

Chapter I

1.1 General Background

The under developed and land locked mountainous country Nepal lies beneath the highest mountain range of the Himalayas having very low cultivated land ,relatively high population growth rate of 2.2 percent, low per capita income of just \$ 562 and low level of capital formation with limited resources of the world (Wikipedia, The Free Encyclopedia www.wikipedia.org, November 26, 2011). Various factors contributing the slow pace of development of the nation are obstruction of land locked position rugged terrain, poor resource availability, lack of institutional support with the inappropriate economic policies resulted by political instability and commitment .To expedite the pace of development, capital accumulation process should be in topmost priority than other prerequisites.

Capital formation plays a vital role to accelerate the economic growth of the nation but in the developing countries (like Nepal), it is quite low with relatively higher marginal propensity of consumption. As a result such countries are plunged into the vicious circle of poverty. Therefore the basic problem for the developing countries will be to raise the level of saving and investments.

The financial institutions, especially banks have the traits to raise the level of saving and investments by putting their savings in the most viable and efficient project .The generated fund should be utilized within the economy if not so then the fund will either be diverted abroad or used for unproductive consumption and/or speculative activities.

Banking institutions are inevitable for the resource mobilization and all rounds development of the country. It is resource for economic development that maintains economic confidence of various segments and extends credit to people.

Bank refers to its any form, which is basically concerned with the transaction of money. However today's banks are established for specific purpose. Different types of Bank focus different type of services to their customers although the basic principle is same i.e. to

mobilize idle resources from unproductive sectors to the growth of trade, industry and commerce. Today's banks in different countries have been found providing service to the people as well as strengthening the whole country's economy.

1.1.1 Commercial Banking scenario in Nepal

The history of modern financial and monetary development in Nepal is not very old. The first commercial bank in Nepal was Nepal Bank Ltd., established in 1937 A.D holding 51% government's equity. With increased banking needs of the economy, the second commercial bank, Rastriya Banijya Bank, came into existence in 1966 A.D. with 100% Government ownership. Before 1974 A.D. not other banks came into existence in the country. There was no provision made in the old Commercial Bank Act, which restricts the entry of the banks in Nepal. The new commercial Bank Act-1974 A.D. has made provision to permit private ownership and foreign investment banks to operate in the country by obtaining the approval of Nepal Rastra Bank. In early 1980's, the Act allowed the entry of foreign banks on joint venture basis with a maximum of 50% equity participation, to meet the need for healthy competition in the financial system. Nabil Bank Ltd (formerly: Nepal Arab Bank Ltd) was the first bank to be set up under such arrangements in 1984. Then, the beginning of financial liberalization process in Nepal got a shape with the first foreign investment (i.e. joint venture) bank.

The foreign investment banks have invented a new era of banking in Nepal by introducing high technology and efficient methods in banking business which encouraged the growth of banking sector in Nepal. After the liberal, market oriented economic policy with new "Banks and Financial Institutions Act, 2063 (2006), company act 2007" adopted by the government, the flow of the establishment of commercial and non commercial banks became continued. Thereafter the role of commercial bank is seriously considered in the growth and development of national economy. Although commercial banks are specially concern with the development of commercial sectors of the country, they provide banking facilities to general public such as, deposit, collection lending, overdraft facilities, and issuance of credit instrument safe custody of valuables, share issue, agency service, Investment & general utilities services.

After the establishment of two state owned commercial bank-Nepal bank ltd and Rastriya Banijya Bank, the flow of the establishment of bank not continued until 2041. In 2041 Nabil bank (formerly: Nepal Arab Bank) was the third commercial bank to be established as foreign investment bank, while century commercial bank is the latest and 31st commercial bank established as private owned bank. The sampled bank (In this research): NICBL and KBL is the 14th and 16th commercial bank of Nepal. With the establishment of more than two and half dozen of banks give a new horizon to the financial sectors of the country. They are expected to accumulate capital, apply best technology, healthy competitive concept, expertise and skill for the development of our country.

The following are the licensed Commercial banks with their branches in Nepal by the end of December 2011:

Commercial Banks And Their Branches

S.No	Names	Operation Date (AD)	Head Office	No of Branches	Reg and Ext branches
1	Nepal Bank Ltd.	11/15/1937	Kathmandu	110	
2	Rastriya Banijya Bank Ltd.	1/23/1966	Kathmandu	131	
3	Agriculture Development Bank Ltd.	1/2/1968	Kathmandu	223	regional branches 10
4	Nabil Bank Ltd.	7/16/1984	Kathmandu	50	
5	Nepal Investment Bank Ltd.	2/27/1986	Kathmandu	41	
6	Standard Chartered Bank Nepal Ltd..	1/30/1987	Kathmandu	15	ext; counters 5
7	Himalayan Bank Ltd.	1/18/1993	Kathmandu	36	
8	Nepal SBI Bank Ltd.	7/7/1993	Kathmandu	53	ext; counters 3
9	Nepal Bangladesh Bank Ltd.	6/5/1994	Kathmandu	20	
10	Everest Bank Ltd.	10/18/1994	Kathmandu	44	ext; counters 21
11	Bank of Kathmandu Ltd.	3/12/1995	Kathmandu	44	
12	Nepal Credit and Commerce Bank Ltd.	10/14/1996	Siddharthanagar, Rupandehi	22	
13	Lumbini Bank Ltd.	7/17/1998	Narayangadh, Chitawan	17	
14	Nepal Industrial & Commercial Bank Ltd.	7/21/1998	Biaratnagar, Morang	37	
15	Machhapuchhre Bank Ltd.	10/3/2000	Pokhara, Kaski	40	
16	Kumari Bank Ltd.	4/3/2001	Kathmandu	29	
17	Laxmi Bank Ltd.	4/3/2002	Birgunj, Parsa	30	
18	Siddhartha Bank Ltd.	12/24/2002	Kathmandu	40	
19	Global Bank Ltd.	1/2/2007	Birgunj, Parsa	32	
20	Citizens Bank International Ltd.	6/21/2007	Kathmandu	33	
21	Prime Commercial Bank Ltd	9/24/2007	Kathmandu	24	
22	Sunrise Bank Ltd.	10/12/2007	Kathmandu	48	
23	Bank of Asia Nepal Ltd.	10/12/2007	Kathmandu	29	
24	DCBL Bank Ltd.	5/25/2008	Kathmandu	21	
25	NMB Bank Ltd.	6/5/2008	Kathmandu	19	
26	Kist Bank Ltd.	5/7/2009	Kathmandu	51	
27	Janata Bank Nepal Ltd.	4/5/2010	Kathmandu	16	
28	Mega Bank Nepal Ltd.	7/23/2010	Kathmandu	14	
29	Commerz & Trust Bank Nepal Ltd.	9/20/2010	Kathmandu	14	
30	Civil Bank Ltd.	11/26/2010	Kathmandu	11	

31	Century Commercial Bank Ltd.	3/10/2011	Kathmandu	5
	Total no of branches			1299

Source: NRB website and respective banks web sites

1.1.2 Statement of the Problem

There is no doubt that the banks are indicators of development of the economy. The more numerous, varied, organized, geographically distributed and efficient the banks the more developed will be the financial infrastructure of the economy and the more economically advanced will be the economy. Banks not only promote production, capital accumulation and economic growth but also encourage savings by providing wide range of financial assets with attractive combination of income safety and yield to the general public.

Although our country in the recent years has numerous, varied, organized, geographically distributed and efficient banks, the pace of economic growth remain lower with low productivity, low capital accumulation. What inhibits the progress of banking in Nepal is a common question. The contributors of inhibiting the progress of banking in Nepal could be the following – political instability with lack of political commitment, institutional weakness, and inappropriate economic policy with legal obstacles, national constraints and erratic government intervention. Despite having the barriers mentioned above some banks in Nepal have managed to perform well in terms of work efficiency, profitability, liquidity and market position. However they are facing problems in generating an adequate return on their investment due to the small and too many players in the market.

Work efficiency, profitability, liquidity and market position shows the financial performance of the bank and the strong banks contribute to the national economy and also attract foreign investment. In this regard the present study attempts to find out the following aspects for the sampled banks (i.e. KBL and NICBL):

1. How is the liquidity, profitability and market position of the two banks?
2. What is the extent of growth in two Banks in terms of Net Income, Earning per Share and Dividend Per Share and comparing them?
3. What is the relationship between variables debt and return of two Banks?

4. What is the relationship between variables deposit and investment of two Banks?
5. What is the Trend projection of two Banks in terms of deposit and net profit?

1.1.3 Objectives of the study

In Nepal, commercial banks are playing vital role in economic development of the country. Economic development of the country depends upon growth and development of trade and industry. The commercial banks are performing crucial role for economic development of nation by financing/providing short and long-term loan to industrialists, business organizations and individuals. Except it, they collect deposit under different accounts, create capital, mobilize the resources etc.

The specific objectives to be finding out of two commercial banks are underlined below: -

- a) To evaluate the financial performance of KBL and NICBL.
- b) To compare the financial performance of KBL and NICBL.
- c) To suggest appropriate solutions on the basis of the findings.

Financial Policy of Nepal government and commercial bank's monitoring and collection policies were kept in mind while doing the study.

1.1.4 Importance of study

The Present study is a conclusion-oriented study. It will be beneficial to different parties concerned with the two banks as well as other interested parties.

Basically, it will be beneficial to:

- a) Lenders and borrowers of these banks
- b) Management of these banks
- c) Policy maker of these banks
- d) Academicians / researchers
- e) General interested Public
- f) And also helpful to Nepal Government for making plans and policies of the country.

Moreover, the present study will be more helpful to aware the shareholders regarding financial performance of their banks. This comparative analysis identifies the productivity of their funds among the other commercial banks. However, the management of these Banks could be benefited from this study. This study will be beneficial for finding out important facts and points that will be helpful for all; those are directly and indirectly interested with the commercial banking sectors of Nepal.

1.1.5 Limitations of the Study

This study simply represents the partial fulfillments of the M.B.S. program. It is a small research, which has to be conducted and submitted within a limited time frame. This research explains and analyzes the subject matter with the help of well known or established analytical methods and Techniques, therefore as a conclusion oriented research it does not much concern with fundamental and decisions oriented research

In considerations of the above matters, following are the limitations of this study:

- a) This study is a partial study, which has to be finished within limited time barriers. In this short time, the study cannot cover the subject of the whole commercial banks. Only two banks i.e. on KBL and NICBL are taken into consideration.
- b) Financial performance of KBL and NICBL are analyzed and compared. Being a partial study, it has limited time to complete. It cannot give deep insights on these bank's different aspects. Seven fiscal year's financial performances (beginning from 2004/2005 to 2010/2011) are analyzed which will provide us the true and clear picture of financial performance.
- c) This study is mainly conducted on the basis of secondary data such as annual reports of two commercial banks and other related journals, respective magazines published from the two banks and course books of MBS level etc.
- d) This study examines and suggests on the subject matter of comparative financial performance appraisal of two commercial banks.

1.1.6 Organization of the study

Chapter I Introduction

This chapter includes the introduction of the study along with the introductory clarifications about Nepalese economic trends, history of Nepalese banking with objectives of study, limitations and importance of the study.

Chapter II Review of literature

This chapter includes the Review of literature and review of related theoretical background of the relevant field of study as well as major findings of previous studies in the relevant field.

CHAPTER III RESEARCH METHODOLOGY

THIS chapter includes the methodology used through the research work, including research design, sources of data, population, and sampling and data collection and analysis techniques.

Chapter IV Analysis and Presentation of Data

This chapter includes the data classification, their analysis, using suitable methods, and their interpretation according to the criteria set by the method itself.

Chapter V Summary, Findings, and Recommendation

This chapter includes- findings, Summary, and recommendations achieved through the descriptive and analytical study.

Chapter II

Review of Literature

This chapter provides the relevant existing literature relating to this study. The main objective of this chapter is to supply the brief historical development of the banking system in Nepal, Function of commercial banks, brief explanation of relation between bank and economic development along with the introduction of KBL and NICBL. The preparation of this study is based on the various relevant literatures.

2.1 Concept of Bank

A bank is an institution which deals with money and credit. It accepts deposit from the public, makes the fund available to those who needs them, and helps in the remittance of the money from one place to another. In fact, a modern bank performs such a variety of functions that it is difficult to give precise and general definitions of it. It is because of this reason that different prominent writers give different definitions of it.

A bank “collects money from those who have it to spare or who are saving it out of their incomes and it lends this money to those who require it (G. Crowther,1958: p. 22-23).

A bank is business organization that receives and holds deposit of funds from others to make loans or extends credits and transfer funds and by written orders of depositors (The Encyclopedia American, 1984: p. 148).

A bank is an establishment which makes to individuals such advances of money as may be required and safety made and to which individuals entrust money when not required by them for use (R.P. kent, 1966: p. 106).

Ordinary banking business consists of changing cash for deposits and bank deposits for cash; transferring bank deposits from one person or corporation to another; giving bank deposits in exchange for bills of exchange, government bonds, the secured promises of businessmen to repay and so forth.

In short the term bank, in modern times refers to an institution having the following features:

- i) It deals with money : it accepts deposits and advances loan
- ii) It also deals with credit: it has the ability to create credits, i.e. the ability to expand its liabilities as a multiple of its reserve.

- iii) It is a commercial institution; it aims at earning profit.
- iv) It is a unique financial institution that creates demand deposits which serves as a medium of exchange and as a result the banks manage the payment system of the country.

2.1.1 Historical Development of banking system in Nepal

The history of Nepalese banking starts from middle 90s when the first commercial bank Nepal Bank Limited was established in 1994 BS during the regime of RANAs. After the establishment of Nepal Bank Limited the inconvenience regarding the banking activities among the people was solved. Moreover, after the restoration of democracy in 2007 BS first financial plan was formulated which necessitate the central bank in the country. As a result of planning concept there are so many financial activities should require to be regulated by the government. So, in 2013 BS Nepal's central bank got shape with a view to carry out the fiscal as well as banking regulations.

In the developing countries like Nepal the central bank has to play a much wider role, besides performing traditional functions, the central bank has to undertake responsibility of economic growth with the stability in the economy. Moreover, since the developing countries do not have well-organized capital and money markets, the central bank has a crucial function to develop the banking and financial system of the country. In the view of developing banking and financial system in the country another commercial bank Rastriya Banijya Bank came into existence and established under the RBB act 2022. This bank establishment is in response to the need for forming a government owned commercial bank to look after the convenience and economic interest of the general public in remote as well as urban areas.

It is in 2037 BS, Nepal government passed the legislation to allow foreign investment in banking, which opened the avenues to foreign investment in Nepal. In the commercial bank act of 1974 AD (2031 BS), provision relating to foreign investment in banking sector was finalized. And to meet healthy competition in banking sector government allowed 50% equity participation in such banks. The liberation period in banking sectors further begins after the new Banks and Financial Institutions Act, 2063 (2006). An Act Made to Amend and Consolidate Legislation Relating to Banks and Financial

Institutions. After this amendment made by the Nepal government, thirteen commercial banks came into existence in Nepalese banking market as private ownership banks..

2.1.2 Commercial banking concept

Commercial banks are those financial institutions, which deals in accepting deposits from persons and institutions and giving loans against securities. They provide working capital needs or trade, industry and even to agriculture sectors. Moreover commercial banks also provide technical and administrative assistance to industries, trades and business enterprises.

Under the commercial bank Act.2031. B.S., the commercial banks are those banks, which provide short term and long-term debts whenever necessary for trade and commerce. They accept deposits from the public, and grant loans in different forms. They purchase and discount the bill for exchange, promissory notes, and exchange foreign currency.

Commercial banks are the heart of the financial system. They hold the deposits of many persons, government establishment, and business units. They make fund available through their lending and investing activities to borrowers, individuals, business firms, and services from the producers to customers and the financial activities of the government. They provide a large portion of the medium of exchange and they are media through which monetary policy is affected. These facts show that the commercial banking system of the nations is important for the functioning of the economy.

A commercial bank is one which exchanges money, deposits money, accept deposits, grants loans and performs commercial banking functions and which is not a bank meant co-operation, agriculture, industries or for such specific purpose.

The American institute of banking has laid down the four major functions of the commercial bank such as receiving and handling deposits, handling payments for its clients making loan and investments and creating money by extension of credit.

To summarize, the banks which perform all kinds of banking business and generally finance trade and commerce are called commercial banks. Since their deposits are for a

short period, these banks normally advance short term loans to the businessmen and traders and avoid medium term and long term lending.

2.1.3 Function of commercial banks

In the modern world, commercial banks perform so many functions that it is not possible to make an inclusive list of their functions and services. However, some basic functions performed by the banks are discussed below:

- 1. Accepting deposits:** The first important function of bank a bank is to accept deposits from those who can save but cannot profitably utilize their saving themselves. People consider it more rational to deposit their savings in a bank because by doing so they on the one hand earn interest and on the other avoid the danger of being stolen. To attract savings from all sorts of individuals, the bank maintains different types of accounts such as: Fixed deposit account, Current deposit account, saving deposit account, call deposit account etc.
- 2 Credit creation:** This is the most unique function that every commercial bank does. In fact, credit creation is the natural outcome of the process of advancing loan as adopted by the banks. It can extend its credits as much as it wants by granting loans to lender by opening account in the name of lenders and credits their account. Banks have the ability to create credit as many times more than their deposits and this ability of multiple credit creation depends upon the cash reserve ratio of the banks.
- 3. Advancing loans:** This is the second most important function of the bank is to advance loan. After keeping certain cash reserve the banks lend their deposits to the needy borrower. Before advancing loans the banks satisfy themselves about the credit-worthiness of the borrowers. There are various types of loans that are granted by the banks. Money at call, cash credit, overdraft, discounting the bills of exchange, term loans are the examples of such loans
- 4. Agency function:** Banks also perform certain agency function for and on behalf of their customers. Their agency function includes remittance of funds, collection and payment of credit instruments, purchase and sell of securities, collection of dividends on shares, income tax consultancy, acting as trustee and executor acting as representative and correspondent, execution of standing order etc.

- 5. General utility function:** In addition to agency services, the banks provide many general utility services such as issuing traveler's cheques, letter of credit (LC), underwriting securities, locker facility, and foreign exchange business.
- 6. Promoting payment mechanism:** Providing for payment mechanism or the transfer of funds is one of the important functions performed by commercial banks. It is a part of commercial banks to make cheque and credit cards facility for safe and efficient transaction.

2.1.4 Commercial banks and Economic Development

In modern economy, banks are to be considered not merely as dealers in money but also leaders in developments they are not only the store-houses of the country's wealth but also are the reservoirs of resources necessary for economic development. Banks play an important role in the development of a country. It is the growth of commercial banking in the 18th and 19th centuries that facilitated the occurrence of industrial revolution in Europe. Similarly the economic progress in the present day developing economies largely depends upon the growth of sound banking system in these economies. Commercial banks can contribute to a country's economic development in the following way:

- 1. Capital formation:** capital formation is the most important determinants of economic development and banks promote capital formation. Capital formation has three well defined stages: a) generation of saving, b) mobilization of saving, c) canalization of saving in productive uses. Banks play a crucial role in all three stages of capital formation. Banks stimulate savings by providing number of incentives to the savers, such as interest on deposit, free and cheap remittance of funds, safe custody of valuables etc. By expanding their branches in different areas and giving various incentives, they succeed in mobilizing the savings generated in the economy. Moreover, they not only mobilize resources from those who have excess of them , but also make the resources so mobilized available to those who have the opportunities of productive investment.
- 2. Promotion of trade and industry:** It is a well known fact that the industrially advanced country's economic progress rely upon to the expansion in trade and industrialization which could not have been possible without the development of the banking system.

- 3. Monetization of economy:** Banks help the process of monetization in two ways: a) monetizing debts in other word they buy debts (i.e. securities which are not acceptable as money) and in exchange, create demand deposit which are acceptable as money. B) By spreading their branches in the rural and backward areas, the bank convert the non-monetized sectors of the economy into monetize sectors.
- 4. Regional development:** Banks can also play an important role in achieving balanced development in different regions of the economy. They can transfer surplus capital from the developed regions where it is scare and most needed. This reallocation of funds between regions will promote economic development in under developed areas of the economy.
- 5. Encourage to right type of industries:** By granting loans the banks can provide financial resources to the right types of industries to secure necessary material, machines and other inputs. In a planned economy it is necessary that the bank should formulate their loan policies in accordance with the broad objectives and strategy of industrialization as adopted in the plan.
- 6. Encouragement to entrepreneurial innovation:** In underdeveloped countries entrepreneurs generally hesitate to invest in new ventures and undertake innovation largely due to lack of funds. Facility of bank loans enable the entrepreneurs to step up their investment and innovational activities, adopt new methods of production and increase productive capacity of the economy.
- 7. Development of agriculture and other neglected sectors:** underdeveloped economies are primarily agricultural economies and majority of the population in these economies live in rural areas. Therefore economic development in these economies requires the development of agriculture and small scale industries in rural areas. But in the under developed economies, banks have been only paying attention in trade and industry rather than agriculture. Bank should diversify their activity not only to extend credit to trade, but also to provide long term and medium term loans to industry and agriculture.
- 8. Implementation of monetary policy:** Economic development needs an appropriate monetary policy. But a well developed banking system is a necessary pre condition for the effective implementation of the monetary policy.

2.1.5 Financial Performance Of Banks

Profit is one of the basic indicators of sound financial performance. It is usually the result of sound business management, cost control, credit risk management, and general efficiency of operation. Profit is essential for an enterprise for its survival, growth and maintain capital adequacy through profit retention.

Though profit is important for any business concern including banks but profit cannot be the sole objective, for example neither the bank nor the community will be best serve if the banker reasonably sacrifices the safety of its fund or the liquidity of the banking in an effort to increase income.

However, the private banks in Nepal are generally, efficient enough to generate large profit and have been distributing significant amount of bonus and dividend. Because of their effectiveness in loan recovery, overdue and defaulting loans have been minimized and there is high margin between interest income and interest expenses.

Financial statements provide information about a firm's position as well as its operations over same period. However, the real value of financial statement uses in the fact that they can be used to predict the firm's financial position in the future, and to determine expected earnings and dividends. From an investor's stand point predicting the future is what financial statement analysis is all about, while managements stand points financial statement is useful to anticipate future conditions and for planning actions that will influence the future course of events (Western et. al. 1995: p. 93).

Thus, financial statements provide a brief posture to predict the present as well as future position of a firm for all parties affiliated with, whether they are insiders or outsiders.

2.1.6 Ratio Analysis

"Ratio analysis is used to compare a firm's financial performance and status to that of other firms or to itself over time (L. J. Gitman, 1988: p. 275)."

The term ratio refers to the numerical or quantitative relationship between two terms of variables. A ratio is calculated by dividing one item of the relationship with the

others (Khan and Jain, 1997: p.117). The ratios are designed to show the relationship between financial statement accounts within a firm and between firms. Translating accounting numbers into relative values or ratios, allows us to compare the financial position of one firm to another even if their size are significantly difference.

In this context, it is clear that, ratio analysis involves the methods of calculating and interpreting financial figures in order to access the firm's performance and status. “Financial ratios are the tools to analyze the financial conditions and performances. We calculate ratios because in this way we get a comparison that may prove more useful than the raw numbers by themselves (James C, Van Horne, et. al. 1997: p.148).”

The basic inputs to ratio analysis are the period to the examined. By applying financial ratios, the financial manager can spot changes in the firm's performance, and he or she can also identify changes in the way the firm is operating from one period to previous one.

The ratios selected for the comparative study of KBL and NICBL are as follows:

1. Stability Ratios
2. Liquidity Ratios
3. Credit Ratios
4. Turnover Ratios
5. Profitability Ratios
6. Structural Ratios
7. Other Indicators

2.1.7 Relevant Literature

Taking managerial and financial decision, analysis of financial statements is necessary.

A conceptual framework for financial analysis provides the analyst with an interlocking means for structuring the analysis. For example, in the analysis of external financing, one is considered with the funds need within its financial

conditions and performance and its business risk. Upon analysis of these factors one is able to determine the financing needs and negotiate the outside suppliers of capital.

According to, B. N. AHUJA, Financial analysis mean," A general term referring to the process of extracting and studying information in financial Statements for use in management decision making. For example, financial analysis typically involves the use of ratios, comparisons with prior periods and with the budget and other such procedures (B.N Ahuja, 1994: p. 120)".

According to I.M. Pandey," Financial Analysis is a process of identifying the financial strength and weakness of the firm by properly establishing relationship between the item of balance sheet and the profit and loss Accounts (I. M. Pandey, 1992: p. 109).

The usefulness of ratios depends upon ingenuity and the experience of the financial analyst who employs them. By themselves, financial ratios are fairly meaningless; they must be analyzed in comparative basis. Comparison covers leading clues in evaluating changes and trends in the firm's financial conditions and profitability. This comparison may be historical, but it may also include an analysis of the future based upon projected financial statements (Van Horne and Wachowicz Jr, 1997: p.148).

While performing financial analysis, financial statement such as balance sheet and profit and loss Accounts are mainly analyzed through different tools and techniques.

Financial position such as strength and weakness are reflected by financial analysis for this reason financial analysis is relevant literature for this research.

"It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial performance can be determined (Khan and Jain, 1999: p. 180)".

According to Metcalf and Titare, "Analyzing financial statements is a process of evaluating relationship between components parts of financial statements to obtain a better understanding of a firm's position and performance (Metcalf and Titare, 1976: p. 176)".

Ratio analysis is such a powerful tool of financial analysis that through it economic and financial position of a business unit can be fully X-rayed.

There are so many parties concerned with the bank i.e. short term and long term creditors, share holders, potential investors, management, government and general public. The claims of bondholders are long term and they are interested in cash flow ability and profitability over time. So they evaluate the ability of the bank to discharge the long-term obligation by analyzing the capital structure.

Principally Shareholders are concerned with the present and expected future earnings and the ability of these earning. So, they focus their analysis on the profitability of the bank. They would be concerned with its financial condition as it affects the ability of a firm to pay dividend and to avoid bankruptcy.

Short-term creditors are interested primarily in the liquidity of the bank, their claims are short term and the ability of bank to pay the claims within short period is its liquidity.

General public are interested towards the bank for general knowledge and for any other matter.

Governments regulatory agencies are concerned with the rate of returns of a company earn on its assets as well as with the proportion on non-equity fund employed in the business. In other words they are concerned with the efficiency of asset management.

Management of the bank is concerned with overall position of the bank such as liquidity, profitability, solvency, growth, goodwill, and so on. It should analyze all type of financial indicators, which may assist in internal control as well as external bargaining and for improving the future performance.

Thus, financial statement analysis reflects all type of financial performance as well as future growth and solvency.

The most relevant techniques that used in financial statement analysis are ratio analysis, so that various ratios were calculated in succeeding chapter.

2.2 Review of the previous research

Number of studies has been conducted in past about the comparative study on the financial performance of selected bank and other institutions. And number of reviews on the previous researches is present but due to the limitations of time, a few snapshots of literature are given and these are the most relevant source and assistance for this research.

A study performed by Prof Dr. Mohi-Uddin Sangmi, **entitled” analyzing financial performance of commercial banks in India: Application of CAMEL model** “has found that the sampled banks (in his paper Jammu & Kashmir Bank and Punjab National Bank) have managed to retain capital adequacy ratio is well above the minimum standard set by RBI i.e. 10% and The average leverage ratio in case of PNB is more (1.746) compare to JKB (0.828). . He also found that assets quality of both banks shown significant performance on managing NPA level: PNB has maintained the ratio of NPAs to Net advance at 3.42%. Whereas the JKB bank has maintained the average ratio of Net NPAs to Net advances at 1.760% and the average loan loss cover maintained by JKB (9.52%) is more than that of PNB (8.288%). He further reveals that The business (Advances +Deposits) of the PNB and the JKB have registered a compound growth rate of 14% & 16% respectively and the compound growth rate of operating profit has been 24% in PNB and 5% in JKB. The PNB has succeeded in diversifying its business from fund based to fee based activities and registered an average income of 14.95% while as JKB has generated 12.25% from this activity. In case of net interest margin he found that PNB has generated an average Net Interest margin of 0.034 compare to 0.028 generated by JKB. However, return on assets is more (1.498%) in case of JKB compare to PNB (0.936%). Moreover, PNB has received more interest on advances viz-a-viz interest paid on deposits, the average spread ratio being 0.350. With average spread ratio of 0.320, the JKB has not been as successful as PNB in the management of its spread (interest received-interest paid). He further adds in his study that the liquidity position of JKB, with 0.148 liquid assets to deposits ratio is better than the PNB where the same ratio is only 0.100. However, the investment to deposit ratio is better in PNB (0.460) compare to JKB (0.450).

Another study conducted by Ms A L Shrestha on subject of “**Financial Performance Analysis of Kumari Bank**” has concluded that the liquidity position of KBL is always below the standard set by NRB but she finds KBL is efficient in liquidity position to cater its consumers since it has better cash and bank balance to total deposit ratio and cash and bank balance to current assets ratio. While in case of turnover position, she thinks KBL is not investing its deposits to the fullest in risk less and interest earning securities, she reveals it only manages to invest 16.52% of its total deposit in such securities while the ratio of loan and advances is in better position. Likewise in profitability position she concluded that KBL is in satisfactory and bank is able to provide regular and significant return to its shareholders. Similarly, the capital structure is highly leveraged: trend of structural ratio is always high. Moreover, based on the finding in various income and expenditure analysis she has concluded that both income and expenditures are ever increasing since bank has expanding its business every year.

Ms Shrestha recommended in her dissertation that KBL should invest in minimal risky portfolio to diversify its risk as KBL only invest in risky assets such as Loan. While in liquidity problem she suggests to maintain adequate net working capital to win the confidence of general public with strong goodwill. She further recommends that KBL should provide services to rural areas so as to be responsible towards social responsibility to gain the faith from Nepalese people. Lastly, her recommendation goes to management to think about communication of its objectives to lower level staff while trying to systematized its financial performance so as to contribute to the strength and in-depth analysis on its weaknesses to overcome in future.

