

**A COMPARATIVE STUDY ON FINANCIAL
POSITION OF BANK OF KATHMANDU LIMITED
AND NEPAL SBI BANK LIMITED**

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Faculty of Management

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RECOMMENDATION

This is to certify that the thesis:

Submitted by
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**A COMPARATIVE STUDY ON FINANCIAL POSITION OF BANK OF
KATHMANDU LIMITED AND NEPAL SBI BANK LIMITED**

*Has been prepared as approved by this department in the prescribed format of Faculty of
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And found the thesis to be the original work of the student written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for Master's Degree in Business Studies (M.B.S.)

Viva-Voce Committee

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DECLARATION

I here by declare that the work reported in this thesis entitled “A COMPARATIVE STUDY ON FINANCIAL POSITION OF BANK OF KATHMANDU LIMITED AND NEPAL SBI BANK LIMITED” submitted to Office of the Dean, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfillment of the requirement of Master of Business Studies (MBS) under the guidance and supervision of Dr. Shilu Manandhar Bajracharya of Shanker Dev Campus.

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CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Nepal is a small landlocked under developing country situated 26° 22" to 30° 27" northern latitude and 80°04" to 88°12" eastern longitude between two large country India and China. Total area of Nepal is 147181 km which is 0.3 percent of Asia and 0.03 percent of the world. Average length of eastern Mechi to western Mahakali is 885 kms and average gap between Northern sides to southern side is 193 kms. It is an underdeveloped country with 25 percent of the population living below the poverty line.

Nepal is one of the countries in the world in terms of rich and unique natural resources and attributes like bio-diversity, socio-cultural and cultural heritage manifested in its architecture, temples, sculptures, monuments etc. Besides, it is also richly gifted with natural resources like world's highest mountain Everest, green forests, many perennial rivers and source of minerals. The slow pace of development of Nepal is due to illiteracy, lack, of investment, landlocked position, poor resource mobilization and its utilization, weak infrastructure development, institutional weaknesses, poor economic policy and unstable eco-political environment. To overcome, this process of capital accumulation among other pre requisites should be enhanced. The economic development of one nation is in an initial stage. Nepal has adopted mixed and liberal economic policy with the implicit objective to help the state and the private sector. For the economic growth and development, government has now initiated various economic policies such as industrial policy, foreign investment policy, privatization policy and trade and transit policy.

Nepal has been facing the problem of accelerating the pace of economic development. Economic development of a country depends upon the upliftment of the rural people through increasing their productivity thereby raising their incomes, which ultimately help them to cross the poverty line. The commercial banking system in Nepal is still in its infant stage as compared to other developed countries. However, their important role in

the economic development of the country has been fully realized and these banks are being oriented in their activities best suited for the overall economic development of a country.

Development requires economic growth occurs when people and their government respond to economic incentives .Sustainable development also takes hold when good governance is found with a dynamic private sector, A vibrant private sector gives free reign to human creativity, fostering innovation and improving the living standard of everyday people. Increased economic growth and individual prosperity through economic freedom must be the core goals of development. Open market and economic liberalization provide the fattest and most reliable path to increased growth and prosperity, with the worldwide move towards open and market oriented system, it has led to growth and expansion and of banking and financial systems too.

Banks play a significant role in the development of a country. Bank is a financial institution, which maintains the self-confidence of various segments of society and extends credit to the people. The financial institution is an indispensable part for the upliftment of a country. The financial institution is a vast field comprising of banks, financial companies, insurance companies, co-operatives, stock exchange and foreign exchange markets, mutual fund, etc. These institutions collect idle and scattered money from the general public and finally invest in different enterprises that consequently help in reducing poverty, increase in life style of people, increase employment opportunities, and thereby developing society and the country as a whole. Thus, today the financial institutions have become the base for measuring the level of economic development of a country.

Banking institutions are inevitable for the resource mobilization and all-round development of the country. It is the resource for economic development; it maintains economic confidence of various segments and extends credit to people. The legal definitions of banking, and the permitted activities of banks, vary across countries. Nevertheless, the essential characteristics of banks are the same. They issue liquid,

nominally valued liabilities, many of which are payable on demand at par, and they mainly acquire assets that are illiquid, relatively difficult to value, and of longer maturity than their liabilities. Commercial banks are major financial institution, which occupy quite an important place in the framework of every economy because they provide capital for the development of industry, trade and business and other resources deficit sectors by investing the saving collected as deposit. Beside the, commercial banks render numerous services to their customers in view of facilitating their economic and social life. Commercial banks, by playing active roles, have changed the economic structure of the world. Thus commercial bank became the heart of financial system.

The role of commercial banks in economy is obviously prime requisite in the formulation of bank's policy. A key factor in the development of the country is the mobilization of domestic resources and their investment for productive use to the various sectors. To make it more effective commercial banks formulate sound investment policies, which eventually contribute to the economy of a country. The sound investment policies help commercial banks to maximize quality and quantity of investment and thereby, achieve the own objectives of profit maximization and social welfare. The banking sector has to play development role to boost the economy by adopting the growth oriented investment policy and building up the financial structure for future economic development. Formulation of sound investment policies and coordinated and planned effort forward the forces of economic development because it ensures efficient allocation of funds to achieve the material and economic well being of the society as a whole. In this regard, commercial banks investment policy is also a push drive to achieve priority of industries in the context of Nepal's economic development. Investment policy is one fact of the overall spectrum of policies that guide banks investment operation. A healthy development of any bank depends upon its investment policy.

A good investment can be effective on for the economy to attain the economic objective directed towards the acceleration of the pace of development. A good investment pattern attracts both borrowers and lenders, which helps to increase the volume and quality of deposit, loan and investment. The load provided by commercial bank is guided by several

principles such as length of time, their purpose, profitability, safety etc. These fundamental principles of commercial banks investment are considered while making investment policy. Nepalese commercial banks lag far behind fulfilling the responsibilities to invest in the crucial sector of the economy for the enlistment of the national economy. Thus the problem has become very serious one in developing countries like Nepal, which can be solved through formulation of sound investment policy. Sound investment policy can minimize interest rate spread and non-performing assets, which cause the tank failure. Good investment policy ensures maximum amount of investment to all sectors with proper utilization. Formulation amount of investment policies and co-ordinate and planned efforts depends upon the growth of not only a particular bank but also of a society.

Financial performance analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account. Analyzing financial statements is a process of evaluating relationship between component parts of financial statements to obtain a better understanding of a firm's position and performance. Financial Statement Analysis allows managers, investors and creditors as well as potential investors and creditors to reach conclusion about the recent and current status of a corporation. The checking of financial performance in a business deserves much attention in carrying out the financial position. It also requires to retrospective analysis for the purpose of evaluating the wisdom and efficiency of financial planning.

1.1.1. Profile of Sample Bank

A. BANK OF KATHMANDU (BOK)

Bank of Kathmandu Ltd. (BOK) is a culmination of a comprehensive vision of the Promoters to take the Nepalese economy to newer realm in the global market. The promoters' comprehensive vision and the government's overwhelming support gave birth to BOK as one of the private sectors banks of the country in 1993 which commenced its commercial business in March, 1995.

BOK was established by a group of distinguished civil servants and renowned businessmen in collaboration with the SIAM Commercial Public Company Limited (SCB) - a leading bank of Thailand. Upon establishing BOK as one of the reputed banks in a short period, the Nepalese promoters decided to conclude the technical service agreement with SCB and BOK to be arranged by the Nepalese professionals as it could further enhance its business performance years ahead under the Nepalese management. With the well-acclaimed capabilities of the Nepalese management team, BOK has successfully enhanced its capital structure, profitability; reach to the customers and image in the market. It has created a position in the industry in a shortest possible span of time. Since, BOK is established with the objective of providing prompt and quality services the clients. Therefore, it has become successful Commercial banks in Nepal.

Organizational Structure

BOK's organizational structure is based on a multi -pronged strategy of administrative streamlining, human resource experienced cost management, timely assets management and planned asset growth. The organizational structure to guarantee consistency and high level of standards in all its operations. At the same time, because of confidence from time proven methods, it is also flexible enough to ensure effective control and supervision while still being in its functions and diversity of services.

Strategic Objectives

BOK started its operation in March 1995 with the objective to stimulate Nepalese economy and take it to newer heights. BOK also aims to facilitate the nation's economy and to become more competitive globally. To achieve these, BOK has been focusing on its set objectives right from the beginning. To highlight its few objectives:

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

) To contribute to the overall social development of Nepal

Major Areas of Service Delivery

Bank of Kathmandu provides cost effective and efficient financial services to its clients through the following major areas of service delivery:

1. Corporate Banking:

Based on the viability of the project/proposal, Term Loan to finance the long-term financing need of a firm/company may be made available. These include Project Financing, Trade Finance, Working Capital Finance, Syndicated Loan Arrangement and Consortium Lending.

