

# **CHAPTER-I**

## **INTRODUCTION**

### **1.1 General Background**

#### **1.1.1 Meaning and Origin of the Bank**

A bank is an institution that deals with money by accepting various types of deposits, disbursing loan and rendering other financial services. Broadly speaking, bank draws money from the people who are not using it at time and lend to those who are in position to use it for productive purposes. Since banks are rendering a wide range of services to the people from different walk of life, they have become an essential part of modern society. In other words, bank is an institution that accepts the deposits from people and in turn advance loan by creating credit. In this process, they earn interest and commission, out of which they pay interest to the depositors i.e. People who deposits fund with them. Banks have opened their branches in towns and villages offering different types of services to the different level of people.

Bank is also defined as an institution for keeping, lending and exchanging of money. Banks' debt-usually referred as 'Bank Deposit' that is commonly accepted in final settlement of debt of other people. It is different from other financial institution in the sense that they cannot create credit though they may be accepting deposits and making advances. Thus, bank's business was basically to buy and sale of credit. Credit instruments are kept on stock-in-trade also on the basis of its own credit and banks create money transferred by credit instruments. They must gain the confidence and trust of the people to create credits. It is said that the flow of credit is very much important like the circulation of blood in human life. If the circulation of blood is not smooth it will do irreparable harm to the body. Similarly, unsteady and unevenly flow of credit harms the economy.

Bank came in existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sectors and causing an overall economic development. That mobilized deposits contribute to the development of economic infrastructure of the nation. Banks are not just storehouses of the wealth but are reservoir of resources. The contribution of the bank has been very substantial in increasing production and employment by motivating people to save and in collecting the scattered saving in the form of deposits. The bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society they are serving.

The definitions of banking quoted by Dahal, Sarati and Bhuwan (2002:07) are as follows.

- A bank is an organization whose principal operations are concerned with accumulation of The temporarily idle money of the general public for the purpose of advancing to other for Expenditure.
- Banking means the accepting for the purpose of lending or investment of deposits of Money from the public repayable on demand or otherwise, and withdrawal by cheque, Draft or otherwise.
- Any institution offering deposits subject to withdrawal on demand and making loan of Commercial or business nature is a bank.

Above definitions are applicable to all types of financial intermediaries. In fact, ‘banks’ now a day, do a large number of financial transactions while ‘financial institutions’ are authorized to do limit transaction only. Hence, a bank can defined as a “financial departmental store” which renders a host of financial services besides taking deposits and giving loans ( Sarita & Bhuwan, 2002:02).

The present- day bankers have three ancestors: Merchant, Moneylender and Goldsmith. A modern bank is something of each of there. It is said money has two

properties. It is flat so it can pile up and it is round so that it can circulate. The progeny of the moneylender concern flat money piled up money and savings. The progeny of goldsmith are concern with round money circulating money cash. Modern banks have been developed from very beginning. The earlier bankers were merchants, goldsmith and moneylender.

History tells us that it was the merchant banker who first evolved the system of banking by trading community then money. Their trading activities required the remittance of money from one place to another.

Next stage in the growth of banking was goldsmith. The business of goldsmith was such that he had to take deposit such as bullion, money and amendments for security from theft. This makes possible the goldsmith to change something case of money and bullion. On the other hand, as the evidence of securing valuables, he used to issue a receipt to the depositors as such receipts are used for payments equivalent to amount mentioned. It became like a modern cheque as a medium of exchange and means of payments.

Finally, moneylender in the early age contributed in the growth of banking to large extent. He advances the coins on loan by charging interest. As safeguard he used to keep some money in the reserve. Therefore, moneylender became banker who started performing the two functions of modern banking i.e. accepting deposits and advancing loans.

There are various concepts among the economist about the origin of the word 'Banking'. The term Bank derived from the Latin word-'Bancus' that refers to the bench on which the banker would keep its money and his record. Some people trace its origin to the Italian word-'Banca' and the French word- 'Banque' that means a bench for keeping and exchanging of money in the market.

Moneylenders in the streets of major cities of Europe used bench for acceptance and payment of valuable and coins. When they were unable to meet their liabilities the depositors used to break their bench. The term-*Bankruptcy* is derived thereof. It is difficult to say exactly whether the term 'Bank' has been derived from 'bancus' or German word 'Bank' that means Joint Stock Company.

Despite the strong criticism by the church on charging interest, modern banking sowed its seed in the medieval Italy. Bank of Venice was the first established in 1157 AD in Venice. Italy is regarded as the motherland of first modern bank. The Bank of Barcelona and Bank of Geneva were established in 1401 and 1407 respectively. Bank of Amsterdam set up in 1609 was very popular. These modern banks gradually replaced goldsmith and moneylender in Europe. The Bank of Hindustan established in 1770 is regarded as the first bank in India. Though, Bank of England was established in 1694, the growth of banks accelerated only after the introduction of banking act 1833 in United Kingdom as it allowed opening Joint Stock Company.

### **1.1.2 Origin and Growth of Banking System in Nepal**

Like other countries, Goldsmith, Merchant and Moneylender were the ancient bankers in Nepal. In respect to the evolution of banking system in Nepal, which is derived on the ground of historical facts that existed during the Lichhabi period, King Gunkamdev had borrowed money from the rich people to build the city. The historical record shows that Gunkamdev, the king of Kathmandu, borrowed money to rebuild his kingdom in 723AD. Some fifty-seven years thereafter, a merchant 'Shankhadhar' introduced 'Nepal Sambat' by clearing all the indebtedness of the people in 880AD. This clearly proved that money-lending practices were prevalent at that time.

Later, during the regime of Mallas, money-lending business became more

penetrating and popular. Towards the end of the 14<sup>th</sup> century, Jayasthiti Mallas, the ruler of Kathmandu, divided the people in sixty-four classes on the basis of their occupation. Among them one was Tankadhari and the people belonging to this class were engaged in money lending business. It is believed that the money lending business became quite popular in the reign of Mallas, particularly in financing the trade with Tibet and India. Thus, the role of Tankadhari was akin to that of a banking agent. However, these moneylenders advanced loan against personal security of land, building etc. As they were free to charge any amount as interest and other charges on the loan advances. Naturally, the interest rate was higher, discriminatory and unfair. Of course, this gave birth to malpractices, frauds and exploitation in the whole Nepalese society. Even today, such practices of usury are prevalent in Nepalese village, which are beyond the purview of modern banking system.

Thus, it was the duty of government to control the malpractices of the moneylenders and to set up a financial institution to make easy credit facilities for the general people. As a result, with growing consciousness and awareness of this, 'Tejarath Adda' had been established as an institution, during the period of Rana , under the Prime minister ship of Ranodip Singh in 1933 B.S. It was established for simple banking operation. It had carried the function of providing loan for the government's servants and to the general people under the collateral of gold and silver at the low interest rate. Tejarath Adda did not collect deposits from the public but gave loan to employees and public against the bullion. On the whole, it was not viewed as Bank. Ranodip Singh, who had been Prime Minister for 8 years (1877-1885AD), was not interested in the problem and took concrete steps by establishing a government financial institution known as 'Tejarath'. Tejarath helped the public by supplying easy and cheap credit at 5 percent interest on the security of gold and silver ornaments (Ojha and Rajbahak, 1968: 08).

In the overall development of banking system in Nepal, Tejarath Adda could be considered as the father of modern banking institution. It had rendered good services to the government servants as well as the general public for long time. This institution adapted one of the elementary functions of granting loans against gold, silver and other collateral, which is more or less similar to the modern banking system. It did not accept deposits, which probably were not considered then to be the function of banking. Although, credit facilities of Tejarath were extended to some other sectors during the Rana Primeministership of Chandar Shamsheer (1901-1929 AD), it could not meet the credit needs of the entire society. It was the government institution, which basically benefited the government officials. And the general public still had to depend chiefly on the local moneylenders. They used to charge high rate of interest on loans, manipulate the account and purchased the standing crops at a very nominal price and so on.

In such a complex and critical situation, it had become apparent to the government to take some necessary steps in this regard. To make the poverty-ridden rural people free from the clutches of moneylenders and to develop the trade and industry in the country, the need of commercial bank with the modern banking facilities, was seriously felt by the government. In other words, a commercial bank was required for the sake of the economic expansion of the country.

After then, another financial institution was established in 1991 BS as a named of 'Sainik Drabya Kosha' especially for the future welfare of government staffs. Before commencement of 'Sainik Drabya Kosha' the government staffs of that period had to face much more economic difficulties after the retirement from the office (Shakya 2040:40).

The council of industry was organized in 1993 BS for the development of trade & industry, which was eventually followed by a corporate sector commercial bank-

Nepal Bank Limited (NBL) in the joint effort of numbers of individual and the government. The Tejarath was replaced by Nepal Bank Limited, which marked the beginning of new era in the history of modern banking in Nepal.

Modern banking started with the inception of NBL under the Nepal Bank Act 1936 in BS 1994-0730 (1937). NBL had Herculean responsibilities of attracting people towards the banking system from pre-dominant moneylenders and to expand banking services. Being a first Commercial Bank it was natural that NBL paid more attention to profit generating business and opened branches at urban centers. NBL was established with 49% government share and 51% share of general public. However, private shareholders controlled NBL till 1951 and it was only in 1952 that HMG increased its share ownership in NBL to 51% in order to hold control over its management. The Bank was one of the major ventures to be floated under the venture company principle with an authorize capital of Rs 10 million: one fourth of which was issued at once. It was established to solve the prevailing financial inconvenience of the people, to uplift the economic development of country by institutionalizing trade and commerce and by assisting other development activities.

Till the foundation of Nepal Rastra Bank (NRB), NBL remained the only one financial institution of the country with the growing realization about the coordination and promotion of banking activities in the country. The establishment of central bank had become immensely an urgent task. The Government however, has onus of stretching banking services to the nook of the country and also managing financial system in a proper way. Thus, Nepal Rastra Bank (NRB) was set up on BS 2012-01-14 as a central bank with an authorized capital of Rs 10 million fully subscribed by the HMG under Nepal Rastra Bank Act 2012 BS. NRB was credited for the purpose of issuing notes, bringing stability in the exchange of Nepalese currency. Similarly, carrying out transaction of Nepalese currency over

the kingdom and encouraging industries after making the capital dynamic for the development of the country, prior to emergence of NRB the note issuing authority was vested with the 'MULUKIKHANA' the Government treasurer office. Since then, it has been functioning as government's bank and has contributed to growth of financial sector. The major challenge before NRB today is to ensure the robust health of financial institution. Accordingly, NRB has been trying to change them and has introduced a host of prudential measure of safeguard to interest of public. NRB is yet to do a lot to prove them an efficient supervision. NRB really requires strengthening their policymaking, supervision and inspection mechanism (Sarita & Bhuwan, 2002:11).

The preamble of NRB Act lays down the aims of the bank as being that of regulating the issue of paper money, securing country-wide circulating of Nepalese currency and achieving stability in its exchange rate; mobilizing capital for economic development and for stimulating trade and industry and developing the banking system in the country; and later on an incorporated by the amendment in 1964, ensuring facilities and maintaining economic interest of general people.

The foundation of NRB set a milestone in the history of banking in Nepal. After this, novel way of thinking and a new sort of spirit arose in the field of banking. A suitable, specialized and scientific banking institution was felt necessary. By 2013 BS(1957 AD). Nepal Industrial Development Center (NIDC) was established with an authorized capital of Rs 20 million as a financial institution. NIDC has made a great contribution for the development of financial institution in Nepal. In 2016 (1959), it was converted to Nepal Industrial Development Corporation (NIDC). Since its establishment in 1959, NIDC has been playing a significant role in industrialization of Nepal by providing technical and financial assistance for the establishment, expansion and modernization of the industrial projects in the private sectors. The basic objective of NIDC is to assist and encourage private

enterprise by providing financial resources and technical guidance.

Integrated and speedy development of the country is possible only when competitive banking services reaches nooks and corner of the country. Keeping this in mind, the government set up Rastriya Banijya Bank (RBB) in BS 2022-10-10 as a fully government owned commercial Bank (Sarita & Bhuwan, 2002:11). In the view of providing facilities to the general people and to manage for economic aids, it was identified with sole ownership of the government with the authorized capital of Rs 10 million and paid up capital of Rs 3 million. Its objectives were confined to facilitate economic aids for the general public to provide loan for industry, trade and commerce and to supply banking services to the people properly.

In the development of financial institution, Agriculture Development Bank (ADB/N) was another significant achievement. It was set-up 2024-10-07 (1967AD) with an authorized capital of Rs 50 million to provide finance for agricultural products so that introducing modern agriculture techniques could enhance agricultural productivity. Its functions are to provide loans for development of agriculture sectors, personal and agricultural enterprise for the purpose of economic development of the country to work as a commercial bank and to distribute loan for the execution of severs programs.

No foreign banks were opened in the country before 1974. There were no provisions made in the Commercial Bank Act for the entry of foreign bank into the financial system of Nepal up to 1974. Commercial Bank Act 1974 has however, made provisions to permit foreign banks to operate in the country by obtaining the approval of NRB. The creation of efficient monetary arrangement and reformation of the financial system of the country could make an important contribution to mobilize more domestic resources to finance and implement the policy of

economic acceleration of the country.

Therefore, the three, most dramatic and far-reaching, financial reforms programs were carried out in 1980. They were: allowing the foreign banks to operate as joint venture, lifting the control on interest rate and introducing the Government's action on securities.

With the aim to provide quality-banking services, enhance efficiency and healthy competition. Foreign investment & new technology in banking sectors was introduced. Following the liberalization path for the foreign banks, three joint ventures banks were initiated with a view to encourage efficient banking services, which is the pre-condition for the economic development, industrialization and growth of the country in 1980s. However, excess political and bureaucratic interference and absence of modern managerial concept was hurdled in the operation of institutions as conceived of. Banking service to the satisfaction of customer was a far cry.

Since that there are operating many commercial banks in Nepal. As a first joint venture bank NABIL Bank Limited was established on 2041/03/29 B.S. Having observed the success on NABIL based on marketing concept and also because of liberal economic policy adopted by the successive government, many commercial banks have been established.

List of class A Lincensed Financial Institution (Commercial Banks)

<ol style="list-style-type: none"><li>1. Nepal Bank Limited</li><li>2. Rastriya Banijya Bank</li><li>3. NABIL Bank Limited</li><li>4. Nepal Investment Bank Limited</li><li>5. Standard Chartered Bank Nepal Ltd.</li><li>6. Himalayan Bank Limited</li><li>7. Nepal SBI Bank Limited</li><li>8. Nepal Bangladesh Bank Limited</li><li>9. Everest</li><li>10. Bank of Kathmandu Limited</li><li>11. Nepal Credit and Commerce Bank Ltd</li><li>12. Lumbini Bank Limited</li><li>13. Nepal Industrial and Commercial Bank Limited</li><li>14. Machhapuchhre Bank Limited</li><li>15. Kumari Bank Limited</li><li>16. Laxmi Bank Limited</li><li>17. Siddhartha Bank Limited</li><li>18. Agricultural Development Bank Ltd</li><li>19. Global Bank Limited</li><li>20. Citizens Bank Limited</li><li>21. Prime Bank Limited</li><li>22. Sunrise Bank Limited</li><li>23. Bank of Asia Limited</li><li>24. NMB Bank Limited</li><li>25. DCBL</li><li>26. Kist Bank Limited</li><li>27. Janata Bank Limited</li><li>28 Mega Bank Limited</li><li>Bank Limited</li></ol>	
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*Source: Website of NRB*

As a consequence of financial sectors reform, there are 27 commercial banks operating in Nepal including 2 public sectors banks. Besides there are 24

Development Banks, 5 Rural Development Banks, 59 Financial Companies, 21 Licensed Cooperative Societies and 45 Licensed Micro Finance

### **1.1.2 Nature of Commercial Banks**

Commercial banks are those that accept deposits and finance to the business and finance to the business and project. They provide short term and long- term finance.

As per Commercial Bank Act 2031 B.S, “A commercial Bank means the bank which deals in exchanging currency, accepting deposits, giving loans and doing commercial transactions”

In the beginning commercial bank’s functions were confined to accepting deposits and giving loans but now it increase manifold. Commercial Banks are found operating throughout the world. Bank of Venice set up in 1157, is the first commercial bank. Nepal Bank Limited established on 30<sup>th</sup> Kartik 1994 B.S is the first commercial bank in Nepal. Major functions of commercial banks are: Accepting various types of deposits, lending money in various productive sectors, Guarantee (G’ tee) Remittance, Bills and others.

Notwithstanding the functions of commercial banks have multiplied through time and a modern commercial bank trifles with providing many ancillary services to its customers, providing lockers to customers, advising its clients on tax matters acting as trustee of minors estate etc., which its ancestral counter part never even dared to think of performing its major function still consists of accepting the deposits from public and lending those pooled deposits to the needy member of society mostly against the security of collateral.

The term commercial bank lacks accurate description despite its long usages. It is inappropriate because it fails to describe accurately the scope of commercial banks

lending activities at present time originally the term was applied because it was widely believed that a commercial loan i.e. Commercial bank loans should be for a duration of less than one year, should be given only to traders and merchants to enable them to finance the transportation of goods in domestic and foreign trade and to finance the holding of trade inventories for short period required for their sale. It was also believed that besides providing short term financing of trade, commercial bank could also give short term loan to agriculturists for meeting current production expenses and marketing their crops (Vaish , 1978: 04).

With the development of industries, this principal gradually changed and the commercial bank's lending activities was extended to incorporated short term lending to producer for financing of inventories, wages and other needs for circulating capital. Commercial banks, at present ,are biggest providers of short term loans to commerce , industry and agriculture in economy. But apart from providing short-term loan, they finance to trade, industries and agriculture. Commercial banks today hold a wide verity of earning assets.

Today commercial banks not only issue and transfer deposits through cheque but they also operate saving deposits accounts act as underwriters to new equity issues deal in foreign exchange, provide locker facilities and handle tax matters on behalf of clients.

### **1.1.3 Role of Commercial Banks in the National Economy**

Every country of the world, developed or underdeveloped, is in pursuit of attaining the goal of rapid economic development in the same way or other depending upon the prevailing prospects and nature of instruments for economic growth. Commercial Banks play the role of financial intermediary collecting the fund from surplus unit and supplying the to deficit units (investors). The structure of modern economy will be no better than ancient period of barter system without financial

intermediaries. Therefore, commercial banks play an important role in development of national economy. Commercial banks play a vital role in the affairs of the economy in various ways. Their operations record the economic pulse of the economy. The size composition of their transaction is a mirror of the economic happenings in the country. For example the mass failures of commercial banks during the 1930s reflected the phenomenon of severe global economic depression over the world. They have played an important role in giving a direction to economic development over time by financing the requirements of trade and industry in the country. By encouraging thrift among people, banks have fostered the process of capital formation in the country. In the context of deposit mobilization, given the savings income ratio, commercial banks induce the savers to hold their savings in the form of socially useful assets of which bank deposits constitute the most important element. They draw the community saving into the organized sector, which can then be allocated among the different economic activities according to priorities laid down by planning authorities in the nation. Banks bring together the decision of the income earning together the decision of the savers to save, the decision of the savers to hold their saving as bank deposit and the decision of the producers to draw upon the saving of the community for the purpose of capital assets formation.

Commercial banks help the process of saving and of the holding of saving in a socially desirable form. Through their advances banks also help the creation of the incomes which further saving by the community and further growth potentials emerge for the good of economy. In a planned economy, bank emerges for the good economy and makes the entire planned productive process possible by providing funds for all types of production incorporated in the plan, regardless of whether the production is in the public sector or whether the production is undertaken by one type of organization or another. All employment income distribution and other objectives of plan are as far as possible subsumed into

production plan which banks finance (Vanish, 1978:6-7).

The importance of commercial banks is directing the economic activities in the system is indeed overwhelming with the establishment of commercial banks the flood gates of development promising great hopes for people in the life open. However, poor economy may be there will be needed for institution, which allows such saving as are currently forthcoming to be invested conveniently and safely and which ensure that they are channeled into the most useful purpose (Vanish, 1978:75). Therefore, the tasks of commercial banks in underdeveloped countries are almost self-evident. Their purpose is to provide a collecting point for saving of a relatively small average amount from a large number of individual sources so long as the means to utilize saving safely and profitably are not available within an economy, funds will either to be directed aboard.

#### **1.1.4 Functions of Commercial Bank**

##### **1.1.4.1 Accepting Deposits**

Oldest or main function of commercial bank is accepting deposits. A bank accepts deposit in three forms namely. Saving, current and fixed deposits.

##### **Current Account**

The account in which any amount can be deposited and withdrawn at any time is known as current account. The bank gives no interest to the account holders under this account. Nowadays, the bank under this account as per there own rule has determined minimum limit of deposit.

##### **Saving Account**

The account which is managed to collect the small saving of people is known as saving account. This account can be opened with nominal amount. The main objective of this a/c is to promote the saving of the people. Limited amount can be deposited and withdrawn from the bank in the specified time. If a person needs the

amount more than limit then the prior information should be given to the bank as per their rule. Bank provides nominal rate of interest in this account.

### **Fixed Deposit Account**

The account which is managed to accept the deposit for fixed period of time providing higher rate of interest, is known as Fixed Deposit Account. Amount cannot be withdrawn from bank before the expiry of time. If it is necessary account holder can take loan against the security deposit after paying 2 percent extra interests.

#### **1.1.4.2 Advancing Loan**

The second major function of a commercial bank is to provide loans and advance from the money, which receives by way of deposit loans are granted by bank in form of overdrafts, cash credit, direct loans and discounting bills of exchange.

#### **1.1.4.3 Transfer Money**

Commercial Banks transfer the amount of public and organizations from one place to another place or one account to another account with the help of T.T draft etc.

#### **1.1.4.4 Agency Functions**

A bank also performs number of services on behalf of its customer. A commercial bank undertakes the payment of subscriptions, insurance premium, rent and collection of cheques, bills, salaries, pensions and dividends. The commercial banks arrange to remit money from one place to another place by means of cheque, draft, wire transfers and acts as representative of correspondent for his customers.

#### **1.4.1.5 Exchange Foreign Currency**

Commercial Bank exchanges foreign currency on the permission of Central Bank and considering to the directions provided by Central Bank time and again. Now

days Commercial Bank fixed the rate of foreign currency as per market demand and competition.

#### **1.4.1.6 Helps in Issue of Capital**

On the request of company, corporation and other organization, it sells shares and debentures, gives guarantee and performs agency function for which it take commission from those organizations against the issue of capital made on behalf of those organizations.

#### **1.4.1.7 Opens Letter of Credit (L C.)**

It opens L.C. for the import and export (foreign trade) of goods. It has got right to issue and accept traveler's cheque. This provision is specially made by the bank to facilitate to the foreign trade. L.C. is the act of providing guarantee to the foreign businessman on behalf of local businessman.

#### **1.4.1.8 Other Functions**

It manages locker to keep gold, silver and valuable items safely, collects and publishes the financial information, purchase

### **1.2 An Introduction of Sampled Banks**

Kumari Bank Limited (KBL) is taken as samples of study out of 20 commercial banks. This bank was formerly established with the motive of commercial are fully managed and owned by Nepalese entrepreneurs.

#### **1.2.1 Kumari Bank Limited**

Kumari Bank Limited, came into existence as the fifteenth commercial bank of Nepal by starting its banking operations from April 03,2001 with an objective of providing competitive and modern banking services in Nepalese financial market. The bank has paid up capital was 750 million in which 70% share contributed from Nepalese promoters and remaining 30% from general public. They shall be

the preferred of provider of financial services to their target embracing good governance, service excellence and professional culture in order to achieve sound business growth.

Its share capital distribution is as follows:

<b>Authorized capital</b>	<b>1600,000,000</b>
Issued capital	1186,099,000
Paid up capital	1186,099,000

Currently KBL has succeeded in centralizing operations, establishing procedures, policies and system. It is also to maintain manageable and sustainable growth in the business. All the branches /outlets are completely connected and networked via satellite. Major business focus KBL is on the middle class people. The bank is well aware about policy and ground realities of the country and knowledge and the capability of Nepalese promoters are reason for the success of the bank. Decision-making is an integral part of Bank Management and occurs in every function and at all levels of the bank although there are markedly different characteristics at each level. The different departments are independent to take decisions on the matter concerning their respective

Kumari Bank has many more branches. KBL has following predominant objectives

- Provide world-class service to their customers at a higher satisfaction level.
- Introduction of modern Banking technology facilitating bank and business operations and transactions.
- KBL shall be preferred provider of financial services to their target clients by embracing good governance, service excellence and professional culture in order to achieve sound business growth and maximize shareholders value.

It is a customer oriented modern bank and it has offered the various services.

Trade Finance, Remittances, Utility Bills Payment, Deposits, Funds Transfer, Bank Guarantees, Clearing/Collection, Locker Facilities, Any Branch Banking System, 365 Banking System and Debit card etc. Kumari Bank Ltd has been providing wide- range of modern banking services through 5 points of representation across the country. The bank has adopted Globus Banking Software, developed by Tremens NV , Switzerland, to provide centralized data base system to all branches. The bank has also providing visit debit card, which has access on ATMs (including 9 own ATMs) and POS(point of sale) terminals both in Nepal and India. Kumari Bank has start-of-art technology for appropriate and efficient Management Information System (MIS) and rendering quality services, VAST and Radio Modern for networking, SWIFT for international trade and transfer of funds around the world, correspondent banking relationships with over 200 banks worldwide for effective and proficient execution of international trade and remittance activities, gamut of corporate and retail banking products and services and centralized banking operations for better risk management, consistent service deliveries and lowering operating cost.

With 7 years of its establishment, the bank has been able to recognize itself as an innovative and growing institution striving to enhance customer value and satisfaction by backing transparent business practice, professional management, corporate governance and total quality management as the organizational mission.

### **1.3 Statement of Problem**

Joint venture Banks and Nepalese Promoters bank are being increased in response to the economic liberalization policies of government. Besides joint venture banks, Nepalese promoters are also registering numbers of commercial banks. Other institutes offering similar services are finance company, saving & co-operative societies and development banks.