A study done by Ms Bandana Bista on “**A Comparative study on Financial Position of NIC Bank Ltd and Nepal Investment Bank Ltd**” has found that the overall liquidity position of NIBL is comparatively better than NICBL whereas NICBL is leader in investing in government security but in the ratio relating to loan and advances to total deposit, loan and advances to total assets, interest earned to operating ratio and interest earned to total assets suggest that NIBL is forerunner. Moreover for profitability and managing NPL, NIBL is always in front as NIBL manages to lower the ratio of NPL and loan and advances to total loan ratio than

NICBL. Furthermore, her conclusion shows NIBL is better in credit risk aversion, EPS, DPS, MVPS whereas NICBL is better in retaining higher P E ratio. Her trend analysis further reveals that total deposit, loan and advances, net profit of NICBL and NIBL are increasing each year but NICBL has decreasing trend of total investment as comparing to NIBL's. She recommends in her thesis that the liquidity position of both banks is in satisfactory level and maintain the same in coming future. Likewise while investing in risk less assets and formulating the lending policy NIBL should think more as it has lower ratio in terms of government securities to total loan and loan and advances to total deposit than NICBL. In other hand NICBL should be more aware on decreasing DPS, EPS trend and increasing NPL trend than NIBL.

Mr. Jhalak Bahadur Oli in his thesis paper, **“A comparative study of the financial performance of Himalayan Bank Ltd, Nepal SBI Bank Ltd. and Nepal Bangladesh Bank Ltd”** found that, “the current ratio of HBL is below than normal standard 2:1 so HBL is suggested to increase its current assets. He suggests that the liquidity position of HBL, NSBIBL and NBBL are fluctuating and are not satisfactory level. Therefore the banks are suggested to keep the reasonable amount of liquidity so the bank should maintain their short-term solvency position.

The capital structure of three JVBs is highly leveraged. The total debt to shareholders equity ratio indicates that use of debt by the three banks helped to enhance the rate to return on shareholder's fund. However excessive use of debt is non-profitable business may cause solvency of these banks so these JVBs are suggested to maintain improved improper balance of total debt to shareholders equity and basically capital structure as required by increasing equity base.

It is recommended that to HBL is required to sustain its enhance its provision for possible issues due to excessive loans and advances in order to prevent from the threat of insolvency. Profitability position of three JVBs is not found satisfactory but profitability position of HBL is comparatively better than the same of NSBIBL and NBBL. So NSBIBL and NBBL are recommended to utilize its resources more efficiently for generating more profit margins. If resources held idle, bank faces (bears) high cost and cost the low profit margin.

The major sources of income of three JVBs are from the interest income. NBBL have seen investing more in government securities rather than investing loan and advances. So, NBBL is recommended to invest in the most earning assets like loan and advances.

Mr. Oli further suggests the banks to minimize their operation expenses as far as possible since it contributes to enhance the volume of profit.

Mr. Oli finally recommends that banks should fulfill some social obligations by extending their resources to rural areas and promoting the development of poor and disadvantageous groups. In order to do so the banks should open their branches in the remote areas with the objective of providing cheaper banking services. It includes the minimum amount of open accounts and interest rate should be reduced for creditors.

Hence, this study was descriptive rather than analytical. The qualitative analysis might not be enough to present the exact picture of the status of the Banks. Further the research was revolved around policy issues rather than practical issues. The analysis of financial performance aspect among the Banks was a part of his research. Of course his suggestion seems to be very worthy from the customer's point of view but his study is silent on the sustainability of the bank's ground.

A study done by Sean Turnell and Ha Vu **“Cost and Profit Efficiency of Australian banks, and the impact of the global financial crisis”** attempted to analyze the cost and profit efficiencies of Australian banks across 1997-2009 and, accordingly, both before and after the GFC(Global Financial Crisis). It also compared the Performance of Australia's four major banks with the country's regional banks, and determined factors driving efficiency differences between them. Their findings showed that Australian banks were more profit efficient than cost efficient, suggesting that the main source of inefficiency came from the cost side rather than the revenue side. Thus, to improve efficiency levels, banks might need to pay more attention in the selection of the combination of inputs utilized. Furthermore, the major banks seem to be more profit efficient but less cost efficient than regional banks, implying the strong business objective of the major banks remains profit maximization rather than cost minimization. The findings also revealed that Australian banks were relatively profit

efficient prior to the GFC before suffering a significant decline in their profit efficiency levels during the crisis. However, the GFC brought almost no changes in cost efficiency levels. Although Australian banks performed solidly during the crisis, with generally sound asset quality, moderate volume growth in key product lines, and tight expense management, these underlying results were balanced by increased provisioning for bad debts and loan impairments, and higher funding costs due to the volatility in global credit markets. Nonetheless Australian banks, especially the major ones, recovered quickly. The fact that Australian banks' efficiency was high before the crisis, fell during it, and then recovered toward the end of the crisis. The paper further analyzed the factors playing a crucial role in shaping the efficiency of Australian banks. It was found that loans to deposits, bank capitalization, non-interest expenses to total assets, and profitability are the main determinants of profit and cost efficiency of Australian banks. Thus, the implications for bank management (and to some extent banking authorities) in order to enhance bank efficiency are (1) to make sure bank capitalization is kept at a level that satisfies the capital adequacy requirements; (2) ensure better management of non-interest expenses and liquidity funding.

Another study done by Satish P Goyal on **“A Comprehensive Study On Financial Analysis of Five Private Sector Bank : HDFC, SBI, AXIS, IDBI and ICICI Bank”** has concluded that

1. Capital adequacy of HDFC BANK has shown best performance in CAR as its gradually rising year by year and IDBI's decreasing year by year. IDBI should reconsider their business tactics.
2. Return on Assets: HDFC tops the group and IDBI again at last but this tie IDBI shown consistent performance as compared to ICICI having higher ROA.
3. Earnings per Share: SBI's EPS is highest among group. IDBI has least EPS. Investors will choice SBI over all banks and IDBI at last.
4. Net Profit Margin: AXIS Bank has highest NPM in 2009-10 and rising year by year. IDBI's NPM is decreasing year by year.
5. Credit Deposit Ratio: HDFC maintains its CDR and tops the group. IDBI again on worst side but good thing is that it's decreasing year by year.
6. Gross NPA: AXIS bank has least GNPA and ICICI has highest among peers.
7. Net NPA: AXIS Bank again performed better

than others and ICICI has maintained its position. SBI has rise in NNPA over the GNPA.

He has suggested that all five banks should aware on the following matters: 1) all banks should adapt themselves quickly to the changing norms. 2) The system is getting internationally standardized with the coming of BASELL II accords so the Indian banks should strengthen internal processes so as to cope with the standards. 3) The banks should maintain a 0% NPA by always lending and investing or creating quality assets which earn returns by way of interest and profits. 4) all banks should find more avenues to hedge risks as the market is very sensitive to risk of any type. 5) Have good appraisal skills, system, and proper follow up to ensure that banks are above the risk.

2.3 Research Gap

There has been lots of research works and studies to examine the financial performance of commercial banks in the past. But the purpose of this study is different from the previous studies in terms of time periods it covers i.e. FY 2004/05 to FY 2010/11. No one until now has done the research work for seven years study periods. The seven years study period is selected to give the clear picture of the financial performance of two banks which helps share holders and stake holders to determine the exact position of concerned bank.

Moreover, the study has been conducted taking NICBL and KBL as sample banks which are the successful and fast growing privately owned bank in the country. Many research works has been carried out on the similar topic but no research works has been carried out taking NICBL and KBL as sample bank which give the clear details of their financial performance.

So, this study attempts to fulfill the research gap about the in depth analysis of the financial performance of which is the major concerned of the stakeholders and the shareholders. Moreover, this study will help to acquire knowledge regarding tools and techniques used and extra knowledge for the further researchers who are going to study in the topics related to the financial performance of commercial banks.

2.4 A brief Introduction to Sampled Bank

Kumari Bank Ltd

Kumari Bank Ltd was established under Nepalese promoters and general public on 2057/12/21 BS. Presently authorized capital of this bank is Rs 1600 million divided into 160 million equity shares at Rs 100 per share. Now KBL's issued and paid up capital is Rs 1485000000 divided into 14850000 equity shares @100 per share.

Shareholding pattern of Kumari bank Ltd

1. Promoters of bank contributes 70% of issued capital
2. Rest of 30% contributed by general public

The BOD consist 8 members. 3 members are nominated by voting from general shareholders. Rests of 5 members are the promoters of the bank.

This bank performs all kind of business which all commercial bank does. Presently this bank has 29 branches all over country; its corporate office is located at Durbarmarg, Kathmandu. In Kathmandu valley it has 9 branches rest of 20 branches located at different districts of Nepal.

The main objective of Kumari Bank is to provide banking services to the people and business all over the country. This banks major activity includes deposit collection, investment in government securities and companies' equities, lending to commercial as well as productive sector, foreign exchange, business remittance, etc. Convenience, flexibility and understanding the needs of customers are its major concern. This bank's major activity is to accept deposit and grant loan who in need. Depositors of this bank are common people, public and private institution and business houses.

Services of Kumari Bank:

- It accepts deposits, as current, saving, current and call deposits.
- It provides Remittance service through, Draft, mail transfer, TT and fax transfer.

- Lending is its major service and lending products are working capitals, overdrafts, consumer loan, consortium, trust receipt, hire purchase, construction, securities, term loan, cash credit etc .
- It provides facilities for foreign trade transaction by issuance of letter of credit (L.C) forward contract, Bank guarantee etc.
- It provides the services of foreign exchange transaction.
- It provides many other consumer oriented services like issuing Debit card, Credit card, safety locker, mobile banking, internet banking .
- Automated teller machine (ATM) facility with International VISA CARD and STC acceptance.

NIC Bank Ltd

NICBL was established under Nepalese promoters and general public on 2055/04/5 BS as thirteenth commercial Bank of Nepal. Presently authorized capital of this bank is Rs 1600 million divided into 160 million equity shares at Rs 100 per share. Now NICBL's issued and paid up capital is Rs 1311552000 divided into 13115520 equity shares @ 100 per share.

Shareholding pattern of NIC Bank Ltd

1. Promoters of the bank contributes 51% of issued capital
2. And rest of 49% contributed by general public.

The BOD consist 7 members. 2 members are nominated by voting from general shareholders while 1 member is from the professional side. Rests of 4 members are the promoters of the bank.

This bank performs all kind of business which all commercial bank does. Presently this bank has 37 branches all over country; its corporate office is located at Kamaladi, Kathmandu. In Kathmandu valley it has 15 branches rest of 22 branches located

different district of Nepal including registered office at main road, Biratnagar Nepal. NIC Bank was the first commercial bank in Nepal to have received ISO 9001:2000 certification for its Quality Management System in the year 2006. Also, This Bank has also been certified under the upgraded ISO 9001:2008 standards for the Bank's Quality System on Commercial Banking Activities for the first time in Nepal. All branches of this bank are inter-connected through optical fiber as well as V-Sat and are capable of providing real time on-line transactions. Furthermore, NICBL became the first Bank in Nepal to be provided with a line of credit by International Finance Corporation (IFC), an arm of World Bank Group under its Global Trade Finance Program, enabling the Bank's Letters of Credit and Guarantees to be accepted/confirmed by banks worldwide. This Bank believes in continuously offering new and value added services to its customers, with commitment to quality and value to its clients at the same time. Accordingly, the Bank has been in the forefront in launching innovative products having unique customer friendly features with immense success.

The main objectives of NICBL are to provide banking services to the people and business all over the country. This bank's major activity includes deposit collection, investment in government securities and companies' equities, lending to commercial as well as productive sector, foreign exchange, business remittance, etc. Convenience, flexibility and understanding the needs of customers are its major concern. This bank's major activity is to accept deposit and grant loan who in need. Depositors of this bank are common people, public and private institution and business houses.

Services of NIC Bank:

- It accepts deposits, as current, saving, current and call deposits under various schemes
- It provides Remittance service through, Draft, mail transfer, TT and fax transfer.

- Lending is its major service and lending products are working capitals, overdrafts, consumer loan, consortium, trust receipt, hire purchase, construction, securities, term loan, cash credit etc .
- It provides facilities for foreign trade transaction by issuance of letter of credit (L.C).
- It provides the services of foreign exchange transaction.
- It provides many other consumer oriented services like issuing Debit card, Credit card, safety locker, mobile banking, internet banking etc.

Chapter III
Research Methodology

3.1 Introduction

Human beings are always inquisitive. They try to understand: what happens...when and how? What are the causes of some effects? Some of the understandings come in natural way while others have to be understood through complex procedure of investigation. Such investigation is known as a research.

Research is common word refers to a search for knowledge. "Research Methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objectives in view (C.R Kothari, 1989: p.112)". In other words, Research Methodology describes the methods and process applied in the entire aspect of the study.

The basic objective of this study is to evaluate the financial performance of KBL and NICBL and compare them so that which one seems to be more consistent, profitable and doing well in the long run. To accomplish this goal, the study follows the research methodology described in this chapter.

3.2 Research Design|

Research Design is the plan, structure and strategy of investigations conceived so as to obtain answers to research questions and to control variances. To achieve the objective of the study, analytical as well as descriptive research design is followed.

3.2.1 Data Collection

The researcher uses two type sources of data collection.

- a) Primary data and
- b) Secondary data

“The primary data are those which are collected a fresh and for the first time and thus happen to be original in character. The secondary data on the other hand are those, which

have already been collected by someone else and already been passed through the statistical process (C. R. Kothari, 1990: p. 115)".

In some cases primary data are also taken as personal interview, face to face and telephone interview but the study is mainly based on secondary data, so the major sources of secondary data for this study are as follows:

3.2.2 Sources of Data

- a) Annual reports of the banks.
- b) Published and Unpublished bulletins, reports of the banks.
- c) Published and Unpublished bulletins, reports of the Nepal Stock Exchange.
- d) Previous studies and reports.
- e) Unpublished official records.
- f) Banking and financial statistical report of Nepal Rastra Bank Magazines.
- g) Journals and other published and unpublished related documents as well as reports for central library T.U., Shanker Dev Campus library.
- h) Various Internet Websites.

3.3 Population and sample

Population

Thirty one commercial banks are operating in Nepal. All the commercial banks that are operating in Nepal are considered as the population. It is not possible to study all the data related with all commercial banks because of the limited time period and availability of relevant existing data should also taken into consideration. It is only partial fulfillment of the Masters Degree. Thus, two commercial banks i.e. KBL and NICBL have been selected as sample for the present study. Similarly financial statements of these two banks for 7 years (2004/2005 to 2010/2011) have been taken as a sample for the same purpose.

1. Nepal Bank Limited.
2. Rastriya Banijya Bank Limited.

3. Nabil Bank Limited.
4. Nepal Investment Bank Limited.
5. Standard Chartered Bank Limited.
6. Himalayan Bank Limited.
7. Nepal SBI Bank Limited.
8. Nepal Bangladesh Bank Limited.
9. Everest Bank Limited.
10. Bank of Katmandu Limited.
11. Nepal Credit and Commerce Bank Limited.
12. Lumbini Bank Limited.
13. Nepal Industrial and Commercial Bank Limited.
14. Machhapuchhre Bank Ltd.
15. Kumari Bank Ltd.
16. Agriculture Development Bank Ltd.
17. Laxmi Bank Ltd
18. Siddhartha Bank Ltd
19. Global Bank Ltd
20. Citizens Banks International Ltd
21. Prime Commercial Bank Ltd
22. Sunrise Bank Ltd
23. Bank of Asia Nepal Ltd.
24. DCBL Bank Ltd
25. NMB Bank Ltd
26. Kist Bank Ltd

27. Janata Bank Nepal Ltd
28. Mega Bank Ltd
29. Commerz & Trust Bank Nepal Ltd
30. Civil Bank Ltd
31. Century Commercial Bank Ltd.

The following banks has been taken as sample for the study

1. Kumari Bank Limited
2. Nepal Industrial and Commercial Bank Limited.

3.4 Methods of data analysis

To achieve the objective of the study, various financial, statistical and mathematical tools have been used. The analysis of data is done according to the pattern of data available. Because of limited time and resources, simple financial analysis as well as statistical and mathematical tool such as percentage, simple averages, trend analysis, Bar-diagrams are used. The Financial analysis tools are used to analyze and compare the financial performances of the sampled banks where as the statistical tools are used to analyze the central tendency and the dispersion of the ratios. Analytical as well as descriptive approaches of research are used to evaluate the financial performance of these Banks. The heart of analytical part of this research work is ratio analysis and following are the major ratios:

3.4.1 Ratio Analysis:

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

A ratio is a figure or a percentage representing the comparison of one-dollar amount with some other dollar amount as a base (Roy A. Foulke, 1974: p. 97). Ratio analysis is a widely used tool of financial analysis. It is defined as the systematic use of ratio to

interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. In financial analysis a ratio is used as an index or yardstick for evaluating the financial position and performance of a firm. Ratio helps to summarize the large quantities of financial data and to make qualitative judgment about the firm's financial performance (I. M. Pandey, 1979: p 97).

A large number of ratios can be generated from the components of profit and loss account and balance sheet. They are sound reasons for selecting different kinds of ratios for different types of situations. For this study, ratios are categorized into the following major headings:

3.4.1.1 Stability Ratios

Stability ratios measure the composition of shareholders reserve, Share capital, Net worth, total assets, current assets, and total deposit in the corporate establishment. It measures the proportion of all employed capital, assets, Deposit, and Net worth.

1. Shareholders Reserve to share capital

Shareholders reserves include various reserves. Share capital includes the paid up equity of the owners including the preference share. This ratio shows the relationship between share capital and shareholders reserve, which indicates the sustainability of the company.

2. Net worth to total assets ratio

It shows the relationship of Net worth of the company to its total assets i.e. how much proportion of assets employed on its net worth.

3. Current Assets to net worth

It shows the relationship of current assets of the company to net worth.

4. Total deposits to net worth

Total deposit to net worth ratio measures the relative portion of total debt in relation to net worth. In this study total deposit includes saving, fixed, and current call to short deposit and other deposits.

3.4.1.2 Liquidity Ratios

Liquidity refers to the ability of a firm to meet its short term or current obligations as and when they fall due for payment. So liquidity ratios are used to measure the ability of a firm to meet its short-term obligations and from them the present cash solvency as well as ability to remain solvent in the event of adversities of the same can be examined (Van Horne, 1999; p. 693).

Inadequate liquidity can lead to unexpected cash short falls that must be covered at inordinate costs, thus reducing profitability. In the worst case, inadequate liquidity can lead to the liquidity insolvency of the institution. On the other hand, excessive liquidity can lead to low asset yields and contribute to poor earnings performance.

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

1. Current Ratio

It is the relationship of current assets and current obligation or current liabilities. It measures short-term solvency, so it is often called liquid solvency ratio and working capital ratio. Current assets are those assets, which can be converted into cash within short period of time normally not exceeding one year. Current liabilities are those obligations which are payable within a short period.

2. Cash and Bank balance to current asset Ratio

Cash and bank balance to current assets ratio reflects the position of cash and bank balance in total of current assets. The cash and bank balance is the most liquid form of the current assets. The ratio is calculated to find out the percentage of most liquid fund with the bank to make immediate payments.

3. Investment on Government security to current assets

Investment on Treasury bill is current assets. The ratio is calculated to find out the percentage of current assets invested in government securities i.e. Treasury bill. Dividing

the amount of treasury bill investments by the total amount of current assets available for the given period.

4. Loan and advance to current assets

It shows the relationship between loan and advances to current assets or it shows the banks liquid capacity of discounting and purchasing the bills and loan, cash credit and overdraft facilities to the customers. In this study loan and advances represent to bills discounted and purchased, other short-term loans, cash credit and overdraft. The ratio can be computed by dividing loans and advances by current assets.

5. Fixed Deposit to total deposit

Fixed deposit is the high interest bearing long-term liabilities. This ratio is calculated to find out the percentage of fixed deposit with high interest bearing. Higher the ratio of fixed deposits to total deposit gives the higher liquidity ratio because higher portion of the long-term liabilities means lower the current liabilities, which gives higher liquidity ratio. The ratio is derived from dividing fixed deposits by total deposits.

6. Saving deposit to total deposit

Saving deposits is the short-term liabilities with fixed interest charges. This ratio is calculated to find out the proportion of saving deposits with respect to total deposits. Higher the ratio of saving deposits with respect to total deposits causes lowers liquidity position. The ratio can be obtained by dividing saving deposits by total deposits.

7. Short terms loan to total deposit

It reflects the portion of short-term loan to total deposit

8. Cash and Bank balance to Total Deposit Ratio (Excluding Fixed Deposit)

This ratio shows the ability of banks immediate funds to cover their (current margin, call and saving) deposit. Higher the ratio shows higher liquidity position and ability to cover the deposits and vice versa. It can be calculate by dividing cash and bank balance by deposits (Excluding Fixed Deposit).

3.4.1.3 Credit Ratios

Deposit collected from the people is the major financial source of the banks. A bank invests the collected deposits to the various income generating sectors. The credit ratio shows the bank's credit position, which returns or creates money. In other word, this ratio gives what portion of collected deposits used to makes credit and remains cash and bank balances to make immediate payments. Several ratios are computed under credit ratios.

1. Investment on government securities to Total deposit

The ratio measures the percentage of total deposits invested as credit on government securities to earn fixed return.

2. Cash and Bank Balance to Total deposit

Cash and Bank balances are the idle money kept for day-to-day payments. This ratio indicated the proportion of the bank's idle money with total funds collected, which is not used to make credit. Higher the ratio means higher money remained idle or not used to create money. This ratio can be derived from dividing cash and bank balances by total deposits.

3. Total Investment to total deposit

Investment is one of the major forms of credit created to earn return. This implies the firm's utilization of deposits on credit. Investment includes both short-term investment and long-term investment i.e. investment on government securities and investment on shares, debentures etc.

3.4.1.4 Turnover Ratios (Activity Ratios)

It is also known as turnover or efficiency ratio or assets management ratio; measures how efficiently the firm employs the assets. Turnover means the number of times and assets flow through a firm's operations and into sales (P. V. Kulkarni, 1994: p. 138). Greater rate of turnover or conversion indicates more efficiency of a firm in managing and utilizing its assets, being other things equal. Various ratios are examined under this heading.

1. Total assets to Total Loan

Total loan represents bills purchased and discounted (local plus foreign currencies), loans, advances and overdrafts (local plus foreign currencies).

2. Loan and advances to total deposit

Commercial banks utilize the outsider's fund for profit generation purpose. Loans and advances to deposit ratio shows whether the banks are successful to utilize the outsiders fund (i.e. total deposits) for the profit generating purpose on the loan and advances or not. Generally, a high ratio reflects higher efficiency to utilize outsider's fund and vice versa.

3. Loan and Advances to Fixed deposit

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

4. Loans and advances to savings deposits

Saving deposits are the short-term interest bearing liabilities and loans and advances are the major sources of investment to generate income in a commercial bank. The ratio is employed for the purpose of measuring utilization of saving deposit in generating revenue by giving loans and advances to the client i.e. to what extent collected saving deposit amount is deploying in providing loans and advances to generate income. The ratio indicates how many times the short-term interest bearing deposits are utilized for income generating purpose.

3.4.1.5 Profitability Ratios

Profit is the difference between revenues over a period of time. A company should earn profit to survive and to grow over a long period of time. So profits are essential, but profit

earning is not the ultimate aim of company and it should never be earned at the cost of employees, customer and society.

“Profitability ratios are the indicators of degree of managerial success in achieving firm’s overall goals (S. Pradhan, 1996: p. 41)”. It shows the overall efficiency of the business concern.

The following ratios are calculated under the profitability ratios:

1. Interest Earned to Working Fund

The ratio shows how much interest has been generated to mobilize the working fund of the banks. Interest occupies significant place of income for the banks. Generally banks earn interest through the provision of loans and advances, overdrafts and investment in securities. Higher the ratio indicates higher efficiency in the mobilization of resources and ability of interest earning and vice-versa.

2. Interest paid to working fund

This ratio is calculated to find out the percentage of interest paid on liabilities with respect to total working fund. It can be derived by dividing total interest paid by total working fund.

3. Cost of services to working fund

Cost of services to working fund ratio show the portion of cost of services in working fund. Here cost of services represents interest paid on borrowing, on dept, salary allowances, and provident fund.

4. Net profit to working funds

The ratio is useful to measure how well management uses all the assets in the business to generate an operating surplus. Higher the ratio indicates the higher efficiency in the utilization of working funds and vice versa. The ratio is low due to low profit. In other words, it is low utilization of bank assets and over use of higher interest bearing amount of debt and vice versa.

5. Net profit to total deposit ratio

The ratio measures the degree of net profit earned by using total deposits. In other words, it reveals the relationship between net profit and total deposits with an explanation of the ability of management in efficient utilization of deposits. This ratio is a mirror of banks overall financial performance as well as its success in profit generation, the reason is that deposits and earning by utilizing this are the main aspects of commercial banks.

6. Operating profit to Net worth

It shows the portion of operating profit in net worth. In this study, operating profit represents operating income minus operating cost.

7. Earning per share (EPS)

EPS is one of the most widely quoted statistics when there is a discussion of a company's performance or share value. It is the profit after tax figure that is divided by the number of common shares to calculate the value of earnings per share. This figure tells us what profit the common shareholders for every share held, have earned.

A company can decide whether to increase or reduce the number of shares on issue. This discussion will automatically alter the earnings per share. The profits available to the ordinary shareholders are represented by net profit after taxes and preference dividend.

8. Dividend per share (Rs)

Dividend is that part of earnings, which is distributed to the shareholders as a price of their investments in common stocks. Dividend is return to equity capital, which consists price of time and price of risk taking by the investor. The total amount of dividend out of earning available to the shareholders, if distributed, the common stock's portions said dividend per share.

9. Dividend payout Ratio

Dividend payout ratio expresses the relationship between a company's earnings and the cash paid out in dividend. In other words, this ratio shows what proportion of earnings is paid out as dividend and how much is retained prefer by shareholders, although companies adopt dividend policies to suit their business need. Fast growing companies have a great need for cash and they payout little. On the other hand stable or low-growth companies pay out a high percentage of earnings.

3.4.1.6 Structural Ratios (Leverage Ratio)

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

1. Long term debt to net worth

Long-term debt to net worth ratio measures the relative proportion of outsiders and owner's funds employed in the total capitalization. Here, long-term debt includes the amount of fixed deposits and loans of the bank and net worth indicates paid up capital, reserve and surplus and undistributed profit.

2. Total debt (liabilities) to Net worth

The ratio is calculated to find out the proportion of the outsider's fund and owner's fund to finance for the total assets. It is also called the proportion of outsider's claim and insider's claim on total assets of the bank. Generally, a very high ratio is unfavorable to the business because the debt gives third parties legal claims on the company; these claims are for interest payments at regular intervals, plus repayment of the principal by the agreed time. On the other hand, a very low ratio is also unfavorable from the shareholders' point of view. They want this ratio to be high so that they can have better returns with smaller capital.

3.4.1.7 Other Indicators

Percentage

Simple averages

Trend analysis

Spread

Non Performing Loans

Contingent liabilities to total liabilities

Operating income Analyses

Interest earned.

Commission and discount earned

Foreign exchange earnings

Other income

Operating Expenses Analysis

Interest paid

Staff expenses

Chapter IV

Analysis and Presentation of Data

The main aim of this chapter is presenting and analyzing data according to research methodology to attain the objective i.e.

- d) To evaluate the financial performance of KBL and NICBL.
- e) To compare the financial performance of KBL and NICBL.
- f) To suggest appropriate solutions on the basis of the findings.

The heart of this chapter will be the ratio analysis, trend analysis, bar diagrams, simple averages, as well as simple percentage to analyze the respective positions and condition of the banks.

A firm should have financial capability and flexibility to pursue its commercial strategy thus ratio analysis evaluates the essence of the financial soundness of a company lies in balancing its goals, commercial strategy and financial needs. In addition, we can say that ratio analysis provides basis or clues to investigate such issues in detail. To fulfill the purpose of this study following ratios relating to KBL and NICBL has been comparatively discussed in this chapter. They are: - Stability ratios, Liquidity ratios, Credit ratios, Turnover ratios, Profitability ratios, Structural ratios, and other indicators.

4.1 Financial Ratios as an Indicator of Performance

The technique of business of ratio analysis is of considerable significance in studying the financial stability, liquidity, profitability, and the quality of the management of the business and industrial concerns. The technique of ratio analysis is a part of the whole process of analysis of financial statement of any business or industrial concern especially to take output or credit decision. The analysis of financial ratios involves two types of comparison. First, the analyst compares a present Ratio with past Ratios and expected future ratio for the same company. The second method of comparison involves comparing the ratio of one firm with those of similar firm; such comparison gives the insight into the relative financial conditions and performance of the firms.

In the financial analysis, the direction of changes of the two types of ratios mentioned above over a period of years is of crucial importance. Time series analysis of such ratios indicates the direction of changes and the performances.

In this study the following ratios the major considered: -

4.1.1 Stability Ratios

Stability ratios measure the composition of shareholders reserve, Share capital, Net worth, total assets, current assets, and total deposit in the corporate establishment. It measures the proportion of all employed capital, assets, Deposit, and Net worth.

4.1.1.1 Shareholder's Reserve to share capital

Shareholders reserves include various reserves. Share capital includes the paid up equity of the owners including the preference share. This ratio shows the relationship between share capital and shareholders reserve, which indicates the sustainability of the company.

The ratio is calculated by applying following formula

$$\text{Shareholder's Reserve to share capital Ratio} = \frac{\text{Shareholders' reserve}}{\text{Share Capital}}$$

The following table shows the comparative figures of this ratio.