2. Retail Banking:

Consumer lending, retail credit products and banking services for individuals to avail of services that include housing loans, vehicle loans, education loans, foreign employment loans, festivity loans, etc.

3. Business Banking:

Credit products and other banking services including Small Scale Project Finance, Trade Finance and other business credit such as Loan Against Fixed Deposit, Loan Against Govt. Bond / 1st Class Bank Guarantee, Priority Sector/Deprived Sector Loan and Consortium Financing.

4. Deposits:

Tailor made deposit accounts to suit the needs of every individual and organization. With advanced technological Features all your banking needs are well taken care of. The different accounts include Current Account, Savings Accounts, Call Accounts and Fixed Deposits.

5. Transaction Banking:

Institutional and personal deposit products as well as services like credit/debit cards, ATMs, safe deposit lockers, payment services, drafts, remittance, SMS Banking, e-banking Travelers' Cheques, etc

B. Nepal SBI Bank Limited (NSBIL)

Nepal SBI Bank Ltd. (NSBL) is the first Indo-Nepal joint venture in the financial sector sponsored by three institutional promoters, namely State Bank of India(SBI), Employees Provident Fund(EPF)and Agricultural Development Bank Ltd.(ADBL)through a Memorandum of Understanding signed on 17th July 1992. NSBL was incorporated as a public limited company at the Office of the Company Registrar on April 28, 1993 under Regn. No. 17-049/50 with an Authorized Capital of Rs.12 Crores and was licensed by Nepal Rastra Bank on July 6, 1993 under license No. NRB/I.Pa./7/2049/50. NSBL commenced operation with effect from July 7, 1993 with one full-fledged office at Durbar Marg, Kathmandu with 18 staff members. The staff strength has since increased to 351. Under the Banks & Financial Institutions Act, 2063, Nepal Rastra Bank granted fresh license to NSBL classifying it as an "A" class licensed institution on April 26, 2006 under license No. NRB/I.Pra.Ka.7/062/63. The Authorized and Issued Capitals have been increased to Rs. 200 Crores and Rs. 131.76 Crores, respectively. In terms of the Technical Services Agreement concluded between SBI and the Bank, SBI provides management support to the bank through its 3 expatriate officers including Managing Director who is also the CEO of the Bank. A core management team viz. Central Management Committee (CENMAC) consisting of the Managing Director, Chief Operating Officer, Chief Financial Officer and Assistant General Manager(Credit) oversees the overall banking operations in the Bank. ADBL divested its stake in the Bank by selling its entire 5% promoter shares to SBI on 14th June, 2009. Consequently, the Bank's corporate status has undergone change from its previous status as a Joint-venture Bank to a Foreign Subsidiary Bank of SBI. Presently fifty five percent of the total share capital of the Bank is held by the SBI, fifteen percent is held by the EPF and thirty percent is held by the general public

Ourselves firmly in the Nepali Banking arena. We have been performing better than the industry average under most of the key business indicators in the last couple of years and it will be our Endeavour to take this drive further. As we have expanded our network of banking officials from 20 in 2008 to 56 in 2011, we need to consolidate our position and grow. Towards this, we have set up two Regional Offices in Biratnagar and Nepalgunj.

1.2 Focus of the Study

This study attempts to analyze the financial performance analysis sample commercial banks in existing practice and new methodologies in this technical era. This study also concentrated on whether the theory on financial performance founded by varies researcher. It can be said that the poor performance of commercial banks owes to the lack of effective policies and measures taken by the government towards the collective improvement of the banking sector. So comparative financial performance analysis determines and evaluates the actual position of commercial bank.

This study focuses on the financial performance of commercial banks, viz. BOK and NSBIL. For financial analysis various ratio analyses has been used to assess the financial strengths and weakness of these banks. The study focuses on financial position and status of sample bank.

1.3 Statement of the Problem

The problem of the study will find out the reason behind the differences in their financial performance. The mushrooming of banking, finance companies, rural banks, and co-operative societies in a short span of time has brewed new competitive scenario and has passed a challenge to the previously dominant banks, which have been making attractive profits. In the changed scenario, these banks need to explore their strengths and weaknesses, and improve their performance because their success depends upon their ability to boost their productivity and financial performance.

At present 32 commercial banks are operating in Nepal. Thus, the major problems of bank and finance companies are their profitability, operating expenses and the investment policies, which have been found inconsistent and differing according to them. So, what are the reasons behind these variations? To identify these reasons an analysis of financial position should be clearly done. The study explores the efficiency and weakness of BOK and NSBIL. Thus, this study attempts to answer the following research questions:

-) What is the overall financial position of BOK and NSBIL banks?

-) What is the comparative position of two banks in term of liquidity, asset management, profitability, risk portion bank?
-) Is there any difference in financial performance between BOK and NSBIL?
-) What are the financial strength and weakness of the banks?
-) What are the relationship and trend of ratio of BOK and NSBIL?

1.4 Objectives of the Study

The basic objective of this study is the comparative analysis financial performance analysis of BOK and NSBIL. The specific objectives of this study are as follows:

-) To present the existing financial position of BOK and NSBIL.
-) To examine the relative financial performance of BOK and NSBIL in terms of different kinds of ratios.
-) To find out the relationship and trend of deposit, investment, loans and advances and net profit.
-) To provide suggestions and possible guideline according to finding of the study.

1.5 Significance of the Study

The importance of this study mainly is filling gap in the study of financial performance of concerned banks. Especially, this study deals with comparative analysis of financial position of BOK and NSBIL bank.

The significance of the study can be highlighted through the following points:

-) The study enlightens the shareholders about the financial performance of their respective banks. This allows them to have a comparative retrospect whether their fund was better utilized or not.
-) The study also compels the management of respective banks for self-assessment of what they have done in the past and guides them in their future plans and programs.
-) The financial agencies, stock exchanges and stock traders are also interested in the performance of the banks as well as the customers, depositors, and debtors, who can objectively identify the better bank to deal in terms of profitability, safety, and liquidity.

-) Policy makers at the macro level, i.e. the government and NRB will also benefit regarding the formulation of further policies in regard to economic development through banking institutions.

1.6 Limitations of the Study

This study is about the financial performance analysis of BOK and NSBIL. Every research has its own limitation, which are as follows: this research done for Partial Fulfillment of the Requirements for the Degree of Masters of Business Studies (M. B. S). The main limitations are as follows:

-) Although some primary data are included, but the study is mainly based on secondary data collected from the banks. Research based on secondary data may be far from accuracy due to inherent character.
-) Reference of Journals and Articles could not be presented due to unavailability of suitable materials.
-) A whole study is based on the data of five years period i.e. from fiscal year 2006/07 to 2010/11 and hence the conclusion drawn confines only to the above period.
-) Only two banks are taken for the study i.e. BOK and NSBIL.
-) This study concentrates on Deposit, Loan and Advances, Investment on Securities, Total Assets, Equity Capital, Net Profit and Market Price per Share related to investment.

1.7 Organization of the Study

The present study is organized in such way that the stated objectives can easily be fulfilled. The structure of the study will try to analyze the study in a systematic way. The study report has presented the systematic presentation and finding of the study. The study report is designed in five chapters which are as follows:

Chapter-I: Introduction

This chapter describes the basic concept and background of the study, commercial bank in Nepal, introduction of sample bank. Similarly, various problems of the study,

objectives of the study and need or significance of the study. It is oriented for readers for reporting giving them the perspective they need to understand the detailed information about coming chapter.

Chapter-II: Review of Literature

The second chapter of the study assures readers that they are familiar with important research that has been carried out in similar areas. It includes review of books, review of related articles and studies and previous thesis as well.

Chapter-III: Research Methodology

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. It describes about the various source of data related with study and various tools and techniques employed for presenting the data.

Chapter-IV: Presentation and Analysis of data

This chapter analysis the data related with study and presents the finding of the study and also comments briefly on them.

Chapter-V: Summary, Conclusion and Recommendation

On the basis of the results from data analysis, the researcher concluded about the performance of the concerned organization for better improvement.

Bibliography and other appendixes used in statistical results have been attached at the end of the study.

CHAPTER - II

REVIEW OF LITERATURE

Review of literature means reviewing research studies or other relevant proposition in the related area of the study so that all the past and previous studies, their conclusion and perspective of deficiency may be known and further researcher can be conducted. In other words it's just like fact are finding based on sound theoretical framework oriented towards discovery of relationship guided by experience, resonating and empirical investigation. The primary purpose of literature is to learn and it helps researcher to find out what research studies have been conducted in one's chosen field of study, and what remains to be done. For review study, the researcher uses different books and journal, reviews and abstracts, indexes, reports, and dissertation or research studies published by various institutions, encyclopedia etc.