These institutions have the tendency to centralize in major cities focusing the activities among the industrialists, traders & entrepreneurs. Because of number of banks & financial institutions are come into existence, in the recent years that creates intense competition in the banking sectors. Banks have been facing the considerable pressure to lower the lending rates, which has been adversely affecting the profitability of banks. The commercial banks are competing with limited opportunity, narrow clientele base and barring investment in the economic activities in the country, the demand for credit has not picked up. Besides, competition in the banking sectors has turned intense and lending opportunity in the good projects is very limited.

Government policies on economic liberalization have further intensified the competition. Every banks shows their huge amount of profit & high technology, however, the profit is not the instrument to measure good health of that institution. There should also be the proper examination of their performance in term of overall management of the banks. Financial plans may take many forms, but any good plan must be related to the firms exciting strength & weakness. The strength must be understood if they are to be used to proper advantage & the weakness must be recognized if effective action is to be taken. There are altogether 20 commercial banks among them one bank is state owned and remaining other are in private sectors. We can sub divide the banks on the basis of investment & ownership. For example, NABIL, SCBNL, HBL, NSBL, and EBL are with foreign joint venture bank and NBIL, BOK, KBL, MBL, NCC, NIC, LuBL, LaBL & SBL are such types of joint stock commercial banks whose shares are owned by Nepalese entrepreneurs & operate under fully Nepalese Management team. Similarly, Nepal Investment Bank Limited, Nepal Credit & Commercial Bank and Bank of Kathmandu Limited ware formerly managed by foreign nationals but now has come under Nepalese management. Recently six new banks can operated in the country. They had used customers' oriented marketing concepts as well as

modern technology as required by the present competitive environments.

The problem of the study on the issues related to the comparative strength & weakness of KBL. Thus researcher is strived to find the answer of the following question:

- that is the comparative position of the Bank in term of liquidity, profitability,
- Turnover, leverage and capital adequacy?
- What is the relation between the major financial indicators and the future trend of
- Them in the banks?
- How sound the operational result in relation their profitability?
- What was all the overall financial status of the KBL running their business?

#### **1.4 Objectives of the Study**

The basic objectives of this research is to make comparative analysis of financial performance of the commercial banks namely Kumari Bank Ltd by using financial & statistical tools, and to recommend the suitable suggestion for improvement of those banks to management team owners.

Specific objectives of the study are:

- To present the existing financial position of KBL
- To examine the liquidity, profitability, leverage, efficiency of capital adequacy Position of bank.
- To calculate the trend of financial performance of bank.
- To find out the relationship of financial performance of commercial banks.
- To recommend the corrective measure for betterment of financial performance of These banks.

### **1.5 Significance of the Study**

Regarding the economic structure of country, the banks do not have sufficient investment opportunity rapidly increasing financial institution are creating threats of selected commercial banks. This study attempts to find out the causes of failure & success of these banks using the various financial and statistical tools. The comparison will create awareness about utilization of the scarce resource and help them identify the productivity of their fund the market value of their investment.

The study will be useful to the following stakeholders:

- To the investor's i.e. shareholders about the financial performance of their respective banks. This allows them to have better information of whether their fund was better utilized or not.
- To the management of the respective banks for self assignment of what they have done in the past and guides them in their future plan and programme.
- To the policy makers while formulating the policy regarding commercial banks.
- To the financial agencies, stock exchange and stock traders are also interested in the performance of the banks as well as the customers, depositors and debtors who can objectively identify the better bank to deal with in term of probability.

### **1.6 Limitations of the Study**

Along with the significances of the study also have some limitations which are as follows.

- Since the study deals with one commercial bank i.e. Kumari Bank Limited, the result drawn from the study may or may not be applicable for other commercial banks.
- The study is limited to the five years of period. That is it cover fiscal year 060/61 to 064/65

- This study mostly based on secondary data i.e. published documents like annual reports, related journals, magazines, booklets etc.

### **1.7 Organization of the Study**

The research study has been divided into five sequential Chapters and at the end bibliography & appendices have been maintained.

#### **Chapter I: - Introduction**

It includes general background (i.e. meaning and origin of bank, origin and growth of banking system in Nepal, nature of commercial bank, role of Nepalese commercial banks in the national economy), introduction of sampled banks, statement of problems, objective of study, significance of study, and limitation of the study and organization of the study.

#### **Chapter II: - Review of Literature**

It consists of conceptual/ theoretical framework, review of different articles and review of previous master's theses.

### **Chapter III: - Research Methodology**

It deals with research design, population & sample, nature & source of data, data processing procedure, tools & techniques for analysis, period covered and diagram & graphical representation.

### **Chapter IV: - Presentation, Analysis & Interpretation of Data**

This chapter attempt to analysis and evaluate the data with the help of analytical tools, i.e. ratio analysis, income and expenditure analysis, bankruptcy test, correlation analysis and trend analysis and interpretation of the results obtained.

### **Chapter V: - Summary, Conclusions & Recommendations**

It consists of summary of major findings, conclusions and recommendation of the study.

## **CHAPTER-II**

## **REVIEW OF LITERATURE**

Review of literature is stocktaking of a available literature in the field of research. In other words, review of literature is finding the pertinent fact with the available literature in ones fields of research. The study of the material available on research topics is called review of literature. Review of literature not only provides solid information on the topic but also guides along the future stream of action. The textual constraints would help the researcher to support area of research in order to explore the relevant and true facts for the reporting purpose.

The main purpose of literature survey is found out what studies have been conducted in one's chosen field of study. And what remains to be done. It provide the foundation for developing the comprehension theoretical framework from which hypothesis can be formulating and minimize the risk of pursuing dead ends in research with related topic & good idea of the problem. The researchers also can derive knowledge from what has been written concerning his/her topics. The other major purpose of raving the literature is to develop some expertise knowledge in ones area to see what new contribution can be made, and receive some idea for developing a research design. This chapters is organized into three headings; conceptual framework, review of related articles and review of different masters' theses.

### **2.1 Conceptual Framework**

#### **2.1.1 Concept of Financial Performance Analysis**

Financial performance analysis can be considered as a heart of financial decision. This growth and development of any enterprises is directly influenced by the financial policies. The finance is interrelated to such field as accounting, social science, economics and allied subject. The accountant prepare the statement and gather the data, which are useful for financial manager to make financial decision,

good financial decision always plays vital role about the profit of enterprises. Similarly, it is equally important to achieve the wealth maximization of owners. Financial performance is a quantitative analysis of the firm's efficiency. In other words, it is away of studying financial position or condition of company. The company's financial plan & policy prepared and prepared and implemented by the management should judge on the ground of its financial performance. Conceptually the vocabulary "Financial performance" concerns with the management and analysis of financial operation of the firm though the means of profitability, liquidity, efficiency and utility of resources.

Traditional financial ratio analysis has focus on the number. The value of this approach is that quantitative relation can be used to diagnose strength and weakness is a firm's performance. But the world is becoming more dynamic & subject to rapid change. It is not enough to analyze operating performance. Financial analysis must also include consideration of strategic and economic development to which the firm must relate for its long-term success. In addition to the categories of stakeholder must be bordered formally ratio analysis was performed from the point of view of the firm's owners and creditors in the present political & social environment the shareholders must be expanded to include employees, customers, social environmental consideration and other government regulatory interest (Weston & Copland, 1992:191).

Financial analysis involves the use of various financial statements-the first is the balance sheet, which represents a snapshot of the firm's financial position at a moment in time and next is the income statement that depicts a summary of the firm's profitability over time (Vanhorn & Wachowicz, 1997:120).

It is possible of identifying the financial strengths and weakness of the firm by properly establishing relationships between the items of the balance sheet and

profit and loss account (Pandey, 1994:096).

It is also the analytical and judgmental process that helps answer questions that have been posed. Therefore, it is means to end, Apart from the specific analytical answers, the solutions to financial problems and issues and on the nature and reliability of the information available (Helfert, 1992:02).

Besides, it can be taken as the starting point for making plans, before using any sophisticated forecasting and planning procedures. Financial data can be used to analyze a firm's past performance and assess its present financial strength. Management of the firm would be particularly interested in knowing the financial strengths to make their best use and to spot out the financial weaknesses to take corrective actions.

The analysis makes an attempt to dissect the financial statements into their components on the basis of the purpose on one hand and between individual components and total of these items on the other. In course of studying and evaluating the financial position of the organization, a study of trends of various important factors over the past several years is also undertaken to have clear understanding of changing profitability and financial condition of the business organization (Srivastav, 1993:56)

Financial statement analysis involves a comparison of a firm's performance with that of other firms' in the same line of business, which is often, identified by the firm's industry classification (Weston, Besley & Brigham 1996:78) .

With respect to the problems identified from the analysis, pertinent care should be made to distinguish between the cause and symptom of problem (Hampton, 1998:99).

The analysis of transactions determines the solvency of business and the measure of efficiency of operations as compared to similar concerns. The analysis reveals how far the dream and ambition of top management have been converted into reality during each financial year. The analysis, being a technique of x-raying the financial position as well as progress of a concern, it enables managers and investors take decision that will affect the company's future.

Financial performance as a part of financial management is the main indicator of the success or failure of enterprises. There are different persons / Institutions that affects or are affected by the decision of enterprises. Stockholders such as owners, managers, creditors, employees, customers, Tax authorities etc are directly concerned/ interested in financial information and analysis of enterprise position. Similarly financial analysts, trade unions, competitors etc are directly interested about the financial performance of enterprises. Though the type of analysis is very according to specific interested about the financial performance of enterprises. Though the type of analysis is very according to specific interest of the part involved, shareholders of the enterprises are concerned with the present and expected future earning as well as their variations with the earning of other enterprises. This shows that they concentrate their analysis on the profitability of the enterprises. Management of enterprises is interested in all aspect of financial analysis financial control to adopt good financial management system and financial control of the enterprise. Trade creditors are primarily interested in liquidity position of the enterprise to pay their claims. Long-term creditors are more interested in cash flow ability of the enterprise to service debt over long run. Thus, financial analysis is the process of identifying the financial strength and weakness of the enterprise by properly establishing the relationship between the items of balance sheet and profit and loss account. In sum, it is process of evaluating the relationship between component part of financial statement to obtain better understanding of an enterprise position and performance.

The profit earned by the company is main yard of valuing the financial performance. Over the long term adequate and reasonable earnings are essential are assure survival and growth to capital adequacy through profit retention, to assess market for both debt and equity and to provide funds for increased assistance to productive sectors (Needles, 1989). A company grades itself as successful company, if it generates maximum profit to justify fair rate of return on investment. Thus the company should manage its available financial resources effectively in the productively are so that profitability position of the company rise and profit margin and return on investment boost up.

A large percentage of banks fund consists of deposit on different terms, payable according to the contractual obligation with the depositors. If all funds available with the bank are fully lent, there will be an inevitable delay in recovering the money when required by the depositors. The consequent delay on the part of the bank, even if it may be small at time, will affect its credit, as by the every nature of its business, its obligations have to be met promptly. The capacity of the bank to attract and retain deposit depends largely upon the confidence it enjoys with the public. Such confidence in its turn depends upon the readiness with which deposits are repaid whenever they full due. It is ultimately the prudent manner in which the funds are employed by bank in different forms that determine their quick reliability and enhances its reputation. If on the other hands, the bank keep large portion of funds at his disposal in ready cash or with central banking authority, without earning any interest, its business will result in losses. The manner in which these two apparently conflicting principle of liquidity and profitability are happily reconciled to the maximum benefit, calls for sound judgment and business acumen in the part of bank, which come only after considerable experience.

A commercial bank is essentially a lender in money. It is a banking institution,

which accepts the demand and time deposits from business, institutions and individual and engages in both business and consumer lending. A commercial bank, however, different from money lender who deal in money because, unlike the money lender who deals which belongs to him, the money dealings of commercial banks are largely based on the money it receive from other its deposits. The effect of commercial banks to maximize its total net income by employing its fund productively creates a difficult problem of asset management for commercial banks.

Thus, the financial performance of any commercial bank should be valued in term of profitability, liquidity, efficiency, utilization of resources and profit management. In nutshell, the financial analysis can be defined as the processing the financial condition of firm.

### **2.1.2 Objectives of Financial Performance Analysis**

From the concept of financial performance analysis, it has been evident that one can explore various facts related to the past performance of business and predict out the future potentials for achieving expected results. Various parties are involved in the business directly or indirectly. Therefore, objective of the analysis also differs from one party to other. However, major objectives of analysis, in broad sense, can be started as.

#### a) Assessment of past performance and current position

Past performance is often good indicator of future performance. Therefore, an investor or creditor is interested in the past sales, expenses, net income, cash flow and return in investment. In addition, an analysis of current position will tell what assets the business owns and what liabilities must be paid. Besides, it will provide the information about various facts in relation to business such as:

- Earning capacity of the profitability of the concern

- Operational efficiency of the concern as a whole and of its various departments.
- Long term and short term solvency of the business for the benefits of debenture holders
- and trade creditors.
  - Real meaning and significance of financial data.
  -

b) Assessment of potential and related risks

The past and present information are useful only to the extent they have bearing on the future decisions. An investor judges the potential earning capacity of a company because that will affect the value of the investment or share and the amount of dividend the company will pay. The creditors judge the potential debt paying ability of the company. The potentials of existing company are easier to predict than of others. This means there is less risk of the investment or loan hinges on how easy it is to predict the future profitability and liquidity. Besides, the managers of business concerns will get information about the potential, such as:

- Possibility of development in the future though forecast and budget allocation.
- Financial stability of the business concern.
- Reforms needed for in the present policies and procedures that will help reduce weakness and Strengthen performance.

### **2.1.3 Method of Financial Performance Analysis**

An enterprise communicates financial information to users through financial statement and reports. Financial statements are summarized information of the firm's financial affairs, organized systematically. They are the means to present the firm's financial situation to owners, creditors and general public. The

preparation of financial statement is the responsibility of top management. As investor and financial analysis to examine the firm's performance in use these statement under to make investment decisions. So concern authority should be prepared very carefully and contain as much as information as possible. Two basic financial statements are prepared for the purpose of external reporting to owner, investor and creditors are:

- Balance Sheet (or Statement of Financial Position)
- Profit and Loss Account (or, Income Statement)

For internal management purpose i.e. for the planning and controlling much information than contained in published financial statement is needed. The accountant or account officer prepares these financial statements at the end of firm's income year. Balance sheet and income statement undoubtedly provides useful financial data regarding the operation of an enterprise but they fail to present all the useful financial data required for major investing and financial decision by the management. Therefore, another financial statement fund flow statement is also in use. It summarized the source from which funds have been applied. It is prepared to show additional useful information not covered by the traditional statements

#### **2.1.4 Tools & Techniques of Financial Performance Analysis**

To evaluate the financial condition & performance of a company, the financial analyst needs certain yardsticks. The yardstick frequently used is a ratio or index relating two pieces of financial data to each other. Analysis & interpretation of various ratios should give experienced and skilled analyst a better understanding of the financial condition & performance of the firm, than they will obtain from analysis of the financial data alone (Vanhorn, 1999:691-692). The techniques of analysis are employed to ascertain or measure the relationship among the financial statement items of a single set of statement and changes that have taken place in

these items as reflected in successive financial statement. The fundament of the analytical technique is to simplify or reduce the data under review to the understandable terms.

Out of the various techniques, selection of a technique or combination of the techniques depends on the purpose of analysis. Different techniques reveal different facts associated with the business, so some or all of the following major techniques can be used for the analysis depending on the purpose and availability of the materials demanded by the technique.

#### **2.1.4.1 Funds Flow Analysis**

The statements of the changes in financial position prepared to determine only the sources and uses of fund between two dates of balance sheets is known as funds flow statement. It is prepared to uncover the information that financial statement fail to describe clearly. It spells out the sources from which funds were derived and uses to which these funds were put. This statement is prepared to summarize the changes in assets & liabilities resulting from financial and investment transactions during the period as well as those changes occurred due to change in owner's equity. It is also aimed to depict the way in which the firm used its financial resources during the period. Method of preparing Funds flow statement depends essentially upon the sense in which the term 'fund' is used. There are concepts of fund: cash concept, total resources concept & working capital concept. According to cash concept, the word 'fund' is synonymous with cash. Total resources concept represents the total assets and resources as fund. The term 'fund' refers only to working capital on working capital concept. However, the concept of fund as working capital has gained wide acceptance as compared to other concepts. Therefore, any transaction that increases the amount of working capital is taken as source of fund while conducting funds flow analysis. Transaction that decreases working capital is treated as application. But any

transaction that affects current liabilities or current assets without any change in working capital is not taken as source or use. The utility of this technique stems from the fact that it enables shareholders, creditors and other interested persons to evaluate the use of funds. It also enables them to determine how these uses were financed. In the light of information so supplied by statement, the outsider can decide whether or not to invest in the enterprise. It enables finance manager to detect the imbalances in the use of funds and undertaken remedial actions. It serves as control device to measure the deviation between actual use of fund and the estimated budget. An analyst can evaluate the financed pattern of concern (What portion of the growth was financed internally and what portion externally). In spite of the great significance of funds flow analysis to various parties associated with the business, it is not free from drawbacks. Its shortcomings can be listed as:

- This is not full proof as it depends on conventional financial statements.
- It cannot introduce any new items, which causes changes in financial status of the
- Business.
- It is not much relevant technique as study of change in cash position is more useful
- rather than fund position. □
- 4. It is historical in nature, so, cannot estimate source and application of fund in near future.
- It does not reflect the structure and policy changes.

#### **2.1.4.2 Cash Flow Analysis**

This statement is prepared to know clearly the various items of inflow and outflow of cash. Cash flow analysis is different from funds flow analysis in the sense, the

analysis relates to the movement of cash rather than the inflow and outflow of working capital.

It summarizes the causes of change in cash position between dates of two balance sheets. While preparing cash flow statement, only cash receipts from debtor against credit sales are recognized as the source of cash. Similarly, cash purchases and cash payment to suppliers for credit purpose is regarded as the use of cash. The same holds true for expenses and incomes outstanding and prepaid expenses are not to be considered under this analysis.

This type of analysis is useful for short-run planning of firm. The firm needs sufficient cash to pay debt maturing in near future, to pay interest and other expenses and to pay dividend to shareholders. The projection of cash flow for near future can be made to determine the availability of cash. This cash balance can be matched with the firm's need for cash during the period and accordingly, arrangement can be made to meet the deficit or invest the surplus cash temporarily.

Though it is more confidential than funds flow analysis for the decisions related to the near future, it is also not free from drawbacks. Its drawbacks can be listed as:

- It is not perfect evident as it depends on conventional statements.
- It is historical in nature.
- It does not reflect structural and policy changes

#### **2.1.4.3 Ratio Analysis**

An arithmetic relationship between two figures is known as ratio. Two number used in the ratio are called the term of ratio. The first term is the antecedent and is the divided; the second is the second is the consequent and is the divider. Ratio is computed by dividing one item of relationship with the other. Ratio simply means

the relation of one quantity to another of the same kind is defined to be that pure (abstract) number, integral, or fractional, which express the number of times the later is contained in the former.

Ratio analysis is a technique of analysis and interpretation of financial statement to evaluate the performance of an organization by creating ratios from the figure of different accounts consisting in balance sheet and income statement (P/L Account) is known as ratio analysis (Pandey, 1994:436-437). Financial ratios are the basic tools of financial analysis. The operational and financial problem of a corporation can be ascertained by examining the behavior of these ratios. In financial analysis a ratio is used as an index or yardstick for evaluating the financial position and performance of an enterprise. A financial ratio is a relationship between two financial variables and a process of identifying the financial strength and weakness of an enterprise. The liquidity ratio measures the corporations overall efficiency of operation. Similarly, leverage ratio measures the extent to which the corporation has been finance by debt, and turnover ratios measures the utilization of the corporation's resources. These financial ratios help us to find symptoms of problems. The cause of any problem may be determined only after locating the symptoms. Hence, the study of financial ratios behavior of the corporations assumes great significant.

Ratio Analysis is carried out to develop meaning relationship between individual items or group of items usually shown in the periodical financial statements. An accounting ratio shows the relationship between the two inter-related accounting figures. Ratios are guides or shortcuts that are useful in evaluating the financial position and operations of a company. When the relationship between two figures in the balance sheet is established, the ratio so calculated is called 'balance sheet ratio'. Ratio may be expressed in the form of percentage or proportion. Ratio analysis involves two types of comparison for the useful interpretation of the

financial statement. A ratio itself does not indicate the favorable or unfavorable position. Most commonly used standards to evaluate the ratio are:

- Comparison of present ratio with past or expected future ratio.
- Comparison of the ratio of the firm with those of similar firms over the period of time or with industry average at the same point of time.

With the help of ratio, one can judge financial performance of a business concern over a period of time and against the industry average. The ratio helps the analyst to form the judgment whether the performance of firm is good, questionable or poor. Management of the firm can take strategic decisions on the basis of position revealed by ratio. Investors can decide about the future of their investment. Creditors judge whether the firm is able to meet its obligations and whether the more lending would be beneficial for them or not. In view of the requirement of the various users of ratios, they can be classified into four major categories. They are, liquidity ratio, advantage ratio, activity ratio and profitability ratio.

Liquidity ratio measures the ability of firm to meet its current obligations. Leverage ratio evaluates the long-term financial position of the firm. Activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. Finally, profitability ratios are calculated to measure the operating efficiency of the company.

Through ratio analysis is powerful technique of financial analysis, it should be used with extreme care and considered judgment because it suffers from certain drawbacks. The drawbacks of the ratio analysis are listed below:

- It is difficult to decide the proper basis of comparison.
- It calls interpretation to certain aspects of the business, which need detailed investigation before arriving at any final conclusion.

- Unless there is a consistency in adoption of accounting methods, ratios may not prove of greater use in case of inter-firm comparison.
- The price level changes make the interpretation of ratios invalid
- .The ratios are generally calculated from past financial statements and thus, are no indicators of future.

#### **2.1.4.4 Trend Analysis**

In finance analysis the direction of change over a period of years is crucial importance. Trend analysis of the ratio indicates the direction of change. The kind of analysis is particularly applicable to the items of profit and loss account. It is advisable that trend of sale and net income may be studied in the light of two factors. The rate of fixed companion secular trend in the growth of business and general price level; It might be found in practice that a number of firms would show a persistence growth over a period of years. But get a true trend of growth; sales figure should be adjusted by suitable index of general prices. In other words, sales figures should be deflected for raising price **level**, which the resulting figures are, graphed us will get a trend of growth devoid a price change. Another method of securing trend of growth and one which can used instead of the adjusted sales figures or as check on them is to tabulated and plot the output or physical volume of sale expressed in suitable units of measure. If the general price level is not considered while analyzing trend of growth, it can mislead management. They may because unduly optimistic period of prosperity and pessimistic in dull period. This method is immensely helpful in making comparatively study of financial statements of several years. This method of analysis involves the computation of percentage relationship that each statement item bears to the same item in the base year. Base year for the purpose of comparison may be earliest year, the latest year or any intervening year under the study. This exhibits the direction to which the concern is proceeding. Trend analysis facilities the horizontal study of the data. But trend ratios are generally not computed for all of items in the statement, as the

fundamental objective is to make comparison between items having same logical relationship to one another. Trend analyst reveals whether the current financial position of the company has improved over the past years or not. It shows which of the items have moved in a favorable direction and which of them in unfavorable direction. Though it is the important tool of analysis, it is bound by certain limitation. They are:

- Trend for a single balance sheet or income statement is seldom very informative
- It does not give accurate result if accounting principles followed by the accountants is
- not consistent over the period of study.
- Price level change adversely affects the comparison.
- Selected base year for some of the items in the statement may not be typical

### **2.1.5 Limitations of Financial Performance Analysis**

From the above discussion, it has been evident that financial performance analysis of great significance for investor, creditors, management, economist and other parties having interest in business. It helps management to evaluate its efficiency in past performance and take decisions relating to future. However, it is not free from drawbacks. Its limitations are listed below ( Jain & Narayan, 1989:B23-B25).

#### **a) Historical Nature of Financial Statements**

The basic nature of statements is historical. Past can never be a precise and infallible index of the future and can never be perfectly helpful for the future forecast and planning.

#### **b) No Substitute for Judgment**

Analysis of financial analysis is a tool to be used by expert analyst to evaluate the

financial performance of a firm. That's why; it may lead to faulty conclusion if used by unskilled analyst.

### **C) Reliability of Figures**

Reliability of analysis depends on reliability of figures of the financial statements under scrutiny. The entire working of analysis will be vitiated by manipulation in the income statement, window dressing in the balance sheet, questionable procedures adopted by the accountant for the valuation of fixed assets and such other facts.

### **d) Single year Analysis is not much Valuable**

The analysis of these statements relating to single year only will have limited use and value. From this, one cannot draw meaningful conclusion.

### **e) Result may have Different Interpretation**

Different users may differently interpret the result derived from the analysis. For example, a high current ratio may suit the banker but it may be the index of sufficiency of the management due to under-utilization of fund.

### **f) Changes in Accounting Methods**

Analysis will be effective if the figures derived from the financial statements are comparable. Due to change in accounting methods, the figures of current period may have no comparable base, and then the whole exercise of analysis will become full.

## **2.2 Review of Articles**

There are some studies conducted in the field of financial performance analysis by various researchers and authors. Some of them have been reviewed in order to avoid possible duplication and bridge the gap.

Nepal Stock Exchange too was just spreading its wings. It was no coincidence that

the major scrip being bought and sold at the NEPSE, as was mainly Nepal Stock exchange is known as was mainly that of the private commercial banks. Even today, the major transaction at NEPSE, determining the daily up or down as the case may be is governed by the transactions in share of private commercial banks (Business Age International 2005, Feb).