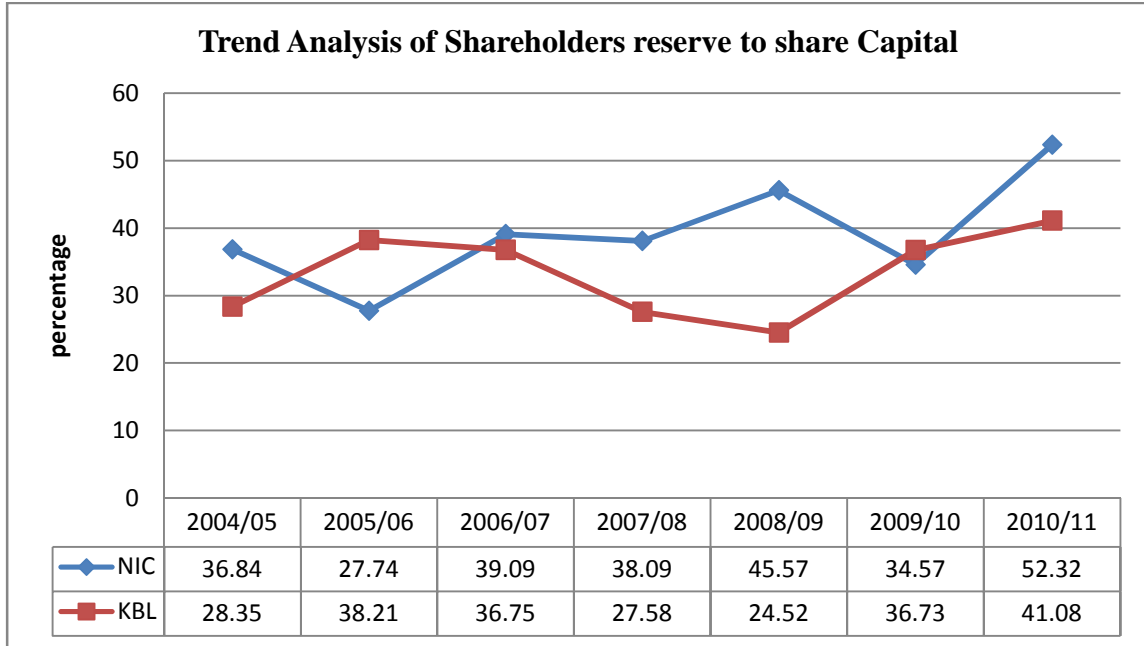
Table No 1
Shareholder's Reserve to Share Capital

Shareholders reserve to share capital ratio

FY Bank	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Average
NICBL	36.84	27.74	38.09	39.09	45.57	34.57	52.32	39.17
KBL	28.35	38.21	36.75	27.58	24.52	36.73	41.08	33.32

Source: Annex-I (1)

Trend analysis:



The above table and chart shows us that the ratio of both banks is fluctuating over the years. At the beginning of FY 2004/05 NICBL has the ratio of 36.84%, it has decreased to 27.74 % in FY 2005/06 then remaining relatively steady over 2006/07 and 2007/08. It rose by 7.48 % in 2008/09 reaching 45.57% but in 2009/10 it decreased to 34.57%. It is in 2010/11 when it has the highest ratio of 52.32%. Similarly, KBL has ratio of 28.35% in 2004/05. It rose up to 39.09% in 2006/07 then decreased to lowest ratio of 24.52% on 2008/09. The increasing trend can be seen from 2009/10 reaching the highest ratio of 41.08%. So, the ratio of both banks is fluctuating and NICBL has better average than KBL, but the increment of ratio indicate both banks going towards the higher growth in coming future. The higher the ratio, the more sustainable the banks will be in future.

4.1.1.2 Net worth to total assets

It shows the relationship of Net worth of the company to its total assets i.e. how much proportion of assets is employed on its net worth.

This ratio can be calculated by using following formula.

$$\text{Net worth to total Assets ratio} = \frac{\text{Net Worth}}{\text{Total Assets}}$$

The following table shows the comparative figures of this ratio.

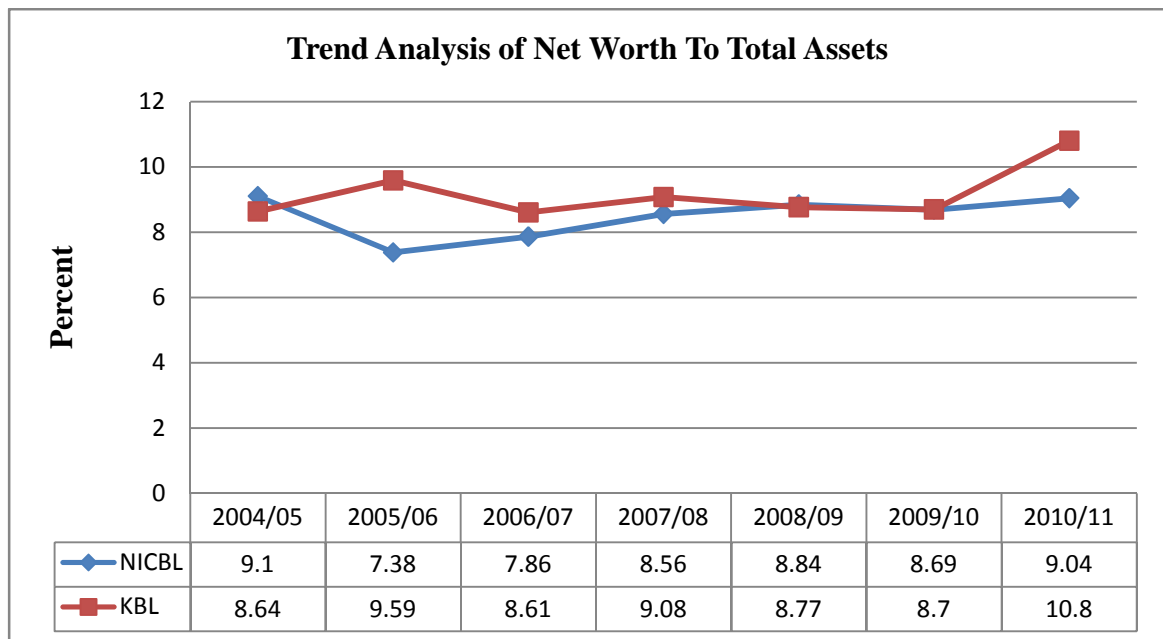
Table No 2

Net worth to total Assets ratio

FY	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Averages
Banks								
NICBL	9.1	7.38	7.86	8.56	8.84	8.69	9.04	8.5
KBL	8.64	9.59	8.61	9.08	8.77	8.7	10.8	9.17

Source: Annex-I (2)

Trend analysis:



The above table and chart depicts that both banks has retained the ratio stable over the past seven years though some fluctuations in the trend can be observed. KBL's ratio on 2004/05 was 8.64% at the same time NICBL's was 9.1%. NICBL's ratio dropped a little bit reaching 7.38% in 2005/06 then it remained relatively constant over three FY and reached to 9.04% in 2010/11, Similarly KBL retained stable growth from the beginning i.e. 2004/05 to end of 2010/11 from 8.64% to 10.8 % respectively. Thus, it is X-rayed that the net worth position of KBL is higher than of NICBL

4.1.1.3 Current Assets to net worth

It is calculated by dividing current assets to Net worth it measures the relationship between current assets and net worth

$$\text{Current Assets to Net worth Ratio} = \frac{\text{Current Assets}}{\text{Net Worth}}$$

The following table shows the comparative figures of this ratio.

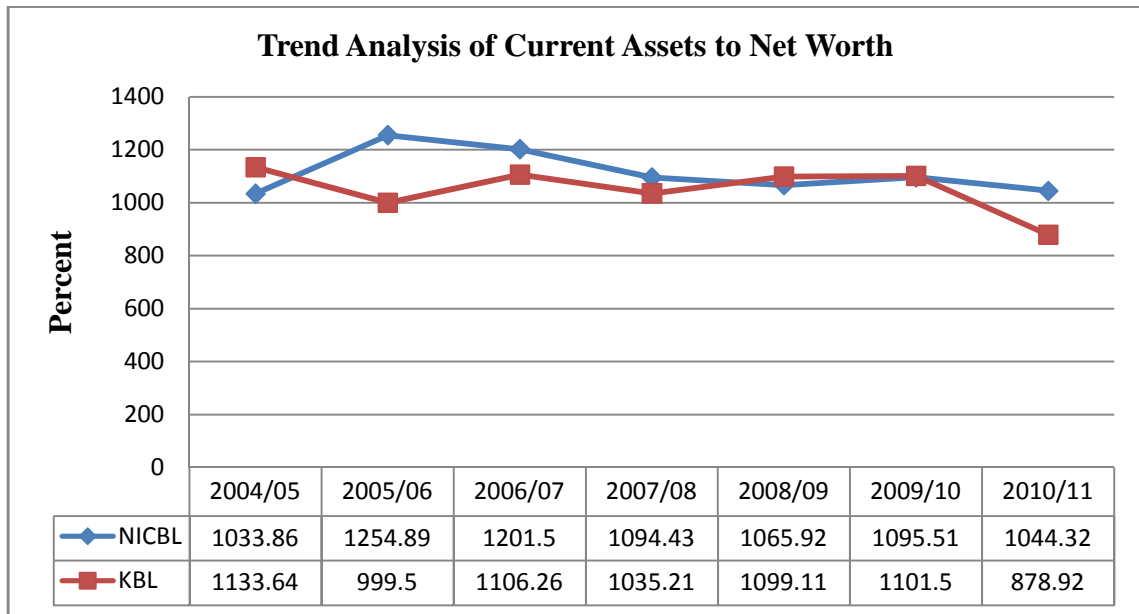
Table No: 3

Current Assets to Net worth Ratio

FY Bank	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Averages
NICBL	1033.86	1254.89	1201.5	1094.43	1065.92	1095.51	1044.32	1112.92
KBL	1133.64	999.5	1106.26	1035.21	1099.11	1101.5	878.92	1050.59

Source: Annex-I (3)

Trend Analysis



The above table and chart reflects that the ratio of NICBL has peaked to 1254.89 % in 2005/06. Then after it dropped by a little margin reaching to 1065.92 % in 2008/09.it rose by 20 % in 2009/10 and dropped further to 1044.32 % in 2010/11.Similarly, KBL shows the same pattern of fluctuations 1133.64 % can be seen in 2004/05 and dropped to 999.5 % in 2005/06. While in 2006/07 it rose to 1106.26% in 2007/08 it reached to

1035.21%. The ratios remain relatively stable throughout 2008/09 and 2009/10 and dropped to 878.92 % which is its lowest level in 2010/11. Here, NICBL has higher current assets composition on net worth than KBL. There is no doubt that higher current assets not only reduce the profitability but also reduce the risk. If bank does not feel risk, it is desirable to reduce the proportion of the current assets to create the positive impact on profitability. It is advisable that NICBL should be more aware on reducing its current assets.

4.1.1.4 Total deposit to net worth

Total deposit to net worth ratio measures the relative portion of total debt in relation to net worth. In this study total deposit includes saving, fixed, and current call to short deposit and other deposits.

The ratio can be calculated by applying following formula

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

By applying this formula, the following table develops to visualize the comparative data of this ratio.

Table No 4

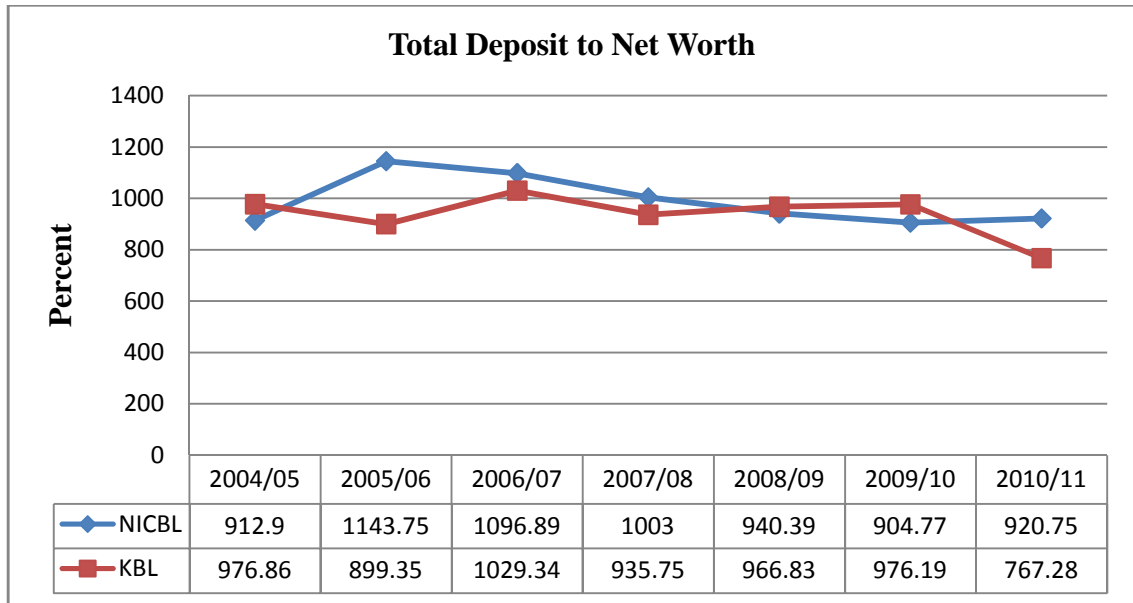
Total Deposit to Net worth Ratio

Total Deposit to Net worth Ratio

FY Bank	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Averages
NICBL	912.9	1143.75	1096.89	1003	940.39	904.77	920.75	988.92
KBL	976.86	899.35	1029.34	935.75	966.83	976.19	767.28	935.94

Source: Annex-I (4)

Trend Analysis:



The table above reflects NICBL has the ratio of 912.9 % in 2004/05 which increased to 1143.75 in 2005/06 then declined regularly reaching lowest level of 904.77 % in 2009/10; it rose slightly by about 16 % in 2010/11 and reached to 920.75 %. Whereas KBL’s ratio decreased to 899.35 % in 2005/06 as comparing to previous years ratio. In 2006/07 it has the highest ratio of 1029.34 % which dropped significantly to 935.75 % in 2007/08. A slight increase in trend can be visualized for two consecutive years i.e. 2008/09, 2009/10 then it hit the lowest point of 767.28 % in 2010/11. So, it is recommended that NICBL has to reduce the proportionate amount of deposit in relation to net worth because it shows the higher ratio which is unfavorable in banking industry. Higher this ratio indicates it is incurring losses or while the rate of return is less than the interest payable and vice versa. KBL also has to draw its attention to it because there is not much difference in overall ratio as comparing to NICBL, though KBL has managed to lower the ratio in 2010/11.

4.1.2 Liquidity Ratio:

Liquidity ratio measures the ability of the firm to meet its maturing obligation. Liquidity ratios show the relationship of a firm’s cash and other current assets to its current

liabilities. Liquidity is the word that the bankers use to describe the ability to satisfy demand for cash in exchange for deposits. To earn profits all the bankers maintain confidence. To maintain confidence he must maintain an adequate degree of liquidity in his assets. Every organization needs to maintain its liquidity position; it can be maintained from working capital. Liquidity provides honor, strength, health, and prosperity to an organization. It is extremely essential for an organization to meet its obligations as they become due. Therefore, a firm should ensure that it has not lack of liquidity and also that it is not too much highly liquid. A very high degree of liquidity is also a signal of poor utilization of funds of an organization where as lack of liquidity is the signal of poor credit worthiness; loss of creditors' confidence or even in law suits resulting in the closure of the company. So, it is necessary to strict a proper balance of liquidity.

4.1.2.1 Current ratio

Current ratio indicates whether the concern has instant ability to payout the current liabilities as they mature. This ratio is the yardstick to judge the soundness of the short-term financial position of the business unit or industry. Although the current ratio reflects the liquidity position of the industry, it does not indicate the quality of component of the current assets and current liabilities. Therefore current ratio analysis is a critical examination of the items appearing under the current assets as well as current liabilities of the company.

Current ratio is also known as working capital ratio because it helps to measure the efficiency of working capital management, since working capital happens to be equal to current assets minus current liabilities. This is the ratio signifying the relationship between the current assets and current liabilities; if the current ratio is good one has always to look at the composition and quality of the components of current assets and current liabilities.

This ratio is calculated by dividing current assets by current liabilities. It indicates the extent to which assets expected to be converted into cash in the near future to meet the maturing current liabilities. This ratio can be calculated by using following formula:

Current Ratio= $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ Where, **Current Assets** = Cash and Bank

balances, Money at call short notice, loans, cash credit and overdrafts, bill discounted and purchase, investment on government securities and others, interest receivable and miscellaneous current assets.

Current Liabilities = Deposits and other A/C's, short term loan, Tax liability, Staff Bonus, Dividend payable, Miscellaneous current liabilities

In the following table we can see the data relating to current ratio of NICBL and KBL.

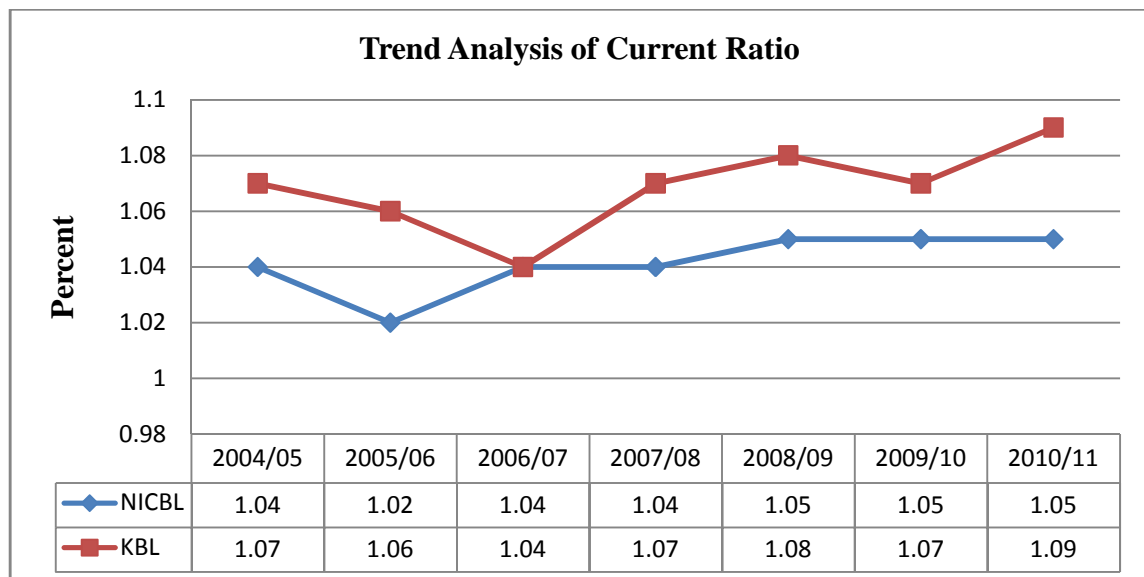
Table No 5
Current Ratio
(In Rs)

Current Ratio

FY Bank	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Averages
NICBL	1.04	1.02	1.04	1.04	1.05	1.05	1.05	1.04
KBL	1.07	1.06	1.04	1.07	1.08	1.07	1.09	1.07

Source: Annex-I (5)

Trend Analysis:



The above table and chart indicates that the current ratios of both banks are always below the normal standard i.e. 2:1. However KBL has greater current ratio throughout

the study period than NICBL. KBL represent higher average of 1.07 % which is slightly higher than NICBL's 1.05 %. As the current ratio of both banks are below the normal standard, it cannot be said that the banks have the poor liquidity because the ratio ascertained above simply represents the quantitative measures not qualitative measures ; it does not distinguish between different types of current assets, some of which are far more liquid than the others Although both NICBL and KBL has low current ratio, they have managed to retain relatively constant ratio throughout seven years which is the positive sign of the managerial performance. And most importantly, lower current ratio indicates either the banks have the good utilization of current assets in profit generating sectors or declining in value of current assets.

4.1.2.2 Cash and bank balance to current Assets

Cash and bank balance to current Assets ratio reveals the position of cash and bank balance in total of current assets. It is calculated by using the following formula: -

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

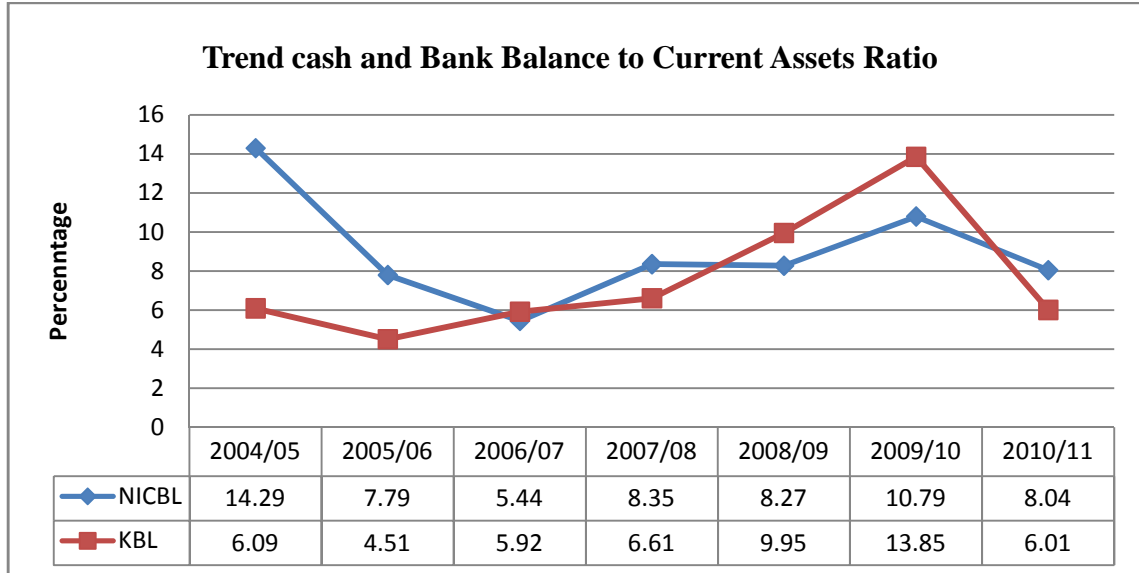
In the present study cash bank balances includes total cash and bank balances. Cash and bank balance are highly liquid assets then other current assets. So, this ratio scans higher liquidity position than current ratio. Following table shows the data relating to Cash and Bank balance to Current Ratio of NICBL and KBL.

Table No 6
Cash and Bank Balance to Current Assets Ratio
(%)

<i>Cash and Bank Balance to Current Assets Ratio</i>								
FY \ Bank	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Averages
NICBL	14.29	7.79	5.44	8.35	8.27	10.79	8.04	9.00
KBL	6.09	4.51	5.92	6.61	9.95	13.85	6.01	7.56

Source: Annex-I (6)

Trend Analysis:



The above table and chart shows that the trend of NICBL declined from 14.29 % to 7.79 % in 2005/06, it further declined to 5.44 % in 2006/07. Then rose up until 2009/10 reaching 10.79 % and again dropped to 8.04 %. Whereas KBL's ratio is in upward trend, it starts with 6.09 % in 2004/05 and a little drop to 4.51 percent in 2005/06 and thereafter surged to 13.85 % in 2009/10 and dropped sharply reaching 6.01 % in 2010/11. The average ratio of NICBL is higher than that of KBL, so it is clear that NICBL has better liquidity position than KBL.

4.1.2.3 Investment on Government securities to current assets

Government security is highly Liquid assets as well as confidential investment until the state is living. So, it is also a very important and very near cash item of current asset. Investment on Government security to current assets ratio visualizes the proportion of investment on Government security to current assets. This ratio is calculated using following formula: -

$$\text{Investment on Govt. Securities to Current Assets Ratio} = \frac{\text{Investment on Govt. Securities}}{\text{Current Assets}}$$

The following table shows the comparative figures of this ratio

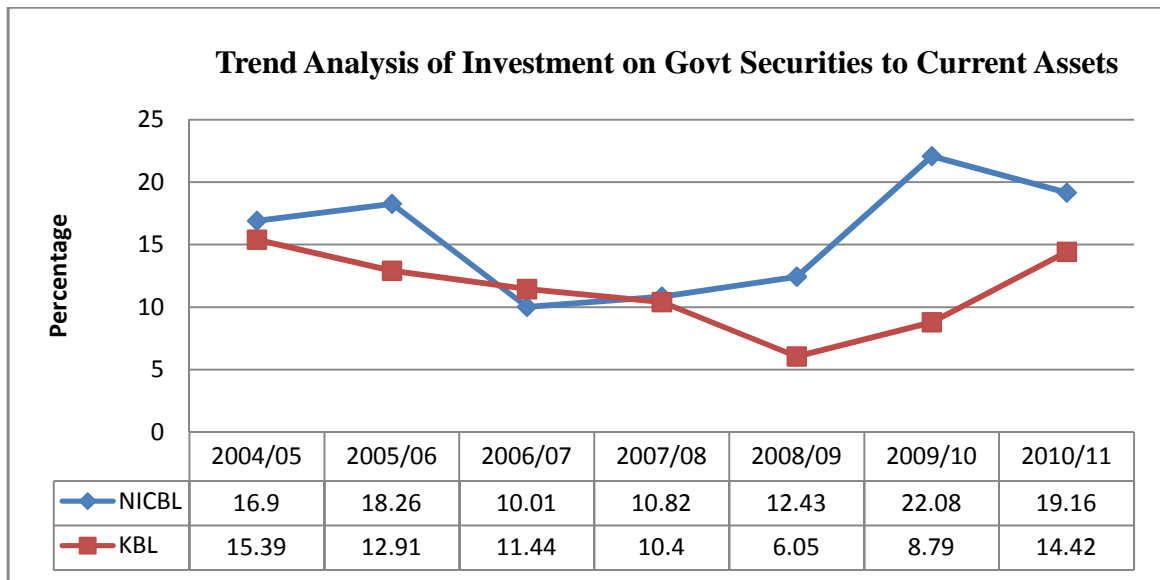
Table No 7
Investment on Govt. Securities to Current Assets
 (%)

Investment on Govt. Securities to Current Assets

Bank \ FY	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Averages
NICBL	16.9	18.26	10.01	10.82	12.43	22.08	19.16	15.67
KBL	15.39	12.91	11.44	10.4	6.05	8.79	14.42	11.34

Source: Annex-I (7)

Trend Analysis:



The above table and chart reflects the ratio regarding investment on government securities to current assets. It can be seen that both banks has fluctuating trend of ratios. In 2004/05 NICBL has ratio of 16.9 % which rose to 18.26 % in 2005/06 then decrease sharply to 10.01 % in 2006/07 then after increasing trend peaked to 22.8 % in 2009/10 and fell again to 19.16 % in 2010/11. Whereas KBL's ratios is in decreasing trend, the table shows 15.39 % in 2004/05 which fell continuously and dropped to the lowest level of 6.05 % in 2008/09 after then rose to 8.7 and 14.42 % in 2009/10 and 2010/11

respectively. Thus it can be concluded that NICBL has greater Ratio than that of KBL which means NICBL has low cash balance but higher amount of investment on government securities but KBL has high cash balance and low investment in government securities. So it is advisable that KBL should be careful to invest more on government securities rather than keeping cash balance unproductive because it is losing additional interest income from government securities..

4.1.2.4 Loan and advance to current assets

Loan and advances to current assets ratio reflects the capability of bank discounting and purchasing the bills, loans, and overdraft facilities to the customers. This ratio can be calculated by using following formula: -

$$\text{Loan and Advances to Current Assets Ratio} = \frac{\text{Loan and Advances}}{\text{Current Assets}}$$

Comparative figures of this ratio are presented in the following table.

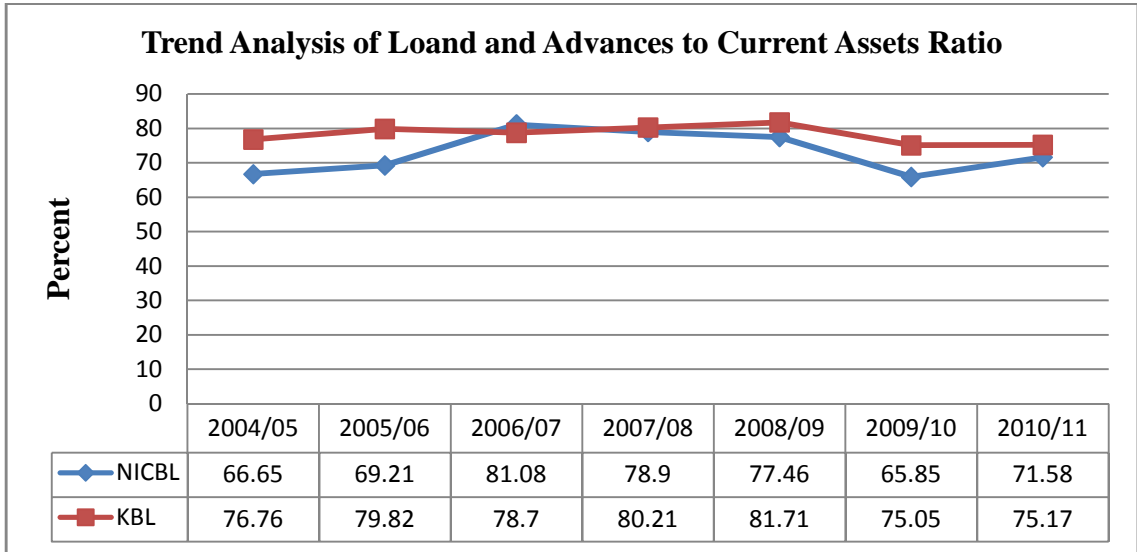
Table No 8
Loan and Advances to Current Assets Ratio
(%)

Loan and Advances to Current Assets Ratio

FY Bank	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Averages
NICBL	66.65	69.21	81.08	78.09	77.46	65.85	71.58	72.96
KBL	76.76	79.82	78.8	80.21	81.71	75.05	75.17	78.21

Source: Annex-I (8)

Trend Analysis:



The above comparative figure depicts that the loan and advance to current assets ratio of both banks fluctuates a little throughout 7 years period. KBL is more consistent than NICBL since it has managed to retain the ratio between 75 % to 81 %. In 2004/05 KBL has the ratio of 76.76 % which increased constantly and reached to its highest level of 81.71 % in 2009/10 then dipped to 75.17 % in 2010/11. Whereas, NICBL ratio starts with 66.65 % in 2004/05 and reached to its peak at 81.08 in 2006/07 then after declined to its lowest level in 2010/11. Thus the comparative figures shows us that KBL has higher ratio than NICBL which means KBL is extending its credit from its current assets that is more than that of NICBL. Hence it is concluded that KBL is more successful to mobilize its current deposit on loan and advances in comparison to NICBL

4.1.2.5 Fixed Deposit to total deposit

Fixed deposit represents the deposits of fixed time period. Bank can freely invest this type of deposit for fixed period of time.