This review of literature had been classified into two part with subgroup are as follow.

1. Conceptual Review
2. Review of Related Studies
 -) Reviews of journal and articles
 -) Review of Thesis

2.1 Conceptual Review

Bank and Finance is concerned with those activities related to money. Due to industrialization, technological innovations and intense competition, there has been a vast change in the philosophy of management. Likewise the discipline of financial management has undergone an unprecedented change. Financial management is that managerial activity which is concerned with planning and controlling of the firm's financial resources.

Evaluation of financial performance is a study of overall financial position of any organization. It is closely related to the decision making. In the modern context, it give vital support for the investment decisions, financing decisions and dividend decisions.

Financial performance analysis is undergone with the help of periodically made financial statements of the firm.

Financial management has defined as the financial statements provide a summarized view of the financial operation of the firm. Therefore, much can be learnt about a firm and careful examination of its financial statements as invaluable documents/performance reports. The analysis of financial statements is, thus, an important aid to financial analysis. He also adds, ratio analysis is the main tool of financial statement analysis.

Financial analysis is the assessment of a firm's past, present, and anticipated future financial condition. Its objectives are to determine the firm's financial strengths and to identify its weakness. Alternatively, financial analysis may come from outside the firm in an effort to determine the firm's creditworthiness or investment potential.

Financial Analysis, which relates the item presence in the balance sheet and income statement to one another, permits the charting of firm's history and the evaluation of its present position. It also allows the financial manager to anticipate reaction of investors and creditors and thus to gain insight into how attempts to require funds are likely to be received.

Financial performance is an analysis of better understanding of firms positions i.e. its strength and weakness. Thus it involves the use of various financial statements. First, the balance sheet, which represents a snapshot of the firm's financial position at the moment and time and next, then income statements, depicts a summary of the firm's profitability overtime (Van Horne and Walchowicz, 1997:120).

2.1.1. Concept of Commercial Banks

When two or more independent firms mutually decide to participate in a business venture, contribute to the total equity or more or less capital and establish a new organization, it is known as a joint venture.

The Nepal Commercial Bank Act, 2031 states, “a commercial bank is one which exchanges money, deposits money, accepts deposits, grants loans, and performs commercial banking functions and which is not a bank meant for co-operatives, agriculture, industries or for such specific purpose.”

According to the World Bank, commercial banks are the financial institutions which engage only in deposit taking and short-term loans and medium-term lending.

Joint Venture Bank is combination of Joint Venture Company and commercial bank. So it can be said JVBs are commercial banks in which foreign institution along with local financial institution and general public of the country makes investment. These banks primarily play a role in accumulation and mobilization of funds in a national level.

A joint venture is the joining of forces between two or more enterprises for the purpose of carrying out a specific operation (Industrial or commercial investment, production and trade (Gupta, 1992:15).

From the establishment of first commercial bank in Nepal in 1994 BS, the banking sector has grown significantly. Nepal has witnessed a phenomenal growth in the last two decades. In 1980 AD, the government introduced ‘Financial Sector Reforms’ and Nepal allowed the entry of foreign banks as joint ventures with up to a maximum of 50% equity participation. A meaningful step towards financial liberalization was undertaken in the year 1987/88 AD, with the objective of expediting the process of economic development under structural adjustments program and major reforms including liberalization of interest rate, strengthening of banking operation from direct to indirect monetary control instruments. There are 31 commercial banks in the country.

While the role of banking in the economy is declining in some industrial countries, banks continue to dominate the financial systems of most developing and transition countries. A sound banking system is important because of the key role it plays in the economy: intermediation, maturity transformation, facilitating payments flows, credit allocation, and maintaining financial discipline among borrowers. Banks provide important positive

externalities as gatherers of savings, assigners of resources, and providers of liquidity and payments services. In developing economies with less developed financial markets, banks typically are the only institutions producing the information necessary for intermediation, providing the portfolio diversification required for maturity transformation and risk reduction, and helping monitor corporate governance. Even in economies with highly developed financial markets, banks remain at the center of economic and financial activity and stand apart from other institutions as primary providers of payments services and as a fulcrum for monetary policy implementation.

The two essential functions of commercial banks may best be summarized as the borrowing and lending of money. They borrow money by taking all kinds of deposits – deposits may be received on current, savings or fixed account in fixed account, the banker incurs the obligation of paying legal tender after the expiry of a fixed period with pre-defined interest rate. In saving account, the banker undertakes to pay the customer an agreed rate of interest on it in return for the right to demand from him an agreed period of notice for withdrawals. Thus, a commercial banker, whether through current account or fixed deposit account, mobilizes the savings of the society. Then it lends it to those who are in need of it by granting overdrafts or term loans or by discounting bills of exchange or promissory notes. By discharging these functions efficiently, a commercial banker renders very valuable service to the community by increasing the productive capacity of the country and thereby accelerating the pace of economic development. It gathers small savings from general public, thus reducing idle money to the lowest limit. It combines small amount held by general public to make larger amount to be employed profitably in those enterprises where it is most called for and most needed. It makes idle fund effective and provides industry with capital. For instance, the practice of discounting bills can be taken. Commercial banks bridge the time element between the sale and actual payment of money by converting future claims into present money. This enables the seller to carry on his business without hindrance and the buyer will get enough time to realize the money. Thus, we have seen that bank receive deposits, which it has to repay to the depositor according to pre-defined terms and condition, and make them available to those people

who are really in need of them. It actually distributes deposits to the borrower as well as its own vault, which is the most delicate function of a commercial bank.

Commercial banks are the heart of the financial system. It holds deposits of many persons, government establishment and business units. It makes funds available through lending and investing activities to borrowers be it individuals or business firms. It also offers financial services to the government. It acts as medium of exchange and it is the medium through which monetary policy is implemented. These facts show that the commercial banking system of the nation is important to the functioning of the economy. Banks provide opportunity to people for participation in the development process of the country via issuing shares to be owned by them and accepting deposits from them. Then, banks mobilize and invest such accumulated resources in the field of agriculture, trade, commerce, industry, tourism, hydro-electricity projects etc.

2.1.2 Financial Statements

The Financial Statements are the means of presentation of a firm's financial condition and basically consist of two types of statements - The Balance Sheet & Income Statement. These are prepared to report the overall business activities as well as financial status of the firm for a specified period to its stakeholders. These contain summary of information regarding financial affairs that is organized systematically. The top management is responsible for preparing these statements. The basic objective of financial statements is to assist in decision making.

Hence financial statement refers to any formal and original statement that discloses the financial information related to any business concern during a period. The income statements and balance sheet usually prepared at the end of each financial year show the firm's position.

A) Balance Sheet

Balance sheet is one of the basic financial statements of an enterprise. It is also called the fundamental accounting report. As the name suggests, the balance sheet provide

information about financial standing or a position of a firm at a particular point of time usually end of the financial year. It can be visualized as a snapshot of the financial status of a company.

Balance sheet summarizes the assets, liabilities and owner's equity of a business at a moment of time, usually at the end of the financial year. Balance sheet is a financial statement, which contains information regarding different capital expenditures made on purchase of assets on particular date and information regarding various sources of funds acquired by the business concern to finance these assets and also the different sources of capital and liabilities at that particular point of time.

B) Income Statement

Income statement is designed to portray the performance of the business firm for specific period of time i.e. for a year or month or quarter. The business revenues and expenses resulting from the accomplishment of the firms operation are shown in the income statements. It is the "Scoreboard" of the firm's performance during particular period of time. It shows the summary of revenues, expenses and net income or loss of a firm for a particular period of time. Income statement also serves as a true measure of the firm's profitability.

2.1.3 Financial Analysis

Financial analysis is the process of determining financial strengths and weaknesses of a company by establishing strategic relationship between the components of a balance sheet and profit and loss statement and other operative data (Pandey, 1999:96).

Financial statement analysis is largely a study of relationship among the various financial factors in a business as disclosed by a single set of statements and a study of the trends of these factors as shown in a series of statement.

Financial statement analysis involves the use of various financial statements. These statements perform several things. First, the balance sheet summarizes the assets,

liabilities and owner's equity of a business at a moment in time, usually the end of a year or a quarter. Next, the income statement summarizes the revenues and expenses of the firm over a particular period of time, again usually a year or quarter. While the balance sheet represents a snapshot of the firm's financial position at a moment in time, the income statement depicts a summary of the firm's profitability over time. From these two statements certain derivative statements can be produced, such as statement of retained earnings, a sources and uses of funds statements and a statement of cash flows etc (Van Horne, 1996:56).

Financial analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account. Analyzing financial statements is a process of evaluating relationship between component parts of financial statements to obtain a better understanding of a firm's position and performance.