**Mr. Shrestha** (2004: April - May) in his article, Two Decades of Private Sector Bank in Nepal. An Analysis on which he had analyzed 15 private commercial banks and presented their audited financial indicators ending 2059/60 (Mid July 2003). As of FY 2002/03, private sector commercial banks have mobilized more than Rs. 107 Billion in deposits and utilized Rs. 67 billion through loans & advances with a gross credit deposit ratio of nearly 78%. Net worth of the sector is more than Rs. 9 billion and the shares of this sector represent a significant proportion of shares traded in the securities market. In fact, share market growth can be attributed to the private sector commercial banks of the country. His findings are:

- Private sector bank has invested more than Rs 20 billion in HMG securities, which along with mandatory CRR requirement are utilized to meet the resources gap of the government. This sector is providing lucrative employment opportunities. Directly and indirectly, a larger sector of work force has found employment because of the investing activities of the sector.
- Non –Performing Assets (NPAS) of this sector are hovering around 8%, which is slightly higher than the internationally acceptable level of 5%. However as this sector has also built up loan loss provision to the extent of nearly 6% this will definitely cushion any disaster emanating from the level of NPAS.
- Private sector banks used to accessible to the influential class in the earlier decades have started to serve the common people also which in turn has

- improved the purchasing power of the common people.
- They have contributed handsomely in developing international trade and in routing remittances through the formal channel. Service orientation of the private sector banks have changed the perception of the common man that banks are meant for the services of common people, whereby improving the total economic scenario. These banks have assisted in the integration of our country with the modern global village, which would have a pious wish without such assistance.

Lastly, analyzing the performance of private sector commercial banks of Nepal, he concluded that private sector is definitely a boom for the economy, the benefits of capitalistic economics and there should be no skepticism for adapting the same in the context of our country also.

Mr M. Shrestha (2004, March), had written an article on Foreign VS Nepali Management in Nepalese Bank, in which he had taken the example of two Government banks i.e. NBL & RBB, which is handling over the management contract to foreign management team in one side and other hand three private sector joint stock banks i.e. NIBL, BOK and NCC, which were once Managed by foreign nationals but now have come under Nepalese management. He assessed the comparative well being of the banks under Nepali and foreign management team.

After reviewing the financial statement of these banks, he finds out the following:

- All three banks are seen to have achieved good growth rate after the full ownership of the banks come Nepali citizen and they operate under Nepali management. This success has challenged the traditional thinking that Nepali managers have little capability as far as handling of banks successful goes.

- In RBB & NBL, following the contradiction by KPMG an international auditing institution that the largest banks of Nepal have bankrupt, the grapevine suggests that reform in these banks were at earlier essential. Due to the large amount of NPA, of up to an incredible 48 percent, the banks were said to be unable to sustain themselves.
- So the management of NBL & RBB went to handle of foreign manager with the condition that they should bring down the NPA rate at of 5-10 percent within 2 years.
- The period of contract is about to finish in the case of NBL, while RBB's contract period has also crossed a year. But they have so far become unable to bring down TNPAS in the two banks to the said level.

Lastly Mr. Shrestha concluded that the argument of those who opposed the idea of giving management to foreigner as that it would be appropriate to choose Nepali managers to handle these banks. None, however, seem sure that Nepali managers can manage these banks properly. It would naturally be tough for any management to recover loans in such economic recession as well as false valuation of the collateral. However, there is a question that foreigners have also been unable to make progress as expected. The large sum of money has been spent as salary and allowance for the advisors. It is reasonable, therefore, to expect promised returns. The study conducted by KPMG Basnet group, an international audit company, on financial status of Nepal Bank Limited (NBL) & Rastriya Banijya (RBB) in March 2000 concluded that RBB& NBL are insolvent. Both the bankers' banks management is out of control and it seems very weak. Lack of independent capable supervision, weak legal & accounting practices, lack of rational banking strategies as well as the skills are major problems of these banks. The report further states that these banks are politically driven. Many years of political interference in term of senior appointments as well as lending and operating decision are the main causes of these banks' failure. It is also mentioned in the

report that the estimated combined losses of these two banks are somewhere between Rs 15 to 30 billions.

Therefore, to improve upon the state of these banks KPMG suggest taking the following steps. They are:

- Demonstrate high-level commitment to an independent commercially run banking system.
- Develop and implement long run plans to current environment weakness.
- Institute emergency measure to limit the damage at NBL & RBB
- Design & invest in bank restructuring programs.

Traditionally, banks act as financial intermediaries to channel funds from excess units to deficits units. Unlike other non-bank financial companies, commercial banks do not produce any physical goods. They produce loans and financial innovations to facilitate trade transactions. Because of special role they play in the economy, concerned authorities heavily regulate them.

Analysis of banks' financial statement is different from that of other companies due to the special nature of assets and liabilities (Paudel, 2053:64-69). Balance sheet, profit and loss account and the accompanying notes are the most widely aspects of financial statements of bank. The bank's balance sheet is composed of financial claims as liabilities in the form of deposit and as assets in the form of loans. Fixed assets account for a small account for a small portion of the total assets. Financial innovations, which are generally contingent in nature, are considered as off-balance sheet items. Interest received on loans and advances and investment and paid on deposit liabilities are major components of profit and loss account. The other sources of income are fee, commission, discount, service charge etc. The users of financial statements of a bank need relevant, reliable and comparative information to evaluate the financial performance and position and

hence make economic decision. “Commercial Bank Act-1974” requires the audited balance sheet and profit and loss account to be published in the leading newspaper for the information of general public. Most of the users of financial statement are interested in assessing the bank’s overall performance. Following factors affect the evaluation of bank’s overall performance:

- The structure of balance sheet and profit and loss account
- Operating efficiency and internal management system.
- Managerial decisions taken by the top management regarding interest rate, lending
- policies, Exchange rates etc.
- Environment changes such as change in technology, government, competition, economy etc

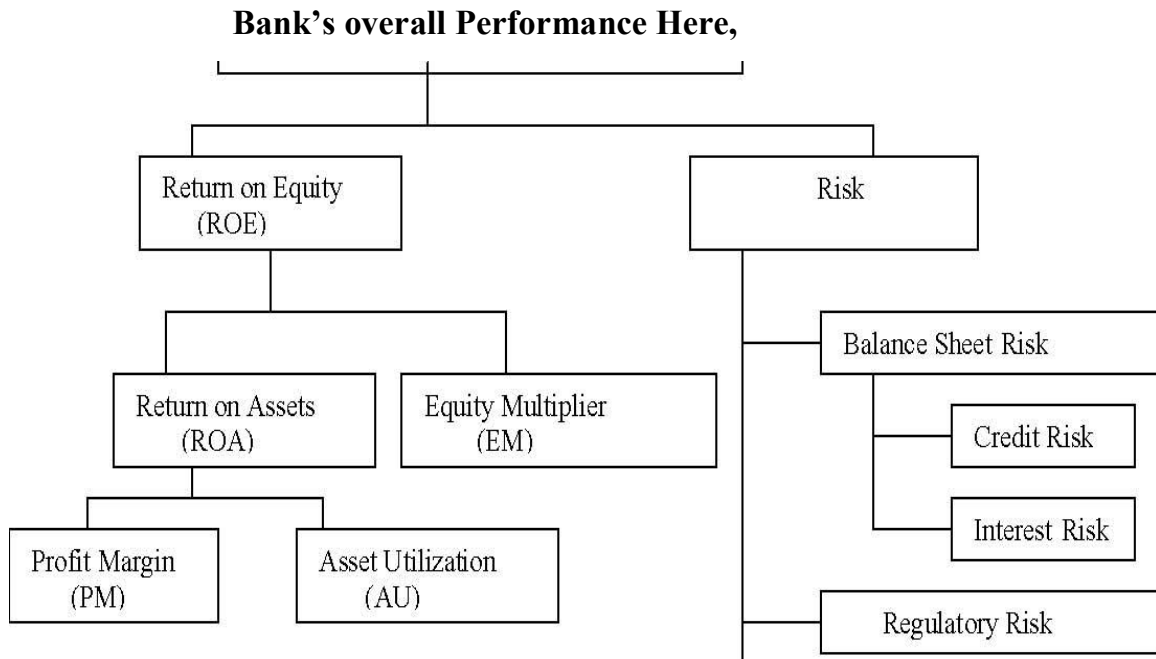
As loans account a substantial portion of bank’s total assets, poor quality of loans would subject bank to a higher risk of default or non-payment. Classifying total loans and advances into performing assets and non-performing category can assess the quality of loan of a bank. In our context, commercial banks are required to classify their total loan portfolio into different categories. The bases of classification are aging, overdue, repayment position, and quality of collateral and financial position of borrowers. Capital adequacy of the bank is assessed on basis of risk-weighted assets. It indicates bank’s financial strengths and solvency. Bank, facing capital adequacy problem, may increase capital or reduce the existing assets structure in order to main the desired level of capital base. Liquidity is measured by the speed with which a bank’s assets can be converted into cash to meet deposit withdrawal and other current obligations.

A bank is subject to a minimum cash reserve requirement imposed by central bank to ensure that a minimum amount of total assets is held in liquid form to meet unexpected withdrawal.

Bank's overall performance can be shown under various headings (Figure-2.1)

**Figure No 2.1**

**General Risk-Return Framework for Bank's overall Performance**



$ROE = ROA \times EM = \text{Net Income} / \text{Average Equity}$

$ROA = PM \times AU = \text{Net Income} / \text{Average Assets}$

$EM = \text{Average Assets} / \text{Average Equity}$

$PM = \text{Net Income} / \text{Total Income}$   $AU = \text{Total Income} / \text{Average Assets}$

### 2.3 Review of Previous Masters' Theses

**Shrestha (2001)** has conducted a study on "Investment Planning of Commercial Banks in Nepal" with the objectives:

- To evaluate the financial performance of commercial banks in Nepal.
- To examine the investment of commercial banks of Nepal with reference to Securities, loans & advances.
- To examine the investment of commercial banks of Nepal with reference to Securities, loans & advances.
- Securities, loans & advances.

- To establish the relationship of banks' portfolio variables with the national income and interest rates.

The research findings of the study are summarized as:

- The general trend of commercial banks asset holding is growing. Deposits have been a major source of funds. The excess reserve level of the banks allows idle money and loss of opportunity. Debt equity ratios are very high, greater than 100%.
- The return ratios are on the average higher for foreign joint venture banks than for the Nepalese bank but return of asset found to be statistically Some. Risk taking attitude is higher in foreign joint venture banks. The total management achievement index is higher in case of foreign banks in comparison to the Nepalese banks.
- The hypothesis that the commercial banks have non –professional style of decision making in investment has been accepted. The investment of commercial banks in shares and securities is normal and not found to have strategic decision towards investment in shares and securities. Yield from the security has been found to be satisfactory.
- Investment in various economic sectors shows industrial and commercial sector taking higher shares of loan till 1990.
- Investment in various sectors has a positive impact on the national income from their respective sectors.
- Lending in priority sector showed cottage and small industry sector sharing higher loans.
- Priority sector lending showed positive impact on the national income.

## Recommendations

- The commercial Bank collect more deposit & hold ideal money it is create opportunity loss , so the commercial bank should identify the profitable sector & invest the reserve money.
- In Nepal general trend is that to invest in security and shares. it is recommended that the commercial bank should invest in priority sector which help to economic development of the nation
- The commercial bank is established in urban area it is recommended that the commercial bank should open its branch in rural area.
- The secured loan analysis showed commercial loan as being very important followed by social and industrial loans. The loan loss ratio has been found to be increase with low recovery of loan.
- Demand of bank credit has been found to be affected by the national income and lending Treasury bill rate. The investment of commercial banks on government securities hasbeen observed to be affected by total deposit, cash reserve requirements and Treasury bill and lending rates. Interest rates, lending rate, deposit rate were found to constitute a set of significant variables affecting the bank portfolio composition.

**Manandhar, (2005)** in his thesis *"Financial performance analysis of Nepal Bangladesh bank ltd"* In this study, various financial research and statistical tools have been used to achieve the objective of the study. The analysis of data will be done according to the pattern of data available. Likewise, some financial tools such as ratio analysis and trend analysis have also been used for financial analysis.

The specific objectives of his research are:

- To analyze the functions, objectives procedure and activities of the NB bank
- To analyze the lending practices and resources utilizations of NB bank

- To determine the impact of growth in deposit on liquidity and lending Practices.
- To examine the lending efficiency and its contribution to profit.
- To make suitable suggestions based on the findings of this study. The financial and statistical tools are used.

The researcher found that NB bank has sufficient liquidity. It shows that bank has not got investment sectors to utilize their liquid money. Now, in Nepal many banks and other financial institution are functioning to collect deposits and invest money somewhere in the investable sectors. Therefore, miniaturization has been increased since liberalization policy taken by the government. Heavy remittance has also helps to increase the amount of deposits in bank. On the other hand, due to political crisis, economic sectors have been fully damaged.

The research findings of the study are summarized as:

- NB bank has utilized most funds in the form of credit and advances. More than 75% of total deposits of the bank have been forwarded to customers as credit and advances.
- The major part of utilizing deposits and income generating sectors. If the bank has high deposits, bank can provide money to its customers as credit and advances. Therefore there is highly positive correlation between total deposits and credit and advances of NB bank
- Bank is providing different schemes to attract good customers. After attracting deposits from the customers, bank has issued the deposits to the needy area to make profit for the bank.

## Recommendations

- The bank has enough liquidity but enables to invest the liquidity in proper sector so it is recommended that the bank should make proper investment to commercial sector.
- The bank providing different scheme to attract good customer and has issued the deposit to the needy are to make profit for the bank.

Gautam: (2006) has conducted research on "*A Comparative study on financial performance of Standard Chartered Bank Limited and Nepal Bangladesh bank Limited*" Financial performance is analyzed with two important tools. The first most important tools are the financial tools, which includes ratio analysis and other is a statistical tools, which is bankruptcy score.

To study the existing capital structure of financial position of selected joint venture commercial banks and to analyze its impact on the profitability:

- To assess the debt servicing of the joint venture commercial bank.
- To examine the correlation and the significance of their relationship between different ratios related to capital structure.
- To provide suggestions and recommendations for the optimal capital Structure of the joint venture commercial bank.
- To obtain the objectives, some financial, statistical and accounting tools

He has found his study where the joint venture banks are operating in Nepal as commercial merchant banks. The growth is still going on as so many new banks are coming existence after this study. Therefore, JVB's are operating with higher technology and new efficient methods in banking sector. However, this study has

been undertaking only three JVB viz. SCBNL and NBBL to examine and evaluation the financial data.

The research findings of the study are as follows:

- The research sample JVB's has used high percentage of total debt in raising the assets. The higher ratio constitutes that the outsider's claim in total assets of the bank is owner's claim.
- The on an average, NBBL bank constitutes 16.27 times of P/E ratio, which should reduce as quickly as possible.
- The financial risk of the banks NBBL average degree of finance leverage constitutes 3.73 times which indicates the higher degree of financial risks 3.73 times which indicates the higher degree of financial risks.
- The average ROE of JVB"s i.e. SCBL and NBBL area 37.36% and 21.75% Respectively.

Now, in Nepal many banks and other financial institution are functioning to collect deposits and invest money somewhere in the investable sectors. Therefore, efficiency has been increased since liberalization policy taken by the government. Heavy Remittance has also helps to increase the amount of deposits in bank.

### **Recommendations**

- The bank use high percentage of debt. It indicate that it has highly financial Risk. It is recommended that the bank immediately control the financial risk. P.E. ratio of the NBBL is 16.27 times. It is too high, so the bank reduces the Position.
- Nepal is underdeveloped country; almost banks are established and operated in urban area. So it is recommended that the bank should open its branches different parts of the country.

**B.K. (2008)**, in his study “A Comparative Analysis of Financial Performance of Standard Chartered Bank Nepal and Himalayan Bank Limited” attempted to analyze the financial performance of selected banks using various statistical and financial tools.

The specific objectives of his research are:

- To analyze the financial strengths and weakness of the financial institution
- To evaluate its financial positions
- To analyze the banks deposit mobilization and investment procedures
- To make relevant suggestions and recommendation for their effective and
- Efficient future performance

### **Major Findings**

- The liquidity position of SCBNL is comparatively better than HBL; SCBNL has utilized more portions of current assets as loan and advances and lesser portions in the government securities
- The profitability position of SCBNL is comparatively better than HBL
- There is significant relationship between deposit and loan and advances as well as outside assets and net profit in case of SCBNL where as there is no significant relationship between deposit and total investment in case of HBL
- SCBNL seems to be more successful in increasing its sources of fund for deposit Mobilization and granting loan and advances and maintain a good investment

**Regmi (2008)** in his dissertation “Credit Management of NABIL Bank Limited” highlighted that aggregate performance and condition of Nabil bank. In the aspect of liquidity position, cash and bank balance reserve ratio shows the more liquidity

position. Cash and bank balance to total deposit has fluctuating trend in 5 years study period. Cash and bank balance to current deposit is also fluctuating. The average mean of Cash and bank balance to interest sensitive ratio is able to maintain good financial condition.

The main objectives of the research study are as follow:

- To evaluate various financial ration of the Nabil Bank
- To analyze the portfolio of lending of selected sector of banks
- To determine the impact of deposit in liquidity and its effect on lending Practices
- To offer suitable suggestions based on finding of this study.

In the statistical tools analysis, average mean, correlation analysis and trend analysis have been calculated. Correlation coefficient between total credit and total assets shows high degree of positive correlation. Correlation coefficient between total deposit and loan & advances has high degree of positive correlation it is concluded that increasing total deposit will have positive impact towards loan & advances.

The research findings of the study are as follows:

- Assets management position of the bank shows better performance in the recent years. Non-performing assets to total assets ratio is decreasing trend. The bank is able to obtain higher lending opportunity during the study period. Therefore, credit management is in good position of the bank.
- In leverage ratio, Debt to equity ratio is in an increasing trend. High total debt to total assets ratio posses" higher financial risk and vice-versa. It represents good condition of Total assets to net worth ratio.
- In the aspect of profitability position, total net profit to gross income, the total interest income to total income ratio of bank is in increasing trend. The

study shows the little high earning capacity of NABIL through loan and advances.

- Earning per share and The Price earnings ratio of NABIL is in increasing trend. These mean that the better profitability in the coming last years. It represents high expectation of company in market and high demand of share.
- Loan loss provision to total loan and advances ratio and None-performing loan to total loan and advance ratio of NABIL is in decreasing trend. The ratio is continuously decreasing this indicates that bank increasing performance. Thus, credit management is in a good position.

The study is conducted on credit management of Nabil Bank, which is one of the leading banks in Nepal. NABIL has been maintaining a steady growth rate over this period. In the study every aspect of banks seems to be better and steady in every year. It's all analysis indicates better future of concern bank.

### **Recommendations**

- In practice joint ventured banks are urban based; service quite a few elite, a fluent big customer are heavily dependent on free based activities. To overcome its situation they should be accessible to rural areas and possible loan and advances to its deposit. So the customers is enjoying by getting deposit borrowing and other services.
- Profitability ratios of banks are not satisfactory, if resources held idle bank have to bearded more cost and result would be lower profit margin. So portfolio condition of a bank should be regularly revised from time to time. It should always try to maintain the equilibrium in the portfolio condition of the bank. The bank should use its funds in more portfolio sectors. It should utilize its risky assets and shareholders' funds and it should reduce its express and should try to collect cheaper fund being more profitable.

- In the light of growing competition in the banking sector the business of the bank is customer oriented. It should strengthen and active its marketing function, as it is an effective tool of attracting and retaining customers. The bank should develop on “Innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient way.

### **Research Gap**

There has been a lot o research works and studies undertaken to examine the financial performance of commercial banks in the past. But the purpose of this study is quite different from the previous studies in terms of time period it covers i.e. from 2061/62 to 2065/66. This is the time where the nation faced major political and social challenges, deteriorating security situations which plays vital role to make the economic situation of the country worse to some extent.

Moreover, the study has been conducted taking Kumari Bank Limited as the sample which is the successful and fast growing commercial bank of the country. The previous studies under the similar topic had not studied taking this bank as a sample.

At present there are operating more than 27 commercial banks operating in the market, however this bank has been very successful in maintaining their reputation despite tough competition and unfavour environmental (internal and external) factors prevailing. Kumari bank Limited has huge market share and numerous investment activities in the current financial market and played significant role in economic development of the country.

This study, would contribute to fulfill the prevailing communication gap about the major factors influencing the financial performance of the banks for the shareholders and stakeholders.

## **CHAPTER-III**

### **RESEARCH METHODOLOGY**

Research methodology refers to the various sequential steps to be adopted by the researchers in studying the problem with certain objectives in views. It is the process of arriving to the solution of the problem through planned and systematic dealing with the collection, analysis and interpretation of the facts & figures. It consists of research design, population and sampled, source of data, data processing procedure and tools & techniques of analysis of data

The 'Research Methodology', which is used to analyze for collection of data, are mentioned in this chapter understood as a science of studying how research is done scientifically. In it we study various steps that are generally adopted by a researcher in studying his research problem along with the logic behind them. It is necessary for the researchers to know not only research methodology is a way to systematically solve the research problem. It may be methods/techniques but also the methodology. Researchers not only need to know how to calculate the mean, mode, median or the standard deviation or chi-square, how to apply particular research techniques, are relevant and which are not, and what would they mean and indicate and why. Researchers also need to understand the assumptions underlying various techniques and procedures will be applicable to certain problems and others will not. All this means that it is necessary for the researcher to design his methodology for his problem. From what has been stated above, we can say that research methodology has many dimensions and research methods do constitute a part of the research methodology (Kothari, 2000: 10-11).

Research methodology adopted in this chapter is the set of various instrumental approaches used in achieving the predetermined objectives as stated in the earlier

chapters. It count on the resources and techniques available and to the extent of their reliability and validity in this chapter follows some limited but crucial steps aimed to achieve the objectives of the research. Research methodology refers to the various sequential steps (along with a rationale of each such step) to be adopted by researcher in studying a problem with certain objective in view.

Though limited to some congenital boundaries to research has something to offer call the concerned "Research Methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done Though limited to some conventional boundaries to research has something to offer call the significantly. It is necessary for the researcher to know to not only researcher to know to not only the research methods/techniques but also the methodology. Researchers not only need to know how to develop certain indices or test, hot to calculate the mean mode, the research techniques but also need to know which of these methods or techniques are used relevant and which are not what would they mean and indicate and why" (Kothari, 1994: 10).

So it is methods, steps and guidelines which are to be followed in analysis, and it is a way presenting the collected data with meaningful analysis

### **3.1 Research Design**

Decision regarding what, where, when, how much, by what means concerning an enquiry or a research study constitute a research design. "A research design is the arrangement of conditions for collection and analysis of data in manner that aims to combine relevance to the research purpose with the economy in procedure". In fact the research constitutes the blueprint for the collection, measurement and analysis of data. As such the design includes an outlines of what the researcher will do from writing the hypothesis and its operational implications to the find analysis of data.

A research design, bearing the techniques and systematic steps of research helps to collect various information required to researcher thesis writing or any investigation. In the lack of the research design, the functional process on researches is never achieved.

"After the research study has been formulated, the next logical steps are to construe the research design which refers to the entire process of planning and carrying out a research study. The research design asks what approach to the problem should be taken. What method will be used? What strategies will be most effective? Identification, selection and formulation of a research problem may be considered as the planning stage of a research. The remaining activities refer to the designs, operation and completion of research study" (Wolf and pant, 1999: 53).

Research Design is plan structure and strategy of investigation conceived so as to obtain answer to research questions and to control variances (Kothari, 1994:43). Research design is plan for collection and analysis of data. It represents a series of guideposts enable the researcher to progress in the right direction in order to achieve the goal. The purpose of design is to provide answer to research questions and control variance. Some financial & statically tools will be used to examine the financial performance of the bank.

### **3.2 Population and Sample**

A population is most studies usually consists of large group because of its large size it is fairly difficult to collect detailed information from each member of population. Rather than collecting information from each member, a sub-group is chosen which is believed to be representative of population. This sub-group is called a sample and the method of choosing this subgroup is done by sampling. The sampling allows the researcher more time to make an intensive study of a

research problem.

At present, there are 26 commercial banks are operating in Nepal. Due to time and resource factors, it is not possible to study all of them regarding the study topic. All the commercial banks that are operating in Nepal are considered as the population. From the commercial banks of Nepal one of the commercial bank is selected as sample i.e. Kumari Bank Limited.

### **3.3 Nature and Sources of Data**

The study is mainly based on secondary data. Data relating to financial performance of these two banks are directly obtained from concerned banks. The supplementary data were obtained from unpublished official records of concern banks, bank's staff, booklets, and journals and other sources viz. Security Exchange Center and Nepal Rastra Bank.

### **3.4 Data Processing Procedure**

The data analysis tools are applied as simple as possible. Data obtained from the various sources cannot directly be used in their original form. They need to further verified and simplified for the purpose of analysis. Data, information, figures and facts so obtained need to be checked, rechecked, edited and tabulated for computation.

According to the nature of data, they have been inserted in meaningful Tables, which have been shown in appendices. Homogeneous data have been sorted in one Table and similarly various Tables have been prepared in understandable manner, odd data are excluded from the Table. Data have been analyzed and interpreted using financial and statical tools. The detail calculations that cannot be shown in

the body part of the report are presented in appendices at the end of the report.

### **3.5 Analysis of Data**

In this study, various financial and statistical tools have been used to achieve the objective of the study, which are as follows:

#### **3.5.1 Financial Tools**

To evaluate the financial condition and performance of a company, the financial analysis needs data. The data frequently used is a ratio of index relating two pieces of financial data to each other.

##### **3.5.1.1 Ratio Analysis**

Ratio analysis is a powerful tool of financial analysis. As explained in second Chapter, ratio analysis is most frequently used tool to evaluate the financial health, operating result and growth of the banks under scrutiny. It helps to summarize the large quantities of financial data and to make quantitative judgments about the firm's financial performance. Ratio can be calculated between any two items of financial statements. It means there may be as many ratios as there are the numbers of items. But under the ratio analysis technique, it is not practical to work out all the ratios. Hence only the required ratios have been worked out. The ratios calculated for the study is described separately under following headings.