This ratio can be calculated using the following formula: -

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

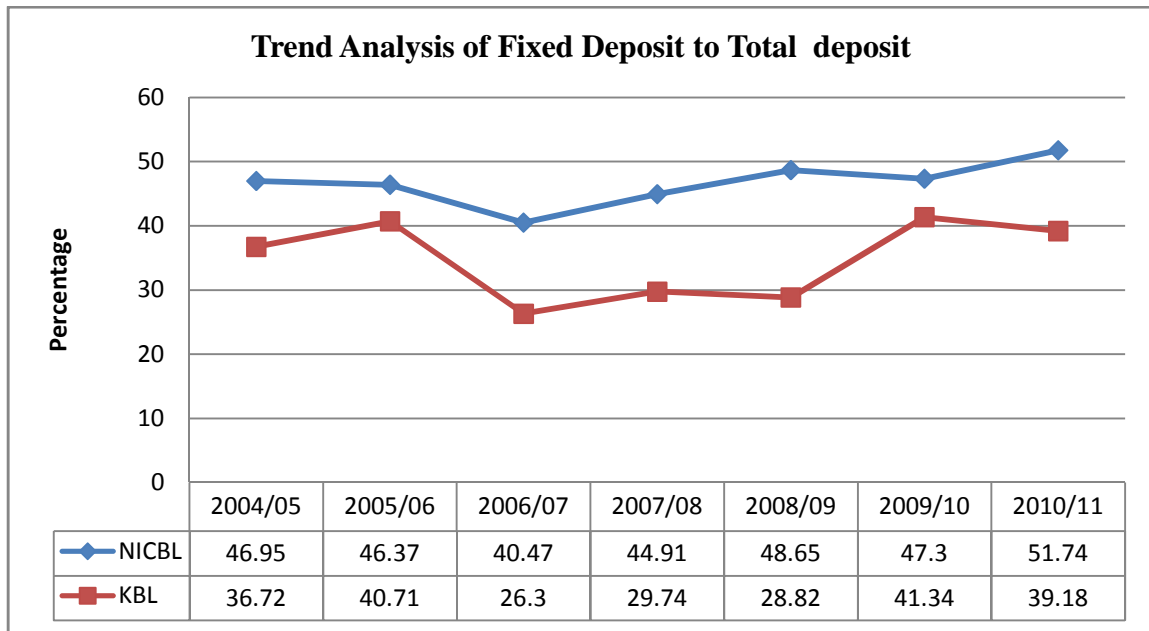
The following table exhibits fixed deposit to total deposit ratio of NICBL and KBL.

Table No 9
Fixed Deposit to Total Deposit Ratio

		<i>Fixed Deposit to Total Deposit Ratio</i>						
FY \ Bank	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Averages
NICBL	46.95	46.37	40.47	44.91	48.65	47.3	51.74	46.63
KBL	36.72	40.71	26.23	29.74	28.82	41.34	39.18	34.69

Source: Annex-I (9)

Trend Analysis:



The above table and chart shows the ratio of fixed deposit to total deposit of both banks recorded fluctuating trend during the study period i.e. from 2004/05 to 2010/11. The average ratio of fixed deposit to total deposit of NICBL is greater than KBL i.e. 46.63% > 34.69%. So from the above figure is clear that NICBL has better opportunity to invest its fixed deposit to most productive sector than KBL.

4.1.2.6 Saving deposit to total deposit

Saving deposit to total deposit reveals the portion of saving deposit in total deposit. It can be calculated by applying following formula.

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

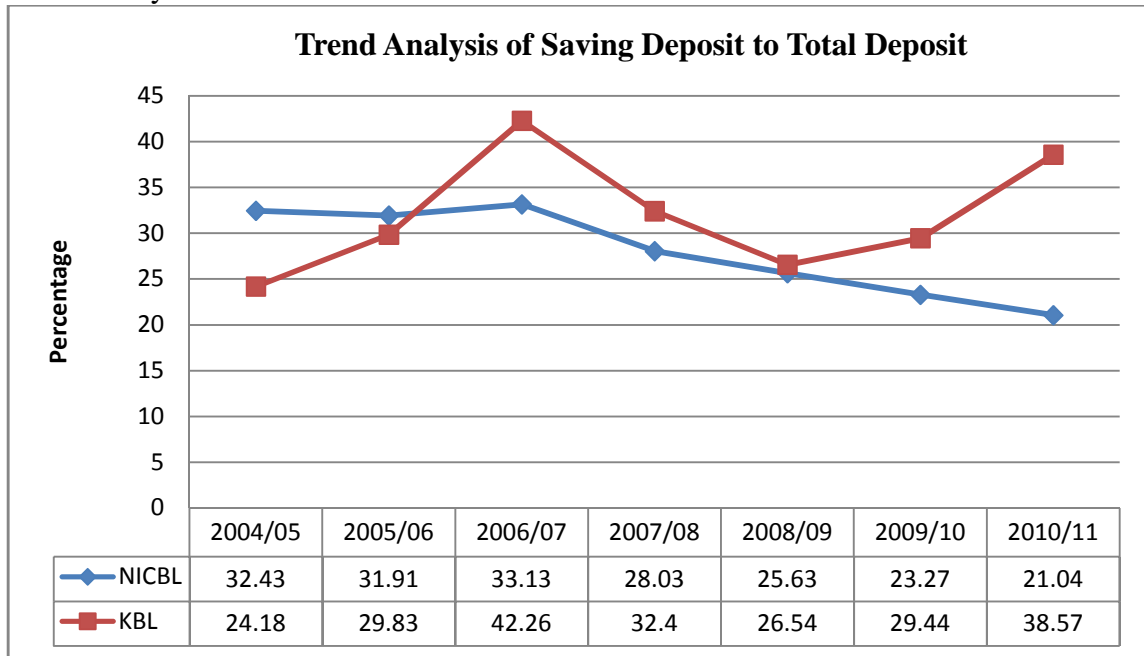
The following table presented the comparative ratio of both the banks.

Table No10
Saving Deposit to Total Deposit Ratio

<i>Saving Deposit to Total Deposit Ratio</i>								
FY Bank	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Averages
NICBL	32.43	31.91	33.13	28.03	25.63	23.27	21.04	27.92
KBL	24.18	29.83	42.26	32.4	26.54	29.44	38.57	31.89

Source: Annex-I (10)

Trend Analysis:



The above table and chart shows the trend of ratio relating to saving deposit to total deposit. NICBL has managed to keep ratio relatively constant from the beginning of the study period i.e. 2004/05 to 2006/07 at 32.43 % to 33.13 % after 2006/07 the ratio level show downward trend which reached to the lowest level in 2010/11 at 21.04 %. Whereas in the case of KBL, in the beginning of study period it shows just 24.18 % which is also

the lowest level throughout the study period then it rose rapidly to reach to peak at 42.26 % in 2006/07. After 2006/07 the trend of ratio decreased to lower level of 26.54 % and again increased to 29.44 % and 38.57% in 2009/10 and 2010/11 respectively. Thus from the above analysis it can be said that KBL has managed to retain and encourage saving depositor as its saving deposit continuously increasing over the past seven years but NICBL's collection of saving deposit is decreasing over seven years. Therefore it is recommended that NICBL has to bring out the various schemes regarding the collection of saving deposit and retain the number of depositors.

4.1.2.7 Cash and Bank Balance to Total deposit (*Excluding Fixed Deposit*)

This ratio shows the ability of banks immediate funds to cover their (current margin, call and saving) deposit. Higher the ratio shows higher liquidity position and ability to cover the deposits and vice versa.

Cash and bank balance to Total deposit ratio reveals the position of cash and bank balance in relation to the total deposit.

Cash and bank balance to Total deposit ratio can be calculated by dividing cash and bank balance by deposits (excluding fixed deposits). This ratio can be calculated by using the following formula:

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

The following comparative table shows the data of NICBL and KBL.

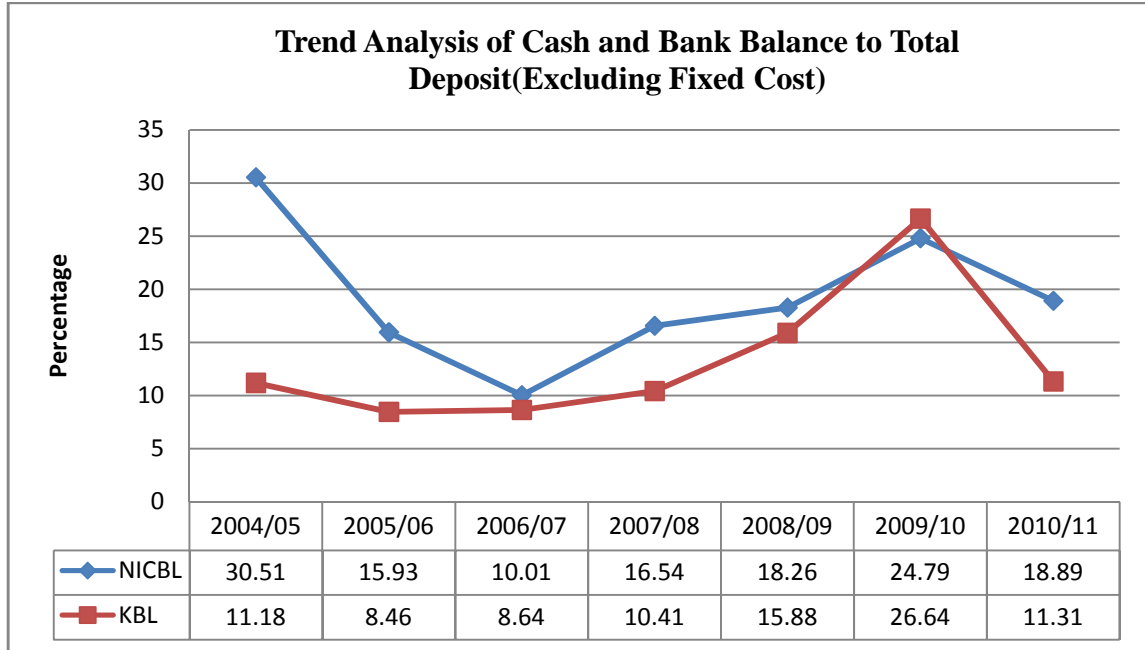
Table No 11
Cash and Bank Balance to Total deposit

Cash and Bank Balance to Total deposit

FY Bank	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Averages
NICBL	30.51	15.93	10.01	16.54	18.26	24.79	18.89	19.28
KBL	11.18	8.46	8.64	10.41	15.88	26.64	11.31	13.21

Source: Annex-I (11)

Trend Analysis:



Above table reveals that the ratio of cash and bank balance to total deposit related to two banks i.e. NICBL and KBL. The table shows NICBL has the highest ratio of 30.51 % in 2004/05 which dropped to the lowest level of 10.01 % but regained the increasing trend in 2007/08 that continued to 2009/10 at 24.79 % then dropped to 18.89 in 2010/11. But KBL’s trend shows some minor variations in ratios until 2007/08 reaching at 10.41percent which increased to reach at peak in 2009/10 then declined to 11.31 % in 2010/11. Above trend analysis indicates that the ratio of cash and bank balance to total deposit (excluding Fixed Deposit) of both banks fluctuated over the period. However the average figure shows NICBL is in better position than KBL. So it can be said that NICBL has better liquidity position and ability to cover the deposit obligation since it maintained adequate cash and bank balance in hand. On the other hand, KBL should be more aware on increasing its cash balance as it may face liquidity problems in coming future, if many depositors try to withdraw their deposits at one time

4.1.3 Credit Ratio

Credit, regarded as life blood of the economy, so banks’ earnings are the foundation upon which rest the two main pillars of banking strength, adequacy of the capital and

competence management, earning power to be the first line of defense against the risk investment in banking.

Credit ratio shows the relationship between investments, long term as well as short term, in relation to total deposit. It indicates the capacity of banks' investment, it also reflects that whether the banks are successfully mobilizing total deposit in investment sector or not. It also measures the creditworthiness of the banks and indicates whether banks are properly extending their credit or not.

4.1.3.1 Investment on Government securities to Total deposit

This ratio measures the percentage of total deposits invested as credit on government securities to earn fixed return.

Investment on Government securities to Total Deposit ratio can be calculated by dividing Investment on Government Securities by Total Deposits.

This ratio can be calculated by using the following formula:

$$\text{Investment on Government securities to Total deposit} = \frac{\text{Investment on Govt. Securities}}{\text{Total Deposit}}$$

The following table visualizes the ratio of both the banks Investment on government security to total deposit in percentage basis.

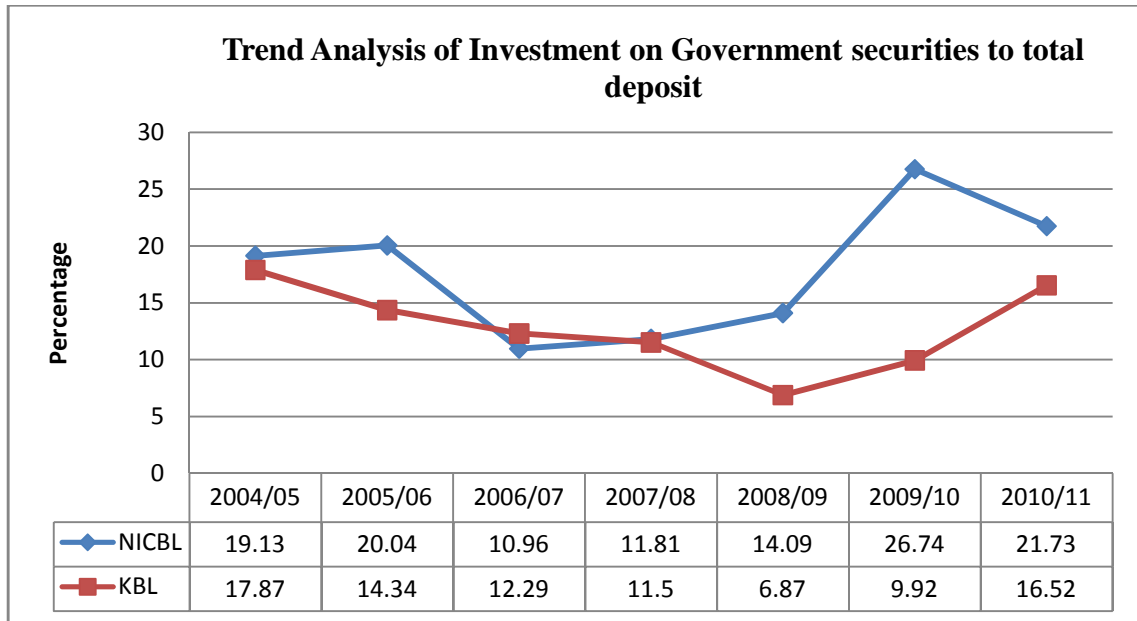
Table No 12
Investment on government securities to total deposit

Investment on government securities to total deposit

Bank \ FY	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Averages
NICBL	19.13	20.04	10.96	11.81	14.09	26.74	21.73	17.79
KBL	17.87	14.34	12.29	11.5	6.87	9.92	16.52	12.76

Source: Annex-I (12)

Trend Analysis:



The above table and chart supplies the information relating to the ratio of investment on government securities to total deposit. As can be seen NICBL’s ratio starts at 19.13% in the year 2004/05 and increased slightly in 2005/06 which dropped significantly in next year and regained its increasing trend until 2009/10 at 26.74 % then after decreased to 21.73 %. But the ratio of KBL trend is decreasing, this starts from 17.87 % in 2004/05 which decrease until 2008/09 at its minimum level then after regained the trend to 16.52 % in 2010/11. So from The above table and chart it can be traced that the ratio of investing to government securities out of total deposit of NICBL is higher than that of KBL. This indicates NICBL management team always seeks extra amount of Interest income from the riskless investments. Whereas KBL management team are not thinking of the extra interest income they can earn from safe securities, So it is recommended that KBL Should invest more of its total deposit to safe securities than just advancing loan against collateral.

4.1.3.2 Cash and Bank Balance to Total deposit

Cash and bank balance ratio reveals the position of cash and bank balance in total deposit.

This ratio can be calculated by using following formula:

$$\text{Cash and Bank Balance to total deposit ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

The following comparative table shows the data of NICBL and KBL.

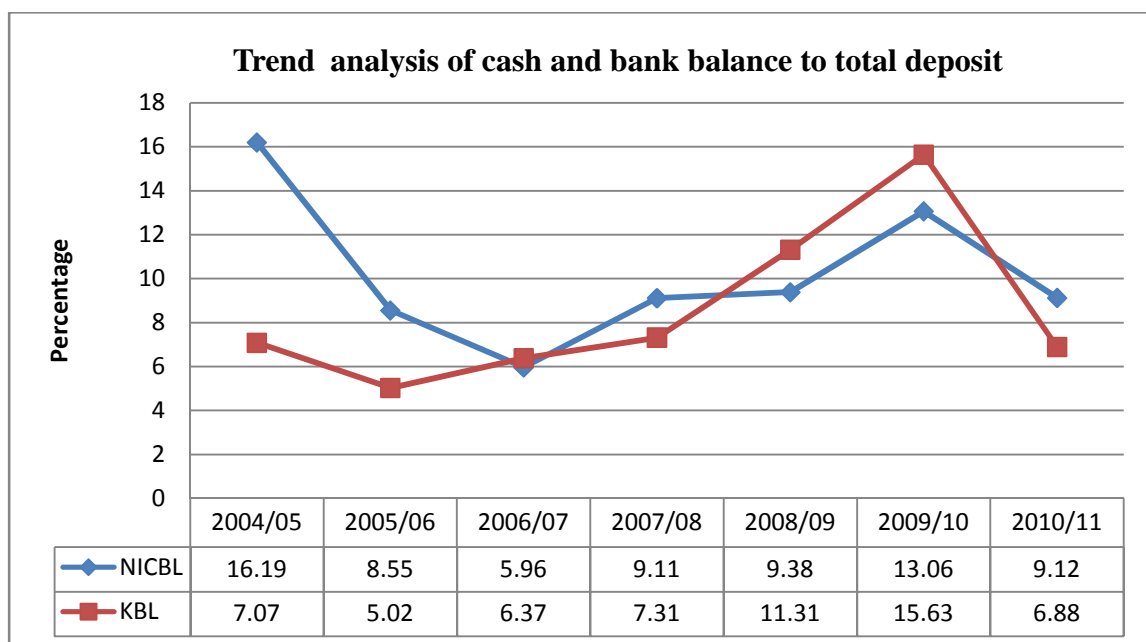
Table No 13
Cash and Bank Balance to Total deposit ratio

Cash and Bank Balance to Total deposit ratio

FY Bank	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Averages
NICBL	16.19	8.55	5.96	9.11	9.38	13.06	9.12	10.19
KBL	7.07	5.02	6.37	7.31	11.31	15.63	6.88	8.51

Source: Annex-I (13)

Trend Analysis:



The table and chart depicts the ratio regarding cash and bank balance to total deposit. As can be seen NICBL's ratio dropped significantly from 16.19 % to just 5.96 % in 2006/07 then after increasing trend continued until 2009/10 that shows 13.06 % which dropped to 9.12 % in 2010/11. Similarly, KBL has ratio of 7.07% on starting of the study period which decreased slightly in the following year at 5.02 % but after that lowest ratio in 2005/06 it shows the gradual increase until 2009/10 at 15.63 % which fell sharply on the

next year to just 6.88 %. The study of above table indicated both of the banks are not maintaining the good liquidity position which is unfavorable. Though the average ratio of cash and bank balance of NICBL is more than KBL, this does not mean NICBL is maintaining higher ratio than KBL. KBL on the other hand maintained good cash and bank balance on each year (except 2004/05 and 2005/06) than NICBL. So it is concluded that both Banks are vulnerable in maintaining good cash and bank balance to total deposit.

4.1.3.3 Total Investment to total deposit (Except Loans and Advances)

Total investment to total deposit ratio shows the portion of total investment in total deposit. In this study total investment represents investment in Government securities and shares. It can be calculated by applying the following formula: -

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

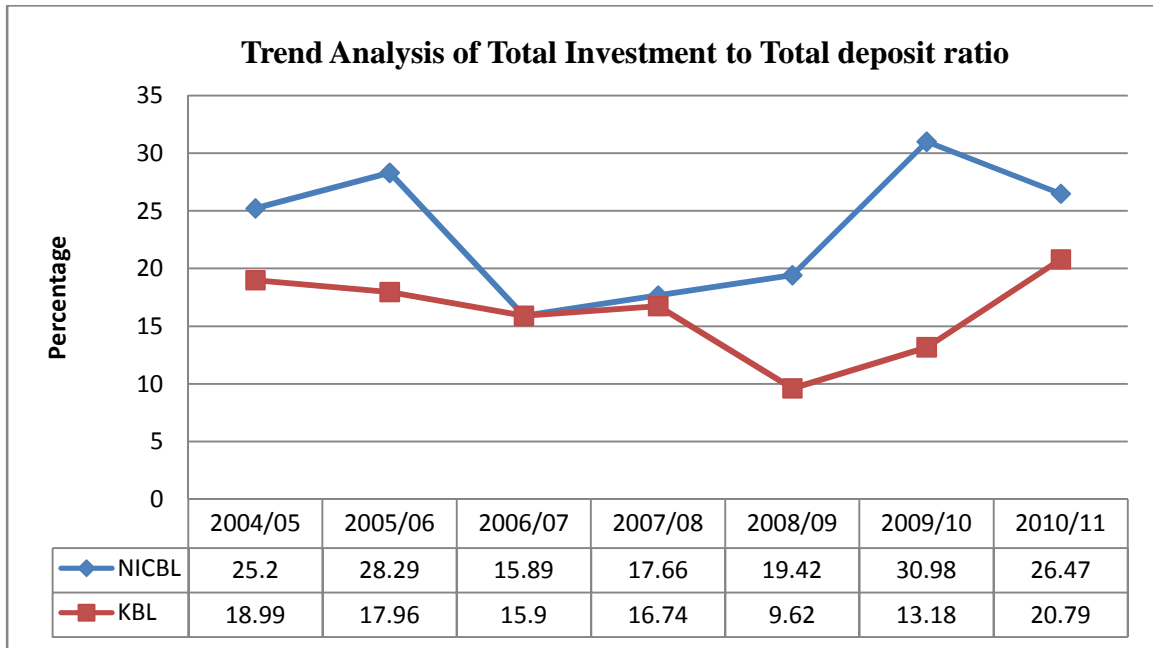
The following table exhibits the ratio of total investments to total deposit

Table No 14
Total Investment to total deposit

		<i>Total Investment to total deposit</i>						
FY Bank	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Averages
NICBL	25.2	28.29	15.89	17.66	19.42	30.98	26.47	23.41
KBL	18.99	17.96	15.9	16.74	9.62	13.18	20.79	16.17

Source: Annex-I (14)

Trend Analysis:



The above table and chart and chart summarizes the ratio between total investment except loan and advances between NICBL and KBL. As can be seen the ratio of both banks fluctuates over the time but the ratio of NICBL is higher than KBL. At the beginning of the study period ratio of NICBL shows just over 25 % the following year it reaches to 28.29 % then after in 2006/07 it has decreased to its lowest point at 15.89 %. A slight increase in trend can be visualized up to 2008/09 then peaked to its maximum level of 30.98 which again fell to 26.47 % in the following year. But the KBL's trend is always below than NICBL. At the beginning of study period it shows 18.99 % which decrease constantly to reach the lowest level of 9.62 % in 2008/09 then after some increment in trend can be seen which reached at maximum level in 2010/11 at 20.79 %. Thus, after analyzing the table NICBL always allocate higher fund to invest in shares debentures as well as on non risk bearing securities than that of KBL. It shows that NICBL always looks towards better return from investing activities rather than just advancing loans which give lesser return. It is recommended that KBL management should think about investing its accumulated deposit to share, debenture and risk less securities which not only provide extra Income as interest, dividend but also secure the investment.

4.1.4 Turn over Ratios

Turnover ratio measures the effectiveness of the employment of the resources. Turn over ratios are employed to evaluate the efficiency, with which the firm manages and utilizes its assets. Turn over ratios is also called, activity ratio or efficiency ratio or assets utilization ratios.

The efficiency with which assets are used would be reflected in the speed and with which assets are converted into sales. Other things remaining the same, we can say that the greater the rate of turnover or conversion, the more efficient the utilization/management.

Turnover is the primary mode for measuring the extent of efficient employment of assets by relating the assets to sales.

Assets utilization ratios or assets management ratios (turn over ratios) measuring the efficiency in assets management means how the scarce assets are utilized in proper places. If the available assets are not utilized effectively, the assets upon them will be idle and profitability will be decreased. If the available asset is not sufficiently utilized, adequate sales cannot be maintained and profitability decreased. For this reason a proper balance between volume of sales and value of assets is desirable and it reflects the effectiveness of the management.

In this study turnover of bank can be measured by analyzing following ratios.

4.1.4.1 Total assets to Total Loan

In this study total loan represents bills purchased and discounted (local plus foreign currencies), loans, advances and overdrafts (local plus foreign currencies). This ratio is calculated by applying the following formula: -

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

The following table shows the ratio of Total assets to Total Loan of NICBL and KBL.

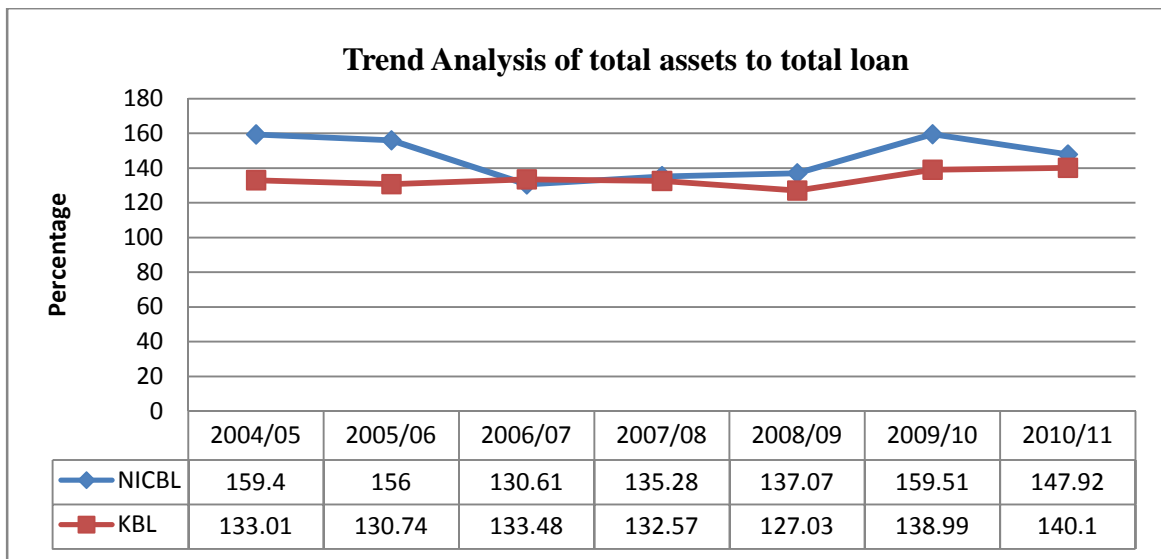
Table No 15
Total assets to Total Loan

Total assets to Total Loan

Bank \ FY	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Averages
NICBL	159.4	156	130.61	135.28	137.07	159.51	147.92	146.57
KBL	133.01	130.74	133.48	132.57	127.03	138.99	140.1	133.70

Source: Annex-I (15)

Trend Analysis:



It is observed from the above table and chart that the average ratio of NICBL is better than KBL. NICBL's total assets to total loan shows 159.4% in the beginning of the study period then decreased slightly to 156% in the following year after then it dropped to the lowest level of 130.61 % in 2006/07. After 2006/07 the ratio increased regularly to reach 159.51 % in 2009/10 and also dropped to 147.92 % in the following year. But the ratio of Kumari bank remain relatively constant over the study period i.e. it starts with the ratio of 133.01% which fluctuated slightly for 3 consecutive years and fell to lowest ratio of 127.03 % in 2008/09 then it regained its increasing trend which increased up to 140.1 % in 2010/11. So from the above analysis it is traced that the average of NICBL is slightly higher than KBL, which means NICBL is efficient in utilizing its asset than KBL.

4.1.4.2 Loan and advances to total deposit

This ratio measures the extent to which the banks are successful in mobilizing Total Deposit for the purpose of profit generation. For the profit generation proposes, commercial banks utilized the outsider's fund.

This ratio can be calculated by applying following formula: -

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

Generally, higher this ratio is considered to be the sign of efficient bank management and vice-versa. In this study loan and advances represents the loans and advances from two Banks which represents the entire study and total deposits represents to total of all kind of deposit and other accounts for the same.

The following table shows the ratio of loans and advances to total deposits of NICBL and KBL.