Financial statement analysis allows managers, investors and creditors as well as potential investors and creditors to reach conclusion about the recent and current status of a corporation” The checking of financial performance in a business deserves much attention in carrying out the financial position. It also requires to retrospective analysis for the purpose of evaluating the wisdom and efficiency of financial planning. Analyzing of what has happened should be of great value in improving the standards, techniques and procedures of financial control involved in carrying out finance function (Kuchhal: 1982).

The four basic statements contained in the annual report are the balance sheet, the income statement the statement of the retained earnings and the statement of cash flows. Investors use the information contained in these statements to form expectations about the future levels of earnings and dividends and about the risks of these expected values. Financial statement analysis generally begins with the calculation of a set of a financial ratios designed to reveal the relative strength and weakness of a company as compared to other companies in the same industry, and to show whether the firm's position has been

improving or deteriorating over time. Financial analysis is that sort of calculation which is done with the help of annual report. And the annual report would contain the essentials for such analysis. So the data retrieved from the annual report is indispensable for the financial analysis. (Weston, 1996:306).

It is both an analytical and judgmental process that helps answer questions that have been properly posed. Therefore, it is means to end. Apart from the specific analytical answer, the solutions to financial problems and issues depend significantly on the views of the parties involved, the related importance of the issue and on the nature and reliability of the information available.

Financial appraisal is a scientific evaluation of profitability and financial strength of any business concern. Financial appraisal is the process of scientifically making a proper, critical and comparative evaluation of the profitability and financial health of a given concern through the application of the techniques of financial statement analysis. A complete financial analysis and interpretation of financial statement involves the assessment of past business performance, an evaluation of the present condition of the business and the predictions about the future potential for achieving expected or desired results (Jain & Narang,1996:36- 37).

The main function of financial analysis is the pinpointing of the strengths and weakness of a business undertaking by regrouping and analysis of figures contained in financial statements by making comparison of various components and by examining their contents. This can be used by financial managers as the basis to plan future financial requirement by means of forecasting and budgeting procedures. Financial statement analysis involves a comparison of firm's performance with that of other firms in the same line of business which often is identified by the firm's industry classification. Generally speaking, the analysis is used to determine the firm's financial position in order to identify its current strengths and weakness and to suggest actions that might enable the firm to take advantage of the strengths and correct its weaknesses (Weston, 1996:78).

Financial analysis is used primarily to gain insight into operating and financial problems confronting the firms with respect to these problems. We must be careful to distinguish between the cause of problem and symptom of it. It is thus an attempt to direct the financial statements into their components on the basis of purpose in the one hand and establish relationships between these components and between individual components and totals of these items on the other. Along with this, a study of various important factors over the past several years is also undertaken to have clear understanding of changing profitability and financial condition of the business organization (Hampton, 1998:99).

Much can be learnt about business performance and financial position through appraisal of financial statements, the appraisal or analysis of financial statements spotlights the significant facts and relationship concerning managerial performance, corporate efficiency, financial strength and weakness and credit worthiness that would have otherwise been buried in a maze of details.

2.1.4 Objectives of Financial Analysis

Financial analysis enables us to explore various facts related to the past performance of business and predicts about the future potentials for achieving expected results. Major objectives of analysis of financial statement are to assess various factors in relation to the business firm as presented below.

-) The present and future earning capacity or profitability of the concern
-) The operational efficiency of the concern as a whole, and of its various parts or departments.
-) The short-term and long-term solvency of the concern.
-) The comparative study regarding to one firm with another firm.
-) The possibility of developments in the future making future forecasts and preparing budgets.
-) The financial stability of business concern,
-) The real meaning and significance of financial data,
-) The long term liquidity of its fund.

2.1.5 Need of Financial Analysis/ Financial Statement Analysis

The need for the analysis of financial statement arises in order to address the following questions.

-) How was the firm doing in the past? Was there any problem? If so, in what Area?
-) How it is doing at present? Is it doing better compared to the past performance, competitors and industry average? Is there any problem at present? If so, in what areas?
-) What about the future? Is there any likely problem on the way in the future? What will its position be in the future?
-) What corrective actions can be taken now to solve the problems and improve the performance? How will the recommendation of any course of actions or changes in the policy or practice help solve problems and improve the company's position?
-) What are the expected results of recommendations? Are there any improvements?

2.1.6 Process of Financial Analysis

Financial analysis basically financial statement analysis, is a technique of answering various questions regarding the performance of a firm in the past, present and the future on the basis of past performance. The analysis recommends the steps to be taken by financial managers while undergoing the assessment of financial position.

The questions, that as elucidated above create the need to follow certain steps such as first identification and analysis of problem in order to come up with appropriate recommendations, and then to project the expected results and examine them if there are improvements before implementing such recommendations. The following chart presents the process to be followed in the analysis of financial statements.

2.1.7 Types of Financial Analysis

The nature of financial analysis differs according to the purpose of the analyst. a distinction may be drawn between various types of financial analysis either on the basis of material used for the same or according to the modus operandi of the analysis.

A) According to material used

1. External Analysis

It is made by those who do not have access to the detailed records of the company. This group, which has to depend almost entirely on published financial statements, includes investors, credit agencies and government agency regulating a business in a nominal way.

2. Internal Analysis

The internal analysis is accomplished by those who have access to the books of accounts and all other information related to the business. While conducting this analysis, the analyst is a part of the enterprise he is analyzing. Analysis for managerial purpose is the internal type of analysis and is conducted by executives and employee of the enterprise as well as governmental and court agencies which may have major regulatory and other jurisdiction over the business.

B) According to Modus Operandi Analysis

1. Horizontal Analysis

When financial statements for a number of years are reviewed and analyzed, the analysis is called horizontal analysis. As it is based on data from year to year, rather than on one date or period of times as a whole, this is also known as dynamic analysis.

2. Vertical Analysis

It is frequently used for referring to ratios developed for one date or for one accounting period. It is also called static analysis.

Besides, the types of financial analysis on the basis of material used and modus operandi, S.P Jain and K.L. Narang have categorized on the basis of objective of the study.

C) According to Objective

1. Long Term Analysis

This is made in order to study the long term financial stability, solvency and liquidity as well as profitability and earning capacity of a business concern. For the long run success of a business concern, this analysis helps in the long term financial planning.

2. Short Term-Analysis

This is made to determine the short-term solvency, stability and liquidity as well as earning capacity of the business. This analysis is helpful for short term financial planning

2.1.8 Techniques of Financial (Statement) Analysis

The fundament of the analytical technique is to simplify or reduce the data under review to the understandable terms. There are various tools and techniques of financial statement analysis, each of which is used according to the purpose for which the analysis is carried out. The widely used techniques are as follows:

- a. Ratio Analysis
- b. Du Pont System of Financial Statement Analysis
- c. Common Size Analysis
- d. Funds Flow Analysis
- e. Cash Flow Analysis

a. Ratio Analysis:

Ratio analysis has been used as a major tool in the interpretation and evaluation of financial analysis. The term ratio refers to the numerical quantitative relationship between the two items/variables. A ratio is calculated by dividing one item of the relationship with the other base. In financial analysis, a ratio is used as a yardstick for the evaluation of financial performance of the firm. The analysis of financial ratio involves two types of comparison. First, the present ratio may be compared with the past and expected future ratios for the same company and second, the method of comparison involves comparing the ratios of one firm with those of similar firm or with industry averages at the same point, in time. Such comparison gives insight into the financial performance of the firm. Ratio analysis is widely in use. It may not give the entire picture of an enterprise. Ratios themselves are not conclusion. They are only the means. The Ratios are calculated from data available in the financial statement of an enterprise. The Ratio completed from the available data. For some firms, accounting data may closely approximate economic reality, for others, it is necessary to go beyond the figures in order to obtain their financial condition of performance.

Types of Ratios

Different Ratios can be calculated from the available data in the financial statement.

Broadly Ratios are classified in four groups. They are:

- i) Liquidity ratios
- ii) Capital structure/leverage ratios
- iii) Activity (assets management) ratios
- iv) Profitability ratios

i) Liquidity ratio

Liquidity refers to the ability of enterprises to pay its current liabilities. Liquidity implies the utilization of such funds of the firm which are idle or in very little amount. A proper balance between the two contradictory requirements i.e. liquidity and profitability are required for the efficient financial management. The more current assets associated with high liquidity and low profitability and vice versa. The less current Ratio and quick Ratio are the most widely used ratios for the general purpose to measure the liquidity position of an enterprise.

ii) Capital structure/leverage ratios

The Capital Structure/Leverage Ratio is associated with the long -term solvency of an enterprise. The long -term creditors would judge the soundness of a firm on the basis of long term financial strength measured in terms its ability to pay the interest regularly as well as repay the installment of principal due to dates or in one lump sum at the time of maturity. Leverage Ratios show how much of an enterprise's fund are financed by debt & equity. These Ratios also show the prospects for future financing.

