bank Ltd.	2007/10/12
23	Bank of Asia Nepal Ltd.	2007/10/12
24	DCBL Bank Ltd.	2008/05/25
25	NMB Bank Ltd.	2008/06/05
26	Kist Bank Ltd.	2009/05/07

Source: NEPSE and NRB.

Note: # Sampled Commercial Banks for the study

APPENDIX-2

Interest Income

(Rs. in Million)

	Fiscal Year	2061/062		2062/063		2063/064		2064/065		2065/066	
		Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
BOK	On Loan adv & Ovd. On Investment On Agency Balances On Money at Call & SN. On Others	502.95 88.25 0.00 13.48 2.42	82.84 14.54 0.00 2.22 0.40	505.14 118.58 0.00 44.46 4.94	75.04 17.62 0.00 6.61 0.73	645.65 112.36 0.00 31.83 29.16	78.83 13.72 0.00 3.89 3.56	887.30 90.60 0.00 20.94 35.32	85.80 8.76 0.00 2.02 3.42	1199.08 129.28 0.00 5.28 14.17	88.97 9.59 0.00 0.39 1.05
	Total	**607.10**	**100.00**	**673.12**	**100.00**	**819.00**	**100.00**	**1034.16**	**100.00**	**1347.81**	**100.00**
NCC	On Loan adv & Ovd. On Investment On Agency Balances On Money at Call & SN. On Others	529.64 8.06 0.00 0.88 3.27	97.75 1.49 0.00 0.16 0.60	545.60 13.02 0.00 1.49 2.67	96.95 2.31 0.00 0.26 0.47	445.54 14.96 0.00 10.79 3.12	93.91 31.53 0.00 2.27 0.66	511.86 54.16 0.00 3.87 6.71	88.77 9.39 0.00 0.67 1.16	641.64 98.16 0.00 11.84 6.72	84.61 12.94 0.00 1.56 0.89
	Total	**541.85**	**100.00**	**562.78**	**100.00**	**474.41**	**100.00**	**576.6**	**100.00**	**758.36**	**100.00**
HB	On Loan adv & Ovd. On Investment On Agency Balances On Money at Call & SN. On Others	1122.39 149.13 0.00 10.22 164.73	77.60 10.31 0.00 0.71 11.39	1140.69 172.24 7.18 20.61 285.76	70.13 10.59 0.44 1.27 17.68	1242.85 191.56 6.63 26.18 308.36	69.99 10.79 0.37 1.47 17.37	1444.25 201.31 10.87 26.29 280.93	73.55 10.25 0.55 1.34 14.31	1861.04 354.95 6.78 7.73 111.69	79.46 15.15 0.29 0.33 4.77
	Total	**1446.47**	**100.00**	**1626.48**	**100.00**	**1775.58**	**100.00**	**1963.59**	**100.00**	**2342.19**	**100.00**

KB	On Loan adv & Ovd.	462.73	81.12	533.69	88.14	691.14	87.34	877.01	91.62	1233.55	89.73
	On Investment	52.26	9.93	48.12	7.95	44.90	5.67	46.98	4.91	89.86	6.54
	On Agency Balances	0.11	0.02	0.29	0.05	1.15	0.15	2.11	0.22	0.97	0.07
	On Money at Call & SN.	10.95	2.08	23.03	3.80	54.09	6.84	31.14	3.25	50.35	3.66
	On Others	0.00	0.00	0.40	0.61	0.00	0.00	0.00	0.00	0.00	0.00
	Total	**526.05**	**100.00**	**605.53**	**100.00**	**791.28**	**100.00**	**957.24**	**100.00**	**1374.73**	**100.00**
NIB	On Loan adv & Ovd.	769.20	91.92	964.69	82.26	1302.12	82.15	1907.26	86.92	2906.05	88.92
	On Investment	56.55	6.75	82.42	7.03	78.49	4.95	99.99	4.56	140.70	4.31
	On Agency Balances	0.11	0.01	7.86	0.67	10.13	0.64	8.89	0.41	6.83	0.21
	On Money at Call & SN.	10.95	1.31	106.42	9.07	183.07	11.55	161.04	7.34	175.14	5.36
	On Others	0.00	0.00	11.35	0.97	11.18	0.71	17.10	0.78	39.33	1.20
	Total	**836.81**	**100.00**	**1172.74**	**100.00**	**1584.99**	**100.00**	**2194.28**	**100.00**	**3268.05**	**100.00**
Aggregate	On Loan adv & Ovd.	3386.91	85.57	3689.81	79.51	4327.3	79.47	5627.68	83.67	7841.36	86.25
	On Investment	354.25	8.95	434.38	9.36	442.27	8.12	493.04	7.33	812.95	8.94
	On Agency Balances	0.22	0.006	15.33	0.33	17.91	0.33	21.87	0.33	14.58	0.16
	On Money at Call & SN.	46.48	1.17	196.01	4.22	305.96	5.62	243.28	3.62	250.34	2.75
	On Others	170.42	4.31	305.12	6.57	35.82	6.46	340.06	5.06	171.91	1.89
	Total	**3958.28**	**100.00**	**4640.65**	**100.00**	**5445.26**	**100.00**	**6725.93**	**100.00**	**9091.14**	**100.00**

Source: Annual Report of Sampled Banks.