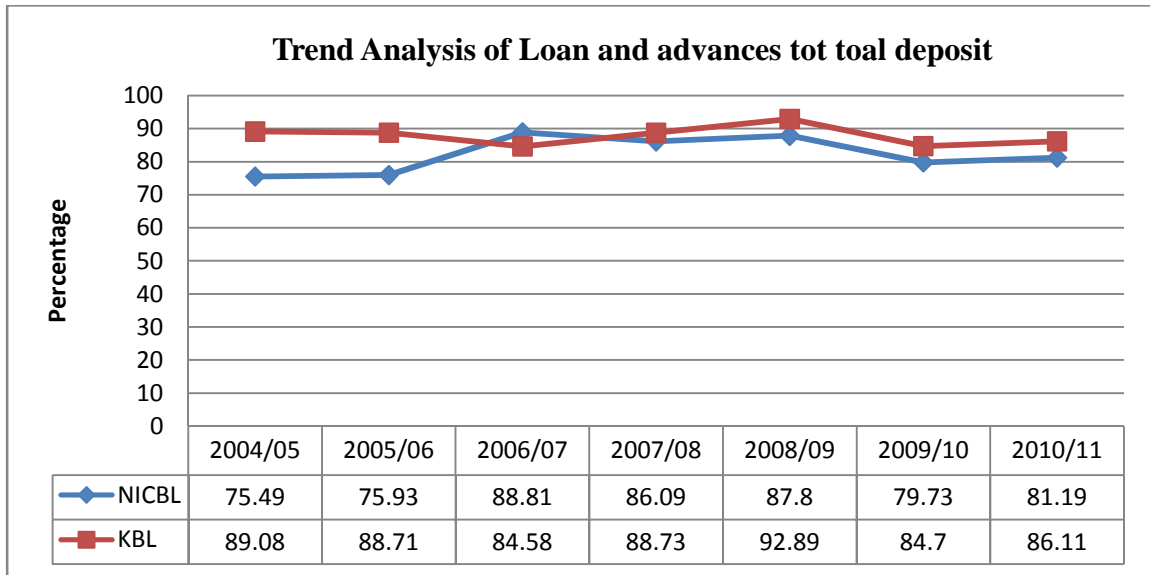
Table No 16
Loan & Advances to Total Deposit

Loan & Advances to Total Deposit

<i>Bank</i> \ <i>FY</i>	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Averages
NICBL	75.49	75.93	88.81	86.09	87.8	79.73	81.19	82.15
KBL	89.08	88.71	84.58	88.73	92.89	84.7	86.11	87.83

Source: Annex-I (16)

Trend Analysis:



The above table and chart supplies the information regarding the ratio of loan and advances to total deposit. It can be seen that the both banks manages to release more than 75 % of its accumulated fund for outsiders. At one hand NICBL has ratio of 75.49 % in 2004/05 and increased to it maximum level in 2006/07 with 88.81 % then after decreases gradually to reach third lowest point in 2009/10 with 79.73 % but in 2010/11 it increases again to reach 81.19 %. On the other hand KBL's ratios are always higher than that of NICBL. The trend of ratio seems relatively constant and fluctuates in slow manner. However in 2006/07 it has reached to its lowest point which shows 84.58 % then the trend increase slightly over the following year. It is in 2008/09 the trend of ratios reached to it maximum point of 92.89 % in 2008/09 after then it decreases to 84.7 and 86.11 % in 2009/10, 2010/11 respectively. So it is concluded that KBL always allocate higher of its accumulated deposit for advancing loans to outsiders. Higher this ratio indicates that the bank is efficient to utilize outsiders fund which help surge the profit. Thus it is recommended that NICBL Should Advance more of its deposit as loan to earn higher profit.

4.1.4.3 Loan and Advances to Fixed deposit

Loan and advances to fixed deposit shows the portion of loan and advances in fixed deposits. In this study, loan and advances refers to loan and advances for two selected banks i.e. NICBL and KBL. This ratio can be calculated by applying following formula:

$$\text{Loan and Advances to Fixed deposit Ratio} = \frac{\text{Loans and Advances}}{\text{Fixed Deposit}}$$

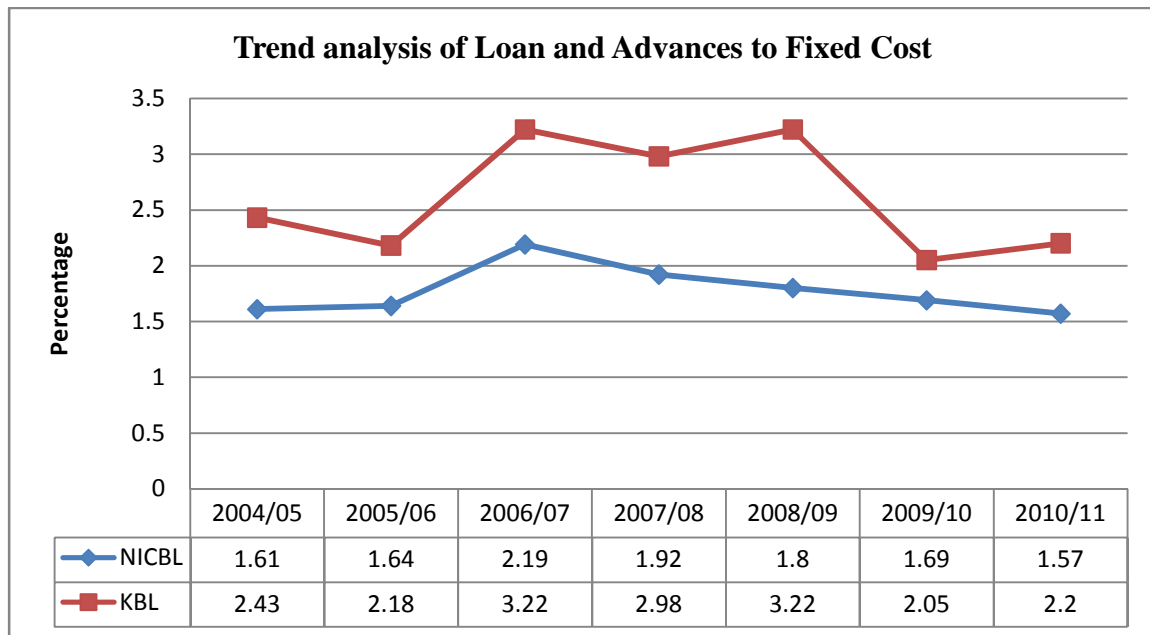
The comparative relationship between loans and advances to fixed deposit of NICBL and KBL is given in the following table.

Table No 17
Loan and Advances to Fixed deposit

<i>Loan and Advances to Fixed deposit</i>								
FY Bank	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Averages
NICBL	1.61	1.64	2.19	1.92	1.8	1.69	1.57	1.77
KBL	2.43	2.18	3.22	2.98	3.22	2.05	2.2	2.6

Source: Annex-I (17)

Trend Analysis:



The above table and chart depicts the loan and advances to fixed deposits ratio. The ratio of NICBL has ranged between 1.57 % (in the year 2010/11) and 2.19 % (in the year 2007/08), whereas the ratio of KBL has ranged between 2.05 % (in the year 2009/10) and 3.22 % (in the year 2006/7 and 2008/09). On average both banks has utilized their fixed deposit, however higher ratio of KBL on an average basis explains higher efficiency in comparison to NICBL in utilizing its deposits for profit generating purpose i.e. 2.2% > 1.57%.

4.1.4.4 Loans and advances to saving deposits

Saving deposits are the short-term interest bearing liabilities and loans and advances are the major sources of investment to generate income in a commercial bank. The ratio is employed for the purpose of measuring utilization of saving deposit in generating revenue by giving loans and advances to the client i.e. to what extent collected saving deposit amount is deploying in providing loans and advances to generate income. The ratio indicates how many times the short-term interest bearing deposits are utilized for income generating purpose. In this study loans and advances represents the loans and advances for NICBL and KBL.

The ratio can be calculated by using following formula:

$$\text{Loan and advances to saving deposit} = \frac{\text{Loans and Advances}}{\text{Savings Deposit}}$$

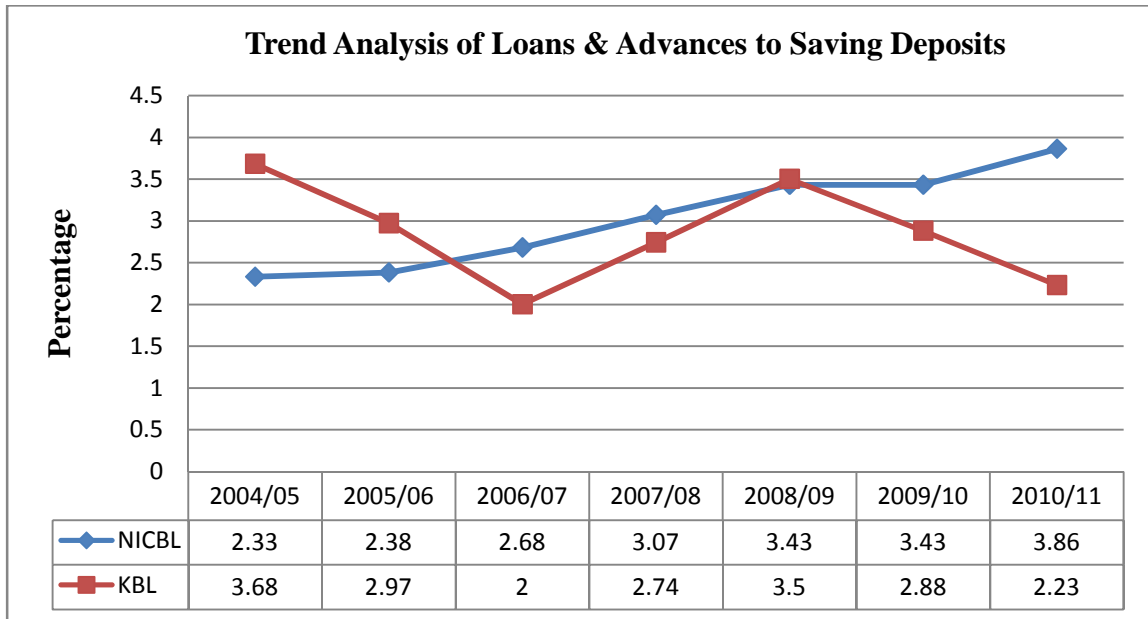
The following table shows comparative data of this ratio

Table No 18
Loan and advances to saving deposit

Loan and advances to saving deposit								
Bank \ FY	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Averages
NICBL	2.33	2.38	2.68	3.07	3.43	3.43	3.86	3.02
KBL	3.68	2.97	2	2.74	3.5	2.88	2.23	2.86

Source: Annex-I (18)

Trend Analysis:



The above table and chart reflects the ratio relating to loans and advances to saving deposits of two banks NICBL and KBL. As the figure shows NICBL has increasing trend throughout the period which starts from 2.33 % in 2004/05 and ends at the highest point of 3.86 % in 2010/11. But the ratio of KBL fluctuated over the study period i.e. trend starts at 3.68 % in 2004/05 after then the trend decrease significantly to reach at the lowest point in 2006/07. After 2006/07 the trend shows significant increase which reached to 3.5 % in 2008/09 after then decreased to 2.88 and 2.23% in 2009/10, 2010/11 respectively. Thus from the above table and chart it can be generalized that both banks are efficiently able to utilize their fund in advancing loans which signifies better return generation.

4.1.5 Profitability Ratios

Profitability ratios indicate degree of success in achieving desired profit level. Profitability ratios, which measure management’s overall effectiveness, are shown by the returns generated on sales and investment. Profit is the difference between revenues and expenses over a period of time. A company should be able to earn profit to survive and grow over a long period of time however, profit earning should be directed from social viewpoint at the same time i.e. cost of employees, customers, and society. However,

profit measures the operating efficiency of the firm and the search for an incentive to achieve efficiency.

The profitability of a firm can be measured by its profitability ratios and profitability ratios are those ratios, which indicate degree of success in achieving desired profit levels. In other words, the profitability ratios are designed to provide answer to questions such as:

- (i) The profit earned by the firm is adequate?
- (ii) What rate of return does it present?
- (iii) What is the rate of profit for various divisions and segments of the firm?
- (iv) What are the earnings per share?
- (v) What amount was paid in dividends?
- (vi) What is the rate of return to equity holders? And so on.

Generally, two major types of profitability ratios are calculated

- A) Profitability in relation to sales.
- B) Profitability in relation to investment

In the study, the profitability ratios are calculated by relating the profit of banks to its investment. Such ratios are: -

4.1.5.1 Interest Earned to Working Fund

Interest earned to working fund ratio reflects portions interest earned in working funds. In this, interest earned refers to interest earned from operating banking business.

The ratio of Interest Earned to working fund can be calculated by using the following formula: -

$$\text{Interest Earned to Working Fund Ratio} = \frac{\text{Interest Earned}}{\text{Working Fund}}$$

{Where, working funds = current assets+ fixed assets (net)+other assets}

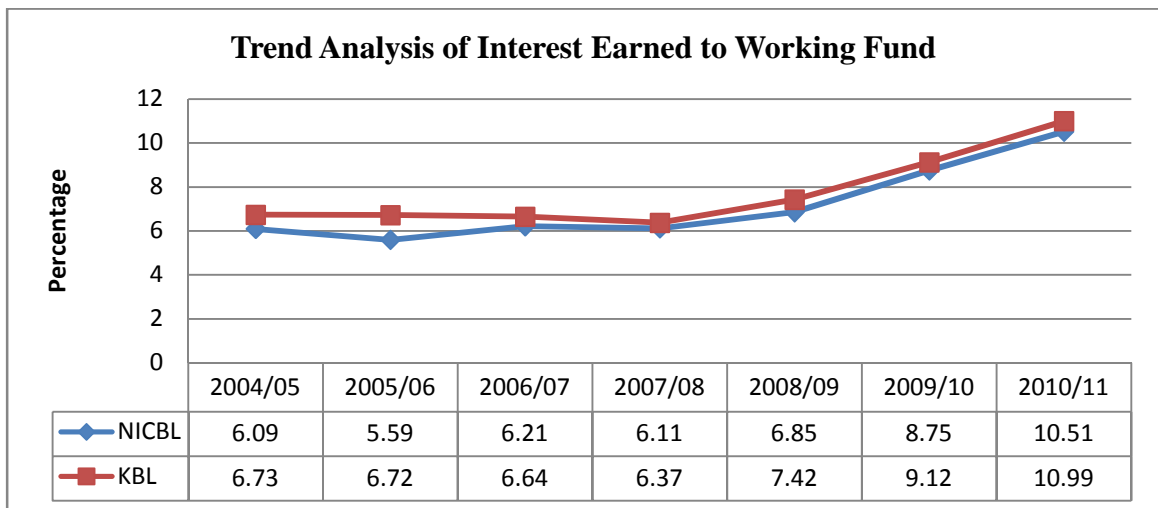
The following table shows the comparative figures of this ratio.

Table No 19
Interest Earned to Working Fund

<i>Interest Earned to Working Fund</i>								
FY Bank	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Averages
NICBL	6.09	5.59	6.21	6.11	6.85	8.75	10.51	7.16
KBL	6.73	6.72	6.64	6.37	7.42	9.12	10.99	7.71

Source: Annex-I (19)

Trend Analysis:



The above table and chart shows the ratio of interest earned to working fund of two banks i.e. NICBL and KBL. It is noted that both banks have increasing trend of ratios throughout the study period. The ratio of NICBL shows 6.09 % in the year 2004/05 that dropped a bit to 5.59 % in 2005/06 then after surge gradually to reach at its highest point of 10.51 % in 2010/11. Similar pattern can be visualized for KBL, the ratio starts with 6.73 % in 2004/05 that decreased nominally for 3 consecutive years to reach the lowest point of 6.37 % in 2007/08. After some nominal fall, the trend of ratio increase gradually to reach the highest of 10.99 % in 2010/11. From the above analysis it can be said that

KBL has slightly higher ratio of interest earned than that of NICBL this shows KBL is generating more funds to loan and advances to add interest income.

4.1.5.2 Interest paid to working fund

Interest paid to working fund ratio shows the portion of interest paid in working fund. Here, interest paid represents interest paid in borrowing and deposit.

This ratio can be calculated by applying following formula: -

$$\text{Interest paid to working fund Ratio} = \frac{\text{Interest Paid}}{\text{Working Fund}}$$

{Where, working funds = current assets+ fixed assets (net)+other assets}

The following table shows the comparative figures of this ratio

Table No 20

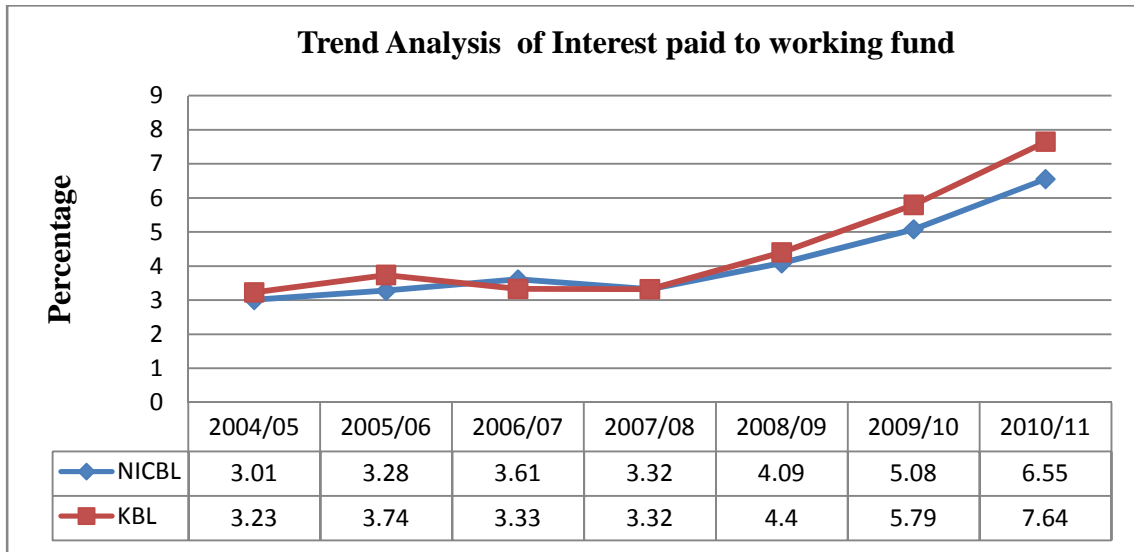
Interest paid to working fund

Interest paid to working fund

FY Bank	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Averages
NICBL	3.01	3.28	3.61	3.32	4.09	5.08	6.55	4.13
KBL	3.23	3.74	3.33	3.32	4.4	5.79	7.64	4.49

Source: Annex-I (20)

Trend Analysis:



The above table and chart supplies the information relating to the ratio of Interest paid to working fund. The ratio of NICBL starts from 2004/05 at 3.01 % which continue to increase throughout the study period and reached to its peak in 2010/11 at 6.55 % where as the ratio of KBL starts from 3.23 % in 2004/05 and increased to 3.74 % in 2005/06 then after fell minimal point in the following 2 years. After the short fall in trend it has caught the increasing trend which reached up to 7.64 % in 2010/11. The trend hence suggests that the average ratio of interest paid of KBL is higher than that of NICBL. This means KBL is collecting more interest bearing fund and paying more interest for short term borrowing than NICBL.

4.1.5.3 Cost of services to working fund

Cost of services to working fund ratio show the portion of cost of services in working fund. Here cost of services represents interest paid on borrowing, salary allowances, Exchange fluctuation loss and provident fund.

The ratio of Cost of services to working fund can be calculated by applying following formula.

$$\text{Cost of services to working fund Ratio} = \frac{\text{Cost of Services}}{\text{Working Fund}}$$

(Where, working funds = current assets+ net fixed assets +other assets)

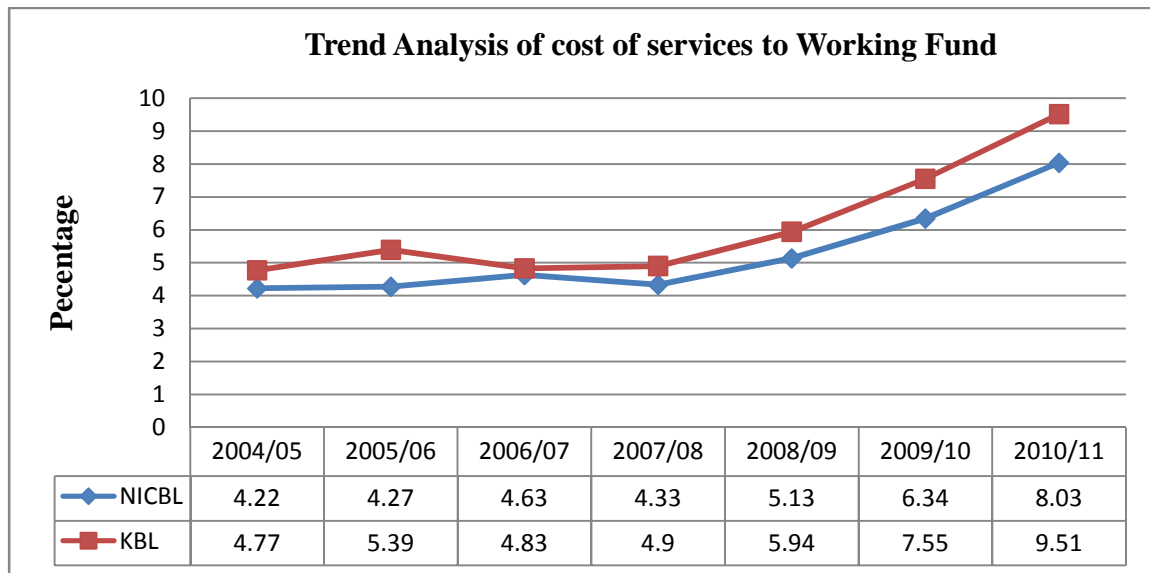
Comparative data of cost of services to working fund ratio of NICBL and KBL is presented in the following table.

Table No 21
Cost of services to working fund

		<i>Cost of services to working fund</i>							
Bank \ FY	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Averages	
NICBL	4.22	4.27	4.63	4.33	5.13	6.34	8.03	5.28	
KBL	4.77	5.39	4.83	4.9	5.94	7.55	9.51	6.13	

Source: Annex-I (21)

Trend Analysis:



The following table imparts the information regarding the ratio of cost of services to working funds. As can be seen the ratio of NICBL starts from 4.22 % in 2004/05 which continuously increase (to its highest level in 2010/11 at 8.03 %) throughout the study period except a slight fall in 2007/08 at 4.33 %. Similar pattern can be observed in KBL's trend. The ratio is ranged between 4.77 % in 2004/05 to 9.51 % in 2010/11.

From the above comparative analysis of cost and services to working fund ratio, it concludes that KBL higher ratio in an average as well as yearly basis than NICBL. It shows that KBL is ahead to pay its cost of services in comparison to NICBL.

4.1.5.4 Net profit to working funds

This ratio is useful to measure how well management uses all the working funds in the business to generate an operating surplus. Higher the ratio indicates the higher efficiency in the utilization of total assets and vice versa. The ratio is low due to low profit. In other words, it is low utilization of bank assets and over use of higher interest bearing amount of debt and vice versa.

It can be calculated by applying the following formula

$$\text{Net Profit to Working Fund Ratio} = \frac{\text{Net profit}}{\text{Working Fund}}$$

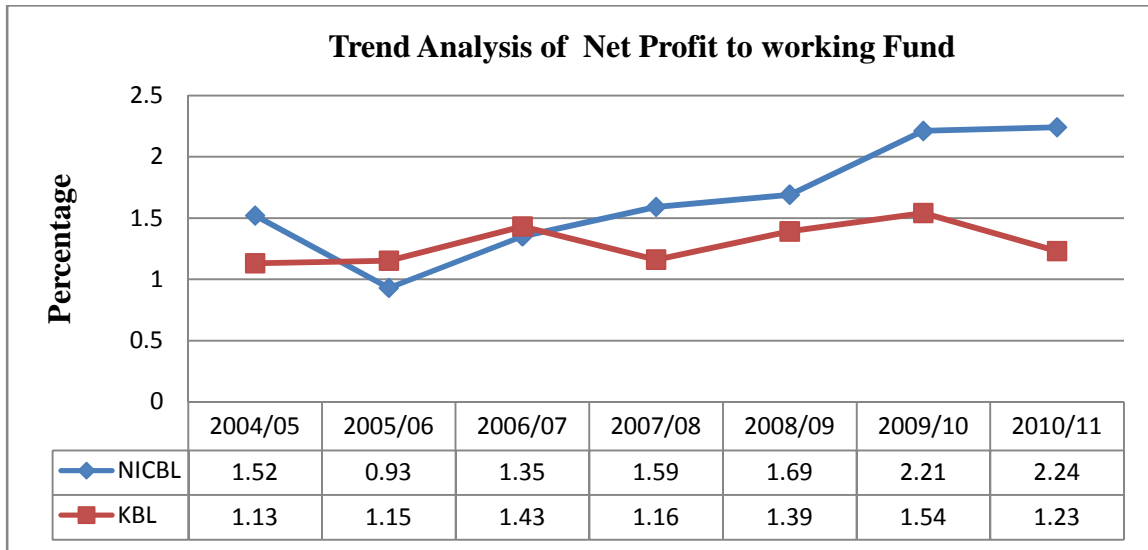
The following table clearly scans the comparative data of net profit to working fund ratio of NICBL and KBL.

Table No 22
Net Profit to Working Fund

<i>Net Profit to Working Fund</i>								
<i>FY</i> Bank	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Averages
NICBL	1.52	0.93	1.35	1.59	1.69	2.21	2.24	1.65
KBL	1.13	1.15	1.43	1.16	1.39	1.54	1.23	1.29

Source: Annex-I (22)

Trend Analysis:



The above table and chart disseminates the information relating to ratio of net profit to working fund. The ratio of NICBL shows 1.52 % in 2004/05 that fell to just .93 % in the following year. After the lowest fall the trend of ratios begin to surge it shows the highest point reached in 2010/11 which is slightly higher than previous year. Similarly the ratio of KBL fluctuate over the study period it starts with 1.13 % in the beginning of study period then increase up to 1.43 % in 2006/07 and drops to the level of 1.16 % in 2007/08. After 2007/08 the trend reached at its highest point of 1.54 % in 2009/10 and immediately fell to 1.23 % in the following year. In an average the ratio of NICBL is greater than KBL. Higher the ratio indicates the higher efficiency in the utilization of working funds and vice versa. It indicates that NICBL is still able to earn more profit in relation to its deposit in comparison to KBL.

4.1.5.5 Net profit to Total Deposit Ratio

This ratio measures the degree of net profit earned by using total deposits. In other words, it reveals the relationship between net profit and total deposits with an explanation of the ability of management in efficient utilization of deposits. This ratio is a mirror of banks overall financial performance as well as its success in profit generation, the reason is that deposits and earning by utilizing this are the main aspects of commercial banks.

This ratio reflects the portion of net profit in total deposit. Here in this study the profit refers to profit after taxes. Net profit to total deposit ratio can be calculated by dividing

net profit by total deposit. Thus the ratio can be calculated by applying the following formula:

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

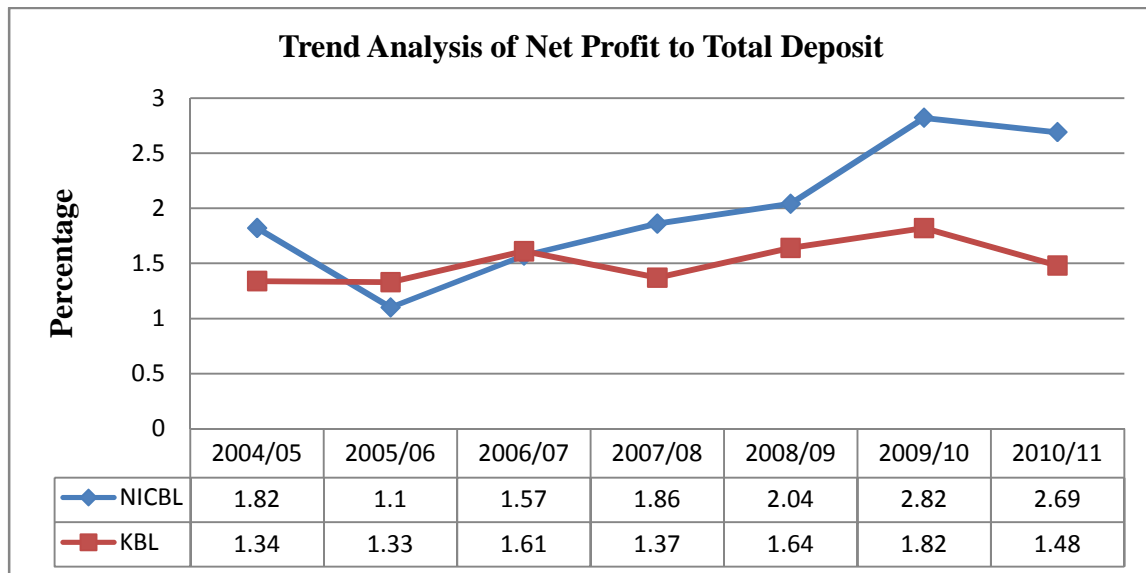
The following table clearly visualizes the comparative data of net profit to total deposit ratio of NICBL and KBL.

Table No 23
Net Profit to Total Deposit Ratio
Net Profit to Total Deposit Ratio

FY Bank	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Averages
NICBL	1.82	1.1	1.57	1.86	2.04	2.82	2.69	1.99
KBL	1.34	1.33	1.61	1.37	1.64	1.82	1.48	1.51

Source: Annex-I (23)

Trend Analysis:



The above table and chart shows the ratio of net profit to total deposit for NICBL and KBL. The ratio starts with 1.82 % which dropped to the lowest point of 1.1 % in 2005/06, then the ratio increase gradually to reach at the highest point of 2.82 % in 2009/10 then fall again to reach 2.29 % in 2010/11, similarly the trend of KBL fluctuate over the study period, in 2004/05 ratio was 1.34 which increased slightly to reach at 1.61

% in 2006/07 and decrease again to 1.37 % in 2007/08 after then the ratio increase for two consecutive years to reach its highest point of 1.82 in 2009/10 and fall again in the following year at 1.48 %. So from the above explanation NICBL has higher ratio than that of KBL, which means NICBL, is better utilizing its collected fund to increase annual net profit.

4.1.5.6 Operating profit to Net worth

It shows the portion of operating profit in net worth. In this study, operating profit represents operating income minus operating cost. Operating profit to net worth ratio can be calculated by dividing operating profit by net worth.

This ratio can be calculated by applying following formula: -

$$\text{Operating Profit to Net worth Ratio} = \frac{\text{Operating profit}}{\text{Net Worth}}$$

The comparative relationship between operating profit to net worth ratio of NICBL and KBL is presented in the following table.