The Capital Structure Ratio indicates the soundness of capital structure of an enterprise. It can be calculated on two ways. The first approach is to examine what proportion of borrowed capital occupies the capital structure i.e. calculated the Debt to Total Capital Ratio. The second approach is to examine the number of times the interest earned covered by earnings and to calculate the fixed charges covered by earnings.

iii) Activity ratio

An Activity Ratio may be defined as the test of relationship between sales and various types of Activity Ratios. Activity Ratios are employed to evaluate the efficiencies with which the firm manages and utilizes its assets. These Ratios are also called Turnover Ratios because they indicate the speed with which the assets are being covered or turned over into sales. So Activity Ratios presume that there exists an appropriate relationship between sales and various assets. The more important Activity Ratios for general - purpose analysis are Inventory Turnover Ratio, Total Assets Turnover Ratio, Fixed Assets Turnover Ratio, Capital Employed Turnover Ratio etc.

iv) Profitability ratio

Profitability is very important aspect of management of any enterprise. It shows the overall performance of an enterprise. The Profitability Ratios are calculated to measure the operative effectiveness of an enterprise. Besides management of the company, creditors and owners are interested in the Profitability Ratios of the firm. Profitability Ratios can be calculated on the basis of either sales or investment. The important Profitability Ratios, calculated in relation to sales are Net Profit Margin, Gross Profit Margin, and Operating Expenses Ratio etc. Similarly, the important Profitability Ratios, calculated in relation to investment are Return on Shareholders' Equity, Return on Capital Employed, and Return on Fixed Assets etc. Together these Ratios indicate the firm's efficiency of operation.

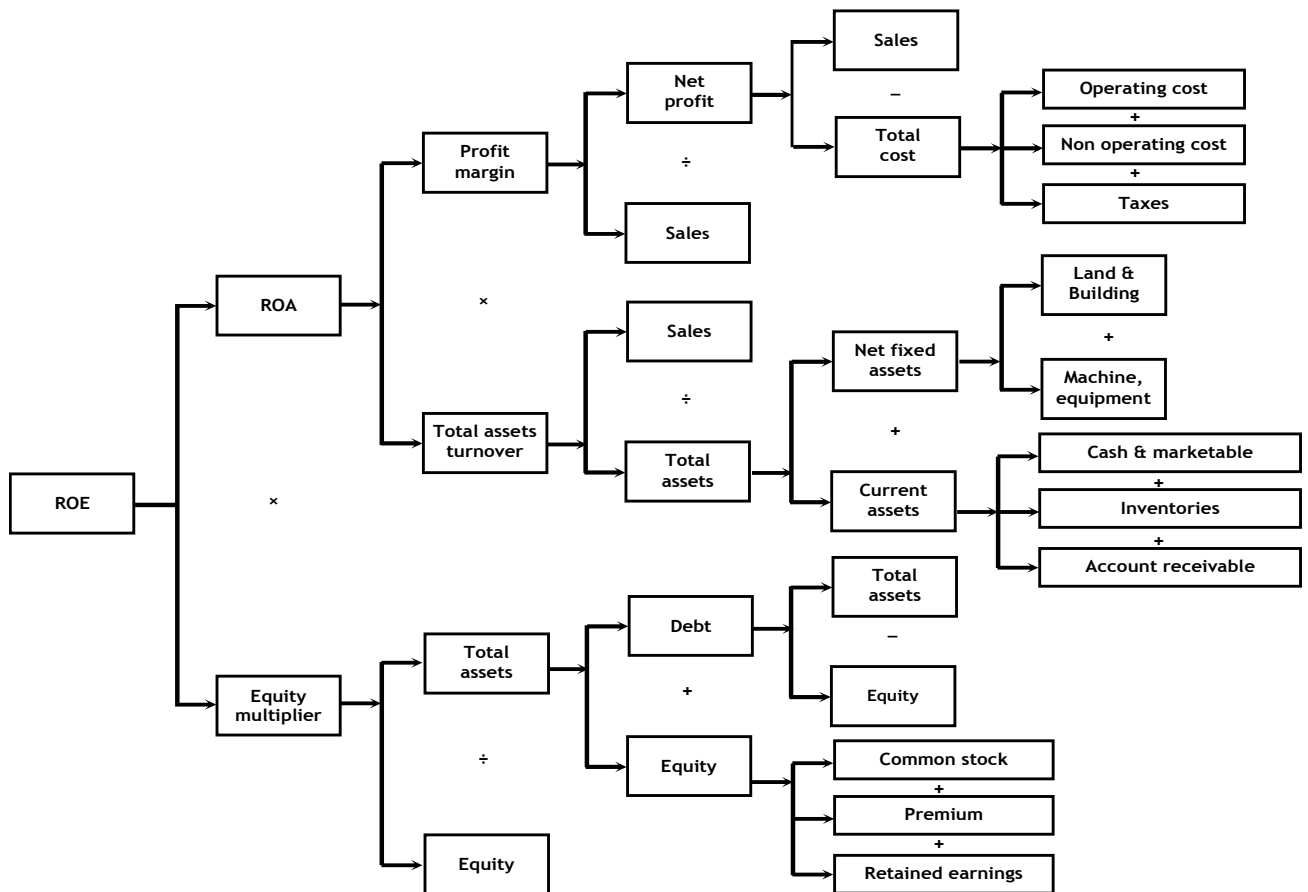
b. Du Pont System of Financial Statement Analysis

The Du Pont system is designed to show how the profit margin on sales, the assets turnover ratio and the use of debt interact to determine the rate of return on equity (Weston, 1996-307)

The Du Pont system of financial statement analysis is developed by the financial experts of the Du Pont Company by putting together the effects of profitability, investment and the equity ratios. The approach is based on the relationship among the three basic areas of the firm such as (i) cost controlling area (ii) Assets management area and (iii) Financial

leverage area. The directed to address the concern of the shareholders; hence its main focus is on the return on equity (ROE). The ROE is analyzed in terms of the factors that directly affect the ROE. The factors such as costs, assets utilization and leverage ratio are the grounds on which several test are made to see how the ROE is affected by such factors. The following modified Du Pont Chart presents the relationship among these factors and ROE.

Figure No 2.1
Du Pont System of Financial Analysis



Source: F. Weston and E. F. Brigham. The Dryden Press. 9th Edition, P.99.

For a business firm, the return on assets (ROA) is the rate of return on the total investment that includes both equity and debt capital. The ROA does not reflect the actual rate of return to equity holders. What reflects the return for stock holders is the return on their money (i.e. ROE), which is generally higher than the ROA. Thus ROA is

an overall measure and reflects the overall performance of the company. The Du Pont system addresses the concerns of stockholder and focuses on ROE.

Du Pont equation defines ROE as a product of ROA and equity multiplier and ROA as a product of profit margin and total assets turnover.

The Du Pont equation is as follows:

$$\begin{aligned} \text{ROE} &= \text{ROA} \times \text{equity multiplier} \\ &= \text{profit margin} \times \text{total assets turnover} \times \text{equity multiplier} \\ &= \text{Net profit/sales} \times \text{sales/total assets} \times \text{total assets/ equity} \end{aligned}$$

c. Common Size Analysis

The common size analysis is another technique of analyzing the items of financial statement on relative terms. Under this method, the percentage of every item in the income statements and balance sheets is carried out for past several years to determine the performance trend of each item during the period under analysis. After analyzing the rising, falling or constant trend of efficiency in the business operation one can make comparison with the industry average or competitors.

The common size analysis is carried out for a period of one or more. The income statement items are divided by sales and expressed as a percentage of sales. The balance sheets items are divided by total assets and expressed as percentage of total assets. These percentages for a company are compared with the standard measures such as percentages calculated in the same manner industry and the competitors.

Thus, the comparison shows the company's performance relative to competitors as well as compared to its own past record.

d. Funds Flow Analysis

Funds flow analysis is the statement of changes in financial position of any organization that determines only the sources and used of fund between two dates of balance sheet. It is prepared to uncover the information that financial statements fail to describe clearly. It describes the sources from which funds were derived and used to these funds were put.

The statement is prepared to summarize the changes in assets and liabilities resulting from financial and investment transactions during the period as well as those changes occurred due to the changes in owner's equity. It also uncovers the way of using financial resources during the period by the firm.

Method of preparing funds flow statement depends essentially upon the sense in which the term 'fund' is used. There are three concept of fund: cash concept, total resources concept and working capital concept. According to cash concept, the word fund is synonymous with cash. Total resources concept refers total assets and resources as fund. The term 'fund' represents only to working capital on the stated last concept However, working capital concept of fund has gained wide acceptance as compared to the other concepts. Therefore any transaction that increases the amount of working capital is taken as source of fund while conducting funds flow analysis. Any transaction that decreases working capital is treated as application. But, any transaction that affects current liabilities or current assets without resulting any changes in working capital is not taken as sources or use.

e. Cash Flow Analysis

This statement is carried out to know clearly the various items of inflow outflow of cash. It is different from funds flow analysis in the sense, the analysis relates to the movement of cash rather than the inflow and outflow of working capital.