###### **3.5.1.1.1 Liquidity Ratios**

Liquidity ratios are employed to measure the company's ability to meet short-term obligation. These ratios provide insight in to the present cash solvency in the event of financial condition. The ratio is used to measure the company's short-term obligation with short-term resources available at given part of time. The ratio is also known as solvency ratio or working capital ratio. It is extremely essential for a firm to be able to meet its current obligations as they become due. A firm should

ensure that it does not suffer from lack of liquidity, and also that is not too much highly liquid. Lack of sufficient liquidity will result on bad credit worthiness & loss of creditor's confidence. In the context of intense competition in the banking sector, insufficient liquidity will leave the concerned bank behind. On the other hand, high liquidity is also bad as it results in lower profitability because of underutilized assets. Therefore, it is necessary to strike a proper balance between liquidity and lack of liquidity (Pandey,1994:101). Depending on the special nature of current assets and current liabilities of the banks the following ratios are calculated.

#### **a) Current Ratio**

Current ratio is also known as Working capital ratio. It shows the bank's short-term solvency. It is the ratio of current assets and current liabilities. It indicates the availability of the current assets in rupees for every one rupee of current liability. As a conventional rule, a current ratio of 2 to 1 is considered satisfactory. However, this rule should not be blindly followed, as it is the test of quantity not quality. In spite of its shortcoming, it is a crude-and quick measure of firm's liquidity (Pandey, 1994:115). Higher the current ratio better the liquidity position and otherwise. The ratio is calculated by dividing current assets by current liabilities,

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

Current assets include cash and assets are just like cash, which can be converted into with in a year. These include cash and bank balance, money at call and short notice, loans and advances, overdrafts, bill purchase and discounted bills for collection, investment in government securities, interest receivables and other miscellaneous current assets. All obligations maturing within a year are included in current liabilities. These consist of current, saving and short-term deposits, fixed deposits maturing in that year, borrowings and accrued expenses, bills payable,

bank overdrafts, dividend payable, customer acceptances and miscellaneous current liabilities.

**b) Quick ratio**

Quick ratio established a relationship between quick asset and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonable soon without a loss of value cash is the most liquid asset. Other assets which are considered to be relatively liquid are included in quick assets are book debts and marketable securities. This quick ratio can be calculated by dividing the total of liquid assets by total current liabilities.

$$\text{Quick Ratio} = \frac{\text{QuickAssest}}{\text{Currentliabittities.}}$$

**c) Cash and Bank Balance to Current Assets Ratio**

This ratio is found out the ability of banks to pay total call made on current deposit. Cash and Bank Balance are highly liquid assets than others in current assets proportions. Higher ratio indicates the banks ability to meet the daily cash requirement of their customer deposit and vice versa. But higher ratio is not preferred as the bank has to pay more interest in deposit and will increase the cost of fund. Lower ratio is also very risky as the bank may not be able to make the payment against the cheque presented by the clients. So, the bank has must be maintain such ratio in such way that it should have sufficient cash for the clients demand against deposits when required and less interest is required to pay against the cash deposit. These ratios not only analyzed the use of total resources of the firm but also the use of resources component of total assets. The formula to obtain this ratio is;

$$\text{Cash \& Bank Balance to Current Assets Ratio} = \frac{\text{cashandBankBalance}}{\text{CurrentAssets}}$$

Cash and Bank balance includes cash in hand, foreign cash in hand, clearing cheque and other cash items, balance with NBR current account, other domestic bank current account and balance held in foreign banks.

**E). Cash and Bank Balance to Total Deposit Ratio (except fixed Deposit)**

This ratio measures the bank's ability of withdrawal of fund immediately of their depositors. A higher ratio represents a greater ability to cover their deposits and vice-versa. This ratio can be calculated as:

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

The large ratio shows the idle cash and bank balance in banks while small ratio shows the utilization of deposit from banking prospective. Cash and bank balance includes cash in hand, foreign cash in hand, cheque and other cash items, balance with domestic bank and balance held abroad. The total deposit consists of current deposit, saving deposit, fixed deposit, money at call and short notice and other deposits.

**f) NRB Balance to Current Saving Deposit Ratio**

The ratio shows the percentage of amount deposited by the bank in Nepal Rastra bank (NRB) as compared to current & saving deposits. Commercial banks are required to hold certain portion of current and saving deposits in Nepal Rastra Bank's account. It is to ensure the smooth functioning and sound liquidity position of the bank. As per the directive of Nepal Rastra Bank, the required ratio is 8%. Therefore, the ratio measures whether the bank is following the direction of NRB or not. The ratio is computed by dividing the balance held with Nepal Rastra Bank by saving deposits. It express as;

$$\text{NRB Balance to Current and Saving Deposit Ratio} = \frac{\text{NRBBalance}}{\text{CurrentAndSavingDeposit}}$$

**g) NRB Balance to Fixed Deposit Ratio**

The ratio shows the percentage of the amount deposited by the bank in Nepal Rastra Bank as compared to fixed deposits. According to the direction of NRB, this ratio should be maintained 6%. Hence the ratio so calculated finds whether the bank has obeyed the direction of central bank or not. The ratio is computed by dividing the balance held with Nepal Rastra Bank by fixed deposits accepted.

$$\text{NRB Balance to Fixed Deposit Ratio} = \frac{\text{NRBBalance}}{\text{TotalDeposit}}$$

**3.5.1.1.2 Turnover/Efficiency Ratio**

Turnover ratio measures the performance efficiency of an organization that whether it is using its resources properly or not. To carry out operations, a firms needs to invest in both short term and long term. Turnover ratios describe the relationship between the firms level of operations and assets needed to sustain the activity. Activity ratio can also be used to forecast a firm's capital requirement. Activity ratios enable to analyst to forecast these requirements and to access the firm's ability to acquire the assets needed to sustain the forecasted growth. The activity ratios analyzed in the study are:

**a) Loans and Advances to Total Deposit Ratio**

The ratio indicates the proportion of total deposits invested in loans and advances. It is calculated to find out how the banks are successfully utilizing their total deposits for profit generating purpose on loan and advances. High ratio means the greater use of deposit for investing in loans and advances. In other words, Greater the ratio implies the better utilization of outsiders fund (Total Deposits). But very

high ratio shows poor liquidity position and risk in loans. On the contrary, too low ratio may be the cause of idle cash or use of fund in less productive sector. The ratio is computed by dividing total loans and advances by total deposit liabilities.

$$\text{and Advances to Total Deposit Ratio} = \frac{\text{Loans and advances}}{\text{Total Deposit}}$$

Loan and advanced consist of loans, advances, cash credit, overdrafts, and foreign bills purchased and discounted.

### **b) Investment to Total Deposit Ratio**

The ratio shows how efficiency the major resources of the bank have been mobilized. High ratio indicates managerial efficiency regarding the utilization of deposits. Low ratio is the result of less efficiency in use of funds. The ratio is obtained by dividing investment by total deposits collected in the bank.

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

Investment comprises investment its HMG treasury bills, development bonds, company shares and other type of investment

### **c) Loans and Advances to Fixed Deposit Ratio**

The ratio indicates what proportion of fixed deposits has been used for loans and advances. Loans and advances are the major sources of investment to generate income by the commercial banks. Fixed deposits are long-term interest-bearing obligation. It carries high rate of interest. Funds collected are needed to invest in such sectors, which yield at least sufficient return to meet the obligations. The ratio measures the extent to which the fixed deposits are utilized for the income generating purpose. High ratio means utilization of fixed deposit in form of loans.

The ratio is calculated by dividing loans and advances by fixed deposits.

$$\text{Loans and Advances to Fixed Deposits Ratio} = \frac{\text{Loans and Advance}}{\text{Fixed Deposit}}$$

### **3.5.1.1.2 Profitability Ratios**

A company should earn profits to survive & grow over a long period of time. It is a fact that sufficient profit must be earned to sustain the operations of the business; to be able to obtain funds from investors for expansion and growth; and to contribute towards the social overheads for the welfare of society. The profitability ratios are calculated to measure the operating efficiency of the company. Management of the company, creditors and owners are interested in the profitability of the firm. Creditors want to get interest and repayment of principal regularly. Owners want to get a reasonable return from their investment (Pandey, 1994:116).

Profitability ratios are calculated to measure the operating efficiency of the company. Various profitability ratios are calculated to measure operating efficiency of business enterprises. Though profitability ratios the lender & investors want to decide whether to invest in particular business or not. To meet the objective of the study, following ratios are calculated in this group.

#### **a) Return on Total Asset (ROA)**

The ratio is measuring the profitability of funds invested in the bank's assets. In other words, it measures the efficiency of bank in utilization of the overall assets. High ratio indicates the success of management in overall working fund i.e. total assets. It is also called net profit or loss to working fund i.e. total assets ratio or simply called ROA. The firm has to earn satisfactory return on assets or working funds otherwise its survival is threatened. High ratio indicates the success of

management in overall operation. Lower ratio means insufficient operation of the bank. It is calculated by dividing net profit after tax (NPAT) by total assets of the bank

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

Net profit refers to the profit after deduction of interest and tax. Total asset means the assets that appear in asset side of balance sheet.

### **b) Return on Common Equity (ROE)**

It is an important ratio because it judges whether the firm has earned a satisfactory return for its equity holders or not. It indicates how well the firm has deployed the resources of the owners to earn profit. Higher ratio represents sound management and efficient mobilization of the owner's equity. This is calculated by dividing net profit by shareholder's equity.

$$\text{Return on Common Equity} = \frac{\text{Net Profit After Tax}}{\text{Shareholder's Equity}}$$

### **c). Net Income to Total Deposit Ratio**

This ratio enables to evaluate how much extent the management has been succeeded to mobilize the deposits in profit generating sector. Higher ratio is favorable for banks. This ratio measures the level of net profit after tax by using total deposits. This is calculated as:

$$\text{Net Income to Total Deposit Ratio} = \frac{\text{Net Income}}{\text{Total Deposit}}$$

### **d) Interest Earned to Total Assets Ratio**

The ratio shows percentage of interest income as compared to the assets of the bank. High ratio indicates the proper utilization of the bank's assets for income generating purpose. Low ratio represents unsatisfactory performance. The ratio is calculated by dividing interest income by total assets of the bank.

$$\text{Interest Earned to Total Assets Ratio} = \frac{\text{Interest Earned}}{\text{Total Assets}}$$

#### **e) Total Interest Expenses to Total Interest Income Ratio**

The ratio shows the percentage of interest expenses incurred in relation to the interest income realized. Lower ratio is favorable from profitability point of view. The ratio is obtained by dividing total interest expenses by total interest income.

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

#### **3.5.1.1.4 Capital Structure/Leverage/Solvency Ratios**

Short-term financial positions refer to the liquidity position of the firm. Long-term financial position refers to the capital structure or financial leverage. Long-term financial position of the firm is judged by the capital structure ratio or leverage ratio or structure ratio. The leverage ratio or structural ratio is calculated to measure the financial risk and the firm's ability of the using for debt the benefit for the shareholders. Leverage refers to the ratio of debt to equity in the equity in the capital structure of the firm. Debt & equity are long-term obligation and remaining parts in the ability side of the balance sheet are termed as short-term obligation. Both types of obligations are required in forming the capital structure of the firm. The long-term financial position of the firm is determined by advantage or capital structure. Debt is more risky from the form the firm's point of view. The firm has legal obligation to pay interest to debt holders irrespective of

the profit made or losses incurred by the firm. But use of debt is advantageous to shareholders in two ways

- They can certain control on the firm with a limited stake.
- Their earning is magnified when rate of return of the firm on total capital is higher than the cost of debt.

Following ratios are calculated to the test of optimality of capital structure

#### **a) Debt-Equity Ratio**

This ratio is calculated to find out the proportion of the outsider's fund to owner's fund to finance the total assets. It is also called the proportion of outsider's claim and insider's claim on total assets of the banks. It is also called debt to net worth ratio. The ratio shows the mix of debt and equity in capital. It measures creditors' claims against owners'. High ratio shows that the creditors' claims are greater than those of owners. Such a situation introduces inflexibility in the firm's operation due to the increasing interference and pressures from creditors. Low ratio implies a greater than claim of owners than creditors. In such a situation, shareholders are less benefited if economic activities are good enough. Therefore, the ratio should neither be too high nor too low. The ratio is calculated by dividing total debt by shareholder's equity.

$$\text{Debt-Equity Ratio} = \frac{\text{TotalDebt}}{\text{ShareholdersEquity}}$$

Total debt consists of all interest-bearing long-term debts. These include loans and short-term debts. These include loans advances taken from other financial institutions, deposits carrying interest etc. Shareholder's equity includes paid-up

capital, reserves and surplus and undistributed profit.

**c) Debt- Asset Ratio**

This ratio shows the contribution of creditors in financing the assets of the bank. It is the proportion of debt on the total capital or proportion of outsider's claim on total assets. Greater proportion of the banks assets has been financing through outsider's funds. High ratio indicates that the greater portion of the bank's assets has been financed through outsider's fund. The ratio should neither be too high per too low. The ratio can be calculated by dividing total debt by total assets.

$$\text{Debt-Assets Ratio} = \frac{\text{TotalDebt}}{\text{TotalAssets}}$$

**c) Interest Coverage Ratio**

This ratio is calculated to find out the bank's ability to meet interest obligation. The ratio also known as times interest-earned ratio is used to test the debt servicing capacity of the bank. It shows the number of times the interest charges are covered by funds that are ordinarily available for their payment. It indicates the extent to which the earning may fail without causing any embarrassment to the firm regarding the payment of interest. Higher ratio is desirable, but too high a ratio indicates the firm is very conservative in using debt. A lower ratio indicates excessive use of debt or insufficient operation. The ratio calculated by dividing net profit before deduction of interest and tax by interest charges.

$$\text{Interest Coverage Ratio} = \frac{\text{EarningBeforeInterestAndTax(EBIT)}}{\text{Interestcharged}}$$

**3.5.1.5 Others Indicators**

Above stated ratios throw light on various aspects of bank. Management, investors

and creditors can get information regarding their interest. Some indicators are dealt here which provide more knowledge about the performance of bank. They are listed below.

### **A) Earning Per Share**

Earnings per Share refer to the income available to the common shareholders on per share basis. It enables us to compare whether the earning based on per share basis has changed over past period or not. The investors favor high EPS. It reflects the sound profitability position of the bank. It is obtained by dividing earning available to common shareholders by number of equity shares outstanding.

$$\text{Earnings per Share} = \frac{\text{Earning Available To Equity Shareholders}}{\text{Number Of Share outstanding}}$$

Earnings available to common shareholders is the amount of that profit which can be found after deducting the amount of interest to the outsiders' fund, dividend to the preferred shareholders and income tax to the government. For this purpose, it is net profit after tax.

### **b) Price –Earnings Ratio (P/E ratio)**

P/E Ratio is widely used to evaluate the bank's performance as expected by investors. It represents the investors' judgment or expectation about the growth in the bank's earning. In other words, it measures how the market is responding towards the earning performance of the concerned institution. High ratio indicates greater expectation of the market towards the achievement of firm. It is obtained by dividing market value per share by earning per share.

$$\text{Price-Earnings Ratio} = \frac{\text{Market Value Per Share (MVPS)}}{\text{Earning Per Share (EPS)}}$$

### **C) Market Value Per Share to Book Value Per Share (MVPS/BVPS)**

The ratio measures the value that the financial market attaches to the management and organization of the bank as a growing concern. High ratio is the indication of strong management and organization. It is the ratio of market value per share to book value per share.

$$\text{Market Value Per Share to Book Value Per Share} = \frac{\text{Market Value Per Share (MVPS)}}{\text{Book Value Per Share (BVPS)}}$$

#### **3.1.5.2 Income & Expenditure Analysis**

Except various analyses, income and expenditure analysis is one of the major tools financial performance analyses of banks. The profit & loss account of the bank is used to find out operating income, expenditure and profit and loss percentage. This is a tool with the help of which the components of income and expenditure can be compared between two competitive firms. By this analysis, one is able to conclude which sources of income & expenditure are dominant in the related concerns. Under income analysis, overall operating income is split up into major headings- Interest income, commission & discount, foreign exchange income and other income. Under expenditure analysis, entire operating expenses are split up into four major headings- Interest expenses, staff expenses, office operating expenses and bonus facility. Operating profit (loss) is the difference between total operating income and total operating expenses. If total operating income is higher than total operating expenses, then it is operating profit, otherwise operating loss.

#### **3.5.2 Statistical Tools**

Various statistical tools can be used to analyze to the researchers. These tools are used in research in order to draw the reliable conclusion through the analysis of financial data. Following tools are used for this purpose.

### 3.5.2.1 Arithmetic Mean

An average is a single value selected from a group of values to represent them in same way, which is supposed to stand for whole group of which it is a part, as typical of all the values in the group (Waugh A.E). Out of various measures of the central tendency, arithmetic mean is one of the useful tools applicable here. It is easy to calculate and understand and understand and based on all observations.

Arithmetic mean of a given set of observations is their sum divided by the number of observation. In general, if  $X_1, X_2, X_3, \dots, X_n$  are the given observations, then arithmetic mean usually denoted by  $\bar{X}$  is given by;

$$\bar{X} = \frac{X_1 + X_2 + X_3 + \dots + X_n}{n} = \frac{\sum X}{n}$$

Where,  $n$  = number of observation.

$$\sum X = \text{Sum of } \underline{\text{observation}}$$

### 3.5.2.2 Standard Deviation

Average like other mean, mode and medium gives us the idea of concentration of the items around the central part of distribution. But average do not gives clear picture about the distribution because two distributions with same average may differ in the scatter ness of the items from the central value. To remove this drawback, dispersion is used. Dispersion is defined as the measure of variation I the item from the central value. Among various measure of dispersion, standard deviation is widely used. Standard deviation is absolute measure of dispersion, which defined as the positive square root of the mean of the square of deviation taken from the arithmetic means, if  $X_1, X_2, X_3, \dots, X_n$  are the given observations, then standard deviation denoted by  $\sigma$  is given by;

$$\sigma = \sqrt{\frac{\sum X^2}{n} - \left(\frac{\sum X}{n}\right)^2}$$

Standard deviation is the absolute measure of dispersion. The relative measure of dispersion based on the standard deviation is known as the Coefficient of Standard deviation.

$$\text{Coefficient of S.D.} = \frac{\text{Standard Deviation}}{\text{Mean}}$$

The coefficient of dispersion based on standard deviation multiplied by 100 is known as Coefficient of Variance and written, as C.V is given by;

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

It is independent unit. So two distributions can be compared with the help of C.V. for their variability. Less the C.V more will be the uniformity consistency etc and more the C.V less will be the uniformity consistency etc.

According to Prof. Karl Pearson, coefficient of variation is the percentage variation in mean, standard deviation being considered as the total variation in the mean. It is one of the relative measures of dispersion that is useful in comparing the amount of variation in data groups with different mean. For comparing the variability of two distributions, we compute the coefficient of variation for each distribution. A distribution with smaller CV is said to be more homogeneous or uniform or less variable than other. Conversely, a series with greater CV is said to be more variable or heterogeneous than the other (Gupta, S.C. 2000:769).

### **3.5.2.3. Correlation Coefficient Analysis**

If the distribution consists of two variables then correlation is used to find out the relation between them. Two variables are said to be in correlation when they are so

related that the change in the value of one variable is accompanied by the change in the value of other. Correlation is the measure of relationship between two or more characteristics of population or sample. It is simply measure the chance between the phenomenon's (Joshi, R.P. 2001).

Correlation is a statistical tools with the help of which we can determine whether or not two or more variable are correlated & if they are correlated the degree (extent) and direction of correlation is determined (Shrestha S and Silwal D.P) Correlation is the statistical tools that we can used to describe the degree of which one variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two set of figure. Among the various method of finding out coefficient (i.e. Karl Pearson's Coefficient of Correlation, Spearman's Rank Correlation Coefficient, Kendall's Tau etc); Karl Pearson's method is applied in this study. If two variables vary in the same direction i.e. if increase (or decrease) in the value of one variable result increase (or decrease) in the value of other variable, then two variables are said to have positive correlation. Similarly, the two variables are said have negative correlation if they very in the opposite direction i.e. if increase (or decrease) in the value of one variable result decrease (or increase) in the value of other variable. One of the widely used mathematical methods of calculating the correlation coefficient between two variables is Karl Pearson's Correlation coefficient. It is also known as Pearson's correlation coefficient & denoted by  $r_{xy}$  or, simply  $r$ . if  $x$  be the one variable and  $y$  be the other variable with  $n$  number of observation then  $r$  is defined;

$$r = \frac{n\sum XY - \sum X \sum Y}{\sqrt{n\sum X^2 - (\sum X)^2} \sqrt{\sum Y^2 - (\sum y)^2}}$$

Where,  $n$  = number of observation in series X and Y

$\sum X$  = Sum of observations in series X

$\Sigma Y$  = Sum of observation in series Y

$\Sigma X^2$  = Sum of squared observations in series X

$\Sigma Y^2$  = Sum of squared observations in series Y

$\Sigma XY$  = Sum of the product of observations in series X and Y

The result of correlation coefficient is always lies between  $-1$  &  $+1$

When,  $r = +1$ , there is positively perfect correlation between two variables

When,  $r = -1$ , there is negatively perfect correlation between two variables

When,  $r = 0$ , there is no correlation between two variables or the variables are uncorrelated. Neither the value of  $r$  to  $+1$ , closer will be relationship between two variables nor will the value of  $r$  to  $0$  lesser be the relationship between two variables.

### **Probable Error of Correlation Coefficient**

Probable error of correlation coefficient denoted by  $P.E(r)$  is obtained as;

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

Where

$$\frac{1-r^2}{\sqrt{n}} = \text{standard error}$$

Reasons for taking  $0.6745$  is that in a normal distribution  $50\%$  of observation lies in the range  $\mu \pm 0.6745 \sigma$  where,  $\mu$  and denoted the population mean and standard deviation.

$P.E(r)$  is used to test if an observed value of sample correlation coefficient is

significant of any correlation in the population. It is used to interpret whether the calculated value of  $r$  is significant or not. If  $r > P.E$ ; correlation is insignificant. So there is no evidence of correlation If  $r > 6P.E$ .  $r$  is definitely significant.

### 3.5.3 Trend Analysis

Trend analysis is a very useful and commonly applied tool to forecast the future event in quantitative term, on the basis of the tendencies in the dependent variable in the past period.

The straight-line trend implies that irrespective or decrease by absolute amount per unit of time. The linear trend values form a series in arithmetic progression.

The tools that are used to show gradually increase or a decrease of variable over a period of time is known as trend analysis. With the help of trend analysis the tendency of variables over the period can be seen clearly. Mathematically,

$$Y = a + bx$$

Where,

$Y$  = the value of dependent variable

$a$  =  $Y$ -intercept,  $b$  = slope of the trend line

$X$  = value of the independent

variable i.e. time

Normal equations fitting above equation are;

$$\sum Y = Na + b\sum X$$

For this study, the following variables are used: Total Deposits, Loans and Advance, , Net Profit and Earning per Share.



## **CHAPTER-IV**

### **PRESENTATION, ANALYSIS & INTERPRETATION OF DATA**

This Chapter deals with the analysis and interpretation of data following the research methodology dealt in the third chapter. In course of analysis, data gathered from the various sources have been inserted in the tabular form according to their homogeneous nature. The various tables prepared for the analysis purpose have been shown in annexes. Using financial and statistical tools, the data have been analyzed. The result of the analysis has been interpreted keeping in mind the conventional standard with respect to ratio analysis, directives of NRB and other factors while using other tools. Moreover, financial performance of the sampled banks has especially been analyzed in cross sectional manner. Specially, the chapter includes an interpretation of the following.

- Ratio analysis
- Income and expenditure analysis
- Correlation analysis
- Trend analysis

#### **4.1 Ratio Analysis**

Ratio analysis has been adopted to evaluate the financial health, operating result and growth of the sampled banks. In order to analyze and interpret the tabled data, the following ratios have been used.

- Liquidity ratio
- Profitability ratio
- Turnover/Efficiency ratio
- Capital structure/ leverage/solvency ratio

- Other indicators

#### 4.1.1 Liquidity Ratios

Liquidity ratios have been employed to test the ability of the banks to pay immediate liabilities (I.e. short term liabilities). These include current ratio, quick ratio, cash & bank balance to current assets ratio, cash & bank balance to deposit (except Fixed Deposits) ratio, , NRB balance to current and saving deposit ratio and NRB balance to Fixed deposits ratio.

##### 4.1.1.1. Current Ratio

Current ratio is also known as working capital ratio. It is computed by dividing the current assets liabilities.

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

**Table No 4.1**

**Current Ratio (Times)**

(Rs. in millions)

<b>Fiscal year</b>	<b>Current assets</b>	<b>Current liabilities</b>	<b>Ratio</b>
2061/62	7281.91	4088.6	1.78
2062/63	8601.31	4725.32	1.82
2063/64	11338.18	7892.23	1.45
2064/65	13881.45	9072.97	1.53
2065/66	17774	11301.78	1.57
Mean ( $\bar{X}$ )			1.55
S. D ( $\sigma$ )			1.02

*Source: Annual Report of KBL*

The above table shows the current assets and current liabilities of KBL and current ratios are calculated by current assets by current liabilities .In the year 2061/62 the current ratios shows of 1.78. Similarly in 2062/63, 2063/64, 2064/65 2065/66 the

current ratios are 1.82, 1.44, 1.53 and 1.13 represent and standard deviation is 1.02. The current ratio of KBL is fluctuating trend. It was highest in year 2062/63 i.e. 1.82 and lowest in 2065/66 i.e 1.13 and mean of the ratios came 1.55 which shows that the bank could not maintain convention standard 2:1

The nature of current assets and liabilities of commercial banks the ratio below the stated standard may be accepted as satisfactory, but it significance that the bank has the poor liquidity position .The bank may face the problem of working capital if they need to pay current liabilities at demand. Delay in payment of liabilities may lead to lose the goodwill. They will have the winning of confidence of current depositors and short term lenders

For commercial banks, it is very important to maintain good balance between liquidity and profitability. If banks keeps large portion of money under its control it affects in profit because idle money earn nothing but the other hand the bank should have enough cash balance with it to fulfill requirement of short -term liabilities.

#### **4.1.1.2 Quick Ratio**

Quick ratio establishes a relationship between quick or liquid assets & current liabilities. It is computed by dividing the quick assets by current liabilities.