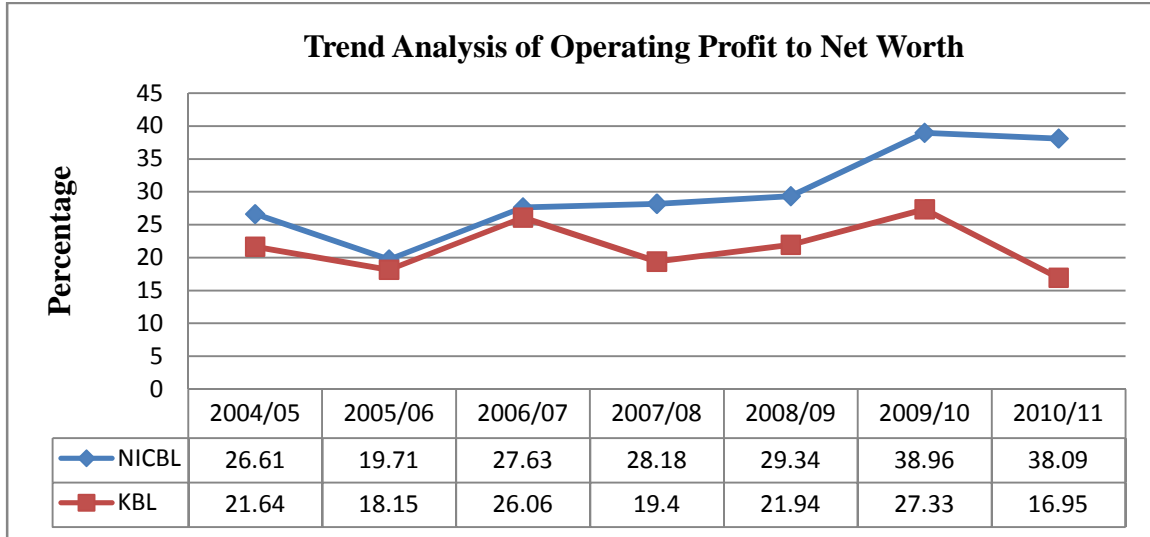
Table No 24
Operating Profit to Net worth

Operating Profit to Net worth

FY Bank	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Averages
NICBL	26.61	19.71	27.63	28.18	29.34	38.96	38.09	29.79
KBL	21.64	18.15	26.06	19.4	21.94	27.33	16.94	21.64

Source: Annex-I (24)

Trend Analysis:



The above table and chart supplies the information relating to the ratio of operating profit to net profit. At the first year of study period i.e. 2004/05 the ratio shows 26.61 % but in the following year it decreased significantly to reach 19.71 % (lowest of study period.) then in 2006/07 the ratio increases gradually (to its maximum level of 38.96 % in 2009/10) for three consecutive years before slight decrease in 2010/11 to 38.09. Conversely, the ratio of KBL always shows below than that of NICBL. The ratio starts with 21.64 % in 2004/05 which decrease slightly to 18.15 % in 2005/06 then increases again to reach 26.06 % in 2006/07. In 2007/08 it decrease again to reach 19.4 % then after trend of ratio starts to surge for two consecutive years to reach highest point of 27.33 in 2009/10 then again fell to 16.95 % in the following year.

From the above analysis the average ratio of NICBL is greater than KBL i.e. 29.79% > 21.64%. It clearly indicates that NICBL is able to increase operating income either reducing operating cost or maintaining any other profit generating factors than KBL, even though KBL has better loans and advances in terms of total deposit.

4.1.5.7 Earning per share (EPS)

Earning per share measures the profitability of common shareholders. The earning is expressed on a per share basis. It is calculated by dividing net income available to the common stock holders by the total number of common share.

Thus EPS can be calculated by applying following formula:

$$\text{EPS} = \frac{\text{Net Income available to the common Stockholders}}{\text{Total No. of common stock}}$$

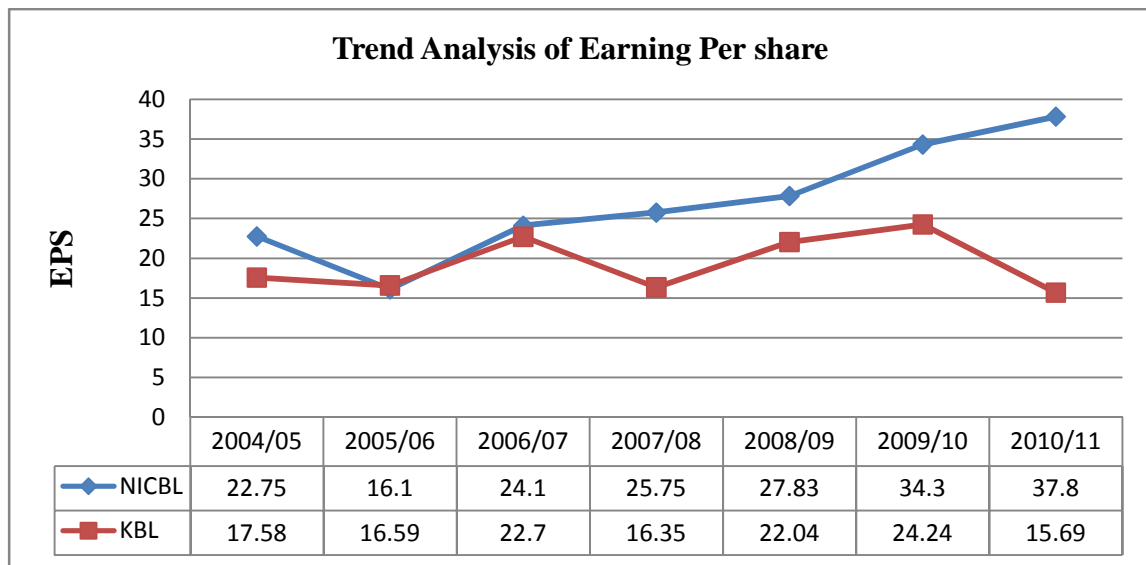
The following table shows the earning per share (EPS) of NICBL and KBL.

Table No 25
Earning per share (EPS Rs.)

<i>Earning per share (EPS Rs.)</i>		2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Averages
Bank	FY								
NICBL		22.75	16.1	24.1	25.75	27.83	34.3	37.8	26.95
KBL		17.58	16.59	22.7	16.35	22.04	24.24	15.69	19.31

Source: Annex-I (25)

Trend Analysis



The table above shows the EPS of two banks i.e. NICBL and KBL. From The above table and chart it is clearly seen that both bank's EPS fluctuates over the study period. However NICBL has higher EPS ratio than that of KBL, in 2004/05 EPS of NICBL is 22.75 which has dropped to the lowest level of 16.1 in the following year. After the lowest fall the trend has increased gradually to reach at the highest level in 2010/11 with 37.8. While EPS of KBL is significantly below than that of NICBL except in the year

2005/06. KBL's EPS is ranged between 15.69 and 24.24 in the year 2010/11, 2009/10 respectively. Thus from the above comparative analysis it can be said that the average EPS of NICBL is higher than that of KBL this shows it is desirable for investors to invest in NICBL. However, EPS does not reveal actual amount paid to the owners as dividends and amount retained in the business. Theoretically, it shows the amount belonging to the common shareholders.

4.1.5.8 Dividend per share (DPS)

For shareholders of any business entity, dividend is one of the incomes they can earn. Before investing in such entities they consider its dividend per share, stable history and the growth rate of such payouts. In general, share holders always seek higher amount of dividend and management of such entity offer higher amount as dividend. This offering helps to increase the goodwill of the organization.

DPS can be calculated by using following formula:

$$\text{DPS} = \frac{\text{Earning Paid to shareholders}}{\text{No. of Share outstanding}}$$

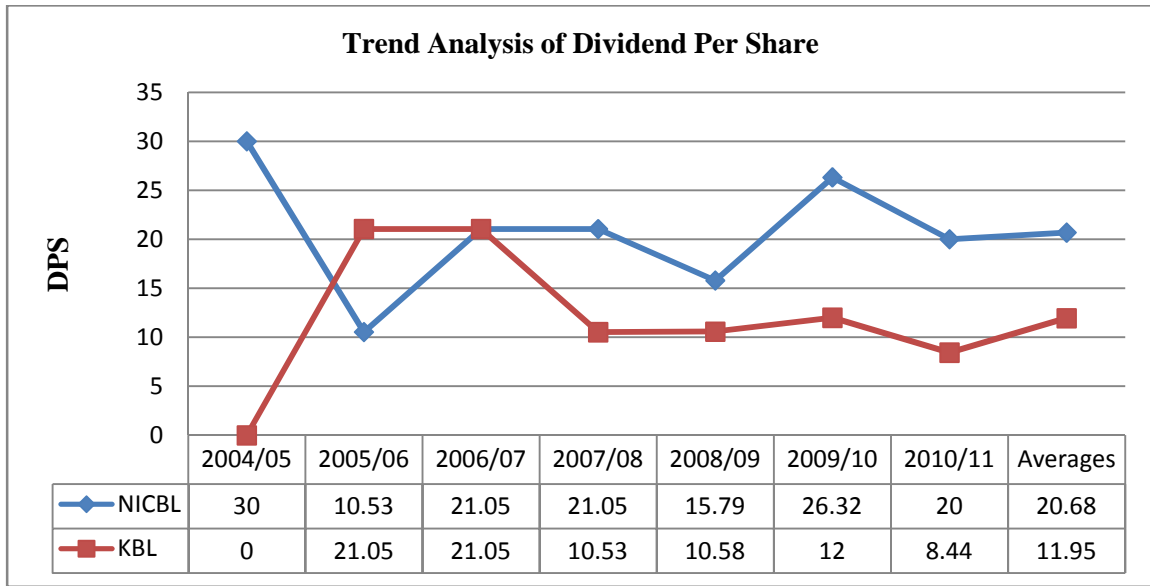
The following table clearly indicates the DPS of both of the banks.

Table No 26
Dividend per share (Rs)

Bank \ FY	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Averages
NICBL	30	10.53	21.05	21.05	15.79	26.32	20	20.68
KBL	0	21.05	21.05	10.53	10.58	12	8.44	11.95

Source: Annex-I (26)

Trend Analysis



The table above shows the DPS of two banks i.e. NICBL and KBL. From the above table and chart it is clearly seen that both bank's DPS fluctuates over the study period. At the starting of study period i.e. 2004/05 NICBL's DPS is 30 which is highest level for the whole study period then in the following year DPS dropped to 10.53 the lowest level. After the lowest point DPS remain constant for two consecutive years at 21.05 and again decreased to 15.79 in 2008/09 then after DPS surged to 26.32 and immediately fell to 20 and 20.68 in next two years. Similarly KBL's DPS starts at 0 which then increased to 21.05 and remain constant for 2005/06 and 2006/07 but in the next year it dipped to 10.53 which remained relatively constant for the remaining study period until further decrease to 8.44 in 2010/11. Thus it is concluded from the above analysis that on average NICBL is able to provide significantly higher DPS than that of KBL.

4.1.5.9 Dividend payout Ratio (DPR)

Dividend payout ratio expresses the relationship between what percent of earnings is paid out as dividend and how much is retained for the growth of the company.

Different company adopts different types of dividend policy over different time. Dividend payout depends upon the growth rate of the company. In one hand fast growing companies which need great deal of cash payout nominal percentage of their earning as dividend on the other hand stable companies pay high percentage earnings as dividend.

Dividend payout ratio can be calculated by using following formula:

$$\text{Dividend payout ratio} = \frac{DPS}{EPS} \times 100$$

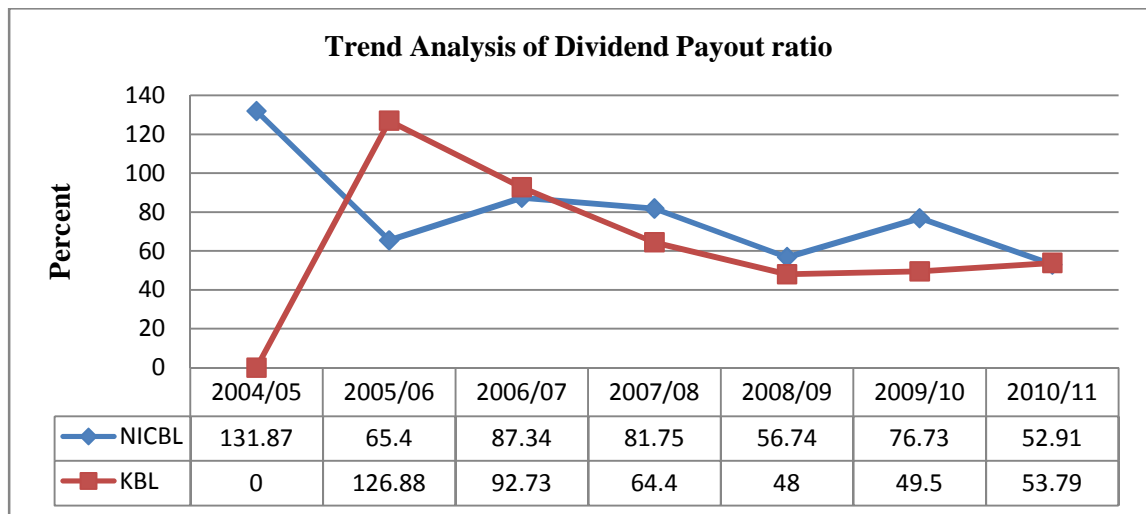
The following Table shows the dividend payout ratio of NICBL and KBL.

Table No 27
Dividend payout ratio
(%)

<i>Dividend payout ratio</i>		2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Averages
FY	Bank								
	NICBL	131.87	65.4	87.34	81.75	56.74	76.73	52.91	78.96
	KBL	0	126.88	92.73	64.4	48	49.5	53.79	62.19

Source: Annex-I (27)

Trend Analysis:



The above table and chart reflects the trend regarding dividend payout ratio. In 2004/05 the ratio of NICBL shows the highest point of 131.87 %, which decreased to its half by the next year then some increment can be visualized in 2006/07 with 87.34% then in the following year it dropped to just 56.74 %, the trend again increased to 76.73% before reaching second lowest point at last year of study period. But the trend of ratios of KBL starts at 0 % in first year and jumped to the highest point in second year then dropped

constantly for the remaining 3 years to reach the second lowest point of just 48% in 2008/09 then some minor increment in trend can be visualized for later of the study period . So from the above analysis it is revealed that the average dividend payout ratio of NICBL is significantly higher than that of KBL. This means NICBL is allocating more of its net profit to shareholders which tells that management of this bank always pay attention towards the benefits of its shareholders.

4.1.6 Structural Ratios

Financial leverage of structural ratios is calculated to judge the long-term financial position of the firm. The long term creditors would judge the soundness of a firm on the basis of the long term financial strength in terms of its ability to pay the interest regularly as well as repay the installment of the principals and due dates or in one lump sum at the time of maturity.

An organization should have long-term solvency as well as short-term liquidity. Liquidity refers the short-term solvency of the firm. So, short-term creditors of the firm are interested to know about the liquidity to meet its short-term obligations and short-term financial strength and weakness of the firm, whereas long-term creditors of the firm are interested to know long-term financial strengths and weakness.

The firm's long-term financial strength means to pay the interest regularly as well as to repay the principals in due dates. It can be judged by using structural ratios. These ratios measure the contribution of financing by owner compared with financing provided by creditors. These ratios explain the comparative interest of owner and creditors. Administration of capital can smoothly be carried on with the help of such ratios. Structural ratios show the firms' long-term financial soundness, debt utilizing capability and strengths and weakness of the firms. In the context of this study, various structural ratios are explained in the following topics.

4.1.6.1 Long-term debt to net worth

Long-term debt to net worth ratio shows the portion of long term debt in net worth.

It can be calculated by applying following formula:

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

4.1.6.2 Total Debt (Liabilities) to Net worth

It shows the portion of total liabilities (debt) in net worth. Here in this study total debt represent current liabilities as well as long term liabilities. It can be calculated by applying following formula:

$$\text{Total Debt (Liabilities) to Net worth Ratio} = \frac{\text{Total Liabilities}}{\text{Net Worth}}$$

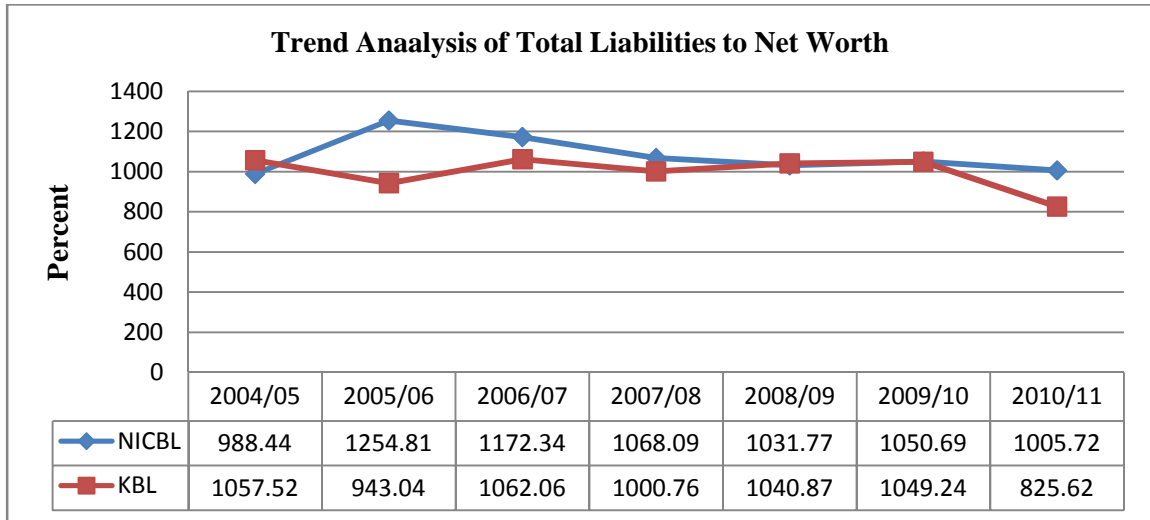
The following table clearly visualizes the comparative data of total liabilities to net worth ratio of NICBL and KBL.

Table No 28
Total Liabilities to Net Worth

<i>Total Liabilities to Net Worth</i>		2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Averages
Bank	FY								
NICBL		988.44	1254.81	1172.34	1068.09	1031.77	1050.69	1005.72	1083.12
KBL		1057.52	943.04	1062.06	1000.76	1040.87	1049.24	825.62	997.02

Source: Annex-I (28)

Trend Analysis:



The above table and chart reflects the ratio regarding total liabilities to net worth. The figure shows that both banks have fluctuating trend of ratios over the study period. However NICBL is more consistent throughout the study period. At the beginning of study period NICBL has ratio of 988.44 % which peaked at 1254.34 % then the trend gradually decrease to reach second lowest level of 1005.72 % in 2010/11. Similarly the trend of KBL starts at 1057.52 % that dropped further to just 943.04 % in 2005/06. After 2005/06 the trend follows some minor ups and downs until it dipped to the lowest level in 2010/11 at 818.47 %. On average NICBL is stronger than KBL since banks are the entities that play on others' claims, higher this ratio means bank is in shrewdly active form in doing banking business through accepting more claims from the outsiders.

4.1.7 Other Indicators

There are various indicators, which can be used to analysis the financial aspect of the company. Although, various ratios were discussed already, other relevant financial indicators were discussing in this part.

4.1.7.1 Spread

Spread in general term refers to a profit margin which is the difference between the average yield financial institution receives from loans and other interest accruing activities and the average rate it pays on deposit and borrowings. The net interest rate spread is a key determinant of a financial institutions' profitability (or lack thereof).

Spread = Total Interest Earned – Total Interest Paid

The following table shows the spread of NICBL and KBL during the study period.

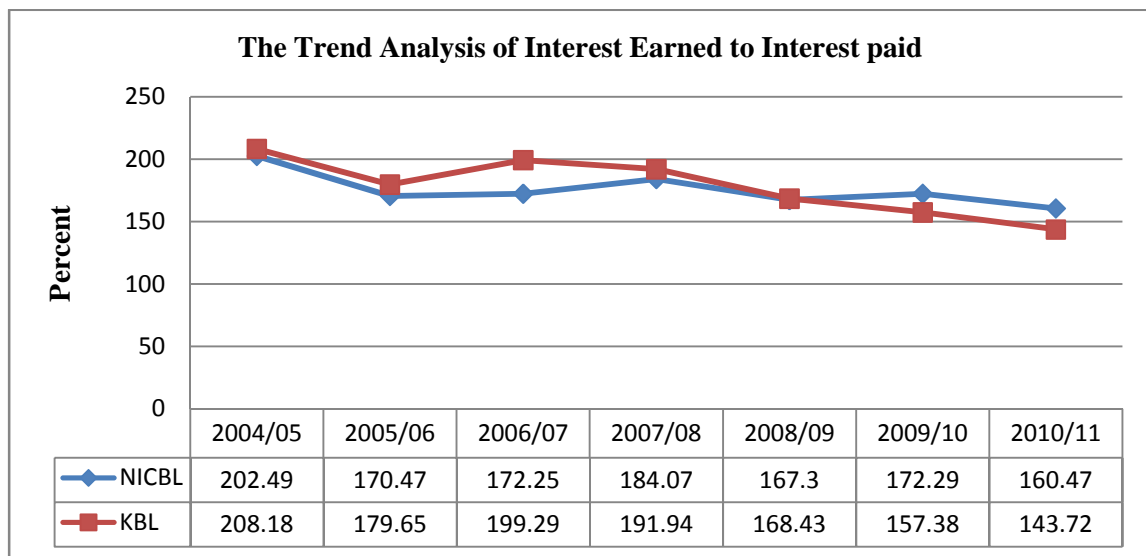
Table No 29
Spread

(In Rs. Millions)

<i>Spread</i>								
FY	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Averages
Bank								
NICBL	202.49	170.47	172.25	184.07	167.3	172.29	160.47	175.62
KBL	208.18	179.65	199.29	191.94	168.43	157.38	143.74	178.37

Source: Annex (I) 29

Trend Analysis:



The above table and chart and chart depicts the trend relating to the ratio of interest earned to interest paid. In the starting year i.e. 2004/05 the ratio is 202.49% which is also the highest ratio of the study period after the highest ratio the trend dropped to 170.47% in 2005/06 after 2005/06 the trend increase for two years before falling to 167.3%, 172.29% and 160.47% in 2008/09, 2009/10,2010/11 respectively. Similar pattern can be seen for KBL since it has also a good start of 208.18% in the first year of study period then dropped to 179.65% after such fall trend then goes up to 199.29% in 2006/07. After 2006/07 the trend continuously decreases for four consecutive years reaching just

143.74% in 2010/11. So from the above analysis it is revealed that the ratio of interest earned to interest paid is always higher for the both banks. However in average KBL seems better than NICBL but in later year the trend shows acute drop in ratio that implies the gap between interest earning and interest paid is decreasing sharply which is not good sign for the bank. Conversely, though NICBL has lower average than KBL it has maintained relatively constant ratio throughout the study period.

4.1.7.2 Non Performing Loan

A simple definition of non-performing is: A loan that is not earning income and: (1) full payment of principal and interest is no longer anticipated, (2) principal or interest is 90 days or more delinquent, or (3) the maturity date has passed and payment in full has not been made.

The issue of non-performing loans (NPLs) has gained increasing attentions in the last few decades. The immediate consequence of large amount of NPLs in the banking system is bank failure. In comparative analysis, it is important to find out none performing Loan of commercial bank to get exact loss a bank has suffered from the generation of Loan and advances.

The following formula reveals the exact position of Non Performing Loan of two banks.

$$\text{Gross NPL} = \text{Total Loans} \times \text{NPL ratio}/100$$

The following table clearly visualizes the comparative data of Gross Non Performing Loan of NICBL and KBL.

Table 30

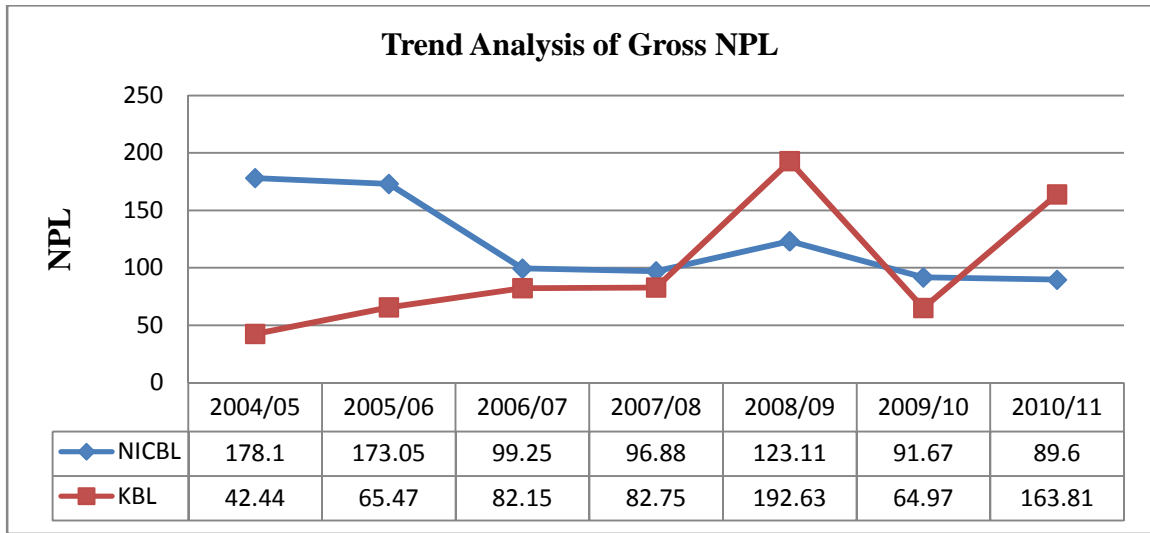
Gross NPL in Rs (Million)

Gross NPL

FY	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Averages
Bank								
NICBL	178.1	173.05	99.25	96.88	123.11	91.67	89.6	121.67
KBL	42.44	65.47	82.15	82.75	192.63	64.97	163.81	99.17

Source: Annex-I (30)

Trend Analysis:



The table and chart above shows gross NPL of NICBL and KBL. It is clearly seen from the above table that NICBL has always higher ratio than KBL except in 2008/09 and 2010/11. The gross NPL of NICBL is ranged between 89.6 in ending year of study period while the highest NPL is in 2004/05. But the NPL of KBL is always below than NICBL but in 2008/09 it peaked at 192.63, it is also the highest NPL of KBL during the study period while the minimum NPL occur in 2004/05. So it is clear from the above analysis that NICBL has always high ratio of NPL to total loan this means the management of NICBL is not serious about the loan they generate. The trend shows NICBL is always generate loans to someone who does not have ability to pay back the loan he has taken. While generating loan Management of NICBL must do credit analysis, it should strictly

follow the five Cs i.e. character, capacity, capital, collateral and conditions of the loan taker. Though NICBL has always higher NPL, this is the positive point that at the end of study period it has manage to lower the NPL.

4.1.7.3 Contingent liabilities to total liabilities

Contingent liabilities are those liabilities that are not included in the balance sheet. The items excluded from the balance sheet means the items are not normally captured as assets or liabilities under conventional accounting procedure and are recorded as notes to the balance sheet or not at all.

According to directives from Rasta Bank, all commercial banks need to make provision for Contingent liabilities at their year ending Balance sheet, which is called as "off balance sheet operation"

Off balance sheet operation refers, letter of credit outstanding, letter of guarantee outstanding, forward exchange contracts outstanding etc. It is a liability which has not occurred or become due but may become payable at future date on the happening of a certain event. So, it is often called contingent liabilities. Higher contingent liabilities denote the better transaction done by the banks.

Contingent liabilities to total liabilities can be calculated by dividing contingent liabilities by total liabilities.

In this study contingent liabilities to total liabilities is calculated by using the following formula: -

$$\text{Contingent Liabilities to total liabilities Ratio} = \frac{\text{Contingent Liabilities}}{\text{Total Liabilities}}$$

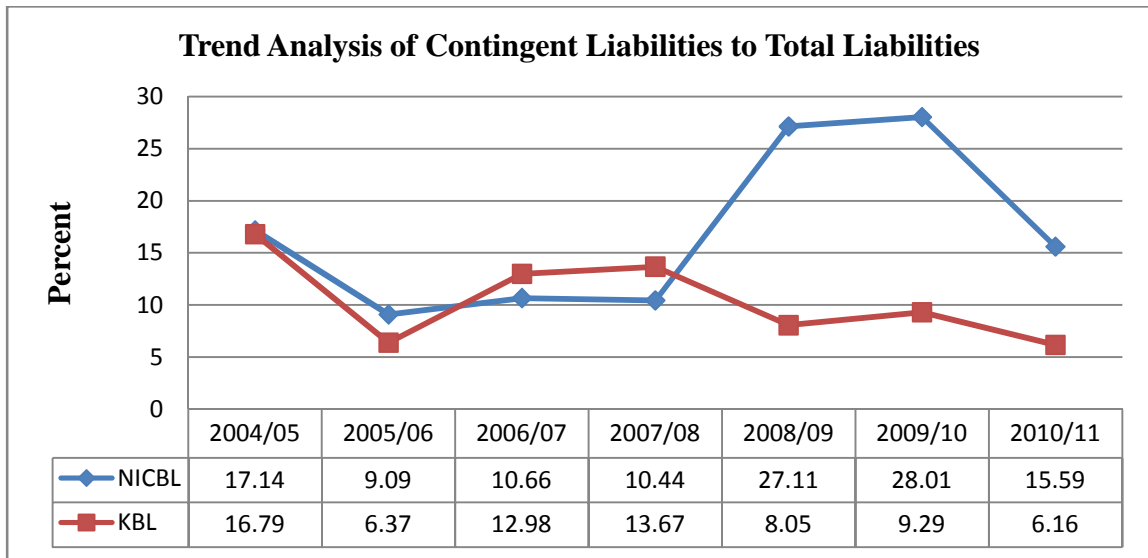
The following comparative table shows the portion of contingent liabilities in relations to total liabilities.