It deals the causes of changes in cash position for the period of two balance sheets date in brief. At the time of preparing cash flow statement, only cash receipt from debtors against credit deals are considered as the source of cash. Similarly, cash purchases and cash payments to suppliers for credit purpose are regarded as the uses of cash. The same holds true for expenses and incomes outstanding and prepaid expenses are not to be considered under this analysis.

2.1.9 Significance of Financial Analysis

Significance of analysis lies on the objectives of financial analysis of any firm. The facts discovered by the analysis are perceived differently by different groups associated with

the concern. The facts and the relationships concerning managerial performance, corporate efficiency, financial strengths and weaknesses and credit worthiness are interpreted on the basis of objectives in the hand.

Such analysis leads management of an enterprise to take crucial decisions regarding operative policies, investment value of the firm, internal financial control system and bargaining strategy for funds from external sources.

The parties that are benefited by the results or conclusion drawn from the analysis of financial performance can be numerated as

-) Top Management
-) Creditors
-) Shareholders
-) Economists
-) Labor Unions

A) Top Management

The responsibility of the top management is to evaluate:

-) Are the resources of the firm has been used effectively and efficiently?
-) Is the financial condition of the firm sound enough?

On the basis of past facts, firms can anticipate their future. Hence, top management can measure the success or failure of a company's operations, determine the relative efficiency of various departments, process and products appraise the individual's performance and evaluate the system of internal audit.

B) Creditors

The creditors can find out the financial strength and capacity of the borrower to meet their claims. Trade creditors are interested in the firm's ability to meet their claims over a short span of time. The suppliers of long term debt focus upon the firm's long term solvency and survival. A lending bank through and analysis of these statements can decide whether the borrower retains the capacity of refunding the principal and paying interest in time or not.

C) Shareholders

The shareholders, who have invested their money in the firm's shares are most concerned about the firm's earning. They evaluate the efficiency of the management and determine about the necessity for the change. In large company the shareholder's interest is to decide whether to buy, sell or hold the shares. They wish to buy the shares in case of sound performance of the firm where as they simply intend to hold the shares in the condition of satisfactory performance. But they are hurried to sell the shares in case of poor performance.

D) Economists

To diagnose the prevailing status of business and economy, economists analyze the financial statements (of any firm). The government agencies analyze them for the purpose of price regulation; rate setting and similar other purposes.

E) Labor Unions

Productivity is the synonym of well-motivated labors. Labor unions are interested in rights and benefits of labor to enhance the moral of labors. For further motivation they expect increase in wages, fringe benefits and so on. These benefits are affected by the company's profitability condition. Therefore the union assesses the financial condition of the firm to determine whether the firm is in the situation or not to make such facilities available.

2.2 Review of Related Studies

Under this heading, reviews of research papers of researchers are analyzed to find out the investment policies of commercial banks.

Thapa (1994) expresses his views in his research paper "Financial System of Nepal" that the commercial banks including foreign joint venture banks seem to be doing pretty well in mobilizing deposits. Likewise, loans and advances of these banks are also increasing. But compared to high credit needs particularly by newly emerging industries, the bank still seems to lack adequate funds. The banks are increasing their lending to non – traditional sectors along with the traditional sectors. Out of all commercial banks (excluding two recently opened regional commercial banks), Nepal Bank Ltd. and

Rastriya Banijya Bank are operating with a nominal profit, the later turning towards negative from time to time. Because of growing competition and limitation of investment sectors, the spread between interest income and interest expenses is declining. These banks have not been able to increase their income from commission and discount. On the contrary, they have got heavy burden of personal and administrative overheads. Similarly, due to accumulated overdue and defaulting loans, profit position of these banks has been seriously affected. On the other hand, the foreign joint venture banks have been functioning in an efficient way. They are making profit year after year and have been distributing bonus to their employees and dividends to their shareholders.

He concludes that by its very nature of the public sector, these two domestic banks couldn't compete with the private sector banks, so only remedy to the problems of these banks, as the government decided, is to hand over the ownership as well as the management of these banks to the private hands.

Pradhan (2003) in his research paper "Role of Saving, Investment and Capital formation in Economic Development, A case of Nepal," has studied about the strong role and impact of saving, investment and capital formation on economic development of Nepal. This study is based on secondary data only. The necessary data on saving, investment, capital formation and gross domestic product has been collected for the period of 1974/75 to 2000/01. The role and impact of saving, investment and capital formation on economic development were analyzed by using various regression models. The regression equations used in this study have been estimated at current prices as well as in real terms with the entire study period divided into different sub periods.

The results presented in this paper suggest that in all cases, GDP is significantly associated with saving, investment and capital formation both at current prices and in real terms. The results of the empirical analysis led to three important conclusions: First, saving, investment and capital formation have positive impact on economic development. Second, the current values and past values of saving, investment and capital formation have positive impact on economic development but the current values have the largest

impact. Third, there is a strong role played by saving and capital formation on economic development while weak role-played by investment.

Mundul (2008) in article “*Understanding of credit derivative*” emphasizes Credit derivative enable financial institution and companies to transfer credit risk to a third party and thymus reduce their exposure to the risk of an obligor’s default. Credit enhancement technique, which helps reduce the credit risk of an obligation, play a key role in encouraging loans and investment in debts. In legal term credit derivative are privately negotiated bilateral contract to transfer credit risk from one party to another. Some credit enhancement methodologies have existed for the in debts. Some credit enhancement methodologies have existed for a longtime with the support of guarantee, letter of credit or insurance product. However such mechanism works best during economic upturns. As an alternative to commercial risk mechanism, various financial mechanisms have been developed over the past few decades. Such credit risks instruments are normally refer to as credit derivatives. Credit derivative helps to transfer credit risk away from the lender to some other party. Now credit derivative grew popular both as tools for hedging credit risk exposure as well as method of investing in certain types of credit risk.

Credit derivative not only helps corporation and financial institution to manage to their credit risk but also enabled a new set of individual retail client to invest in bonds and stocks previously unaffordable. Through credit derivative individual investor ca invest indirectly in foreign bonds at a lower price. Credit derivative helps investor isolated credit, and transfer it to other investor who are better suited to managing it or who finds the investment opportunity more interesting. There are many credit instruments in the market they are

- Total return swap (TRS)
- Credit default swaps (CDS)
- Credit linked notes (CLN)
- Credit spread option (CSO)

According to the behavior of the asset or deal above credit instrument can be used and minimizing the risk. In this way credit derivative provide protection against credit peril and risk.

Mundal, Sujit (2011) in articles “*Lending Policy: Human and Organizational Aspects*” It’s an ongoing debate if human and organizational aspects play a role in the formulation of lending policies of banks and financial institution. It takes the human and organizational factor such as skill, attitudes, human equations and leadership. Policies are ever evolving and cannot be successfully implemented unless the issues in these areas are adequately taken care of and the right environment is set up. When change brings about development of new technical skills, there is ground for clash between experiences these skills. It is more so when both the aspects are equally important. While experience, authority and probably power arte bound to go with one generation. The newer skill involves pencil work, enthusiasm for and the time available to use them would go with the other generation.

A combination of both developing own people and hiring professionals form relevant sector would be good to enhance the internal efficiency and competitiveness. In this regard there are three gaps that are evident even today.

- Skill gaps

- Organizational change

- Generation gaps

It is important to ensure adequate leverage to the operating executives at the industry level vis-à-vis the borrowing clientele including the prospective one. To many estimation the loan market should not become a buyer market pre dominantly, this is likely to cause distortion in the financial system, lending to unhealthy competition amongst lenders.

The country like Nepal needs sincere implementation of change particularly in financial sectors. To be more specific these are require in the process of credit evaluation, writing of credit policy and the bringing about new product. This will certainly assist the development and maturity of the financial market. This will also assists Nepal in the

process of integration with global financial market and with the expanding market of the two large neighboring countries. We should take a pragmatic view of the fast developing world and adapt to the changes first for survival and then progress.

2.2.1 Review of Thesis

Malla (2004) has conducted a thesis on "*Financial performance of commercial banks with special reference to Himalayan Bank and Nabil bank*" to examine the financial performance of HBL Bank and Nabil Bank.

Specific objectives of the study were

-) To examine the financial position of the banks under study.
-) To evaluate the liquidity, efficiency of assets management and profitability position of the bank under study.
-) To provide suggestion and recommendations on the basis of findings.