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

**Table No 4.2**  
**Quick Ratio (Times)**

(In millions)

<b>Fiscal year</b>	<b>Quick assets</b>	<b>Current Liabilities</b>	<b>Ratio</b>
2061/62	1683.37	4088.6	0.41
2062/63	1648.95	4725.32	0.35
2063/64	2342.19	7892.23	0.3
2064/65	2458.29	9072.97	0.27
2065/66	2886.39	11301.78	0.26
Mean ( $\bar{X}$ )			1.59
S. D ( $\sigma$ )			0.062

*Source: Annual Report of KBL*

Above table shows the quick assets and current liabilities of KBL for the study period 2061/62 to 2065/66 and the quick ratio is calculated by dividing quick assets to current liabilities. The ratios were 0.41, 0.35, 0.3, 0.27 and 0.26 for the comprehensive study period and mean of the study appeared 0.32 times and standard deviation is 0.062.

The ratios were dressing trend. It is highest in FY 2061/62 i.e 0.41 and lowest in FY 2065/66 i.e. 0.26 and mean of ratio came 0.32 times. The standard quick ratio is 1:1 i.e. quick assets must be equal to current liabilities. The KBL showed poor liquidity position because of quick ratios of every year were below than standard form. It indicates that they have very weak position of immediate payment of short-term obligation (i.e. current liabilities) because current liabilities were greater than that of quick assets.

#### 4.1.1.3 Cash and Bank Balance to Current Assets Ratio

The ratio shows the ability of banks to pay total call made on current deposits. Cash and bank balance are highly liquid assets in current assets proportion. So, the ratio utilizes higher liquidity position than current ratio. The ratio is calculated by dividing cash and bank balance by current assets and expressed as;

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

**Table No 4.3**  
**Cash & Bank Balance to Current Assets Ratio**

(In millions)

<b>Fiscal Year</b>	<b>Cash And Bank Balance</b>	<b>Current Assets</b>	<b>Ratio</b>
2061/62	443.37	7281.91	6.088%
2062/63	389.63	8601.31	4.53%
2063/64	672.12	11340.56	5.93%
2064/65	933.85	13881.45	6.72%
2065/66	1776.3	17774	10%
Mean ( $\bar{X}$ )			6.66%
S. D ( $\sigma$ )			6.397%

*Source: Annual Report of KBL*

The above table shows the cash and bank balance to current assets ratio. The ratios are 6.088%, 4.53%, 5.93%, 6.72% and 10% represent years of review period. The cash and bank balance ratio to current ratio is fluctuating trend. The highest ratio is in year 2065/66 i.e 10% and lowest ratio is in year 2062/63 i.e 4.53% Mean of the ratio appeared 6.66% and standard deviation 6.397% which means that the percentage that show how much of current assets of the bank represents cash and bank balance

In year 2062/63 the percentage has dropped to 4.53% from 6.088%. Then after it started to increase from 4.53% to 5.935. In remaining both years also it increase and at last it reaches to 10% at year 2065/66. The average of cash and bank balance to current assets ratio is 6.66%. It can be said that average of 6.66%, the bank is holding cash and bank balance

#### 4.1.1.4 Cash and Bank Balance to Deposits (Except Fixed Deposits) Ratio

The ratio measures the ability of the banks to meet its immediate obligation. The bank should adequate cash and bank balance to meet the unexpected as well as the heavy withdrawal of deposits. The ratio is computed by dividing the cash and bank balance to total short-term deposits i.e. Saving Deposits, current Deposits, Margin Deposits & Call deposits. It express as;

$$\text{Cash \& Bank Balance to Deposit (except FD) Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Total deposit (Except fixed deposit)}}$$

**Table No 4.4**

#### **Cash & Bank Balance to Total Deposit (Expect Fixed Deposits) Ratio**

(In million)

<b>Fiscal year</b>	<b>Cash and Bank Balance</b>	<b>Total Deposit</b>	<b>Ratio</b>
2061/62	443.37	3966.86	11.18%
2062/63	389.63	4606.1	8.46%
2063/64	672.12	7780.6	8.63%
2064/65	933.85	8974.72	10.4%
2065/66	1776.3	11184.6	15.9%
Mean ( $\bar{X}$ )			10.91%
S. D ( $\sigma$ )			2.69 %

Source: Annual Report of KBL

The above table shows the cash and bank balance and total deposit of KBL and cash and bank balance to deposit ratios are calculated by dividing cash and bank balance to total deposit .In the year 2061/62 the ratio shows of 11.18% Similarly in 2062/63, 2063/64, 2064/65 2065/66 the cash and bank balance to total deposit ratios are 8.46, 8.63%, 10.4% and 15.9% represent.

The ratio of bank appeared fluctuating trend. In second and third year ratio decreasing in corporation to other year. The ratio reached highest in year 2065/66 i.e 15.9% and lowest in year 2062/63 i.e. 8.46% The mean ratio is 10.91%. the high ratio of bank indicates that bank can maintain of its obligation and also should maintain its adequate cash and bank balance efficiently. Higher ratio indicates sound liquidity position of bank. But higher ratio is not good enough to reveal under utilization of its fund. The mean ratio is 10.91% which means that KBL has not greater ability to repay the deposits i.e. KBL is not more efficient to serve the customers from the liquidity point of view. A high ratio represents the greater ability to meet their all types of deposits. But too high ratio of cash and bank balance to total deposit ratio may be unsuitable and harmful because it affects their profitability position and also low ratio is unfavorable as capital will be tied up and opportunity cost will be higher. KBL have a lowest ratio in year 2062/63 due to country economy condition also possible.

#### **4.1.5 NRB Balance to current and saving deposit ratio**

The ratio shows the percentage of amount deposits by the banks in Nepal Rastra Bank (NRB) as compare to the current and saving deposits. Commercial banks required holding certain position of current and saving deposits in NRB account. It is computed by dividing the NRB balance by current and saving deposits.

$$\text{NRB Balance to Current and Saving Deposit Ratio} = \frac{\text{NRB Saving}}{\text{Current \& Saving Deposits}}$$

**Table 4.5**

## NRB Balance to Current and Saving Deposit Ratio

(In millions)

Fiscal Year	NRB Saving	Current and Saving Deposit	Ratio
2061/62	219.83	1794.93	12.24%
2062/63	210.55	2668.66	7.88%
2063/64	384.85	4865.5	7.91%
2064/65	244.58	4746.4	5.15%
2065/66	1120.76	4950.42	22.64%
Mean ( $\bar{X}$ )			11.16%
S. D ( $\sigma$ )			6.17%

*Sources Annual Report of KBL*

Above table shows the NRB saving and current and saving deposit and its ratio. The ratios of KBL were found 12.24%, 7.88%, 7.91%, 5.15%, and 22.64% and mean of the ratio seemed 11.16%. and Standard deviation is 6.17%.

The ratio of KBL seems fluctuating trend. It decreased 2<sup>nd</sup> 3<sup>rd</sup> and 4<sup>th</sup> year in corporation to 1<sup>st</sup> year and at last year it suddenly increase to 22.64% which is highest in the study period. In the study period it is highest in FY 2065/66 i.e. 22.64% and lowest in FY 2064/65 i.e. 5.15% and mean of the ratio came 11.16%. As per directive of Nepal Rastra Bank, the required ratio is 8%. Therefore, the bank was show below the standard in only FY 2064/65 and in other two years it came nearest to 8%. Mean ratio of KBL came higher than the rule of NRB balance, which means that KBL has greater ability to repay the current & saving deposits i.e. KBL is more efficient to serve the customers from liquidity point of view. KBL has excess cash (in 1<sup>st</sup> and 5<sup>th</sup> year) in NRB, which may affects the profitability adversely because idle cash earns nothing.

### 4.1.1.6 NRB Balance to Fixed Deposit Ratio

The ratio shows the proportion of cash balance at Nepal Rastra Bank's current account as compare to the commercial banks' fixed deposits amount. The ratio is calculated as using the following formula;

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

**Table No 4.6**  
**NRB Balance to Fixed Deposit Ratio**

(In millions)

<b>Fiscal year</b>	<b>NRB balance</b>	<b>Fixed deposit</b>	<b>Ratio</b>
2061/62	219.83	2302.09	9.54%
2062/63	210.55	3162.84	6.65%
2063/64	384.85	2776.48	13.86%
2064/65	244.58	3799.55	6.43%
2065/66	1120.76	4527.05	24.75%
Mean ( $\bar{X}$ )			12.24%
S. D ( $\sigma$ )			6.8%

*Source: Annual Report of KBL*

Above table shows the NRB balance and fixed deposit and its ratio. The ratios of KBL were found 9.54%, 6.65%, 13.86%, 6.43% and 24.75% for the comprehensive year of study period and mean of the ratio came 12.24% and standard deviation is 6.8%

The ratios of the bank showed fluctuating trend in the period of review. In KBL it ranged from minimum of 6.43% in 4<sup>th</sup> year and maximum of 24.75% in 5<sup>th</sup> year. In all of the years, the ratio reminded higher than 6%, the minimum standard set by NRB. The mean ratio of KBL is greater than the rule of NRB balance which reveals that KBL has strong power to repay of fixed deposit. As per directive of Nepal Rastra Bank, the required ratio is 6%. Therefore, the bank showed higher percent in all years than NRB rule. Mean ratio of KBL came higher than the rule of NRB balance,

#### 4.1.2 Efficiency /Activity/ Turnover Ratios

Turnover ratios have been used to evaluate the efficiency with which the banks have managed and utilized their assets. So, it is also called Efficiency ratio. These ratios are also employed to evaluate the speed with which assets are being converted and turnover. These ratios moreover help in measuring the bank's ability to utilize their available resources. In this study these ratios include; loans and advances to total deposit ratio, loans and advances to fixed deposit ratio, investment total deposit ratio.

##### 4.1.2.1 Loans and Advances to Total Deposit Ratio

This ratio is calculated to find out how the banks are successful utilizing the outsiders' fund i.e. total deposits for profit generating purpose in the form of extending loan and advances. It is calculated as;

$$\text{Loans and advances to total deposit} = \frac{\text{loans and advances}}{\text{Total deposit}}$$

**Table No 4.7**

#### **Loans and Advances to Total Deposit Ratio**

(In millions)

<b>Fiscal year</b>	<b>Loans and advances</b>	<b>Total deposit</b>	<b>Ratio</b>
2061/62	5590.92	6268.96	89.18%
2062/63	6891.85	7768.96	88.71%
2063/64	8929.02	10557.09	84.57%
2064/65	11335.09	12780.15	88.7%
2065/66	14593.35	15710.92	92.88%
Mean ( $\bar{X}$ )			88.8%
S. D ( $\sigma$ )			2.63%

*Source: Annual Report of KBL*

In above table showed total deposit and loans and advance of KBL bank for the respective study periods. And the ratio is calculated by dividing loans and advances to total deposit. The ratios were 89.18%, 88.71%, 84.57%, 88.7% and 92.88% and mean of the ratio came 88.8% and Standard deviation is 2.63%.

In above table shows the ratio of KBL fluctuating trend . It is highest in year 2065/66 i.e 92.88% and lowest in year 2063/64 i.e. 84.57% and mean of the ratio came 88.8%. Though slightly decrease in 2<sup>nd</sup> and 3<sup>rd</sup> year in comparative to 1<sup>st</sup> year, at last it success to reached maximum at last year. The mean ratio of KBL is high which indicates that KBL is more successful in utilizing the resource in profitable sectors. The ratio in KBL showed that, in spite of decreased in 3<sup>rd</sup> year, there remained higher utilization capacity in each succeeding year. In 3<sup>rd</sup> year, fall in the ratio could be noticed due to the increase in the amount of deposits by large volume than the volume of loans and advances.

#### **4.1.2.3.2 Loans and Advances to Fixed Deposits Ratio**

The ratio examines that how many the fund is used in loans and advance against fixed deposits. They are interest bearing long-term obligation where as loans and advance are the major sources of investment in generating income for commercial banks. It is calculated as;

$$\text{Loans and advances to Fixed deposit ratio} = \frac{\text{loans and advances}}{\text{Fixed deposit}}$$

**Table No 4.8**

#### **Loans and Advances to Fixed Deposit Ratio (Times)**

(In millions)

<b>Fiscal year</b>	<b>Loans and advances</b>	<b>Fixed deposit</b>	<b>Ratio</b>
2061/62	5590.92	2302.09	2.43
2062/63	6891.85	3162.84	2.18

2063/64	8929.01	2776.48	3.22
2064/65	11335.09	3799.56	2.98
2065/66	14593.35	4527.05	3.23
Mean ( $\bar{X}$ )			2.8
S. D ( $\sigma$ )			1.47

*Source: Annual Report of KBL*

Above table shows the loans and advances and fixed deposit of KBL respective of five years of study period. Above table highlights the ratios in KBL were 2.43, 2.18, 3.22, 2.98 and 3.23 times from FY 2061/62 to 2065/66. Mean of the ratios appeared 2.8 times and standard deviation is 1.47.

The ratio shows the fluctuating trend in study period. It was highest in 2065/66 i.e 3.23 times and lowest in 2062/63 i.e 2.18 times. Mean turnover ratio is high which means it utilized the high interest bearing fixed deposits in yielding sector satisfactory return or utilizes its fixed deposits more efficiently.

#### **4.1.2.3 Investment to Total Deposit Ratio**

Total investment includes its HMG treasury bills, development bonds, other company's share and other types of investment. The ratio shows how efficiently the major sources of bank have been mobilized. It is calculated as;

$$\text{Investment to total deposit ratio} = \frac{\text{Total Investment}}{\text{Total Deposit}}$$

**Table 4.9**  
**Investment to Total Deposit Ratio**

(In millions)

<b>Year</b>	<b>Total investment</b>	<b>Total Deposit</b>	<b>Ratio</b>
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2061/62	1190.28	6268.96	18.99%
2062/63	1394.95	7768.96	17.95%
2063/64	1678.42	10557.42	15.9%
2064/65	2138.8	12780.15	18.3%
2065/66	1510.83	15710.93	9.62%
Mean ( $\bar{X}$ )			16.52%
S. D ( $\sigma$ )			3.42%

*Source: Annual Report of KBL*

Above table shows the total investment and total deposit of KBL bank and the ratio is calculated by dividing by total investment total deposit. The ratios of KBL were 18.99%, 17.95%, 15.9%, 18.3%, and 9.62% in represented years and mean of the ratio came 16.52% and Standard deviation is 3.42%.

The ratio of the KBL is showed fluctuating trend. In KBL it is highest in FY 2061/62 i.e 18.99% and lowest in FY 2065/66 i.e. 9.62%. The mean of the ratio came 16.52% which shows that the bank has able to invest its deposit on various securities and projects averaging 16.52%. This is not good thing because the bank could not invest its deposit at fully satisfactory level.

High ratio indicates management efficiency regarding the utilization of deposits and low ratio is result of less efficiency in use of fund. Because of low investment and high deposits amount in KBL its ratios were low, which mean it cannot utilized its fund efficiently.

#### **4.1.3 Profitability Ratios**

Profit is an important factor that determines the firm's expansion & diversification. A required level of profit is necessary for the firm's growth and survives in the competitive environment. Profitability ratios have been employed to measures the

operating efficiency of the sampled banks. For the purpose, return on assets, return on net worth, return on total deposit, total interest expenses to total interest income ratio and interest earned to total asset ratio have been analyzed and interpreted

#### 4.1.3.1 Return on Assets (ROA)

The ratio is useful in measuring the profitability of all financial resources invested the firm's assets. It is also called net profit or loss to total assets or working fund ratio and denoted by ROA. It is calculated as;

$$\text{Return on Assets (ROA)} = \frac{\text{Net Profit After tax (NPAT)}}{\text{Total Assets}}$$

**Table 4.10**

#### Return on Assets

(In millions)

<b>Fiscal Year</b>	<b>Net Profit After Tax</b>	<b>Total Assets</b>	<b>Ratio</b>
2061/62	87.57	7437.88	1.18%
2062/63	109.31	9122.62	1.2%
2063/64	171.65	11918.32	1.45%
2064/65	182.37	15026.61	1.22%
2065/66	258.46	18538.57	1.4%
Mean ( $\bar{X}$ )			1.29%
S. D ( $\sigma$ )			1.12%

*Source: Annual Report of KBL*

Above table shows the net profit after tax and total assets of KBL from FY 2061/62 to 2065/66. the ratio is calculated divided net profit after tax by total assets and the ratios are 1.18%, 1.2%, 1.45%, 1.22%, and 1.4% in the comprehensive year of study period. The mean of the ratios appeared 1.29% and Standard deviation is 1.29%.

The ratio of KBL shows the fluctuating trend. It is highest in FY 2063/64 i.e 1.45% and lowest FY 2061/62 i.e. 1.18% and mean of ratio appeared 1.29% .i n the year 2061/62 to 2063/64 the ratio is increasing which is good thing but in FY 2064.65 it decreases from 1.45% to 1.22% and again it increase to 1.4% in FY 2065.66. The high percentage shows the good profitability position of bank and low percentage shows the not good position of the bank. In compounding to above data the profitability position of the KBL bank is better in beginning period than the last years. At last bank again success to increase its ratio with increasing total assets. If bank earns high profit, it will increase its goodwill in competitive market at it can gives attractive bonus and dividend to staffs and shareholders respectively. In overall the bank's profitability position was satisfactory position.

#### 4.1.3.2 Return on Total Deposits

The ratio is shows the relation of net profit earned by bank with the total deposits accomplished. It is calculated as;

$$\text{Return on Total Deposit} = \frac{\text{Net Profit After Tax (NPAT)}}{\text{Total Deposits}}$$

**Table 4.11**

#### **Return on Total Deposit**

(In millions)

<b>Fiscal Year</b>	<b>Net Profit After Tax</b>	<b>Total Deposits</b>	<b>Ratio</b>
2061/62	87.57	6268.96	1.4%
2062/63	109.31	7768.96	1.4%
2063/64	171.65	10557.42	1.63%
2064/65	182.37	12780.15	1.43%
2065/66	258.46	15710.93	1.65%
Mean ( $\bar{X}$ )			1.502%

S. D ( $\sigma$ )	0.0753%
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*Source: Annual Report of KBL*

The above table shows the net profit after tax and total deposits of KBL and the ratio is calculated by dividing net profit after tax to total deposits. The table shows that the ratio in KBL 1.4%, 1.4%, 1.63%, 1.43%, and 1.65% and mean of the ratio appeared 1.502% and Standard deviation is 0.0753%.

The ratio of KBL followed increasing trend besides year 2064/65. It was ranged from minim 1.4% to maximum 1.65% and minimum ratio of 1.4% was similar in two years i.e. FY 2061/62 and 2062/63. However the ratio of bank increased to maximum at last year which significance that profitability of bank stronger than that of beginning periods. Therefore the bank profitability position is satisfactory level.

#### 4.1.3.3 Return on Net Worth / Shareholders' Equity (ROSE)

The ratio is tested to see the profitability of owners' investment. It reflects the extent to which the objective of business is accomplished. The ratio is of great interest to present as prospective shareholders' and also of great significance to management, which has the responsibility maximizing the owners' welfare. It is also called net profit to shareholders equity ratio on shareholder equity simply denoted by ROSE. It is calculated as;

$$\text{Return on Net Worth} = \frac{\text{Net Profit After tax (NPAT)}}{\text{Net Worth}}$$

**Table 4.12**  
**Return on Net Worth/ Shareholder's Equity (ROSE)**

(In millions)

<b>Fiscal Year</b>	<b>Net Profit After Tax</b>	<b>Net Worth</b>	<b>Ratio</b>
2061/62	87.57	636.45	13.76%
2062/63	109.31	870.73	12.56%
2063/64	171.65	1112.83	15.7%
2064/65	182.37	2054.08	8.89%
2065/66	258.46	2416.31	10.7%
Mean ( $\bar{X}$ )			12.32%
S. D ( $\sigma$ )			2.3639%

*Source: Annual Report of KBL*

Above table shows the net profit after tax and shareholder's equity and the ratio of return on net worth is calculated by dividing net profit to net worth. The ratios in KBL were 13.76%, 12.56%, 15.7%, 8.89% and 10.7% and mean of the ratios came 12.32%. and Standard deviation is 2.3639%.

The ratio in KBL showed fluctuating trend. It is highest in FY 2063/64 i.e 15.7% and lowest in FY 2064/65 8.89% and mean of the ratio came 12.32%. It can be seen that the ratio for FY 2061/62 is 13.76% and in FY 2062/63 it decreased to 12.56%. In FY 2063/64 it again increased to 15.7% but in FY 2064/65 it dramatically decreased up to 8.89%. It slightly increased in FY 2065/66. We can see that the ratio in 4<sup>th</sup> and 5<sup>th</sup> year comparatively low which is not a good thing because if that happened the bank will not be able to pay regular significant return to them. It also indicates that the bank has not effectively utilized the Owner's capital.

#### 4.1.3.4 Total Interest Expenses to Total Interest Income Ratio

The ratio shows the percentage of interest expenses incurred in relation to the interest income incurred. In other words, it indicates the how much percent of interest income is used as interest paid and expressed as;

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

**Table 4.13**

#### **Total Interest Expenses to Total Interest Income Ratio**

<b>Fiscal Year</b>	<b>Total Interest Expenses</b>	<b>Total Interest Income</b>	<b>Ratio</b>
2061/62	240.14	499.92	48.03%
2062/63	337.05	605.53	55.67%
2063/64	397.05	791.29	50.18%
2064/65	498.74	957.25	52.1%
2065/66	816.21	1374.73	59.38%
Mean ( $\bar{X}$ )			53.07%

S. D ( $\sigma$ )	4.03%
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*Source: Annual Report of KBL*

Above table shows the total interest expenses and total interest income of KBL and the total interest expenses to total interest income is calculated by dividing total interest expenses total interest income. It highlights the ratio of KBL for reprehensive years of study period reminded 48.03%, 55.67%, 50.18%, 52.1%, and 59.38% and mean of the ratios seemed 53.07% and Slandered deviation is 4.03%.

The ratio of KBL fluctuating trend. It was highest in FY 2065/66 i.e 59.38% and lowest in FY 2061/62 i.e 48.03%. In KBl the ratios increased in 2<sup>nd</sup> 4<sup>th</sup> and 5<sup>th</sup> year as compared to 1<sup>st</sup> year then it decreased in 3<sup>rd</sup> year. The lower mean ratio indicates better profitability position of the bank. Overall the ratio of bank seems average 53.07% which shows the bank's profitability position is satisfactory level. Overall picture shows that KBL is more successful in allocating the interest bearing debt in profitable sectors.

#### **4.1.3.5 Interest Earned to Total Assets Ratio**

The ratio shows percentage of interest income as compared to the asset of the banks. It indicates how properly utilize the bank's assets for income generating purpose. It is computed as;

$$\text{Interest Earned to Total Assets Ratio} = \frac{\text{Total Interest Income}}{\text{Total assets}}$$

**Table 4.14**

**Interest Earned to Total Assets Ratio (In millions)**

<b>Fiscal Year</b>	<b>Total Interest Income</b>	<b>Total Assets</b>	<b>Ratio</b>
2061/62	499.92	7437.88	6.72%
2062/63	605.53	9122.62	6.64%
2063/64	791.29	11918.32	6.64%
2064/65	957.25	15026.61	6.37%
2065/66	1374.75	18538.57	7.41%
Mean ( $\bar{X}$ )			6.66%
S. D ( $\sigma$ )			0.347

*Source: Annual Report of KBL*

Above table shows the total interest income and total assets of KBL and the ratio is calculated by dividing total interest income to total assets. The ratios in above table highlights that the ratio of KBL for the reprehensive years of study period reminded 6.72%,6.64%,6.64%,6.37%, and 7.41%. Mean ratio appeared 6.66% and slandered deviation is 0.347.

The ratio in KBL showed fluctuating trend. It is highest in FY 7.41% and lowest in FY 2064/65 i.e 6.37% and mean of the ratio came 6.66%. The high ratio indicates the good profitability position of bank. It seems that mean ratio of bank appeared in satisfactory level which leads us to conclusion that KBL managed the assets more effectively to earn the interest.

#### **4.1.4 Capital Structure/ Leverage/ Solvency Ratios**

Leverage refers to the ratio of debt to total equity in the capital structure of the firm. Debt and equity are long- term obligation and remaining part of the liabilities

side of Balance Sheet are term as short-term obligation. Both types of obligations are required in forming capital structure of firm. The appropriate mixed of all types of structure in capital structure result sound position of firm. Therefore a firm has strong short-term liabilities as well as long-term financial position. Long-term financial position of the firm is determined by leverage or capital structure. So, leverage ratios have been analyzed and interpreted to judge the long-term financial health of the sampled banks. These include debt-equity ratio, debt-assets ratio, debt to total capital ratio and interest coverage ratio.

#### 4.1.4.1 Debt-Equity Ratio

The ratio shows the mixed of debt & equity in capital. It measures creditors' claim against owners'. It is computed as;

$$\text{Debt-Equity Ratio} = \frac{\text{Total Debt}}{\text{shareHolders Equity}}$$

**Table 4.15**

#### **Dept-Equity Ratio**

(In millions)

<b>Fiscal Year</b>	<b>Total Dept</b>	<b>Shareholders' Equity</b>	<b>Ratio</b>
2061/62	6801.14	645.45	10.54
2062/63	8139.95	863.85	9.43
2063/64	10805.5	1025.63	10.54
2064/65	12972.53	1364.89	9.51
2065/66	16122.25	1624.95	9.93
Mean ( $\bar{X}$ )			9.99
S. D ( $\sigma$ )			0.04794

*Source: Annual Report of KBL*

Above table shows the total dept and shareholder's equity. It is calculated by dividing total dept to shareholder's equity. The ratios were 10.54, 9.43, 10.54, 9.51 and 9.93 times and mean o the ratio came 9.99 times and standard deviation is 0.04794.

The ratio showed fluctuating trend . It is highest in FY 2061/62 i.e. 10.54 times and again it came similar in FY 2063/64 also and lowest in FY 2062/63 i.e. 9.43 times. The mean of the ratio came 9.99 times. Above table shows that total creditors amount is high than the shareholders equity. Therefore ratio also came low. Low ratio is harmful for the bank .In such situation introduces in flexibility in the bank operation due to increasing interferences and pressure from creditors. So these ratios of the bank are not satisfactory because they are relaying mainly on borrowed fund.