APPENDIX 3

BOK
BALANCE SHEET
As At Ashadh 31, 2061/062 to 2065/066

Rs. in Million

Fiscal Year	**2061/062**	**2062/063**	**2063/064**	**2064/065**	**2065/066**
Capital & Liabilities					
Share Capital	463.58	463.58	603.14	603.14	844.40
Reserve Funds	257.16	376.15	378.84	738.93	897.19
Debenture & Bonds	-	200.00	200.00	200.00	200.00
Borrowings	6.00	553.18	730.00	100.00	100.00
Deposit Accounts	8942.75	10485.36	12388.93	15833.74	18083.98
Bills Payable	19.87	11.62	25.78	51.58	51.12
Dividend Payable	-	98.71	135.58	32.80	77.33
Income Tax Liabilities	-	-	-	-	-
Other Liabilities	167.77	89.72	107.84	161.73	161.73
Total	**9857.13**	**12278.33**	**14570.10**	**17721.93**	**20496.01**
Properties and Assets					
Cash Balance	161.47	184.02	219.04	536.75	565.07
Balance with Nepal Rasta Bank	-	349.30	883.50	606.05	1324.11
Balance with Banks/financial Institutions	579.05	195.38	213.37	297.67	292.94
Money at Call and Short Notice	328.87	594.05	259.28	72.68	243.35
Investments	2598.25	3374.71	2992.43	3204.07	2783.60
Loans, Advance and Bill Purchase	5912.58	7259.08	9399.33	12462.64	14647.30
Fixed Assets	95.23	110.75	320.85	387.27	417.04
Non Banking Assets	-	7.36	3.63	0.45	-
Others Assets	181.67	203.69	278.68	154.35	222.61
Total	**9857.13**	**12278.33**	**14570.10**	**17721.93**	**20496.01**

APPENDIX 4

Nepal Credit & Commerce Bank Limited
BALANCE SHEET
As At Ashadh 31, 2061/062 to 2065/066

Rs. in Million

Fiscal Year	**2061/062**	**2062/063**	**2063/064**	**2064/065**	**2065/066**
<u>Capital & Liabilities</u>					
Share Capital	693.55	698.42	699.12	1399.56	1399.56
Reserve Funds	(437.71)	(1007.45)	(1209.45)	(714.47)	(300.64)
Debenture & Bonds	-	-	-	-	-
Borrowings	-	13.60	-	-	-
Deposit Accounts	6630.94	6619.58	6500.34	7320.24	9127.75
Bills Payable	5.89	63.60	14.51	110.17	15.37
Dividend Payable	-	-	-	-	-
Income Tax Liabilities	-	-	-	2.64	-
Other Liabilities	25.40	39.95	32.16	123.20	348.80
Total	**6918.08**	**6428.00**	**6036.68**	**8241.33**	**10590.85**
<u>Properties and Assets</u>					
Cash Balance	151.35	230.56	265.78	592.63	342.79
Balance with Nepal Rasta Bank	441.01	478.21	255.57	762.44	781.45
Balance with Banks/financial Institutions	70.34	75.19	236.81	122.76	62.76
Money at Call and Short Notice	47.94	21.10	75.66	154.41	186.40
Investments	400.34	591.64	1236.62	1900.76	1583.10
Loans, Advance and Bill Purchase	5419.73	4643.26	3707.64	4417.86	6858.19
Fixed Assets	124.03	111.84	104.23	114.06	216.86
Non Banking Assets	57.48	72.62	46.56	59.96	235.57
Others Assets	205.85	203.28	107.80	116.45	323.71
Total	**6918.08**	**6428.00**	**6036.68**	**8241.33**	**10590.85**