The main conclusions of the study were the overall liquidity strength of HBL can be considered the better than that of Nabil. However, the liquidity risk is most likely in Nabil, arising from its interest rate. Since the market is highly sensitive towards the interest rate and Nabil has generally been offering low interest rate as compared to other banks. If Nabil cannot tie up its saving deposits saving holders from its advances and personalized banking system, the failure in liquidity in Nabil is most likely than HBL in coming future.

The analysis of strength of HBL in loan and advances is the best. The ratio of loan and advances to total assets investment to loan and advances and loan and advances to shareholder's equity indicate the superior performance of HBL in its lending activities as compared to Nabil despite low volume of non interest bearing deposit in its capital mix. However the loan and advances and advances and investment to total deposit ratio have upgraded the performance of Nabil.

Comparing the net profit and total expenses of these two banks, Nabil has the highest total net profit throughout the year and also the highest total expenses. Nabil has adopted

risk avoiding concept and headed towards investment in government securities whereas HBL is heading towards increasing advances with the concept of risk taking.

The mean ratio of interest income to total income ratio has concluded that the contribution of interest income in total income mix of HBL is the highest. This means that major portion of total income of HBL is highly dependent on loan and advances. The interest expenses to total deposit ratio indicates that the total cost of funds in HBL is the highest than that of Nabil. This shows that HBL has been unable to collect low cost deposit.

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

The specific objectives of his research are:

-) To analyze the functions, objectives procedure and activities of the NB bank
-) To analyze the lending practices and resources utilizations of NB bank.
-) To determine the impact of growth in deposit on liquidity and lending practices.
-) To examine the lending efficiency and its contribution to profit.
-) To make suitable suggestions based on the findings of this study. The financial and statistical tools are used.

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

The research findings of the study are summarized as:

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

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

The objectives of his research are:

-) To study the existing capital structure of financial position of selected joint venture commercial banks and to analyze its impact on the profitability.
-) To access the debt servicing of the joint venture commercial bank.
-) To examine the correlation and the signification of their relationship between different ratios related to capital structure.
-) To provide suggestions and recommendations for the optimal capital structure of the joint venture commercial bank.
-) To obtained the objectives, some financial, statistical and accounting tools.

He has found his study were the joint venture banks are operating in Nepal as commercial merchant banks. The growth is still going on as so many new banks are coming into

existence after this study. Therefore, JVB's are operating with higher technology and new efficient methods in banking sector. However, this study has been undertaking only three JVB's viz. SCBNL and NBBL to examine and evaluation the financial data.

The research findings of the study are as follows:

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

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

Gupta (2007) conducted a research study entitled '*Comparative Analysis of Financial Performance of Commercial Banks in Nepal*'. The researcher had taken Everest Bank Limited, Bank of Kathmandu and Nepal Standard Chartered Bank Limited as sample. The major objective of the study was

-) To evaluate Liquidity Ratio, Activity Ratio, Profitability Ratio and other market related ratios of these sample banks.
-) To study the liquidity profitability capital structure activity and capital adequacy position of EBL, BOL and SCBNL.
-) To suggest and recommended some measures by evaluating and finding financial performance of EBL, BOK and SCBNL Banks on the basis of finding

The researcher had used descriptive and analytical research design in writing the research study. The research had also used F-Test in testing the hypothesis. The researcher study concluded that among three sample bank BOK maintained the highest liquidity position during the research period in comparisons to other two banks. The study further added that SCBNL had the excellent assets utilization in order achieve the goal of maximizing the shareholder's wealth. In the same way SCBNL generated the highest net profit and paid the highest dividend per share to shareholders.

The study further stated that there is no significance difference among the commercial banks in terms of net profit of total assets ratio, and dividend payout ratio. The review of above relevant thesis has not doubt enhanced the fundamental understanding and foundation knowledge base, which is prerequisite to make this study meaningful and purposive.

Limbu (2008) in his dissertation "*Credit Management of NABIL Bank Limited*" highlighted that aggregate performance and condition of Nabil bank. In the aspect of liquidity position, cash and bank balance reserve ratio shows the more liquidity position. Cash and bank balance to total deposit has fluctuating trend in 5 years study period. Cash and bank balance to current deposit is also fluctuating. The average mean of Cash and bank balance to interest sensitive ratio is able to maintain good financial condition

The main objectives of the research study are as follow.

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

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

The research findings of the study are as follows:

-) Assets management position of the bank shows better performance in the recent years. Non-performing assets to total assets ratio is decreasing trend. The bank is able to obtain higher lending opportunity during the study period. Therefore, credit management is in good position of the bank.
-) In leverage ratio, Debt to equity ratio is in an increasing trend. High total debt to total assets ratio poses higher financial risk and vice-versa. It represents good condition of Total assets to net worth ratio.
-) In the aspect of profitability position, total net profit to gross income, the total interest income to total income ratio of bank is in increasing trend. The study shows the little high earning capacity of NABIL through loan and advances.
-) Earning per share and The Price earning ratio of NABIL is in increasing trend. These mean that the better profitability in the coming last years. It represents high expectation of company in market and high demand of share.
-) Loan loss provision to total loan and advances ratio and None-performing loan to total loan and advance ratio of NABIL is in decreasing trend. The ratio is continuously decreasing this indicates that bank increasing performance. Thus, credit management is in a good position.

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

Tuladhar (2009) has conduct thesis *Financial Performance of Everest Bank Limited And Standard Chartered Bank Limited*. In this study, researcher focuses on the financial performance of SCBNL and EBL. The main objective of the study are as follows

-) To present the existing financial position of SCBNL and EBL

-) To examine the relative financial performance of SCBNL and EBL in terms of different kinds of ratios.
-) To assess the financial strengths and weaknesses of these banks
-) To provide a package of suggestions and possible guideline to improve the performance of EBL and SCBNL.

Main finding and conclusions of the study are Current assets to current liabilities ratio of EBL is in decreasing trend. EBL has sound ability to meet its short term obligation than that of SCBNL. Cash and bank balance to current assets ratio of EBL and SCBNL are in fluctuating trend. EBL has slightly lower mean ratio. It indicates that SCBNL has the higher portion of cash and bank balance over current assets. The investment on government treasury bills to current assets of SCBNL is higher than EBL. It means SCBNL has invested more money in risk free assets than that of EBL. Loan and advances to current of EBL and SCBNL are in fluctuating trend. It means EBL has invested more money in the area of interest generation sources out of the current assets. Total deposit of SCBNL is higher than that of EBL. The investment trend of both bank have increasing Investment volume of EBL is lower than that of SCBNL. Loan and advances to total assets ratio of EBL and SCBNL are in fluctuating trend. EBL is better mobilizing of fund as loan and advances and it seems quite successful in generating higher ratio in each year. EBL seems effective in earning interest to some extent although it has lower earning of interest income but it must break the decreasing trend in coming year. Both banks have increased total assets. It indicates it has either used higher saving and fixed deposit or higher.

Loan loss provision to total loan and advances ratio of EBL and SCBNL are in decreasing. It is good for bank. The mean ratio of EBL is more than that of SCBNL. In comparison, EBL seems ineffective in getting cheaper fund. Net profit and total assets of both banks are in increasing trend. Return on loan and advances ratio of EBL and SCBNL are in fluctuating trend. SCBNL has better utilized the loan and advance for the profit generation. Price earning ratio earning of EBL and SCBNL are in increasing trend.

Interest expenses to total deposit ratio is in fluctuating trend. Both the bank does not have higher interest expenses on total deposit. NPL to total loan and advances of EBL and SCBNL are in decreasing trend. Decreasing trend is the good sign of the efficient credit management

Niroula (2010) in her thesis “*The Comparative Study on Portfolio Management of Nepal Industrial and Commercial bank and Everest bank ltd.* Has precise about portfolio management and its implication. The main objectives of the study are as follow:

-) To compare the liquidity management, asset management efficiency, profitability position, risk position, investment practices of aforesaid Banks.
-) To find out the relationship between deposit and total investment, deposit and loans and advances and net profit.
-) To analyze the risk return ratios of investment the banks.
-) To evaluate the portfolio management of the banks.
-) To provide suggestion through finding.

The main goal of the bank as a commercial organization is to maximize the surplus by the efficient use of its funds and resources. In spite of being a commercial institution, it too have a responsibility (obligation) to provide social service oriented contribution for the social economic upliftment to the country by providing specially considered loans and advances towards less privileged sectors.