#### 4.1.4.2 Dept Assets Ratio

The ratio shows the contribution of creditors in financing the assists of the bank. It is calculated as;

$$\text{Dept- Assets Ratio} = \frac{\text{Total Dept}}{\text{Total Assets}}$$

**Table 4.16**

#### **Dept- Assets Ratio**

(In millions)

<b>Fiscal Year</b>	<b>Total Dept</b>	<b>Total assets</b>	<b>Ratio</b>
2061/62	6801.14	7437.88	91.43%
2062/63	8139.95	9122.62	89.23%
2063/64	10805.5	11918.32	90.6%
2064/65	12972.53	15026.61	86.3%%
2065/66	16122.25	18538.57	86.97%

Mean ( $\bar{X}$ )	88.9%
S. D ( $\sigma$ )	1.99%

*Source Annual Report of KBL*

Above table shows the total dept and total assets of KBL and dept assets ratio is calculated by dividing total dept total assets. The ratios were 91.43%, 89.23%, 90.6, 86.3, and 86.97% for reprehensive year of study period and the mean of the ratios appeared 88.9% and standard deviation is 1.99%.

The above table shows the dept assets ratio is decreasing trend and slightly increased in 3<sup>rd</sup> year as compared to 2<sup>nd</sup> 4<sup>th</sup> and 5<sup>th</sup> year. It is highest in FY 2061/62 i.e 91.43% and lowest in FY 2064/65 i.e 86.3%. And mean of the ratio appeared 88.9%. The dept ratio is very high in KBL which significance that former followed more aggressive policy in raising the capital. Less percent signifies the capital structure is less risky. Higher ratio In KBL indicates that great portion of the bank's assets has been financed through outsider's fund that mean creditor's have supplied more than firm's total financing. Higher ratio in KBL indicates that great portion of total assets has been financed through outsider's fund.

#### **4.1.4.3 Interest Coverage Ratio**

This ratio is calculated to find out the bank's ability to meet interest obligation. The ratio also known as times interest-earned ratio is used to test the debt servicing capacity of the bank. It shows the number of times the interest charges are covered by funds that are ordinarily available for their payment. It indicates the extent to which the earning may fail without causing any embarrassment to the firm regarding the payment of interest. Higher ratio is desirable, but too high a ratio indicates the firm is very conservative in using debt. A lower ratio indicates excessive use of debt or insufficient operation. The ratio calculated by dividing net

profit before deduction of interest and tax by interest charges.

$$\text{Interest Coverage Ratio} = \frac{\text{Earnings Before Interest \& Tax (EBIT)}}{\text{Interest Charged}}$$

**Table 4.17**  
**Interest Coverage Ratio**

(In millions)

<b>Fiscal Year</b>	<b>EBIT</b>	<b>Interest Charged</b>	<b>Ratio</b>
2061/62	370.45	240.14	1.54
2062/63	453.75	337.05	1.35
2063/64	601.83	397.05	1.52
2064/65	756.35	498.74	1.52
2065/66	1137.47	816.2	1.4
Mean ( $\bar{X}$ )			1.47
S .D ( $\sigma$ )			0.07631

*Source: Annual Report of KBL*

Above table shows the EBIT and interest expenses of KBL from FY 2061/62 to 2065/66 and interest coverage ratio is calculated by dividing EBIT to interest expenses. The table reveals that the ratios of KBL were reminded 1.54, 1.35, 1.52, 1.52 and 1.4 times in review period and mean of the ratios appeared 1.47 times and standard deviation is 0.07631.

Above table shows the interest coverage ratio of KBL is fluctuating trend. It is highest in FY 2061/62 i.e 1.54 times and lowest in FY year 2065/66 I.e 1.4 times. High ratio is better for the bank because it reveals the better dept servicing capacity of the bank. In average KBL 's interest is covered only 1.47 times which means the bank covering it interest charges relatively low margin of safety. Thus the interest coverage ratio reinforces conclusion based on the dept ratio manly the bank would face some difficulties if it attempted to borrow additional funds.

#### 4.1.5 Others Indicators

Above stated ratios throw light on various aspects of bank. Management, investors and creditors can get information regarding their interest. Some indicators are dealt here which provide more knowledge about the performance of bank. They are listed below.

##### 4.1.5.1 Earnings per- Share

Earnings per Share refer to the income available to the common shareholders on per share basis. It enables us to compare whether the earning based on per share basis has changed over past period or not. The investors favor high EPS. It reflects the sound profitability position of the bank. It is obtained by dividing earning available to common shareholders by number of equity shares outstanding.

$$\text{Earnings per- Share} = \frac{\text{Earning Available Common Shareholder (EAC)}}{\text{No of Equity Share Outs tanding}}$$

**Table 4.18**

##### **Earnings Per Share**

<b>Fiscal Year</b>	<b>Net Profit After tax</b>	<b>No of Equity Shares</b>	<b>EPS</b>
2061/62	87.57	5	17.6
2062/63	109.31	6.25	17.49
2063/64	171.65	7.5	22.89
2064/65	182.37	10.7	17.04
2065/66	258.46	11.86	21.9
Mean ( $\bar{X}$ )			19.384
S.D ( $\sigma$ )			2.48

*Source: Annual Report of KBL*

Above table shows the earning per share of KBL bank were 17.6, 17.49, 22.89, 17.04 and 21.9 rupees in respective years of study period and mean of the ratio

came 19.384 and standard deviation is 2.48.

The EPS of KBL is increasing trend besides in 4<sup>th</sup> year. EPS slightly decrease in 4<sup>th</sup> year than other years. It is highest in FY 2063/64 i.e 22.89 and lowest in FY 2064/65 i.e. 17.04. Mean of the EPS 19.384 which indicates that in average it earn 19.38 RS per share. Higher mean ratio indicates the profitability position of the former is much better than that of the latter. EPS of KBL bank is also increasing year by year which indicates its success and it attract the investors.

#### 4.1.5.1 Price –Earnings Ratio (P/E ratio)

P/E Ratio is widely used to evaluate the bank’s performance as expected by investors. It represents the investors’ judgment or expectation about the growth in the bank’s earning. In other words, it measures how the market is responding towards the earning performance of the concerned institution. High ratio indicates greater expectation of the market towards the achievement of firm. It is obtained by dividing market value per share by earning per share.

$$\text{Price-Earnings Ratio} = \frac{\text{Market Value per Share (MVPS)}}{\text{Earnings per Share (EPS)}}$$

**Table 4.19**  
**Price Earnings Ratio (times)**

<b>Fiscal year</b>	<b>MVPS</b>	<b>EPS</b>	<b>Ratio</b>
2061/62	369	17.6	20.96
2062/63	443	17.49	25.33
2063/64	830	22.89	36.26
2064/65	1015	17.04	59.54
2065/66	700	21.9	31.96
Mean ( $\bar{X}$ )			34.81

S. D ( $\sigma$ )	13.44
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*Source: Annual Report of KBL*

Above table shows the price earnings ratio of KBL bank were 20.96, 25.33, 36.26, 59.54, and 31.96 times in the respective years of study period and mean of the ratio came 34.81 times and standard deviation is 13.44.

The ratios in KBL shows increasing trend except 5<sup>th</sup> year. There is dramatic decrease in 2065/66 as it is in previous year 2064/65. It is highest in 2064/65 i.e. 59.54 and lowest in 2061/62 i.e. 20.96 times and mean of the ratio came 34.81 times. Though there is higher ratio in last four years, its ratio is low because of affect of last year. In current situation, not only KBL share but also all other banks share are decreasing.

#### **4.1.5.2 Market value Per Share to BOOK Value Per share (MVPS/BVPS)**

The ratio measures the value that the financial market attaches to the management and organization of the banks are growing concern. It is calculated as:

$$\text{Market Value Per Share} = \frac{\text{Market Value Per share (MVPS)}}{\text{Book value Per Share (BVPS)}}$$

**Table 4.20**

#### **Market value Per Share to Book Value Per Share (times)**

<b>Fiscal year</b>	<b>MVPS</b>	<b>BVPS</b>	<b>Ratio</b>
2061/62	369	129.09	2.85
2062/63	443	138.22	3.2
2063/64	830	136.75	6.06
2064/65	1015	149.55	6.78

2065/66	700	132.39	5.28
Mean ( $\bar{X}$ )			4.83
S. D ( $\sigma$ )			1.55

*Source: Annual Report of KBL*

Above table showed MVPS and BVPS for the respective years of study period and the ratio were 2.85,3.2,6.06,6.78 and 5.28 times in the respective years of study period and mean of the ratio came 4.83 times and standard deviation is 1.55.

The ratios shows increasing trend up to 4<sup>th</sup> year and then it decrease in last year. At last year the market value of share also decreases. It is highest in FY 2064/65 i.e. 6.78 times and lowest in FY 2061/62 i.e 2.85 times and mean of the ratio came 4.83 times. High ratio is better for bank because it increases the goodwill of the bank and more and more investors attract to invest in the bank. But in current situation, continuous fall down of share price in market investors are does not attract to invest.

#### **4. 2 Income and Expenditure Analysis**

Income and expenditure Analysis is one of the very important tools to analysis the financial performance of the bank. In comparative environment for the survival of bank should earn profit. If bank would earn profit its market value of share increased banks will be able to give regular dividend to shareholder and interest to debenture holders; staff can enjoy can enjoy better salary and bonus and enhance facilities which will increases the productivity of banks. So income and expenditure analysis is important not only in the banks but also in other field. If banks are able to decrease unnecessary expenditure it will directly effect in profit. The analysis covers the following heading in income and expenditure analysis.

##### **1. Operating Income Analysis**

2. Operating Expenditure Analysis
3. Operating Profit (loss) Analysis

#### **4.2.1 Operating Income Analysis**

Commercial banks made income from the investment made in various sectors. The banks being service- oriented organization don't produce physical goods. They produce loans and advances and invocations and sell the same. In the course of carrying out their functions, they receive income from various sources which are given below.

1. Interest Income
2. Commission and Discount
3. Foreign Exchange Fluctuation Income
4. Other Operating Income

The following table shows the various sources of operating income in proportion in total operating in percentage.

**Table 4.21**  
**Operating Income Analysis of**

(In millions)

Fiscal year	Interest Income		Commission and discount		Foreign exchange fluctuation Income		Other Operating income		Total Operating Income	
	Rs	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
2061/62	499.92	92.46	23.083	4.27	14.99	2.78	2.61	0.49	540.63	100
2062/63	605.52	90.62	26.29	3.94	26.38	3.95	10.003	1.4	668.2	100
2063/64	791.25	91.2	40.76	4.59	20.3	2.33	15.28	1.78	867.59	100
2064/65	957.25	89.85	48.49	4.55	41.8	3.92	17.8	1.67	1065.34	100
2065/66	1374.72	89.73	79.11	5.16	59.01	3.85	19.74	1.29	1531.94	100

*Source: Annual Report of KBL*

#### **4.2.1.1 Interest Income**

Interest is the main and major source of income in the commercial banks. These banks charge interest on loans and advanced provide by them. They also received interest from investment made government securities, debenture and inter- bank lending.

Above table shows the interest income of KBL reminded 92.46%, 90.62%, 91.2%, 89.85% and 89.73% in the respective years of study period. It shows slightly fluctuating trend. It was highest in FY 2061/62 i.e 92.46% and lowest in FY 2065/66 i.e 89.73% and mean of the ratio appeared 90.77% which indicates that the interest income was almost nine-tenth of total income in KBL.

#### **4.2.1.2 Commission and Discount**

Commercial banks provide various services to their customers such as remittances facilities, purchase and discount bill of exchange, guarantees and locker facilities etc. For making such facilities available they receive certain charges as a form of commission and discount. It also covers significant portion of total income.

Above table shows that the commission and discount of KBL in the respective years of study period- reminded 4.27%, 3.94%, 4.59%, 4.55% and 5.16%. it shows increasing trend besides in 2<sup>nd</sup> year. It is highest in FY 2065/66 i.e 5.16% and lowest in 2062/63 i.e 3.94% and mean of the ratio appeared 4.5%. This means that it covers average 4.5% from commission and discount in total income.

#### **4.2.1.3 Foreign Exchange fluctuation Income**

One of the major functions of commercial bank is transaction of foreign currency. Joint venture banks are allowed to purchase and sell foreign currencies under the directive of NRB rules regulation and laws in effect. Income under this heading encompasses the trading gain derived from the exchange of foreign currencies due to fluctuation in exchange rate.

Above table shows that foreign exchange income o KBL in the reprehensive years of study period are reminded 2.78%,3.95%,2.335%,3.92%, and 3.95% of total income. The proportion of income revealed increasing trend except in 3<sup>rd</sup> year

It is highest in FY 2065/66 i.e 3.95% and lowest in FY 2063/64 i.e. 2.35% and mean of the ratio appeared 3.39%.

#### **4.2.1.4 Other Income**

The last number of operating income is other income. Income not included in any of above headings comes under this heading. It includes only operating and non – operating was not included for the study purpose.

Above table highlights that operating income in KBL in the reprehensive years of study period reminded 0.49%, 1.4%, 1.78%, 1.67%, and 1.29%. It seems that this ratio were fluctuating trend besides in 5<sup>th</sup> year. It is highest in FY 2063/64 i.e 1.78% and lowest in FY 2061/62 i.e. 0.49%.

#### **4.2.2 Operating Expenses Analysis**

Expenses are the cost incurred in courses of operating various activities. The bank needs to pay interest for the deposits and borrowings. To handle all other resources there is a team of personals whom the bank pays salaries and provides other facilities. Besides a significant portion of income is day to day operation. For the purpose of study evaluation of the following earn of expenses has been made

1. Interest Expenses
2. Staff Expenses
3. Office Operation Expenses
4. Provision for Staff Bonus

The following table shows the various sources of operating expenses in proportion in total operating in percentage

**Table 4.22**  
**Operating expenses analysis of KBL**

(In millions)

Fiscal year	Interest expenses		Staff expenses		Office operation expenses		Provision for staff bonus		Total operating expenses	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
2061/62	240.13	65.1	42.	4111.5	71.82	19.47	14.52	3.93	368.87	100
2062/63	337.05	67.38	59.82	11.95	88.69	17.73	14.72	2.94	500.28	100
2063/64	397.05	66.15	74.25	12.37	104.07	17.34	24.86	4.14	600.23	100
2064/65	498.73	65.43	89.57	11.75	148.14	19.44	25.74	3.38	762.18	100
2065/66	816.2	70.68	115.6	10.01	186.21	16.12	36.71	3.19	1154.72	100

*Source: Annual Report of KBL*

#### **4.2.2.1 Interest expenses**

It is major parts of operating expenses. Commercial banks pay interest on various types of deposit, loans and advances taken from other banking and other banking and financial institution, government etc. Interest occupies more than three fourth of total operating expenses.

Above table depicts that interest expenses reminded 65.1%, 67.38%, 66.15%, 65.43%, and 70.38% in the respective of study period. In 2<sup>nd</sup> year it increased in computation to 1<sup>st</sup> year and decreased in 3<sup>rd</sup> and 4<sup>th</sup> year in computation to 2<sup>nd</sup> year. In 5<sup>th</sup> year it again increased to 70.38% which is highest in study period. Mean of the ratio appeared 66.88% which indicates that it cover 66.88% from interest expenses in total expenses. It seems that in each year it occupied three – fifth of operating expenses.

#### **4.2.2.2 Staff Expenses**

Other point of total expenses is staff expenses. In any organization manpower plays important role in the success or failure of that organization. Well motivated staffs contribute more to improve the organization. In return of services provided by them, they need to pay remuneration which is including under this heading. Staff expenses include salary, different types of allowances, incentives bonus etc. Above table reveals that the staff expenses in KBL reminded 11.5%, 11.95%, 12.37%, 11.37% and 10.01% in the respective years of study period. It seems that ratio is fluctuating trend. It seems that in 2nd and 3rd years it increased in compared to 1st year and in 4th and 5th year it decreased. It is ranged from 12.37% in 2nd year to 10.01% in 5th year and the mean of the ratio appeared 11.44%. So it seems that in KBL in average 11.44% of total expenses paid by bank to the staffs.

#### **4.2.2.3 Office operation Expenses**

For the routine work of commercial banks, considerable amount of expenses is incurred. All the expenses made for the operation of the bank such as rent, telephone charge, electricity charge, administrative expenses etc come under this heading.

Above table reveals that the office operating expenses in KBL reminded 19.47%, 17.73%, 17.34%, 19.44%, and 16.12%. It seems that operating expenses is decreasing trend besides in 4th year. It is highest in FY2061/62 i.e.19.47% and lowest in FY2065/66 i.e. 16.12% and mean of the ratio appeared 18.02%. it seems that office operation expenses cover 18.02% of total expenses. Therefore these expenses occupy second major portion in the composition of total expenses.

#### **4.2.2.4 Staff Bonus Facility (provision)**

When bank earn profit, dividend is paid to shareholders .Similarly a part of profit is paid to staff as bonus, which is reward for their services. In other words, bonus refers to the extra incentive provided to employees for their efficient service to the bank. It is distributed from the profit earned by the banks. It acts as the motivation for them but it increases the volume of operating expenses.

Above table reveals that the staff bonus provision in KBL reminded 3.93%, 2.94%, 4.14%, 3.38% and 3.19%. It is fluctuating trend .It is highest in FY 2064/65 i.e 4.14% and lowest in FY 2062/63 i.e. 2.94% and mean of the staff bonus provision appeared 3.52%.

#### **4.2.3 Operating Profit /Loss Analysis**

Operating profit and loss is the differences between operating income and operating expenses. If total operating income is higher than that of total operating expenses than it is operating profit otherwise it is operating loss. If firms profit has to examine from the point of view of all investors (both lender's and owners) the appropriate measure of profit is operating profit. It shows the earning gain from commercial operation of business without affect of financing .The following table shows operating income operating expenses and operating profit of KBL for the five years of study.

**Table 4 .23**  
**Operating Profit Analysis of KBL**

(In millions)

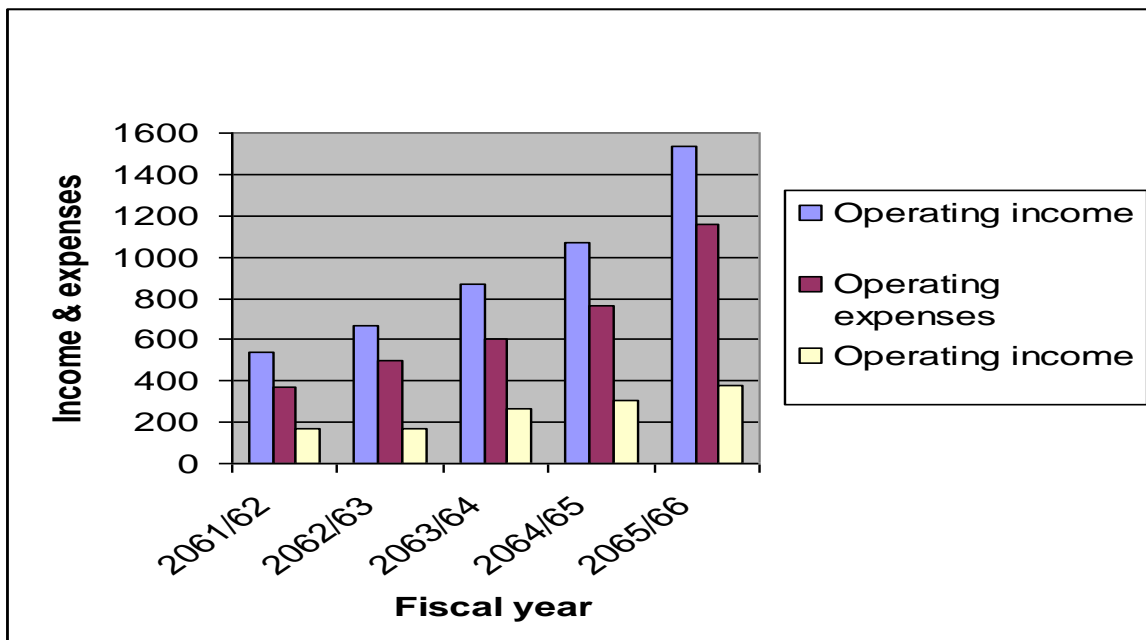
<b>Fiscal Year</b>	<b>Operating Income</b>	<b>Operating Expenses</b>	<b>Operating Income</b>
2061/62	540.63	368.87	171.76
2062/63	668.2	500.28	167.92
2063/64	867.59	600.23	267.36
2064/65	1065.34	762.18	303.16
2065/66	1531.94	1154.72	377.22

*Source: Annual Report of KBL*

From the above table, we can see that operating income, operating expenses, and operating income of KBL. Operating expenses levels 171.76, 167.92, 267.36, 303.16, and 377.22 millions in reprehensive study period. Operating profit of KBL is increasing every year.

The following chart is visualizing the operating profit of KBL bank:

**Figure 4.1**  
**Chart Showing Operating Profit**



From the above Figure, we can see that operating income, operating expenses, and operating income of KBL. Operating expenses levels 171.76, 167.92, 267.36, 303.16, and 377.22 millions in reprehensive study period. Operating profit of KBL is increasing every year

#### 4.4 Correlation Coefficient Analysis

Correlation coefficient is the statistical tools that can be describe to which one variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two variables. Among the various methods of finding out coefficient of correlation, Karl Person's method is applied in the study. It is the most common and useful tool to measure the relationship between two variables in the bank. This can be calculated by using following formula:

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{\sum Y^2 - (\sum Y)^2}}$$

Where,

n = number of observation in series X and Y

$\sum X$  = Sum of observations in series X

$\sum Y$  = Sum of observation in series Y

$\sum X^2$  = Sum of squared observations in series X

$\sum Y^2$  = Sum of squared observations in series Y

$\sum XY$  = Sum of the product of observations in series X and Y

Here,

r= 1 implies that two variables are positively and perfectly correlated.

r=-1 implies that two variables are negatively perfectly correlated

r=0, does not necessarily mean that the variables are independent

#### 4.4.1 Correlation Coefficient Analysis Between Total Deposit and Loan and Advances

Deposit plays vital role in collection of funds and similarly loan and advances is also important for mobilization the collected funds. Correlation coefficient relationship between total deposit and loan and advances measures the degree of variables. In this analysis, deposit is independent variable(X) and loan & advances is dependent variable(Y). The main objective of this analysis is to find out whether deposit are significantly used to loan and advances in proper way or not.

**Table 4.24**

#### **Correlation Coefficient Between Total Deposit and Loan& Advances of KBL**

<b>Evaluation Criteria</b>	<b>Value of KBL</b>
Coefficient of correlation (r <sub>xy</sub> )	0.99
Coefficient of Determination(r <sup>2</sup> )	0.9801
Probable Error(P.E)	0.00559
6P.E	0.03356

*Source: Appendix 8*

Above table depicts that the coefficient of correlation between the total deposits and loans and advances in KBL reminded 0.99 and probable error of coefficient reminded 0.295. correlation coefficient appeared greater than six times the probable error i.e.  $r_{xy} > 6PE$  :  $0.99 > 10.3356$ . It significance that correlation between deposit and loan and advances of the bank is highly positively and significant. The value of coefficient of determination (r<sup>2</sup>) is found 0.9801 which shows 98% in the dependent variable has been explained by the independent variable.

Loans and advances to total deposit are positively correlated which shows that an increase in total deposit leads to increase in loans and advances. Therefore it seems that KBL has utilized its total deposit on loan and advance effectively.

#### 4.4.2 Correlation Coefficient Between Total Deposit and Investment

To run a bank successfully, it need to invest in different sectors like government securities, shares and debenture etc. To invest in these sectors, bank need fund which can be collected from deposits of the bank. Correlation coefficient between total deposit and investment measures the degree of two variables. In this analysis, investment(X) is dependent variable and total deposit(Y) is independent variable. The main objective of this study is to analyze whether the deposit is invested properly or not.

**Table 4.25**  
**Total Deposit and Investment of KBL**

<b>Evaluation Criteria</b>	<b>Value of KBL</b>
Coefficient of correlation (r <sub>xy</sub> )	0.6415
Coefficient of Determination(r <sup>2</sup> )	0.41145
Probable Error(P.E)	0.1654
6 P.E	0.99244

*Source: Appendix 9*

Above table depicts that the coefficient of correlation between the total deposits and investment in KBL reminded 0.6415 and probable error of coefficient reminded 0.1654. Correlation coefficient appeared lesser than six times the probable error i.e.  $r_{xy} < 6PE$ :  $0.6415 < 0.9924$ . It significances that correlation between deposit and investment of the bank is moderate degree of positive correlation. The value of coefficient of determination (r<sup>2</sup>) is found 0.1681 which shows 16.81% in the dependent variable has been explained by the independent variable.

Two variables Investment and total deposit are positively correlated which indicates that the bank may raise the volume of investment with raise in the volume of deposit. The banks seem to increase or decrease the investment with portfolio, with also increase or decrease in the deposit. High value of r in KBL shows better relationship as well as better utilization of deposits in investment.

#### 4.4.3 Correlation Coefficient of Net Profit and Total Deposit

Correlation coefficient between Net profit and total deposit measures the degree of relationship between total deposit and net profit. In correlation analysis net profit is dependent variable(X) and net profit is in dependent variable(Y). The purpose of computing the coefficient of correlation is to justify whether the banks significantly utilizations of deposit for income generating purpose or not.

**Table 4.26**  
**Correlation Coefficient of Net profit and Total Deposit of KBL**

<b>Evaluation Criteria</b>	<b>Value of KBL</b>
Coefficient of correlation (r <sub>xy</sub> )	0.98
Coefficient of Determination(r <sup>2</sup> )	0.9604
Probable Error(P.E)	0.0119
6P.E	0.0714

*Source: Appendix 10*

Above table shows the correlation coefficient and probable error of correlation coefficient between net profit and total deposit in KBL reminded 0.98 and 0.0119 in the review period represent. Correlation of coefficient came greater than 6 times of probable error i.e.  $r_{xy} > 6pe$  i.e.  $0.98 > 0.0714$ . It implies that total deposit and net profit in the bank are highly positively correlated. In other words, net profit of bank increases almost to the same degree with increase in the amount of deposit.