Table No 31
Contingent liabilities to total liabilities
(%)

<i>Contingent liabilities to total liabilities</i>								
Bank \ FY	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Averages
NICBL	17.14	9.09	10.66	10.44	27.11	28.01	15.59	16.86
KBL	16.79	6.37	12.98	13.67	8.05	9.29	6.16	10.47

Source: Annex-I (31)

Trend Analysis:



The above table and chart shows the ratio of contingent liabilities to total liabilities. The above figure tells that the ratio of NICBL and KBL fluctuates. However the ratio of NICBL is always higher than KBL except in the year 2006/07 and 2007/08. The ratio of NICBL is ranged between 9.09 % (lowest in 2005/06) and highest (28.01%) in 2009/10. Whereas the ratio of KBL is ranged between 6.16% (lowest) in 2010/11 and highest in 16.79% in 2004/05. The average ratio of contingent liabilities of NICBL is higher than that of KBL this means NICBL is good at transacting off balance sheet operation it further tells that NICBL is generating more profit than KBL from such types of operation. KBL management should expand its off balance sheet operation by

introducing various schemes to the customer so that KBL would become the first priority bank of the customers to provide such services.

4.1.7.4 Operating Income Analysis

In general sense, income which is earned from operation of business as income for a certain period of time is called operating income. The Income refers to the financial return from any business, i.e. utilizing –land and building, Plant and machinery, Labor and Capital etc. Being into business, they will be getting money in terms of rent, salary, interest etc. Thus, the incomes mentioned above are included in operating income.

However, income is a major indicator of financial performances of banks, so it is important to analyze the sources of income of NICBL and KBL.

As NICBL and KBL are the commercial banks and hence the sources of income of these banks are also commercial natures, i.e. interest received from loan and advances, government securities, commission and discount received, dividend received, Net foreign exchange fluctuation gain and other miscellaneous sources.

The following table shows various operating income of NICBL and KBL.

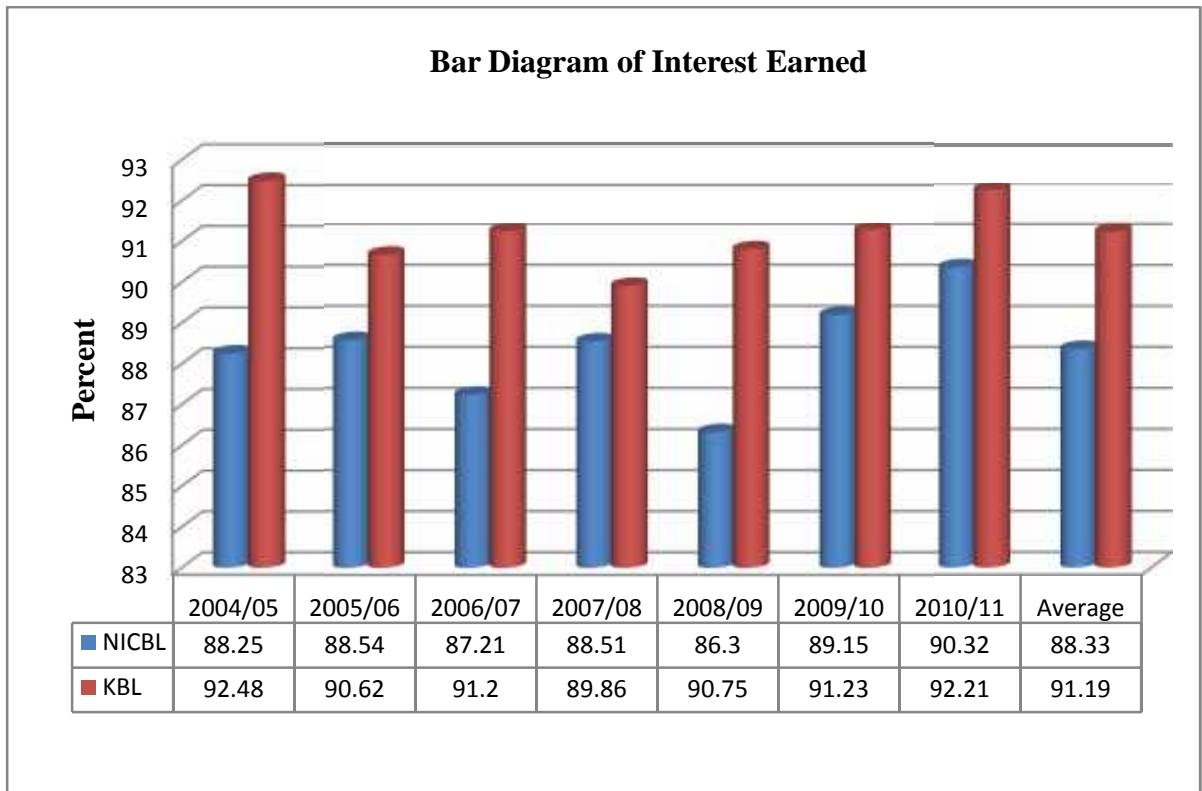
Table No 32
Operating income analysis
(%)

F.Y.	Interest earned		Commission and discount		Foreign exchange fluctuation gain		Other Income		Dividend Income		Total	
	NICBL	KBL	NICBL	KBL	NICBL	KBL	NICBL	KBL	NICBL	KBL	NICBL	KBL
2004/05	88.25	92.48	5.2	4.27	4.8	2.77	1.75	0.48	0	0	100	100
2005/06	88.54	90.62	4.49	3.94	3.88	3.94	3.09	1.5	0	0	100	100
2006/07	87.21	91.2	4.32	4.7	5.32	2.34	3.15	1.76	0	0	100	100
2007/08	88.51	89.86	4.12	4.55	3.77	3.92	3.60	1.67	0	0	100	100
2008/09	86.3	90.75	4.15	5.23	6.55	2.72	3	1.3	0	0	100	100
2009/10	89.15	91.23	3.81	4.9	4.56	1.85	2.48	2.02	0	0	100	100
2010/11	90.32	92.21	3.88	4.10	2.64	1.5	3.16	2.19	0	0	100	100
Average	88.33	91.19	4.28	4.53	4.50	2.72	2.89	1.56	0	0	100	100

Source: Comparative Balance Sheet of NICBL and KBL (Annex III)

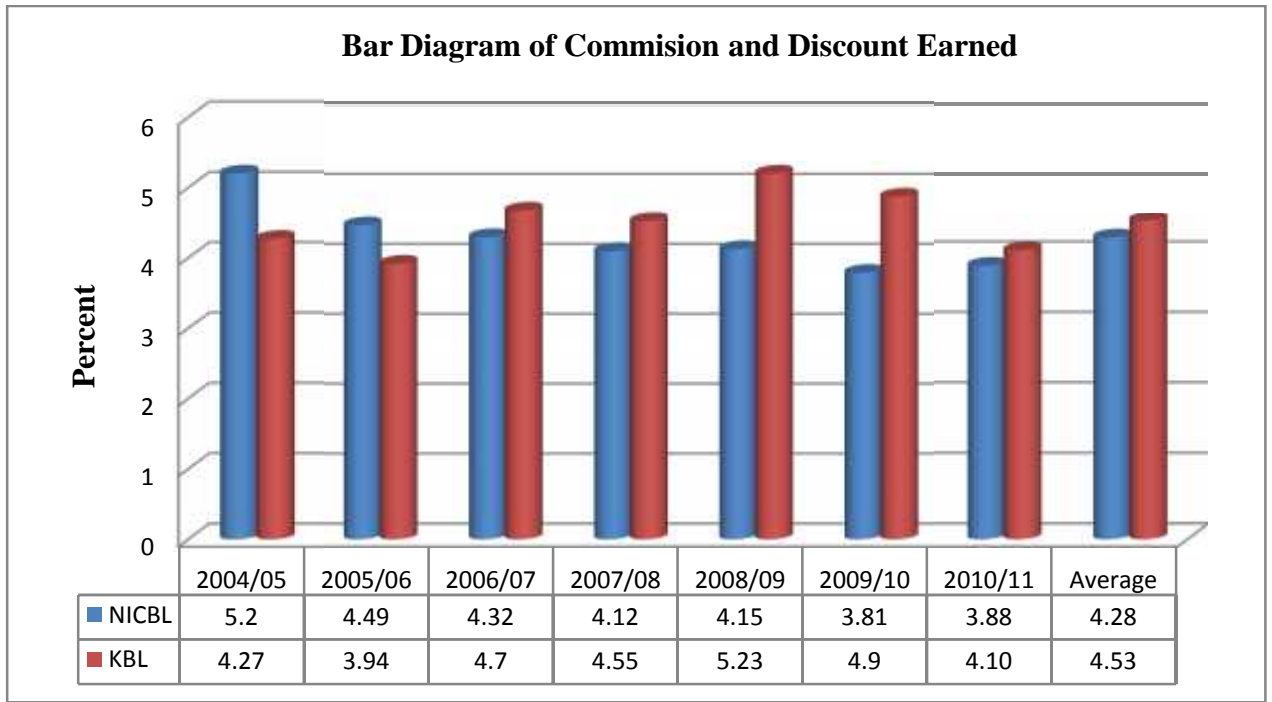
4.1.7.4.1 Interest Earned.

In the present study, interest earned includes the interest income from loan and advances, overdraft, investment on government securities, investment on debenture holder. Interest earned reflects the operational efficiency of banks. So higher this ratio indicates the higher efficiency and lower this ratio indicates the lower efficiency of banks.



The above bar diagram shows that interest earned has covered the highest portions of operating income for both the banks. The average ratio of KBL is 91.19 % and NICBL 88.33%. It is clearly seen that the interest earned ratio of KBL is always higher than that of NICBL throughout the study period i.e. 7 years. So it is clear from the analysis that KBL has been able to earn more interest than NICBL.

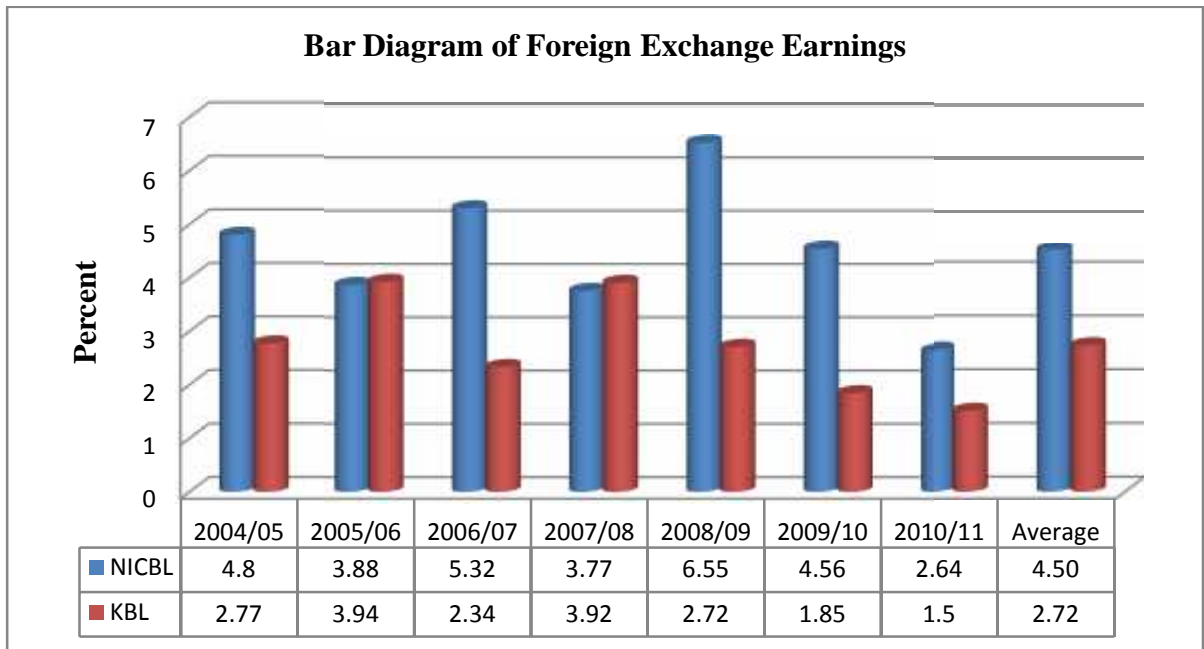
4.1.7.4.2 Commission and discount earned



The bar diagram above reflects the commission and discount earned by NICBL and KBL during the seven study periods from various transactional activities such as bills purchase and discounted, L/C issuance, letter of guarantees, collection fees, issuance of credit cards, remittance fees, Agency commissions, share underwriting/issuance and others.

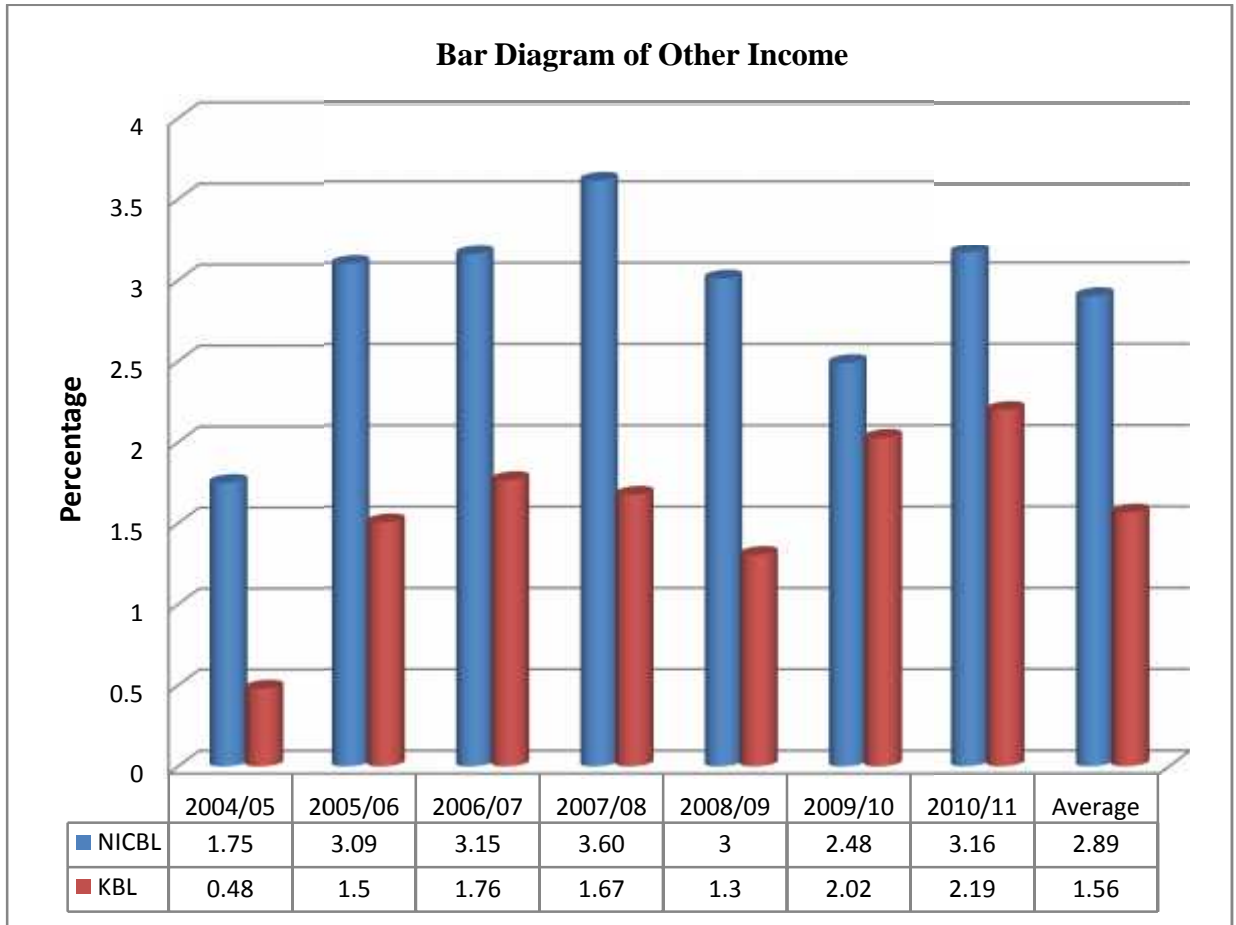
From the diagram it is clear that KBL maintained higher income from commission and discount than NICBL except the first two years of study period. The commission and discount earned by KBL is ranged between 3.94 % to 5.23 % of net income, where as NICBL's is ranged between 3.81 % to 5.2 % of net income. This indicates KBL is extending higher customer services than NICBL.

4.1.7.4.3 Foreign exchange earnings



Foreign exchange earnings include the gain on sale of foreign currency and revaluation income gain. The above bar diagram reveals the degree of foreign exchange earnings in case of NICBL and KBL. It shows NICBL has Higher earning averages than KBL. NICBL has very high income level in terms of foreign exchange gain in 2004/05, 2006/07, 2008/09, 2009/10, 2010/11 where as KBL has slightly higher income level in 2005/06, 2007/08 than NICBL. Hence it is concluded that NICBL is always before in earnings from foreign exchange income than KBL.

4.1.7.4.4 Other Income



The above bar diagram reflects miscellaneous income earned by NICBL and KBL during seven years of period. The percentage of income is ranged between 1.75 % to 3.60 % for NICBL and 0.48 % to 2.19 % for KBL. So from the above bar diagram it is clearly noticeable that the miscellaneous income gained by NICBL is always higher than that of KBL

The operating income analysis reveals the income position relating to interest income, commission and discount, foreign exchange income and miscellaneous income for two banks i.e. NICBL and KBL. Above analysis further reveals that KBL is better position in earning interest, commission and discount whereas NICBL is leader in earning of foreign exchange income and miscellaneous income.

4.1.7.5 Operating Expenses Analysis

In the financial performance analysis, operating income analysis and operating expenses analysis plays a significant role. For this reason operating expenses analysis is a relevant material for this study. The major heading of operating expenditure of NICBL and KBL are interest paid, salary, advances and provident fund, administration expenses (Office operating expenses) and other general expenses.

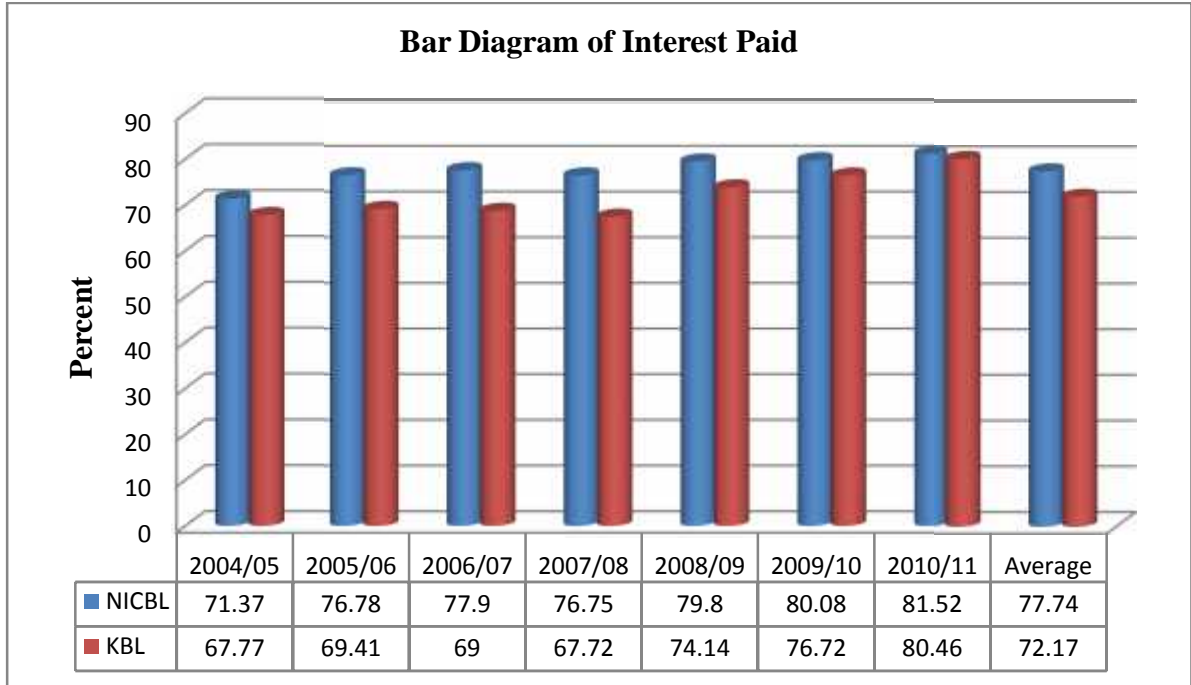
These major operating expenses are analyzed in the following table.

Table No 33
Operating Expenses Analysis
(%)

F.Y.	Interest paid		Staff Expenses		Other General Expenses		Total	
	NICBL	KBL	NICBL	KBL	NICBL	KBL	NICBL	KBL
2004/05	71.37	67.77	12.33	11.96	16.3	20.27	100	100
2005/06	76.78	69.41	10.27	12.32	12.95	18.27	100	100
2006/07	77.9	69	10.15	12.9	11.95	18.1	100	100
2007/08	76.75	67.72	10.94	12.16	12.31	20.12	100	100
2008/09	79.8	74.14	8.8	10.53	11.4	15.33	100	100
2009/10	80.08	76.72	9.22	9.24	10.7	14.04	100	100
2010/11	81.52	80.46	7.88	8.64	10.6	10.9	100	100
Average	77.74	72.17	9.94	11.11	12.32	16.72	100.00	100.00

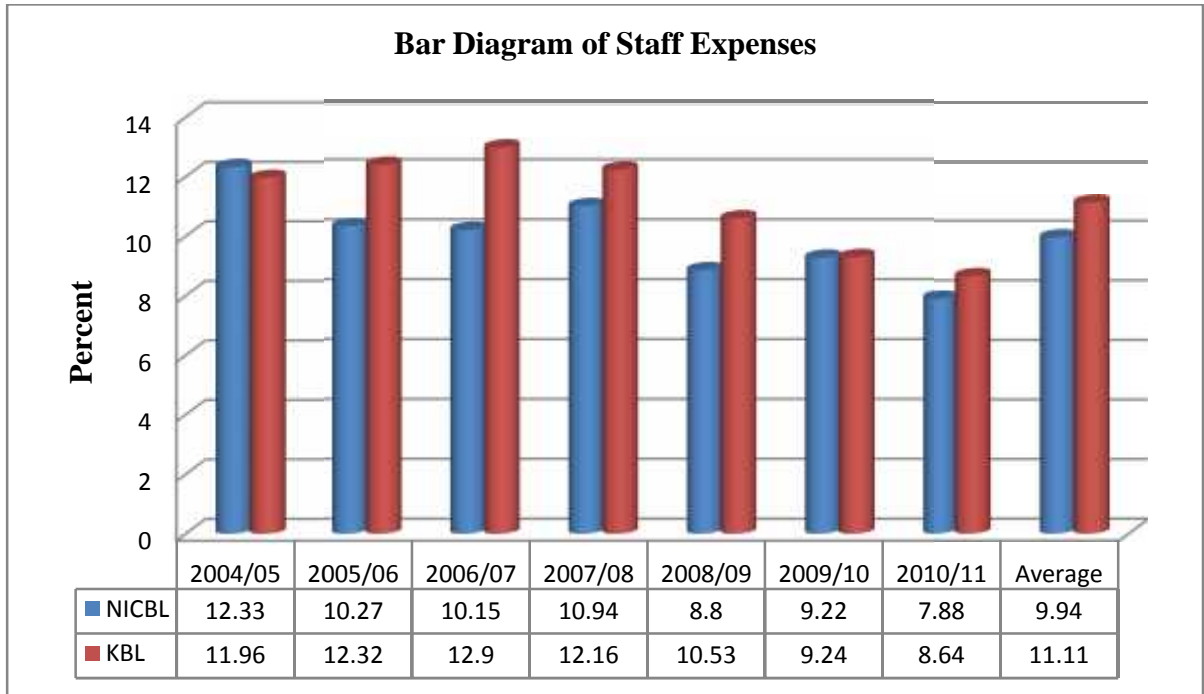
Source: Balance Sheet of NICBL and KBL (Annex III)

4.1.7.5.1 Interest paid



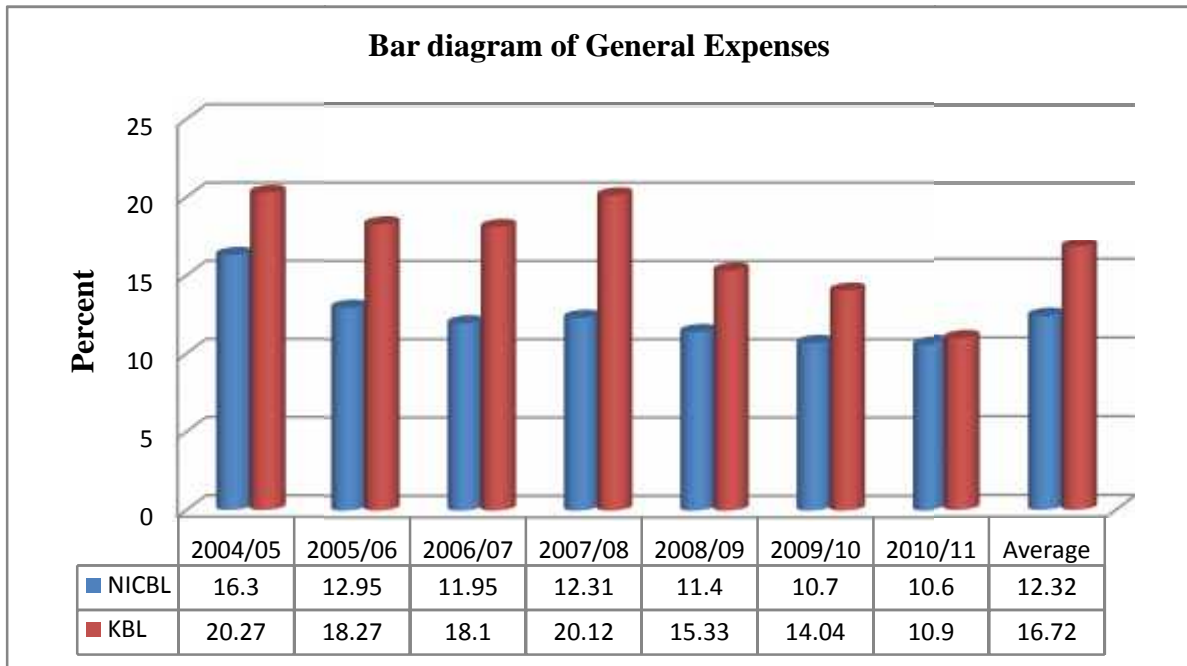
In this study, interest paid represents interest payment on borrowing by the bank and interest payment for deposits collected by bank. The above bar diagram shows the ratio of interest payment on total operating expenses made by NICBL and KBL for seven years of study period. It is clearly seen from the above bar diagram that interest payment by NICBL is always higher than that of KBL. The ratio of NICBL is ranged between 71.37 % to 81.52 %. Conversely, the ratio of KBL is ranged between 67.72% to 80.46 %. Thus from the above analysis it can be said that NICBL is paying more interest than KBL which suggests either NICBL is collecting more deposit from its customers or it is borrowing more funds from another banks than that of KBL.

4.1.7.5.2 Staff Expenses



In this study staff expenses represents salary, allowances, provident fund, staff trainings and development expenses for those who are the work force for the organization. The above bar diagram shows the ratio of staff expenses on total operating expenses made by NICBL and KBL for seven years of study period. The bar diagram above shows that staff expenses made by KBL is always higher than that of NICBL except for 2004/05. Staff expense of KBL is ranged between 8.64% to 12.9% in the year 2010/11 and 2006/07 respectively. Conversely, NICBL's staff expense is ranged between 7.88 to 12.33 % in the year 2010/11 and 2004/05 respectively. From the above analysis it is concluded that KBL is expending more fund on staff than that of NICBL which means KBL is giving emphasis on better staff output. However, KBL and NICBL both are trying to lessen the staff expense in later year of study period so as to increase net profit.

4.1.7.5.3 Other General Expenses



In this study other general expenses refer to office expenses such as rent, water and electricity, insurance, printing and stationery, fuel vehicle expenses, advertisement, donations, legal expenses, postage telex phone fax, travelling expenses etc. from the above bar diagram it is clear that KBL is expending higher on general expenses than that of NICBL for seven years of study period. KBL's general expense is ranged between 10.9% to 20.27% of total operating expenses. Whereas NICBL's ratio is ranged between 10.6 % to 16.3 % of total operating expenses. Thus from the above analysis it can be said that KBL is spending more of its fund in office expenses although it has lesser branches than that of NICBL's (i.e. only 29 branches as comparing to NICBL's 37 branches).

So, from the above comparative operating expenses suggest that NICBL is paying more interest than that of KBL due to higher collection of deposits by its customer and borrowing more funds from other commercial banks. But in case of staff expenses and general expenses, KBL is forerunner. KBL's management should be more aware on reducing its general and staff expenses though it has fewer branches than that of NICBL

4.2 Trend analysis

Trend analysis can be categorized into two first is static analysis and second is the dynamic analysis.. The static analysis measure position at a point of time or for a period and the dynamic analysis; measure the changes of position. Both types of analysis are necessary for a comprehensive interpretation, since it is important to know not only the proportion as on a certain date but also the trends in the enterprises. The information yielded by such analysis of a financial statement as used in credit extension and investment commitment. Thus, trend analysis plays vital role for the effective managerial decision-making.