Source: Annual Report of BOK

APPENDIX 5

Himalayan Bank Limited
BALANCE SHEET
As At Ashadh 31, 2061/062 to 2065/066

Rs. in Million

Fiscal Year	**2061/062**	**2062/063**	**2063/064**	**2064/065**	**2065/066**
<u>Capital & Liabilities</u>					
Share Capital	643.50	772.20	810.81	1013.51	1216.22
Reserve Funds	898.25	993.98	1335.69	1499.48	1903.67
Debenture & Bonds	360.00	360.00	360.00	860.00	500.00
Borrowings	146.05	144.62	235.97	83.18	-
Deposit Accounts	24814.01	26490.85	30048.42	31842.79	34681.35
Bills Payable	68.40	73.58	91.30	102.67	113.51
Dividend Payable	80.12	238.41	130.94	263.08	162.10
Income Tax Liabilities	3.25	-	11.91	19.13	10.16
Other Liabilities	404.58	386.75	494.10	491.70	733.33
Total	**27418.16**	**29460.39**	**33519.14**	**36175.53**	**39320.32**
<u>Properties and Assets</u>					
Cash Balance	286.53	305.43	177.24	278.18	473.76
Balance with Nepal Rasta Bank	1604.15	1096.25	1272.54	935.84	2328.41
Balance with Banks/financial Institutions	123.79	315.67	307.56	234.12	246.36
Money at Call and Short Notice	441.08	1005.28	1710.02	518.53	1170.79
Investments	11692.34	10889.03	11822.98	13340.18	8710.69
Loans, Advance and Bill Purchase	12424.52	14642.56	16997.99	19497.52	24793.16
Fixed Assets	295.82	540.82	574.06	726.07	952.20
Non Banking Assets	31.93	21.73	12.78	10.31	22.69
Others Assets	517.99	643.61	643.97	634.79	622.26
Total	**27418.16**	**29460.39**	**33519.14**	**36175.53**	**39320.32**

Source: Annual Report of HB

APPENDIX 6

Kumari Bank
BALANCE SHEET
As At Ashadh 31, 2061/062 to 2065/066

Rs. in Million

Fiscal Year	**2061/062**	**2062/063**	**2063/064**	**2064/065**	**2065/066**
Capital & Liabilities					
Share Capital	500.00	625.00	750.00	1070.00	1186.10
Reserve Funds	141.76	238.85	275.63	294.86	438.85
Debenture & Bonds	-	-	-	400.00	400.00
Borrowings	401.76	251.40	212.97	100.00	293.42
Deposit Accounts	6268.95	7768.96	10557.09	12774.28	15710.93
Bills Payable	7.34	11.92	16.55	65.30	70.09
Dividend Payable	-	6.78	-	-	6.58
Income Tax Liabilities	-	0.30	11.01	(9.65)	0.23
Other Liabilities	108.49	107.27	95.06	331.79	432.36
Total	**7428.30**	**9010.28**	**11918.31**	**15026.60**	**18538.57**
Properties and Assets					
Cash Balance	111.25	135.79	190.75	565.64	549.11
Balance with Nepal Rasta Bank	219.83	210.55	384.84	244.58	1120.76
Balance with Banks/financial Institutions	112.29	43.28	96.52	123.62	106.43
Money at Call and Short Notice	90.00	145.00	372.22	55.36	30.00
Investments	1190.27	1394.95	1678.42	2138.80	1510.83
Loans, Advance and Bill Purchase	5584.64	6891.86	8929.01	11335.09	14593.35
Fixed Assets	82.98	91.93	189.32	222.00	247.83
Non Banking Assets	-	3.59	2.39	3.14	-
Others Assets	37.04	93.32	74.83	338.37	380.26
Total	**7428.30**	**9010.28**	**11918.31**	**15026.60**	**18538.57**

Source: Annual Report of KB

APPENDIX 7

Nepal Investment Bank
BALANCE SHEET
As At Ashadh 31, 2061/062 to 2065/066

Rs. in Million

Fiscal Year	**2061/062**	**2062/063**	**2063/064**	**2064/065**	**2065/066**
Capital & Liabilities					
Share Capital	587.74	590.59	801.35	1203.92	2407.07
Reserve Funds	592.43	824.85	1076.77	1482.87	1500.77
Debenture & Bonds	-	550.00	800.00	1050.00	1050.00
Borrowings	350.00	-	-	-	38.80
Deposit Accounts	14254.58	18927.31	24488.86	34451.73	46698.10
Bills Payable	15.01	18.82	32.40	78.84	82.34
Dividend Payable	-	121.63	43.65	93.47	485.45
Income Tax Liabilities	-	9.32	0.30	24.08	38.30
Other Liabilities	474.31	287.63	347.52	488.40	709.98
Total	**16274.06**	**21330.14**	**27590.84**	**38873.31**	**53010.80**
Properties and Assets					
Cash Balance	374.27	562.56	763.98	1464.48	1833.46
Balance with Nepal Rasta Bank	-	1526.07	1381.35	1820.01	4411.13
Balance with Banks/financial Institutions	966.22	247.89	296.18	470.45	1673.41
Money at Call and Short Notice	140.00	70.00	362.97	-	-
Investments	3934.19	5602.87	6505.68	6874.02	7399.81
Loans, Advance and Bill Purchase	10126.06	12776.21	17286.43	26996.65	36241.21
Fixed Assets	320.59	343.45	759.46	970.09	1060.75
Non Banking Assets	-	-	1.13	0.75	0.38
Others Assets	412.75	210.09	233.67	276.85	390.65
Total	**16274.06**	**21330.14**	**27590.84**	**38873.31**	**53010.80**

Source: Annual Report of NIB