In KBL seems more efficient regarding the utilization of the deposit for income generating purpose as reveals by the greater correlation of coefficient. In the review period, net profit of KBL seemed increase in the line with increase in the deposit. Therefore it seems that KBL has properly utilized its net income for income generating purpose.

#### 4.4.4 Correlation Coefficient Between net Profit and Total Assets

**Table 4. 27**

##### **Correlation Coefficient Between Net Profit and Total Assets of KBL**

<b>Evaluation Criteria</b>	<b>Value of KBL</b>
Coefficient of correlation (r <sub>xy</sub> )	0.98
Coefficient of Determination(r <sup>2</sup> )	0.9628
Probable Error(P.E)	0.01045
6P.E	0.06273

*Source: Appendix 11*

Above table shows the correlation coefficient and probable error of correlation coefficient between Net Profit and Total deposit in KBL reminded 0.98 and 0.0119 in the review period represent. Correlation of coefficient came greater than 6 times of probable error i.e.  $r_{xy} > 6pe$  i.e.  $0.98 > 0.0714$ . It implies that total deposit and net profit in the bank are highly positively correlated. In other words, net profit of bank increases almost to the same degree with increase in the amount of deposit.

In KBL seems more efficient regarding the utilization of the deposit for income generating purpose as reveals by the greater correlation of coefficient. In the review period, net profit of KBL seemed increase in the line with increase in the deposit. Therefore it seems that KBL has properly utilized its net income for income generating purpose.

#### 4.5 Trend Analysis

Trend analysis is a method which is most widely used in practice to predict the future events on the past tendencies. For that various methods are used, out of which the least square method is one of the popular methods in the study. This method is based on the assumption that past tendency continues in the future. This method is used by using this equation,

$$Y_c = a + bx$$

Where,

$Y_c$  = The dependent variable

$a$  = Y-intercept

$b$  = the slope of trend line

$X$  = Year (with regard to the data used in the study)

##### 4.5.1 Trend Analysis of Total Deposit

Under this section, an effort has been made to calculate the trend value of deposit for five fiscal years 2061/62 to 2065/66 and forecasted for other five years.

**Table 4.28**  
**Trend value of Total Deposit**

<b>Fiscal Year</b>	<b>Trend value</b>	<b>Actual value</b>
2061/62	5838.26	6268.96
2062/63	8227.78	7768.96
2063/64	10617.284	10557.42
2064/65	13006.8	12780.15
2065/66	15396.3	15710.93

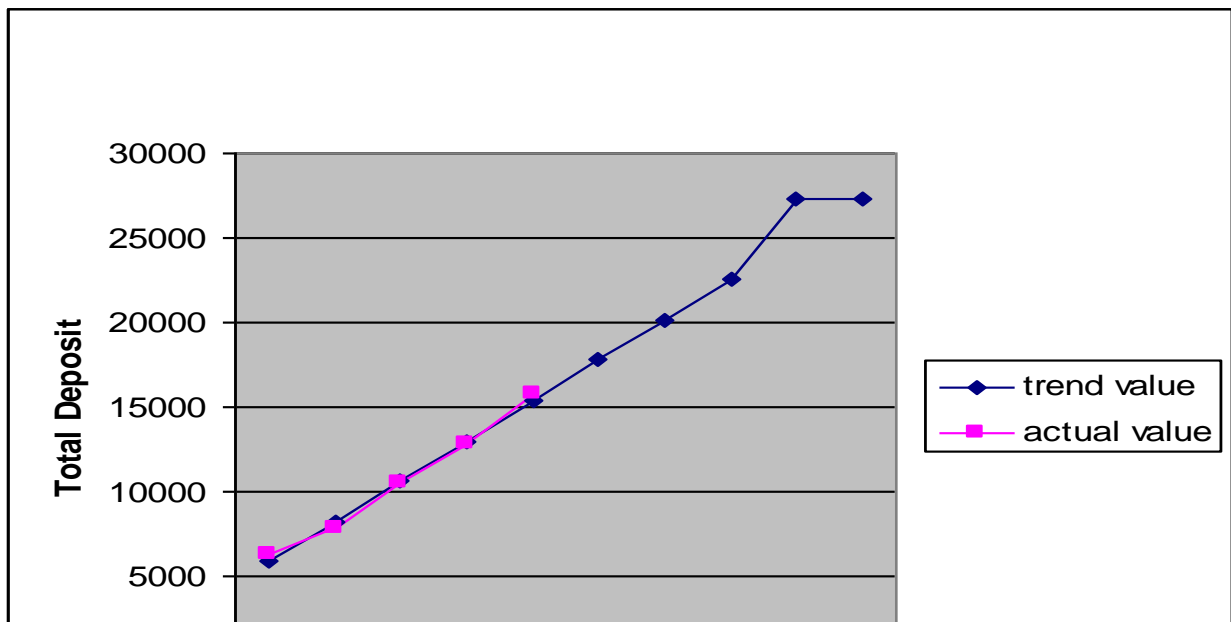
2066/67	17785.81	–
2067/68	20175.32	–
2068/69	22564.83	–
2069/70	27343.85	–
2070/71	27343.85	–

Source: Appendix 12

Above table depicts that a i.e. y –intercept and b i.e. slope of the trend line of total deposit in KBL appeared RS 10617.284 million and 2389.51 million respectively. Total deposit revealed increasing throughout the study period. On the average, total deposit increased by RS 2389.51 million per year. Therefore trend equation of the total deposit is  $Y_c = 10617.284 + 2389.51 X$ .

On the basis of the trend equation, the forecasted value of the deposit for FY 2066/67, 2067/68, 2068/69, 2069/70 and 2070/71 will be RS 17785.81, 20175.32, 22564.83, 27343.85 and 27343.85 respectively. It seems that KBL total deposit is increasing trend in past years which indicates better position of bank and it will be expect that total deposit of KBL will increase in higher rate for forecasted periods. The following chart is visualizing the operating profit of KBL bank:

**Figure 4.2**  
**Chart showing Trend Value of Total Deposit**



In the figure , the vertical line show the actual and trend value of variables whereas the horizontal line shows the time in same year, the changing rate of total deposit of bank in increasing trend . Therefore KBI must follow same new shames to give continue this increase trend and mobilize them in some income generating actives. Above graph shows that both actual and trend value of total deposit are increasing trend.

#### 4.5.2 Trend Analysis of Net Profit

Under this section, an effort has been made to calculate the trend value of deposit for five fiscal year 2061/62 to 2065/66 and forecasted for other five years.

**Table 4.29**  
**Trend Value of Total Net Profit**

<b>Fiscal year</b>	<b>Trend Value</b>	<b>Actual value</b>
2061/62	78.91	87.57
2062/63	120.39	109.31
2063/64	161.87	171.65
2064/65	209.35	182.37
2065/66	250.83	258.46
2066/67	286.31	–
2067/68	327.79	–
2068/69	369.27	–
2069/70	410.75	–

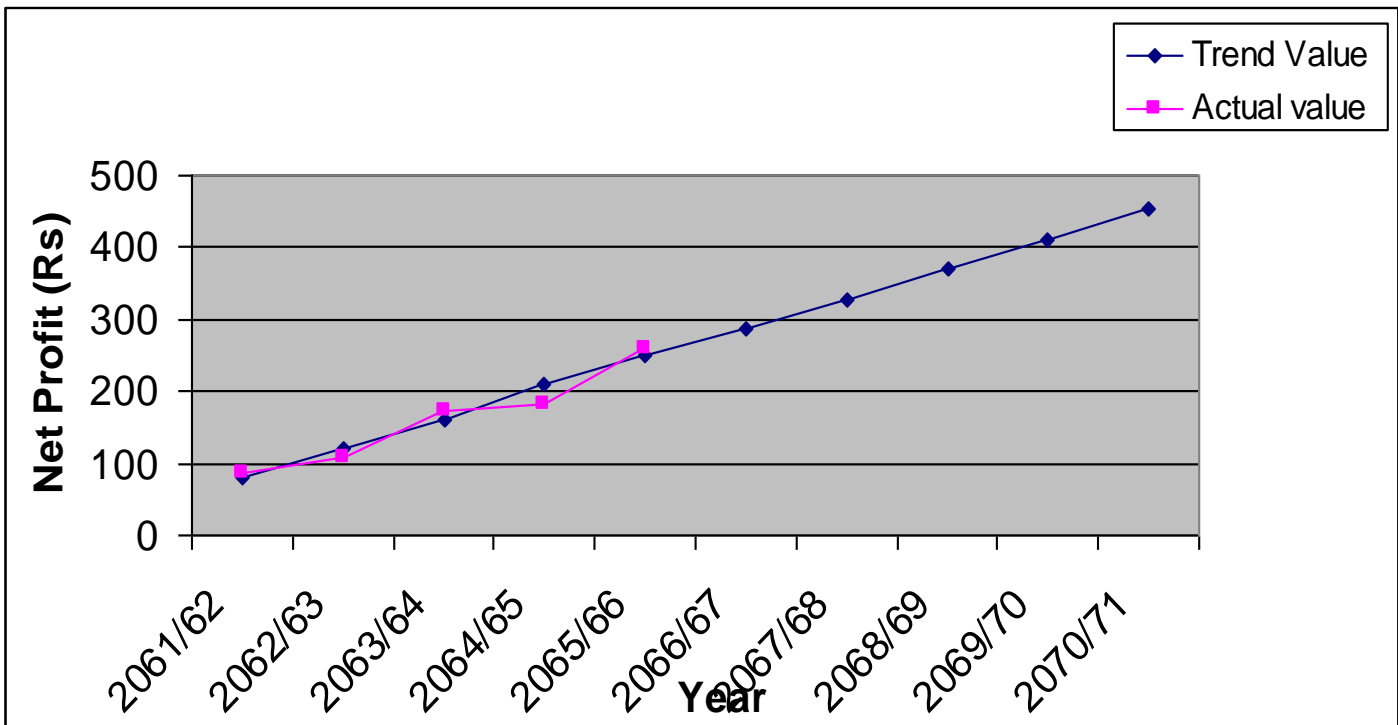
2070/71	452.23	–
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Source: Appendix 13

Above table depicts that i.e. y –intercept and b i.e. slope of the trend line of total Net profit in KBL appeared RS 161.87 million and 41.48 million respectively. Total Net profit revealed increasing throughout the study period. On the average, total Net profit increased by RS 41.48 million per year. Therefore trend equation of the total deposit is  $Y_c = 161.87 + 41.48X$ .

On the basis of the trend equation, the forecasted value of the deposit for FY 2066/67, 206/68, 2068/69, 2069/70 and 2070/71 will be Rs 286.31, 327.79, 369.27, 410.75 and 452.23 represent. It seems that KBL total Net profit is increasing trend in past years which indicates better position of bank and it will be expect that total deposit of KBL will increase in higher rate for forecasted periods.

**Figure 4.2**  
**Trend Value of Net Profit**



whereas the horizontal line shows the time in same year, the changing rate of total deposit of bank in increasing trend . Therefore KBI must follow same new shames to give continue this increase trend and mobilize them in some income generating actives. Above graph shows that both actual and trend value of total deposit are increasing trend.

#### 4.5.3 Trend Value of Earning Per Share (EPS)

Under this section, an effort has been made to Calculate the trend value of EPS for five fiscal year 2061/62 to 2065/66 and forecasted for other five years.

**Table 4.30**  
**Trend Value of EPS**

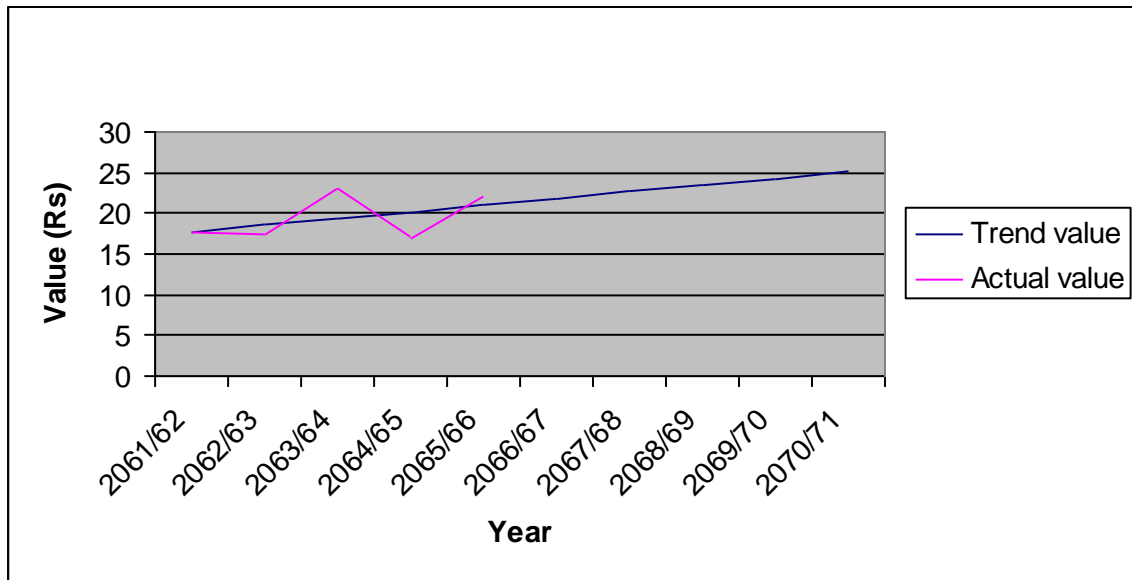
<b>Fiscal Year</b>	<b>Trend Value</b>	<b>Actual Value</b>
2061/62	17.75	17.6
2062/63	18.56	17.49
2063/64	19.38	22.89
2064/65	20.195	17.04
2065/66	21.01	21.9
2066/67	21.825	–
2067/68	22.64	–
2068/69	23.455	–
2069/70	24.27	–
2070/71	25.08	–

*Source: Appendix 14*

Above table depicts that i.e y –intercept and b i.e. slope of the trend line of earning per share in KBL appeared RS 19.38 and 0.815 respectively. Earnings per share reveled increasing besides in 4<sup>th</sup> year in the study period. On the average, earning per share increased by RS 0.815 per year. Therefore trend equation of the total deposit is  $Y_c=19.38 +0.815X$

On the basis of the trend equation, the forecasted value of the deposit for FY 2066/67, 2066/68, 2068/69, 2069/70 and 2070/71 will be RS 21.825, 22.64, 23.455, 24.27 and 25.08. It seems that in KBL both actual value and forecasted value are increasing which indicates that banks better position in future also. It will be expect that earning per share of KBL will increase in higher rate for forecasted periods.

**Figure, 4.4**  
**Trend Value of EPS**



In the figure, the vertical line show the actual and trend value of variables whereas the horizontal line shows the time in same year, the changing rate of total EPS of bank in increasing trend besides 4<sup>th</sup> year.. Above graph shows that both actual and trend value of EPS are increasing trend.

#### **4.5.4 Trend Value of Loans and Advances**

Under this section, an effort has been made to calculate the trend value of loans and advances for five fiscal year 2061/62 to 2065/66 and forecasted for other five years.

**Table 4.31**  
**Trend Value of Loans and Advances**

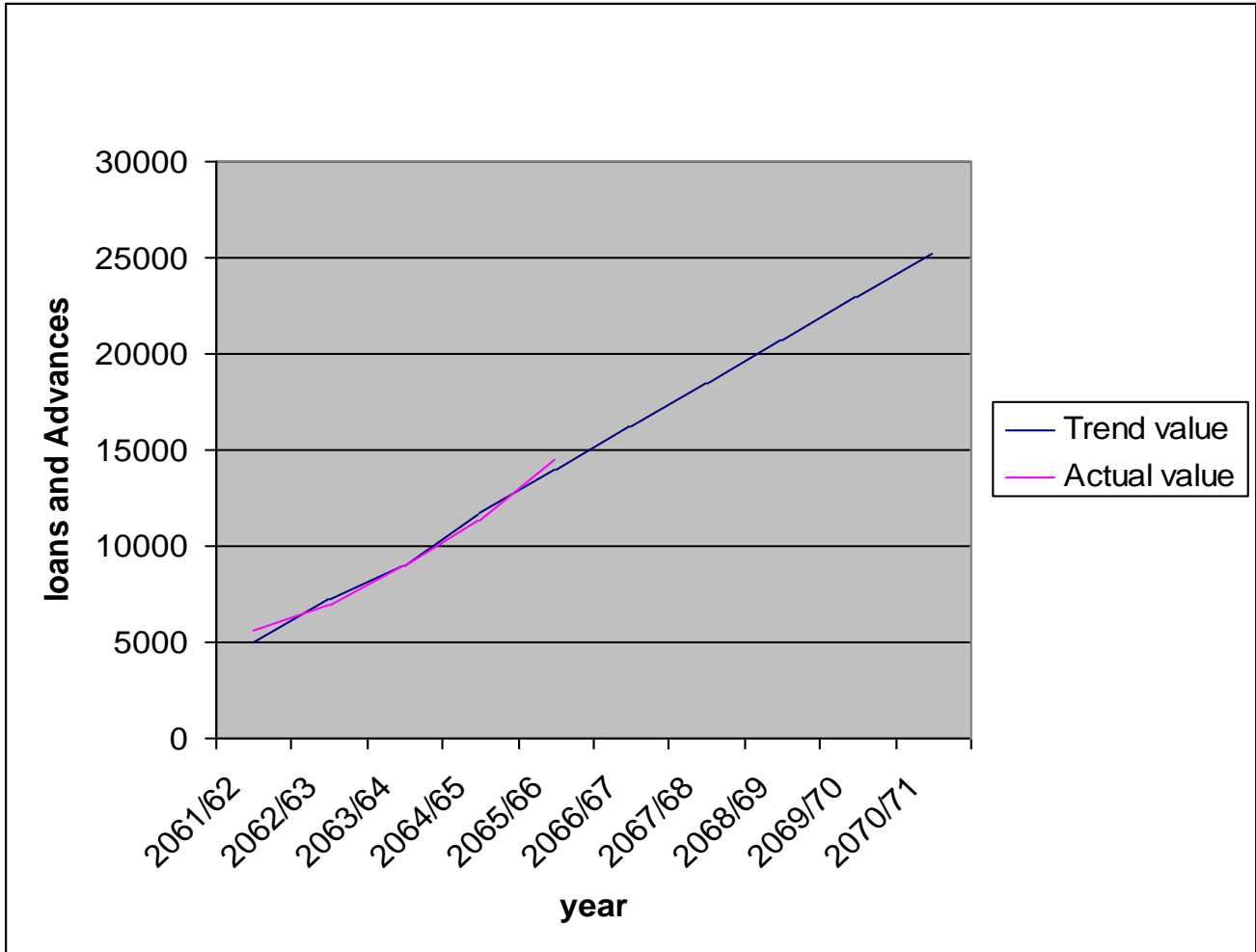
<b>Year</b>	<b>Trend value</b>	<b>Actual value</b>
2061/62	4978.43	5590.92
2062/63	7223.24	6891.85
2063/64	8929.02	8929.02
2064/65	11712.85	11335.09
2065/66	13957.66	14593.35
2066/67	16202.47	-
2067/68	18447.28	-
2068/69	20692.09	-
2069/70	22936.9	-
2070/71	25181.71	-

*Source: Appendix 15*

Above table depicts that i.e y –intercept and b i.e. slope of the trend line of loans and advances in KBL appeared RS 9468.046 and 2244.81 respectively. Loans and advances were increasing trend throughout the study period. On the average, earning per share increased by RS 2244.81 per year. Therefore trend equation of the total deposit is  $Y_c = 9468.046 + 2244.81X$ .

On the basis of the trend equation, the forecasted value of the deposit for FY 2066/67, 206/68, 2068/69, 2069/70 and 2070/71 will be 16202.47, 18447.28, 20692.09, 22936.9, and 25181.71. It seems that in KBL both actual value and forecasted value are increasing with higher rate in KBL if the past trend continues

**Figure 4.5**  
**Trend Value of Loans and Advances**



In the figure , the vertical line show the actual and trend value of variables whereas the horizontal line shows the time in same year, the changing rate of total loans and advances of bank in increasing trend Above graph shows that both actual and trend value of total deposit are increasing trend.

#### **4.6 Major Finding of the Study**

Major findings of this study during the study period of five years in KBL from analysis are summarizes as follows:

1. The analysis of liquidity position of the KBL bank has different position. If we study current and quick ratio, these ratios are lies under the standard of 2:1 and 1:1 respectively which indicates poor liquidity position of bank.
2. Cash and bank balance to total deposit ratio and cash and bank balance ratio to current assets ratio, mean ratio are 10.91% and 6.66% which means that KBL has not greater ability to repay the deposits i.e. KBL is not more efficient to serve the customers from the liquidity point of view because high ratio represents the greater ability to meet their all types of deposits.
3. But from the point of, NRB balance to current and saving deposit ratio and NRB balance to fixed deposit ratios are lies over the standard of NRB rules, which means that KBL has greater ability to repay the current & saving deposits and fixed deposits
4. The analysis of turnover position of KBL bank has different position. If we study, loans and advances to total deposit ratio and loans and advances to fixed deposit ratio, shows better turnover in KBL because it utilize 88.8% of total deposit through loans and advances and utilize 2.8 times of fixed deposit on loans and advances.
5. From the investment point of view, KBL has successes to invest 16.25% of total deposit which shows that the bank has able to invest its deposit on various securities and projects averaging 16.52%. This is not good thing because the bank could not invest its deposit at fully satisfactory level.
6. In term of ROA, ROD has not high average percentage in beginning period and at last it success to increase up to maximum at last year which indicates that profitability position of the KBL bank is better in ending period than the beginning years. At last bank success to increase its ratio with increasing total assets. These both ratios are increasing trend.
7. On the other side ROSE 12.32% which indicates that KBL has effectively utilized the owners capital and able to give regular and significant return to them.

8. The ratio that interest expenses to interest income came high i.e. 53.07 which shows which shows the bank's profitability position is satisfactory level. Overall picture shows that KBL is more successful in allocating the interest bearing debt in profitable sectors.
9. The analysis of capital structure ratios, debt assets ratio, interest coverage ratio and debt equity ratio are 88.9%, 1.47times and 10 times respectively. It seems that all ratios are higher in KBL which indicates the bank has ability to meet interest obligation and better position of the banks.
10. From above analysis of income and expenditure of the KBL bank, in summary, we can say that operating income highly contributed by interest income i.e 4th in 5<sup>th</sup>.
11. operating expenses is highly contributed by interest expenses. Other items of operating are commission and discount, foreign exchange fluctuation income and other operating income covers high percentage by serial. Similarly other items operating expenses are office operation expenses, staff expenses, and provision for staff bonus.
12. operation expenses interest expenses and office operation expenses cover more percent than other expenses. Operating expenses of KBL is increasing year by year.
13. Total deposit and loan and advances, total deposit and investment, total deposit and net profit and net profit and total assets all are positively correlated at significant level in KBL  $r_{xy} > 6PE(r)$ .
14. In trend analysis, least square trend analysis is analyzed by calculating parameters a and b. Total deposit, net profit increasing trend in KBL.
15. Earnings per share in KBL is also increasing trend besides in 4<sup>th</sup> year. In 4<sup>th</sup> year and 5<sup>th</sup> its EPS decreased.

## **CHAPTER- V**

### ***SUMMARY, CONCLUSION AND SUMMARY***

A bank is an institution that deals with money by accepting various types of deposits, disbursing loan and rendering other financial services. Broadly speaking, bank draws money from the people who are not using it at time and lend to those who are in position to use it for productive purposes. Since banks are rendering a wide range of services to the people from different walk of life, they have become an essential part of modern society. In other words, bank is an institution that accepts the deposits from people and in turn advance loan by creating credit. In this process, they earn interest and commission, out of which they pay interest to the depositors i.e. People who deposits fund with them. Banks have opened their branches in towns and villages offering different types of services to the different level of people.

Bank is also defined as an institution for keeping, lending and exchanging of money. Banks' debt-usually referred as 'Bank Deposit' that is commonly accepted in final settlement of debt of other people. It is different from other financial institution in the sense that they cannot create credit though they may be accepting deposits and making advances. Thus, bank's business was basically to buy and sale of credit. Credit instruments are kept on stock-in-trade also on the basis of its own credit and banks create money transferred by credit instruments. They must gain the confidence and trust of the people to create credits. It is said that the flow of credit is very much important like the circulation of blood in human life. If the circulation of blood is not smooth it will do irreparable harm to the body. Similarly, unsteady and unevenly flow of credit harms the economy.

Bank came in existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sectors and causing an overall economic

development. That mobilized deposits contribute to the development of economic infrastructure of the nation. Banks are not just storehouses of the wealth but are reservoir of resources. The contribution of the bank has been very substantial in increasing production and employment by motivating people to save and in collecting the scattered saving in the form of deposits. The bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society they are serving.

## **5.1 Summary**

### **5.1.1 Summary of Ratio Analysis**

#### **A. Liquidity Position**

The analysis of liquidity position of the KBL bank has different position. If we study current and cash ratio, these ratios are lies under the standard of 2:1 and 1:1 respectively which indicates poor liquidity position of bank. On the other hand, if we see cash and bank balance to total deposit ratio and cash and bank balance ratio to current assets ratio, mean ratio are 10.91% and 6.66% which means that KBL has not greater ability to repay the deposits i.e. KBL is not more efficient to serve the customers from the liquidity point of view because high ratio represents the greater ability to meet their all types of deposits. But from the point of, NRB balance to current and saving deposit ratio and NRB balance to fixed deposit ratios are lies over the standard of NRB rules, which means that KBL has greater ability to repay the current & saving deposits and fixed deposits.

#### **B. Activity/ Turnover Position**

The analysis of turnover position of KBL bank has different position. If we study, loans and advances to total deposit ratio and loans and advances to fixed deposit ratio, shows better turnover in KBL because it utilize 88.8% of total deposit through loans and advances and utilize 2.8 times of fixed deposit on loans and advances. From the investment point of view, KBL has successes to invest 16.25%

of total deposit which shows that the bank has able to invest its deposit on various securities and projects averaging 16.52%. This is not good thing because the bank could not invest its deposit at fully satisfactory level.