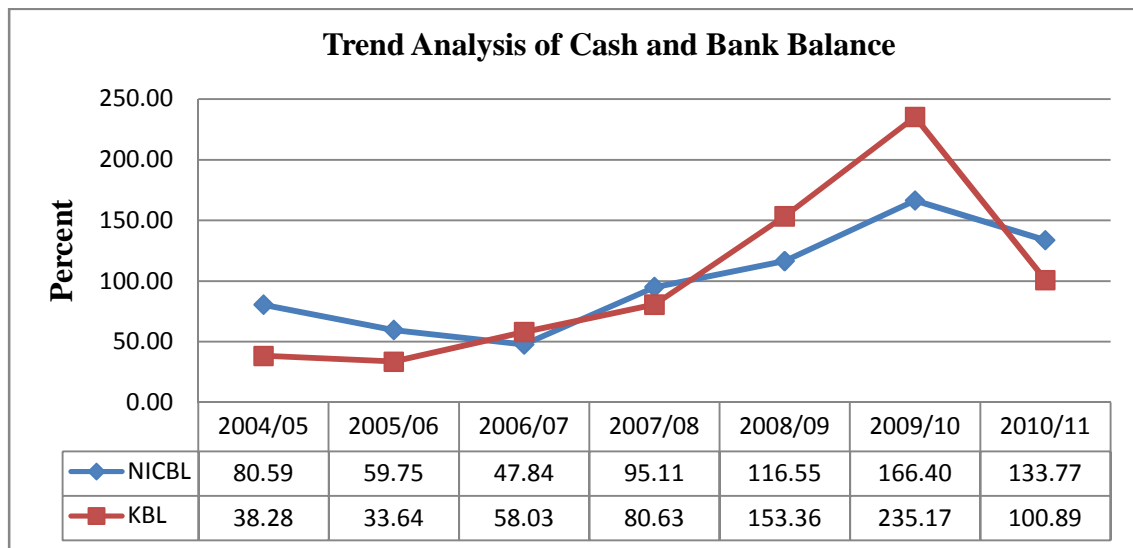
Here, in this study the trend analysis of the financial condition are presented which is objected to provide the insight of the banks comparative position as shown by their financial conditions.

In this study, comparative trend analysis may be presented as the following figures between NICBL and KBL: -

4.2.1 Cash and Bank Balance

The following figure reflects the trend of cash and bank balance of NICBL and KBL.

Figure 1



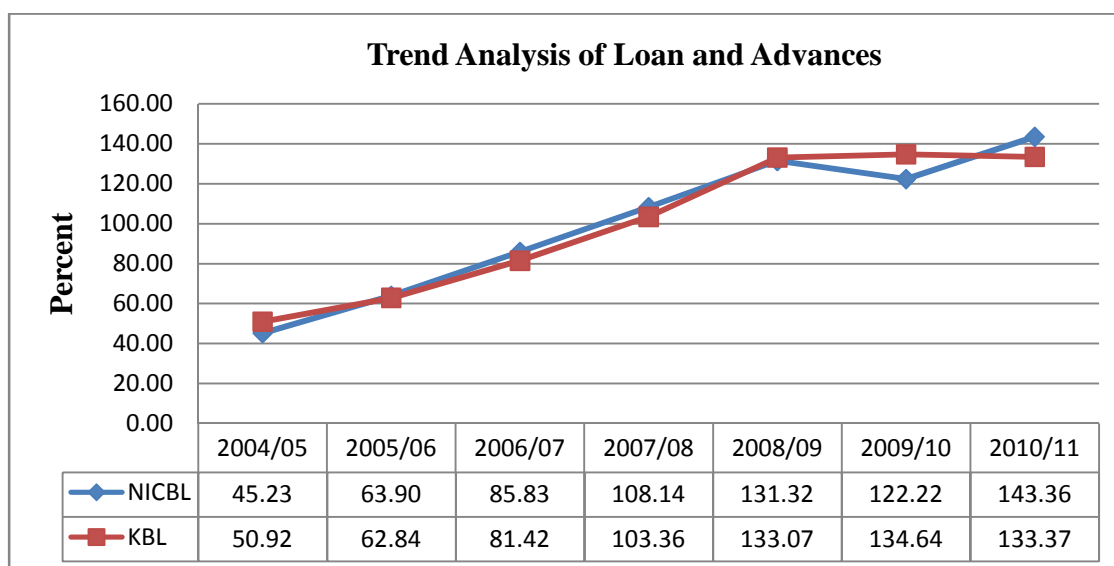
Source: Annex II (Table No 1).

The above figure depicts the ratio of cash and bank balance hold by NICBL and KBL for seven years of period. The trend shows both of the banks ratio fluctuates over the study period. However, KBL seems to hold more cash and bank balance than NICBL in 2006/07, 2008/09 and 2009/10. While, NICBL's ratio is higher than that of KBL in the year 2004/05, 2005/06 and 2007/08. In this study cash and bank balance includes total cash collected during the study period. Cash and bank balance are highly liquid assets than other current assets; it determines true liquidity position of banks.

4.2.2 Loan and advances

The following figure reflects the trend of Loan and advances of NICBL and KBL.

Figure 2.



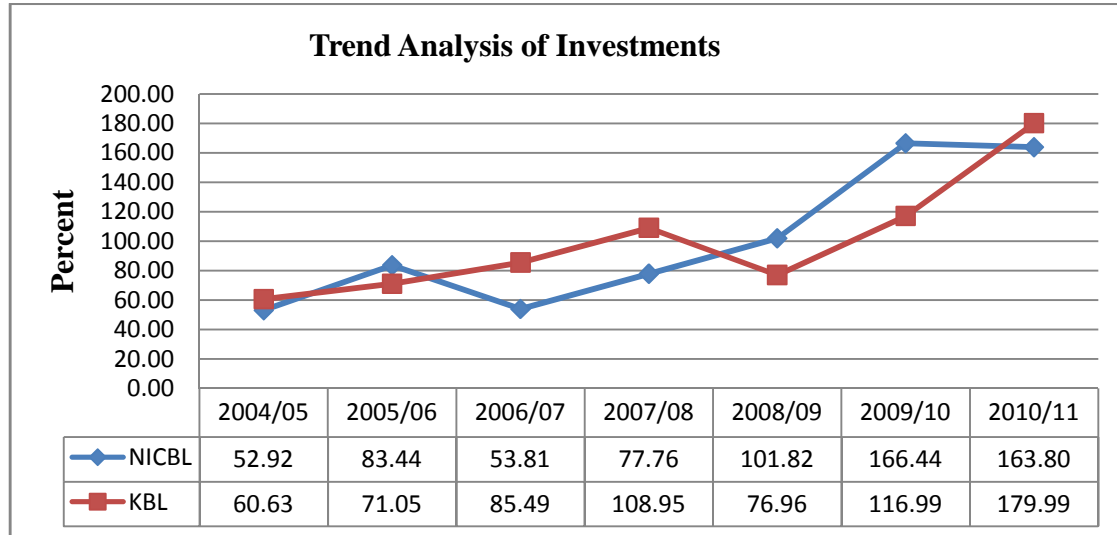
Source: Annex II (Table No 2).

The above trend analysis shows that the loan and advances of both banks is in increasing as time goes by. However, slight variations can be seen for NICBL for later year i.e. 2009/10 and 2010/11. But for KBL the trend remain constant for three consecutive years i.e. 2008/09 to 2010/11. This shows both banks are able to extend loan and advances well to earn desired profit. The increasing trend further suggests that both banks will be able to earn profit equally in the coming future.

4.2.3 Investment

The following figure reflects the trend of investment of NICBL and KBL.

Figure 3



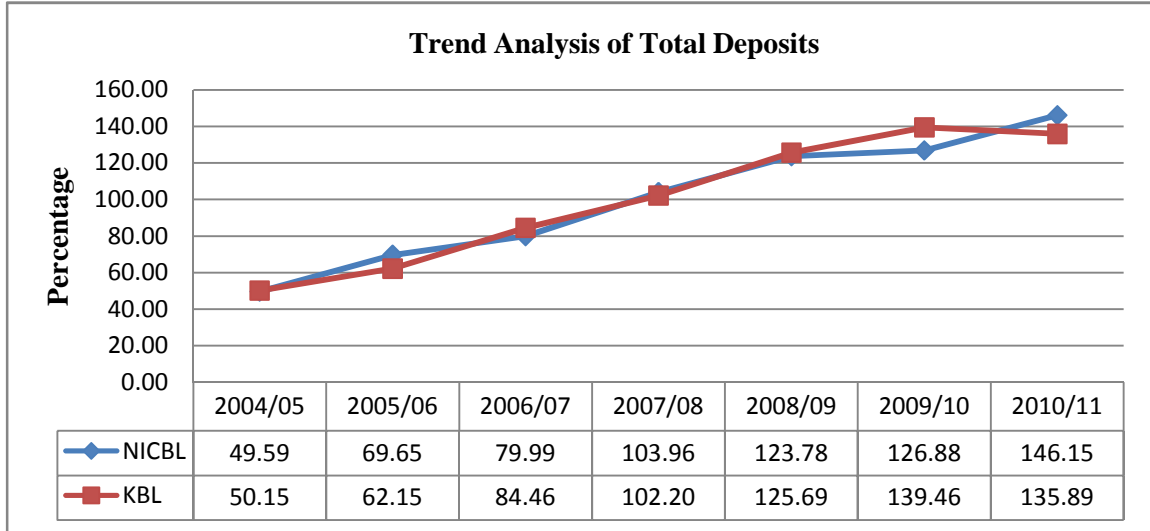
Source: Annex II (Table No 3).

The above figure depicts the trend regarding total investments, here total investment includes the investment in government securities, bonds, share and debentures in organized institution, government saving certificates etc. it can be seen from the above figure that the trend is quite fluctuating, in one hand KBL investment shows gradual increase for the first 4 years before touching lowest level in 2005 then again catch increasing trend. On the other hand NICBL investment shows increment for starting two years then dropped to lowest level in 2006/07 then the trend surged for 4 consecutive years. The trend suggest that the banks investment pattern increase as the time passes on which is positive sign for the management of both banks.

4.2.4 Deposits and Other Accounts

The following figure reflects the trend of Deposits and Others Accounts of NICBL and KBL.

Figure 4



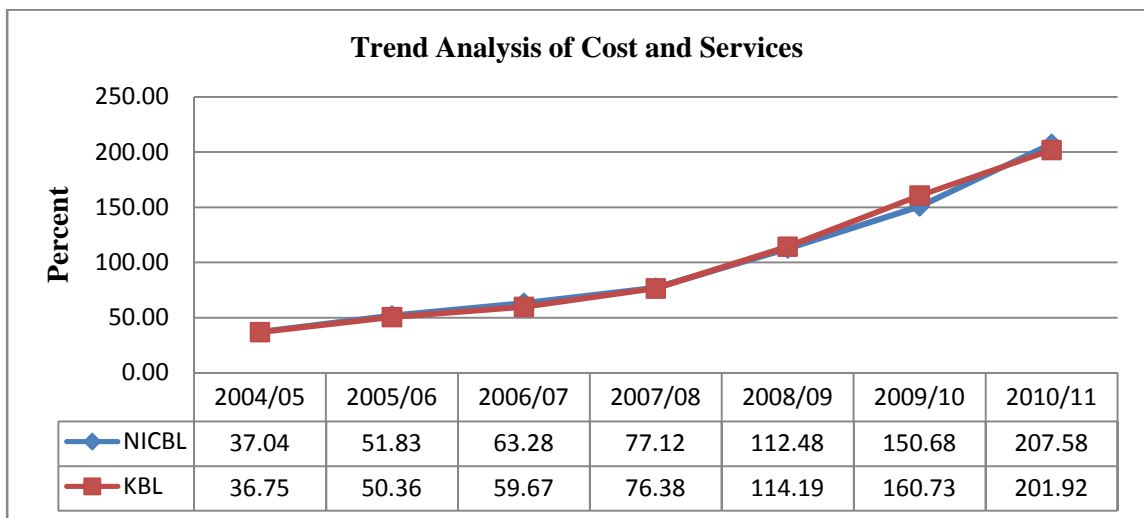
Source: Annex II (Table No 4).

The above figure depicts the trend regarding total deposits for the seven years for NICBL and KBL. The figure shows that both banks have increasing trend of collecting deposits. Both banks are consistent in collecting deposits for the whole study period though there are some minor variations can be seen. KBL is more consistency than NICBL in collecting deposits.

4.2.5 Cost of Services

The following figure reflects the trend of cost of services of NICBL and KBL

Figure 5



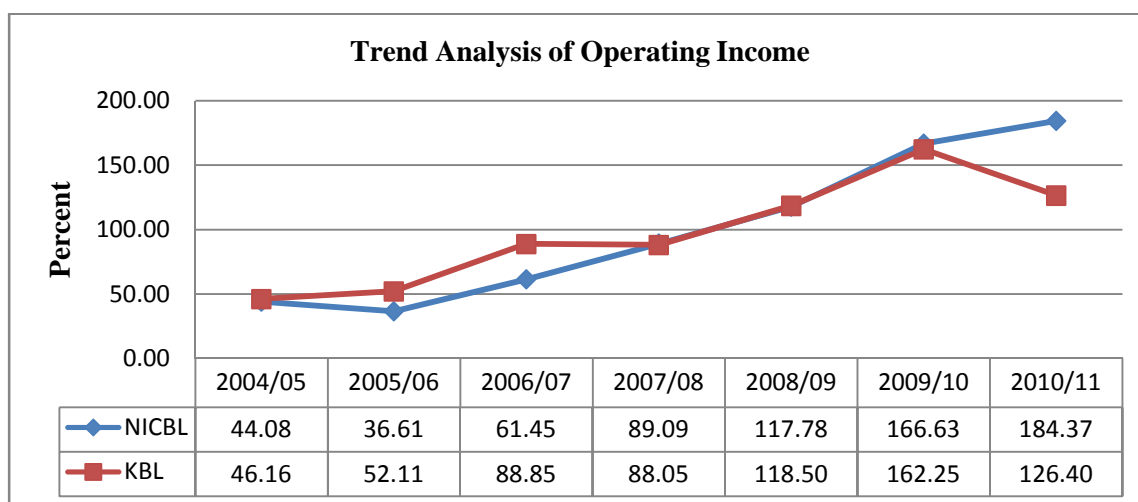
Source: Annex II (Table No 5).

The above figure depicts the expenditure for rendering services. The trend tells that the expenditure related to operation for both banks are consistently increasing over the study period. This is because both banks are expanding their branches over the country which results higher expenses on interest payment, staff expenses, general expenses or office expenses.

4.2.6 Operating Income

The following figure reflects the trend of Operating Income of NICBL and KBL

Figure 6



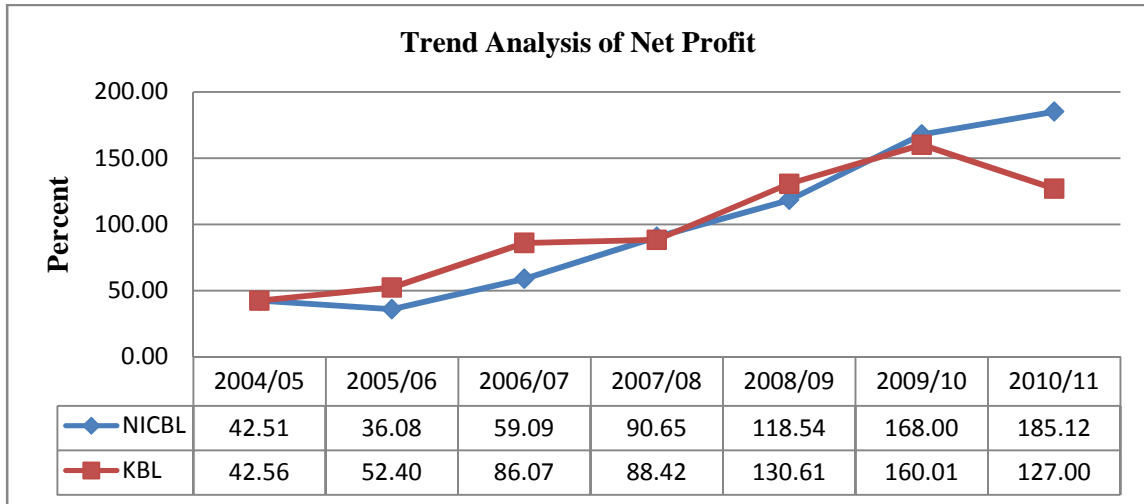
Source: Annex II (Table No 6).

The above figure depicts about the degree of increment on operating income for two banks over the seven years of period. It is clearly seen from above figure that both KBL and NICBL has managed to increase the operating income over the past seven years. However some variations and similarities in trend can be visualized. The trend of KBL is bit higher than that of NICBL for the first 3 years then the trend goes relatively parallel for next 3 years, at the end of 2010/11 KBL's trend goes down significantly in comparison to NICBL's.

4.2.7 Net profit

The following figure reflects the trend of Net profit of NICBL and KBL.

Figure 7



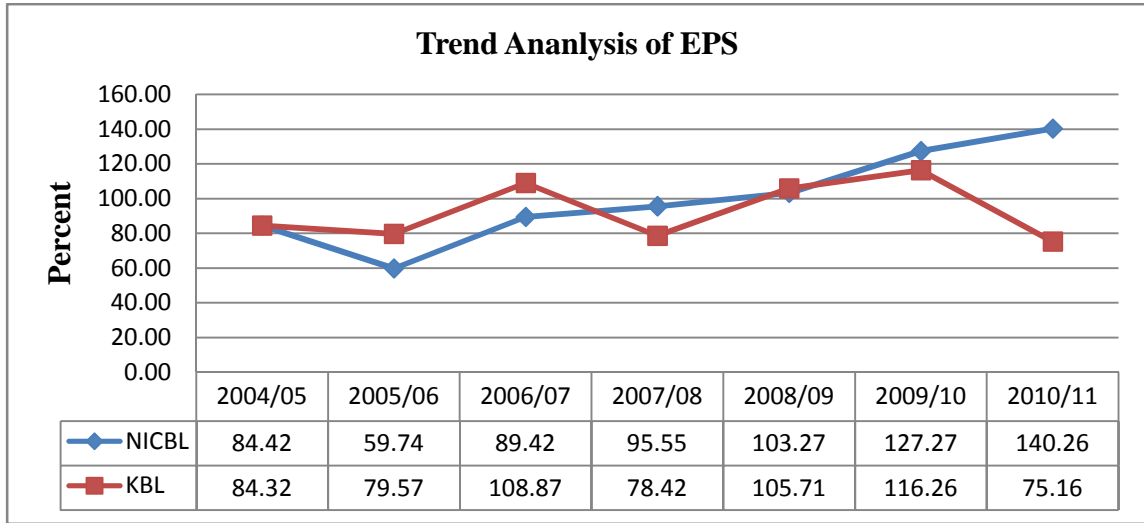
Source: Annex II (Table No 7).

The above figure depicts the trend relating to net profit for two banks i.e. NICBL and KBL. The trend suggests that the net profit for both banks increasing rapidly throughout the study period however the trend of KBL seems stronger for 3 consecutive years starting from 2004/05 than NICBL. In the fourth year of study period both banks seems to have relatively same trend. But in the later year NICBL is stronger than that of KBL. Thus, the increasing trend suggests that both banks are doing well in terms of obtaining net profit which is good sign of sound operation.

4.2.8 Earning per share (EPS)

The following figure reflects the trend of Earning per share (EPS) of NICBL and KBL.

Figure 8



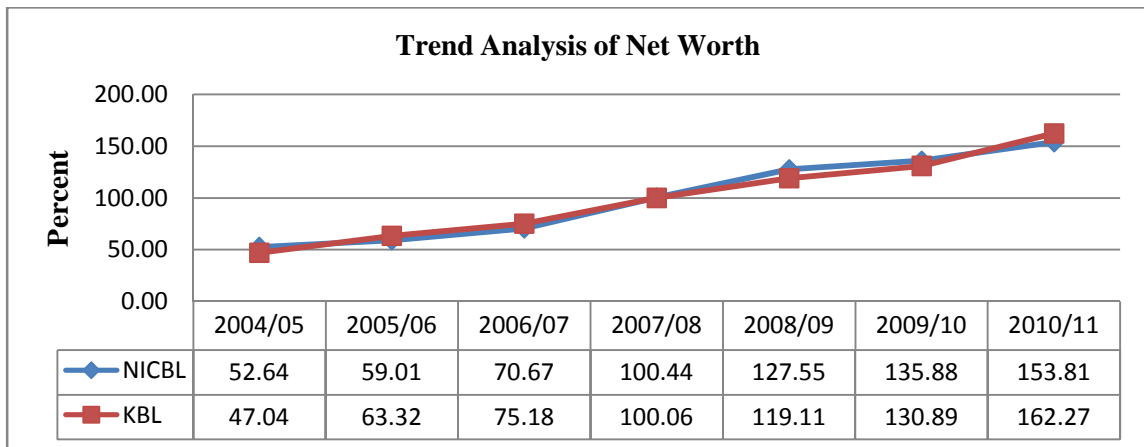
Source: Annex II (Table No 8).

The above figure shows that the trend of EPS of both banks is fluctuating over the years. However the trend reveals KBL has higher EPS for the first 3 years then after fourth year of study period NICBL is maintaining higher ratio than that of KBL. Thus, the above trend suggests that the stockholders are getting more returns as the time passes by which is favorable for them.

4.2.9 Net Worth

The following figure reflects the trend of Net worth of NICBL and KBL.

Figure 9



Source: Annex II (Table No 9).

The above figure shows that both the banks have increasing trend of net worth throughout the study period i.e. from the year 2004/05 to 2010/11. NICBL net worth is ranged between 52.64% to 153.81% and KBL's Net worth is ranged between 47.04% to 162.27%. The above analysis concludes that both the banks are in the favorable condition from the stockholder's point of view as their net worth is increasing year by year.

Chapter V

Summary, Findings and Recommendation

5.1 Summary

This study was done according to the methodology described in third chapter in view to find out financial performance of NICBL and KBL. Both banks stand themselves in the leading position among the 31st commercial banks in Nepal providing the quality banking services with better and enhanced technology to their customers.

The present study has been done to examine and evaluate the financial performance of the commercial banks with reference to NICBL and KBL.

In global market condition, Banking has become highly complex and sophisticated. Several changes are taking place in the Banking environment. These changes create threats and opportunities, which have direct impact on the performances of the banks. Therefore, future is going to be more challenging than what it is today. These days the service oriented banks in the new competitive banking industry with quality and speedy service will be able to attain their objectives including Profit generation along with maintaining social responsibility.

Analysis of bank financial statements is different from that of other companies due to the special nature of assets and liabilities. Financial statement covers income statement, income appropriation account, Balance sheet, and cash flow statement. These statements provide the basis for assessing the financial performance. Financial soundness of enterprise can be traced through developing certain relationship between the items contained in the financial statements.

Financial analysis is the key for financial decision-making and for making plans and program before using sophisticated forecasting and budgeting procedures. The value of this approach is to form the quantitative relation, which can be used to diagnose strength and weakness in a firm's performance. Such analysis is considerable thing for the company's common stock holders, investors, bondholders and others.

Financial policies of any concern are directly or indirectly influenced by the financial performance. Thus, it is a base for a firm's survival, growth and expansion.

Financial performance of NICBL and KBL is done on the basis of the financial statements from Fiscal Year 2004/05 to 2010/11. Various financial ratios, income and expenditure analysis, trend analysis and bar diagram are used to accomplish the objective. This study is mainly based on the secondary data that have been first processed and analyzed comparatively.

5.1.1 Findings

The analysis of the financial performance of NICBL and KBL under different ratios revealed the following:

Stability Ratios

The study reveals that NICBL has higher averages on Shareholders reserves to share capital ratio, current assets to net worth ratio and total deposit to net worth ratio than KBL. But KBL has better Net worth to total assets ratio than NICBL.

Liquidity Ratios

From the analysis, NICBL has higher Cash and Bank balance to current asset Ratio, Investment on Government securities to current assets ratio, Fixed Deposit to total deposit ratio, Cash and Bank balance to total deposit Ratio than KBL but KBL has slightly higher current ratio than NICBL, higher Loan and advance to current assets ratio and higher saving deposit to total deposit ratio than NICBL.

Credit Ratios

Similarly the analysis of credit position of NICBL and KBL shows the differences with one another indicates NICBL has better credit position than KBL in terms of short term investment i.e. Investment on government securities to Total deposit ratio and Total Investment to Total Deposit ratio and cash and bank balance to total deposit ratio than KBL.

Turn over Ratios

For turnover ratios, it is the main indicator of income generating activity. The analysis measure different activity ratios which found the following : NICBL has higher Total assets to Total Loan ratio and Loans and advances to savings deposits than KBL but KBL has higher Loan and advances to total deposit, Loan and Advances to Fixed deposit and than NICBL.

Profitability Ratios

Computation of various profitability ratios the analysis reveals that NICBL has higher Operating profit to Net worth ratio, net profit to total deposit ratio ,Earning per share (EPS), Dividend Payout ratio (DPR) than KBL which implies the effective use of NICBL's owner's equity than KBL. Higher DPS creates the positive attitude of investors toward the bank which helps to increase the market value per share, NICBL has higher Dividend payout Ratio which means that NICBL is distributing higher portion of earnings as cash dividends to the shareholder. But KBL has higher Interest Earned to Working Fund Ratio, Interest paid to working fund Ratio, and Cost of services to working fund Ratio than NICBL.

Structural Ratios

The analysis of structural ratio reveals that NICBL has higher Total debt (liabilities) to net worth ratio than KBL.

Other Indicators

Analysis of data reveals that KBL has higher Spread than NICBL. But NICBL has higher Contingent liabilities to total liabilities Ratio. From the analysis of operating income and expenses from different items in percentage shows little difference. The major source of operating income for the both banks is income earned from interest. Average operating

income from interest, commission and discount is higher for KBL. Whereas foreign exchange fluctuation gain and other income is higher for NICBL.

For operating expenditure, NICBL has higher Interest paid but for KBL it is found that it has always higher expenses in staff and general expenses.

Lastly NPL level of NICBL is higher than KBL.

5.2 Recommendation

The study of comparative analysis of financial performance of two Commercial banks is an attempt to give a general account of the financial performance of NICBL and KBL in terms of stability ratios, liquidity ratios, turn over ratios, structural ratios, credit ratios, profitability ratios, and other indicators like trend analysis, bar diagram, percentage, simple averages etc.

On the basis of entire research study, some valuable and timely suggestions and recommendation can be put forward on the basis of findings from critical evaluation of their financial pictures, to overcome weakness and inefficiency and to improve present financial position of the banks. On the basis of findings mentioned above, some of recommendation have been drawn : -

1. Both the banks are suggested to maintain their liquidity position in normal standard i.e. 2:1, as their liquidity position is below the normal standard set by NRB.
2. Both banks are maintaining low cash and bank balance in relation to total deposit (excluding fixed deposit) the analysis shows NICBL has 19.28% and KBL has 13.28% This ratio shows the ability of banks immediate funds to cover their (current margin, call and saving) deposit. Higher the ratio shows higher liquidity position and ability to cover the deposits and vice versa. So in liquidity point of view both banks should increase their cash and bank balance to meet customer demand.
3. The average figure of investment in government securities to current assets shows NICBL has higher amount than KBL. Investment on Government securities is the more safe investment than other current assets. So, management of KBL should think about

investing in government securities because KBL is losing the additional interest income by keeping idle cash instead of investing it on Government securities.

4. Profitability position of NICBL is comparatively better than KBL. So KBL is recommended to utilize its resources more effectively for generating more profit margins since it has high ratio in cost of service to working fund interest paid to working fund. It should be noted that, if resources held idle bank faces high cost and causes the low profit margin.
5. The stability position of both banks is in a satisfactory position however NICBL management should consider lowering current assets because it has higher current assets to net worth ratio than KBL because higher current assets reduces the profit
6. KBL is strictly suggested to reduce their operating expenses, since it has significantly higher operating expenses than NICBL. It should be noted that KBL has just 29 branches and NICBL has 37 branches. KBL's management should be more aware on reducing its general and staff expenses though it has fewer branches than that of NICBL
7. NICBL is suggested to utilize more of the total deposits in extending loans and advances and KBL should keep up current pattern of loans and advances.
8. NICBL is in better position in providing adequate return to its share holders since it has higher EPS, DPS and DPR than that of KBL. KBL on the other hand should be aware of the benefits of consistent dividend policy and suggested to maintain a stable dividend policy to gain faith from the shareholders point of view.
9. NICBL has higher amount of Total Deposit to Net worth Ratio than KBL so NICBL is suggested to draw its attention to reduce the proportionate amount of deposit in relation to net worth. Because higher this ratio indicates bank is incurring losses and the rate of return is less than the interest payable.
10. NICBL is strictly recommended to reduce its NPL level since its NPL level is significantly higher than KBL's. The management of NICBL should be more aware on extending loan and advances. Before extending loan and advances it should consider the five Cs of credit: character, capacity, capital, collateral and conditions of credit receiver.

11. The economic liberalization policy adopted by Nepal Government especially after the mass protest of 2063 has created an environment of strict competition in the banking sector. In this context, both NICBL and KBL are suggested to formulate and implement some sound and effective financial and non-financial strategies to minimize their operational expenses to meet required level of profitability for better sustainability.

12. Nepal being a underdeveloped country. Most of the people live in the remote areas. But commercial banks in Nepal are concentrating their banking services in the urban areas only. The need of the small communities and borrowers outside these areas are neglected. These banks should fulfill some special obligations by extending their resources to rural areas and promoting the development of poor and disadvantageous group. In order to do so they should open their branches in the remote areas with the objective of providing cheaper banking facilities. Especially KBL should initiate on this regard because it has few branches in comparison to NICBL. NICBL on the other hand should open new branches in the far western region of Nepal where the presence of private ownership banks is none and the banking need of the locale are increasing day by day.

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Table 9
Trend Analysis Table of Net Worth

Fiscal year	KBL		NICBL	
	Net Worth	%	Net Worth	%
2004/05	641.74	47.04	683.73	52.64
2005/06	863.84	63.32	766.42	59.01
2006/07	1025.62	75.18	917.89	70.67
2007/08	1365.13	100.06	1304.55	100.44
2008/09	1624.94	119.11	1656.74	127.55
2009/10	1785.74	130.89	1764.96	135.88
2010/11	2213.84	162.27	1997.77	153.81
Averages	1360.12		1298.87	

Source: Balance Sheet of NICBL and KBL Annex III