### **C. Profitability Position**

The analysis of profitability of the KBL bank, with the help of profitability ratios has drawn different conclusion. Some ratios show the earning position of KBL bank better while other shows not better position of bank. In term of ROA, ROD has not high average percentage in beginning period and at last it success to increase up to maximum at last year which indicates that profitability position of the KBL bank is better in ending period than the beginning years. At last bank success to increase its ratio with increasing total assets. These both ratios are increasing trend. On the other side ROSE 12.32% which indicates that KBL has effectively utilized the owners capital and able to give regular and significant return to them. The ratio that interest expenses to interest income came high i.e. 53.07 which shows which shows the bank's profitability position is satisfactory level. Overall picture shows that KBL is more successful in allocating the interest bearing debt in profitable sectors.

### **D. Capital Structure Position**

The analysis of capital structure ratios, dept assets ratio, interest coverage ratio and dept equity ratio are 88.9%, 1.47 times and 10 times respectively. It seems that all ratios are higher in KBL which indicates the bank has ability to meet interest obligation and better position of the banks.

#### **5.1.2 Summary of Income and Expenditure Analysis**

From above analysis of income and expenditure of the KBL bank, in summary, we can say that operating income highly contributed by interest income and similarly, operating expenses is highly contributed by interest expenses. Other items of

operating are commission and discount, foreign exchange fluctuation income and other operating income covers high percentage by serial. Similarly other items operating expenses are office operation expenses, staff expenses, and provision for staff bonus. If we look at operation expenses interest expenses and office operation expenses cover more percent than other expenses. Operating expenses of KBL is increasing year by year.

### **5.1.3 Summary of Correlation Analysis**

In correlation analysis Karl person's coefficient of correlation is used and also calculate the probable error, and Coefficient of Determination of them. Total deposit and loan and advances, total deposit and investment, total deposit and net profit and net profit and total assets all are positively correlated at significant level in KBL  $r_{xy} > 6PE(r)$  but the relation between total deposit and total investment,  $r$  is less than  $6PE$ .

### **5.1.4 Summary of Trend Analysis**

In trend analysis, least square trend analysis is analyzed by calculating parameters  $a$  and  $b$ . Total deposit, net profit increasing trend in KBL. Earnings per share in KBL is also increasing trend besides in 4<sup>th</sup> year. In 4<sup>th</sup> year its EPS decreased.

## **5.2 Conclusions**

After analyzing the data in chapter four, the researcher reaches the conclusion that the financial performance of such types of commercial banks is improved year by year after run by new Nepalese entrepreneur. In other words, all private sectors banks which are Nepalese Management are being run as efficiency as foreign banks which have never restored to taking help of foreign hands are also seen to doing well.

As of FY 2065/66, private sector commercial banks accepts more than 15710.93 million and utilized RS 14593.35 million through loans and advance with gross

credit ratio of 92.88 percent. Net worth sector is more than 2416.31 million and the share of this sector represents the significant proportion of share traded in securities. In fact, the market growth can be attributed to private sectors commercial banks of the country.

In commercial banks the liquidity portion affects external and internal factors such as saving for investment situation, internal banks requirement the lending policies, management capability etc. liquidity and profitability trend move opposite direction as they have negative correlation. To meet the liquidity needs, the banks needs cash reserves which are not earning assets. Profit on the other hand, derived from loans and advances. So from the point of view of profitability bank is at the satisfactory level but it is poor liquidity position especially current and quick ratios, which are prescribed stranded. In summary, the financial performance of the bank is seemed satisfactory. There is highly positive correlation of total deposit with loans and advances in the bank. The main financial indicators show the positive trend in the bank.

### **5.3 Recommendations**

After the analyst of the financial performance of the kBL the following reconditions are given to the banks to overcome its weakness and inefficiently to improve its financial performance in better way.

1. The kBL has invested of its maximum amount of its fund on risky assets i.e. loan, thus the bank always threaten by the fear of default. It will be better if the bank diverts some amount of its funds from lending and invest in less risky investment alternatives which help the bank to diversify the risk. KBL should provide facility to interest rate rebate to borrowers who repay the loan before stipulated time this may help to increase no of early payers that will reduce default risk

2. The services provided by Kumari Bank limited are similar to those provided by other commercial banks. Therefore it is recommended to KBL to formulate new schemes and techniques in order to attract more and more customers towards the bank.
3. The bank should diversify the sectors of deposit mobilization since it is not satisfactory way.
4. Though Kbl has been able to gain confidence of the people living of urban areas it should start its services in rural areas.
5. The bank should try to collect non interest bearing deposits.
6. The bank could not maintain continual standard of liquidity and quick ratios. It indicates the poor liquidity position in that bank. It may create the problem of working capital if they need to pay short- term obligation in demand. With the delay in payment of liabilities of bank may loss their goodwill and may have the problem in winning the confidence of current depositors and short- term lenders. So the kBL is recommended to maintain adequate net working capital.
- 7 from the above analysis KBL is maintaining more amount as money at call and short notice. So KBL is recommended to decreasing it amount to call by increasing loan and advances. Similarly it is also recommended to bank to hold its amount in from cash and cash equivalent items only to extent of requirement. Though it is difficult to find exactly the suitable liquidity ratio, estimation can be done on the basis of past experience, nature of depositors, situation of financial market and nature of competition.
8. There should continuous flow of financial information among various groups of employees. The goal and objective of bank should be carefully communicated to lower level of management.
9. A systematic approaches of financial performance analysis should be made annually. This would considerably contribute to increase strength of banks.

The banks should have dept analysis of their financial strength and weakness.

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## APPENDIX 1

### Calculation of Current Liabilities

RS in million

FY	2061/62	2062/63	2063/64	2064/65	2065/66
Current Deposits	279.36	350.82	403.8	601.72	780.9
Margin deposits	69.09	56.72	87.74	109.64	97.9
Saving Deposits	1515.57	2317.82	4461.37	4138.8	4170.32
Money at call Deposit	2102.84	1880.74	2827.7	4124.56	6135.55
Total Deposit(expect fixed deposit)	3966.86	4606.12	7780.61	8974.72	11184.67
Bills Payable	7.33	11.91	16.55	65.29	70.08
Other Current Liabilities	114.38	107.27	94.73	32.96	47.03
Total Liabilities	4088.6	4725.32	7892.23	9072.97	11301.78

## Appendix 2

### Calculation of Current Assets

RS in million

FY	2061/62	2062/63	2063/64	2064/65	2065/66
Cash and Bank Balance	443.37	389.62	672.12	933.84	1776.3
Investment on Government Securities	1200	1114.32	1297.86	1469.09	1080.09
money at call and short notice	328.87	594.04	372.21	55.36	30
Total quick assets	1972.24	2097.98	2342.19	2458.29	2886.39
Loans and advances	5590.92	6891.86	8929.01	11335.09	14593.34
other current assets	37.61	60.5	69.36	88.07	294.27

Total Current Assets	7600.77	9050.34	11340.56	13881.45	17774
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### Appendix 3

#### Calculation of Total Deposit

Rs in millions

FY	2061/62	2062/63	2063/64	2064/65	2065/66
Current Deposits	279.36	350.82	403.8	601.72	780.09
Margin Deposits	69.09	56.72	87.74	109.64	97.9
Non Interest Bearing Deposit	348.45	407.54	491.54	711.36	877.99
Saving Deposits	1515.57	2317.82	4461.37	4144.68	4170.32
Money at call Deposit	2102.84	1880.74	2827.7	4124.56	6135.55
Fixed Deposit	2302.08	3162.83	2776.48	3799.55	4527.05
Interest Bearing Deposits	5920.5	7361.41	10065.88	12068.8	14832.93
Total Deposit	6268.95	7768.95	10557.41	12068.79	15710.92

### Appendix 4

#### Calculation of Total Cash and Bank Balance

RS In millions

FY	2061/62	2062/63	2063/64	2064/65	2065/66
National Currency(with coins)	150.61	171.21	198	542.4	530.57
Foreign Currency	10.85	12.81	21.04	23.24	18.55
Clearing Claque	0	0	0	0	0
Total Cash in Hand	161.47	184.02	219.04	565.65	549.12
NRB Current Account	417.86	349.29	883.49	244.57	1120.76

Other National Bank Account	31.33	24.85	48.44	59.21	16.15
Foreign Bank Current a/c	129.85	170.54	164.92	64.4	90.27
Total Cash in Bank	579.05	544.67	1096.86	368.18	1227.18
Total Cash and Bank Balance	740.52	728.7	1315.59	933.83	1676.3

## Appendix 5

### Calculation of Total Investment

Rs. in millions

FY	2061/62	2062/63	2063/64	2064/65	2065/66
T-Bond	1061.35	1055.68	1242.42	1278.2	882.52
Development Bond	58.63	58.63	55.45	190.9	197.57
Investment on government securities	1119.99	1114.32	1296.87	1469.1	1080.09
Investment on share, debenture & Bond	0.35	0.35	0.35	193.22	218.35
Foreign Bank	69.92	280.03	380.2	476.48	212.39
Total Investment	1190.27	1394.95	1678.42	2138.8	1510.83

## Appendix 6

### Calculation of Total assets

RS in millions

FY	2061/62	2062/63	2063/64	2064/65	2065/66
Cash and Bank Balance	443.37	389.62	672.11	933.84	1776.3
Money at call and Short Notice	90	145	372.22	55.36	30
Investment	1190.27	1394.94	1678.42	2138.8	1510.83
Loans and Advances with bills(net)	5590.92	7007.79	8929.02	11335.08	14593.35
Fixed Assets	82.98	91.93	189.32	222	247.83
Other Assets	40.32	93.31	74.84	338.37	380.25
Non Banking Assets	0	0	2.39	3.14	0
Total Assets	7437.86	9122.62	11918.32	15026.61	18538.56

## Appendix 7

### Calculation of Net Profit

Rs in millions

FY	2061/62	2062/63	2063/64	2064/65	2065/66
Interest income	499.92	605.52	791.25	957.25	1374.72
Commission and discount	23.08	26.29	40.76	49.49	79.11
foreign exchange fluctuation income	14.99	26.38	20.3	41.8	59.01
Other operating income	2.61	10.003	15.28	17.8	19.74
Non operating income	0.005442	0.03845	0.6698	1.58	1.12
<b>Total Income</b>	<b>540.61</b>	<b>668.16</b>	<b>867.66</b>	<b>1080.92</b>	<b>1533.7</b>
less: expenses					
Interest expenses	240.13	337.05	397.05	498.73	816.2
Staff expenses	42.4	59.82	74.25	89.57	115.6
office operating expenses	71.82	88.69	104.07	148.17	186.51
Non operating expenses	0	0	0	0	0
Staff bonus provision	14.52	14.72	24.86	25.74	36.71
<b>Total Expenses</b>	<b>368.87</b>	<b>500.28</b>	<b>600.23</b>	<b>762.21</b>	<b>1155.02</b>
Net profit before tax and provision	171.74	167.88	267.43	318.71	378.68
Loan Loss Provision	41.42	15.12	17.48	53.86	14.62
Income tax	42.75	43.45	78.3	82.5	105.6
<b>Net Profit After tax</b>	<b>87.57</b>	<b>109.31</b>	<b>171.65</b>	<b>182.37</b>	<b>258.46</b>
Income tax	42.75	43.45	78.3	82.5	105.6
<b>Net Profit Before tax</b>	<b>130.32</b>	<b>152.76</b>	<b>249.95</b>	<b>264.85</b>	<b>364.06</b>
Interest paid	240.13	337.05	397.05	498.73	816.2
<b>Earnings Before Interest and Taxes</b>	<b>370.45</b>	<b>489.81</b>	<b>647</b>	<b>763.58</b>	<b>1180.26</b>



## Appendix 8

### Correlation Coefficient Between Total Deposit and Loans and Advance

(Rs in million)

Year	T. C (x)	Loans & advance	X <sup>2</sup>	Y <sup>2</sup>	Xy
2061/062	8268.96	5590.9	392998.59	31258386.45	35049253.84
2062/063	7768.96	6891.85	60356739	47497596.42	53542506.98
2063/064	10557.42	8929.01	111459117	79727219.58	94267308.75
2064/065	12780.15	11335.1	163332234	128484265.3	144864150.5
2065/066	15710.93	14593.4	246833321	212965864	229275100.3
	$\Sigma x =$ 53086.42	$\Sigma Y =$ 47340.22	$\Sigma X^2 =$ 621281272	$\Sigma Y^2 =$ 499933332	$\Sigma xy =$ 556998320.9

$$\delta_{xy} = \frac{N \times \Sigma xy - \Sigma x - \Sigma y}{\sqrt{N (\Sigma x)^2 - (\Sigma x)^2} \sqrt{N (\Sigma y)^2 - (\Sigma y)^2}}$$

$$= \frac{5 \times 556998320 - 53086.42 \times 47340.22}{\sqrt{5 \times 621281272 - (53086.4)^2} \sqrt{5 \times 49993333.32 - (47340.22)^2}}$$

$$\delta^2 = 0.9801$$

PE ( $\delta$ )

$$\text{PE}(\delta) = 0.6745 \frac{(1-\delta^2)}{\sqrt{n}}$$

$$= 0.6745 \frac{(1-0.99)}{\sqrt{5}}$$

$$= 0.00559$$

$$6\text{PE} = 6 \times 0.00559$$

$$= 0.03354$$

## Appendix 9

### Correlation coefficient of Total Deposit(x) and Investment (Y)

RS in millions

Year	Total Deposit (x)	Investment (y)	$x^2$	$y^2$	xy
2061/62	6268.96	1190.28	39299859	1416766.48	7461817
2062/63	7768.96	1394.95	60356739	1945885.5	1083731
2063/64	10557.42	1678.42	111459117	2817093.7	1771978
2064/65	12780.15	2138.8	163332234	4574465.4	27334
2065/66	15710.93	1510.83	246833321	2282607.3	23736
	$\Sigma x = 53086.42$	$\Sigma y = 7913.28$	$\Sigma y^2 =$ 621281272	$\Sigma x^2 =$ 13036818.4	$\Sigma xy = 87089642.53$

$$\delta_{xy} = \frac{N \Sigma xy - \Sigma x \times \Sigma y}{\sqrt{N (\Sigma x)^2 - (\Sigma x)^2} \sqrt{N (\Sigma y)^2 - (\Sigma y)^2}}$$

$$= \frac{5 \times 87089642.53 - 53086.42 \times 7913.28}{\sqrt{5 \times 13036818.4 - (53086.42)^2} \sqrt{5 \times 621281272 - (7913.28)^2}}$$

$$= \frac{15360507}{1601.28 \times 16977.58}$$

$$= \frac{15360507}{27185859.3} = 0.56$$

$$\sigma^2 = (0.56)^2 = 0.3136$$

PE ( $\sigma$ )

$$PE (\sigma) = 0.6745 \frac{(1 - \delta^2)}{\sqrt{N}}$$

$$= 0.6745 \frac{(1 - 0.56)^2}{\sqrt{5}}$$

$$= 0.1929$$

$$6 (PE) = 6 \times 0.1929$$

$$= 1.1574$$



## Appendix 10

### Calculation of Correlation Coefficient Between net Profit (x) and Total Deposit

(Rs imillion )

Year	NP(x)	Total deposit(Y)	$x^2$	$y^2$	$Xy$
2061/62	87.57	6268.96	7668.5	39299859	548972.82
2062/063	109.31	7768.96	11948.67	60356739	849225.018
2063/064	171.65	10557.4	29463.72	111459117	1812181.14
2064/065	182.37	12780.2	33258.82	163332234	23330715.96
2065/066	258.46	15710.9	66801.57	246833321	4060646.97
	$\Sigma x=809.36$	$\Sigma y=53086.42$	$\Sigma x^2=149141.43$	$\Sigma y^2=621281272$	$\Sigma xy=9601741.91$

$$\begin{aligned}
 Xy &= \frac{N\Sigma xy - \Sigma x \times \Sigma y}{\sqrt{N\Sigma x^2 - (\Sigma x)^2} \sqrt{N\Sigma y^2 - (\Sigma y)^2}} \\
 &= \frac{5 \times 9601741.91 - 809.36 \times 53086.42}{\sqrt{5 \times 149141.3 - (809.36)^2} \sqrt{5 \times 621281272 - (53086.42)^2}} \\
 &= \frac{5042685.01}{301.06 \times 16977.58} \\
 &= \frac{5042685.01}{5111270.23}
 \end{aligned}$$

$$= 0.98$$

$$x^2 = (0.98)^2 = 0.9604$$

$$PE (\delta) = 0.6795 \frac{1-0.98^2}{\sqrt{n}}$$

$$= 0.6745 \frac{1-0.98^2}{\sqrt{5}}$$

$$= 0.01195$$

$$\text{And } 6PE (\delta) 6 \times 0.01195$$

$$= 0.00717$$

## Appendix 11

### Correlation Coefficient Between Net Profit(x) and Total Assets(y)

(Rs in million)

Year	NP (x)	Total assets (y)	$x^2$	$y^2$	$xy$
2061/062	87.57	7437.88	7668.5	55322058.9	651335.13
2062/063	109.31	9122.62	11948.67	83222195.7	997193.6
2063/064	171.65	11918.32	29463.72	142046352	2045779.63
2064/065	182.37	18538.57	66801.57	343678578	4791478.8
	$\Sigma x=809.36$	$\Sigma y= 62044$	$\Sigma x^2$ =1491414.42	$\Sigma y^2=850068192$	$\Sigma xy=11226190$

$$\delta_{xy} = \frac{N \times \Sigma xy - \Sigma x \times \Sigma y}{\sqrt{N \times \Sigma x^2 - (\Sigma x)^2} \sqrt{N \Sigma y^2 - (\Sigma y)^2}}$$

$$= \frac{5 \times 11226190 - 809.36 \times 62044}{\sqrt{5 \times 1491414.42 - (809.36)^2} \sqrt{5 \times 850068192 - (62044)^2}}$$

$$= \frac{5915018.16}{301.67 \times 20022.06}$$

$$= \frac{5915018.16}{6040055.87}$$

$$= 0.89$$

$$\delta^2 = (0.98)^2 = 0.9604$$

$$PE = (\delta)$$

$$PE = (\delta) = 0.6745 \frac{(1-\delta^2)}{\sqrt{n}}$$

$$= 0.674 \frac{(1-0.98^2)}{\sqrt{5}}$$

$$= 0.6745 \times 0.0165$$

$$= 0.011129$$

## Appendix 12

### Trend value of Total Deposit

FY(x)	Total Deposit (Y)	X=x-2062/64	$x^2$	XY	Y=a+bx
2061/62	6268.96	-2	4	-12537.9	5838.26
2062/63	7768.96	-1	1	-7769.96	8227.78
2063/64	10557.42	0	0	0	10617.284
2064/65	12780.15	1	1	12780.15	13006.8
2065/66	15710.93	2	4	31421.86	15396.3
	$\Sigma y = 53086.42$		$\Sigma x^2 = 10$	$\Sigma xy = 23895.13$	

Calculation of a and b value

We know,

The straight line trend is given by the following formula:

$$Y = a + bx \dots \dots \dots (i)$$

Where,

Y = Total deposit

X = Year

a = Y- intercept

b = Rate of change of total deposit

$$a = \frac{y}{n}$$

$$= 53086.42 / 5$$

$$= 10617.284$$

$$b = \frac{\Sigma xy}{\Sigma x^2}$$

$$= 23895.13 / 10$$

=2389.51

Put the value of a and b in equation (i)

$$\text{If } X=2066/67$$

$$\text{Then, } Y=a +bx$$

$$=10617.284+2389.51*3$$

$$=17785.81$$

Similarly,

$$X = 2067/68$$

$$Y= a+bx$$

$$=10617.284+2389.51*4$$

$$=20175.32$$

$$\text{If } x =2068/69$$

$$Y= a+bx$$

$$=10617.284+2389.51*5$$

$$=22564.83$$

$$\text{If } x =2069/70$$

$$Y = a+bx$$

$$=10617.284+2389.51*6$$

$$=24954.34$$

$$\text{If } x=2070/71$$

$$Y=a+bx$$

$$=10617.284+2389.51*7$$

$$=27343.85$$

Calculation of a and b value

We know,

The straight line trend is given by the following formula:

$$Y=a+bx.....(i)$$



Where,

Y=Total deposit

X=Year

a= Y- intercept

b=Rate of change of total deposit

$$\begin{aligned} a &= \frac{y}{n} \\ &= \frac{53.42086}{5} \\ &= 10617.284 \end{aligned}$$

$$\begin{aligned} b &= \frac{xy}{x^2} \\ &= 23895.13/10 \\ &= 2389.51 \end{aligned}$$

Put the value of a and b in equation (i)

If X=2066/67

Then, Y=a +bx

$$\begin{aligned} &= 10617.284 + 2389.51 * 3 \\ &= 17785.81 \end{aligned}$$

Similarly,

X=2067/68

Y=a+bx

$$\begin{aligned} &= 10617.284 + 2389.51 * 4 \\ &= 20175.32 \end{aligned}$$

Ifx=2068/69

Y=a+bx

$$= 10617.284 + 2389.51 * 5$$

$$=22564.83$$

$$\text{If } x=2069/70$$

$$Y=a+bx$$

$$=10617.284+2389.51*6$$

$$=24954.34$$

$$\text{If } x=2070/71$$

$$Y=a+bx$$

$$=10617.284+2389.51*7$$

$$=27343.85$$

## Appendix 13

### Trend analysis of Net Profit

RS in millions

Fiscal Year(x)	Net Profit(Y)	X=X-2063/64	$x^2$	XY	Y=a+bx
2061/62	87.57	-2	4	-175.14	78.91
2062/63	109.31	-1	1	-109.31	120.39
2063/64	171.65	0	0	0	161.87
2064/65	182.37	1	1	182.37	209.35
2065/66	258.46	2	4	516.92	250.83
	$\Sigma y=809.36$		$\Sigma x^2 =10$	$\Sigma xy=414.84$	

Calculation of a and b value

We know,

The straight line trend is given by the following formula:

$$Y=a+bx \dots\dots\dots(i)$$

Where ,

Y=Total Net Profit

X=Year

a=Y-intercept

b=Rate of change of total Net Profit

$$a = \frac{y}{n}$$
$$= \frac{809.36}{5} = 161.87$$

$$b = \frac{xy}{x^2} = -\frac{414.84}{10} = 41.48$$

Put the value of a and b in equation (i)

If X=2066/67

Then, Y=a +bx

$$=161.87+41.48*3$$

$$=286.31$$

If X=2067/68

Then, Y=a +bx

$$=161.87+41.48*4$$

$$=327.79$$

If X=2068/69

Then, Y=a +bx

$$=161.87+41.48*5$$

$$=369.27$$

If X=2069/70

Then,  $Y=a +bx$

$$=161.87+41.48*6$$

$$=410.75$$

If X=2070/71

Then,  $Y=a +bx$

$$=161.87+41.48*7$$

$$=452.23$$

## Appendix 14

### Trend analysis of EPS

Fiscal year(x)	EPS(y)	X=X- 2063/64	$x^2$	XY	Y=a+bx
2061/62	17.6	-2	4	-35.2	17.75
2062/63	17.49	-1	1	-17.49	18.56
2063/64	22.89	0	0	0	19.38
2064/65	17.04	1	1	17.04	20.195
2065/66	21.9	2	4	43.8	21.01
	$\Sigma y=96.92$		$\Sigma x^2 =10$	$\Sigma xy=8.15$	

Calculation of a and b value

We know,

The straight line trend is given by the following formula:

$$Y=a+bx \dots\dots\dots (i)$$

Where,

Y=Total EPS

X=Year

a=Y-intercept

b=Rate of change of total EPS

$$a = \frac{y}{n} = \frac{96.92}{5} = 19.38$$

$$b = \frac{xy}{x^2} = \frac{8.15}{10} = 0.815$$

If X=2066/67

Then, Y=a +bx

$$=19.38+0.815*3$$

$$=21.01$$

If X=2066/67

Then, Y=a +bx

$$=19.38+0.815*4$$

$$=21.825$$

If X=2067/68

Then, Y=a +bx

$$=19.38+0.815*5$$

$$=22.64$$

If X=2068/69

Then, Y=a +bx

$$=19.38+0.815*6$$

$$=23.455$$

If X=2069/70

Then,  $Y = a + bx$   
 $= 19.38 + 0.815 * 7$   
 $= 24.27$

If  $X = 2070/71$   
Then,  $Y = a + bx$   
 $= 19.38 + 0.815 * 3$   
 $= 21.825$

## Appendix 15

### Trend Value of Loans and Advances

Fiscal year(X)	Loans and advances(Y)	x=X-2063/64	$x^2$	XY	Y=a+bx
2061/62	5590.92	-2	4	-11181.84	78.91
2062/63	6891.85	-1	1	-6891.85	120.39
2063/64	8929.01	0	0	0	161.87
2064/65	11335.09	1	1	11335.09	209.35
2065/66	14593.35	2	4	29186.7	250.83
	$\Sigma Y = 47340.22$		$\Sigma x^2 = 10$	$\Sigma XY = 22448.1$	

Calculation of a and b value

We know,

The straight line trend is given by the following formula:

$$Y = a + bx \dots \dots \dots (i)$$

Where,

Y = Total loans and advances

X = Year

a = Y-intercept

b=Rate of change of total loans and advances

$$a = \frac{y}{n} = \frac{47340.22}{5} = 9468.044$$

$$b = \frac{xy}{x^2} = \frac{22448.1}{10} = 2244.81$$

If  $X=2066/67$

Then,  $Y=a +bx$

$$=9468.044+2244.81*3$$

$$=16202.47$$

If  $X=2067/68$

Then,  $Y=a +bx$

$$=9468.044+2244.81*4$$

$$=18447.28$$

If  $X=2068/69$

Then,  $Y=a +bx$

$$=9468.044+2244.81*5$$

$$=20692.09$$

If  $X=2069/70$

Then,  $Y=a +bx$

$$=9468.044+2244.81*6$$

$$=22936.9$$

If  $X=2070/71$

Then,  $Y=a +bx$

$$=9468.044+2244.81*7$$

$$=25181.71$$