On the basis of study following finding has been drawn:

-) The current ratio of NIC is higher than EBL. The current ratio of NIC is 1.89 and EBL is 1.14. Cash and bank balance to total deposit ratio of EBL has higher than NIC i.e. 10.7% >9.24% which indicates that the bank has higher liquidity of EBL as compare to NIC.
-) In case of Asset Management Ratio, the loan & advances to total deposit ratio of NIC is higher than similarly. The loan & advances to total assets ratio of NIC is greater than EBL.
-) In Profitability Ratio, Return on loan & advances ratio of EBL is higher than that of NIC Return on total assets ratio of EBL is slightly higher than NIC i.e. 1.50% >

- 1.31%. EBL seems successful in managing and utilizing the available assets in order to generate revenue. Similarly, Return on equity of EBL is higher than NIC.
-) For the perspective of risk and other ratio, the credit risk ratio shows the proportion of no-performing loan in total Loan & Advances. EBL has efficient operating of credit management than that of NIC from the mean point of view. The average mean ratio of EBL is greater than that of NIC.
 -) On the basis of time series analysis, NIC and EBL have increasing trend in collecting deposit the rate of increment of total deposit for EBL seems to be higher than that of NIC.
 -) The trend line of loan & advances for both banks is upward slopping. It refers that both the banks are increasing in disbursement of loan & advances.

Bhattra, R.C. (2011) research entitled “*Comparative financial analysis of NABIL bank and Standard chartered t bank ltd.* In his research main objective is to study the financial position of NABIL and SCBNL. The main objectives of the study are as follow:

-) To present the existing financial position of NABIL and SCBNL.
-) To examine the relative financial performance of NABIL and SCBNL in terms of different kinds of ratios.
-) To find out the relationship and trend of deposit, investment, loans and advances and net profit
-) To provide suggestions and possible guideline according to finding of the study.

Thus this research is conducted with the major objective of highlighting financial analysis of NABIL and SCBNL. The observation and conclusion is Derived by financial analysis in terms of liquidity, asset management, profitability and lending efficiency and other various ratio of NABIL and SCBNL as well as relevant financial and statistical ratios.

The overall analysis of liquidity position, the current ration of NABIL is in decreasing and SCBNL is fluctuating. The average liquidity position of NABIL is greater than SCBNL. So, NABIL is sound in meeting short-term obligation than SCBNL. NABIL has the little higher portion of cash and bank balance over current assets. The investment on

government treasury bills to current assets ratio of NABIL is fluctuating trend where as SCBNL are decreasing. The loan and advances to current of NABIL and SCBNL are fluctuating. NABIL has emphasis on more loan and advances. In the aspect of asset turnover ratio, the loan and advances and deposit ratio of both banks have been fluctuating. In the aspect of profitability ratio of NABIL and SCBNL, The mean ratio of SCBNL is higher than NABIL which signifies that the shareholders of SCBNL are getting higher return but in case of NABIL. The SCBNL has better utilized the equity for the profit generation. The interest earned to total asset ratio of both NABIL and SCBNL banks have fluctuating. Earning per share of NABIL and SCBNL is in decreasing trend. The average mean price of SCBNL is greater than that of NABIL. It indicates that shareholder of SCBNL are getting higher price and high demand of share in market. The higher PE ratio signify that price of SCBNL is higher than NABIL.

The correlation between deposits and loan and advances of NABIL and SCBNL is 0.993 and 0.924. It is shows that both have the positive relationship. It refers that deposit and loan and advances of NABIL move together very closely but not proportionately. Moreover, 98.60 percent of NABIL and 98.38 percent variation of SCBNL in loan and advances have been explained by deposit. The relationship between deposits and loan and advances is significant. The trend of total deposit of NABIL and SCBNL is in increasing trend. The Trend of Total Investment between NABIL and SCBNL are also increasing in making investment. SCBNL has higher trend of increasing total investment than NABIL. The trend of Net profit of NABIL and SCBNL is increasing. The trend of increasing value of net profit of SCBNL higher at beginning but at last NABIL exceeds. But increment of NABIL is aggressive.

2.3 Research Gap:

The review of literature has contributed to enhance the fundamental understanding and knowledge, which is required to make this study meaningful and purposeful. Various researchers conduct on financial performance and financial analysis, liquidity management, credit management, credit risk management of various commercial banks. In order to perform those analysis researchers have used various ratio analysis. The past

researches in measuring financial position of bank have been focused on the limited ratios, which are incapable of solving the problems. In this research various ratio are systematically analyzed and generalized. The ratios are categorized according to nature. Here in this research all ratios are categorized according to their area and nature.

In this research financial position of Bank of Kathmandu limited and Nepal SBI bank limited is done by measuring various ratios analysis, trend analysis and various financial tools as well statistical tools. In this research data are used only five fiscal year but all the data are current and fact. This study tries to show financial analysis by applying and analyzing various financial tools like liquidity ratio, asset management ratio, profitability ratio, risk ratio and other ratio as well as different statistical tools like average mean, standard deviation, coefficient of variation coefficient of correlation and trend analysis. Probably this will be the appropriate research in the area of financial position of Bank and finance.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

Research in common parlance refers to a search for knowledge. The Webster international Dictionary gives a very inclusive definition of research as "a careful critical inquiry or examination in seeking facts and principles diligent investigation in order to ascertain something.

Research is a systematic inquiry for seeking facts and methodology means the analysis of specific topic by using proper method. In other words research methodology is the way to solve systematically the research problem (Kothari, 1999: 61).

The topic of the study has been selected as “The financial position of Bank of Kathmandu and Nepal SBI Bank Ltd.” In order to reach and accomplish the objectives of the study, different activities will be carried out. For this purpose, the chapter aims to present and reflect the methods and techniques that are carried out and followed during the study period. The research methodology that is adopted for the present study is mentioned in this chapter, which deals with research design, sources of data, data collection, processing and tabulating procedure and methodology

3.2 Research Design

Research is a theory building activity. Research design is the plan, structure and strategy of investigations conceived so as to obtain answer to research questions and to control variances.

A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combined relevance to the research purpose with economic in procedure (Kothari, 1999:59).

Since the main objective of this study is to analysis financial performance of the banks, all the indicators that shows the financial performance of the banks were calculated using data obtained from the five year end internally generated accounting records maintained

by sampled Banks. The study depends on the secondary data. Various financial parameters and effective research techniques are employed to evaluate the financial performance of the banks. Furthermore, various descriptive as well as analytical techniques are used. The study is designed as to give a clear picture of the Bank's financial circumstances with the help of available data with useful suggestions and recommendation.

3.3 Population and Sample

At present 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 the study all the data related with all commercial banks because of the limited time period and showed also taken in to consideration of the partial fulfillment of the Master's Degree. Currently aggregate 32 commercial banks are running in Nepal. They all 32 Commercial bank are taken as population. Thus two joint venture banks i.e. BOK and NSBIL have been selected as sample for the present study.

3.4 Nature and Sources of data

The study is mainly conducted on secondary data relating to the study of financial analysis of samples Banks, as they are they are available at concerned Banks. For the purpose of the study, various related books, booklets, magazine, journals, newspaper and thesis made in this field have been referred. Besides necessary suggestions are taken from various experts both inside and outside the bank whenever required.

3.5 Data Collecting Procedures

The annual reports of the concerned banks were obtained from their head office and their websites. NRB publication, such as Banking and Financial Statistics Economic Reports, Annual Reports of NRB etc .has been collected from the personal visit of concerned department of NRB at Baluwatar. Besides, a details review materials are collected from the library of Shanker Dev Campus and central library of T.U.

3.6 Tools and Techniques used

"The analysis of data consists of organizing, tabulating, and performing statistical analysis" (Wolf and Pant: 127)

In this study, various financial and statistical tools have been used to achieve the objective of the study. According to the pattern of data available, the analysis of data will be done. The various tools applied in this study have been briefly presented as under:

3.6.1 Financial Tools

Financial performance is analyzed through the use of two important tools. The financial tool is one of the most important tool, which includes ratio analysis and the other one financial statement analysis have been used in this study. Financial tools are used to examine the financial strength and weakness of bank. Although there are many financial ratios, only selected ratios are used in this study.

3.6.1.1 Analysis of Financial Ratios

The techniques of ratio analysis in of considerable significance in studying the financial stability, liquidity, profitability and the quality of management of the business and industrial concerns, the important ratios that are studied for this purpose are given below.

3.6.1.2 Ratio Analysis

Ratio analysis is a technique of analysis and interpretation of financial statement. To evaluate the performances of an organization by creating the ratios from the figure of different accounts consisting in balance sheet and income statement is known as ratio analysis. Five types of ratios have been analyzed in this study, which are related to fund mobilization of the banks. They are presented below:

A. Liquidity Ratio

Liquidity ratio measures the ability of the firm to meet its current obligations. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community. 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. A firm should ensure that it has not lack of liquidity and also that it is not too much highly liquid.

i) Current Ratio: This ratio shows the bank's short-term solvency. It shows the ratio of current assets over the current liabilities. This ratio can be computed by dividing the total current assets by total current liabilities which can be presented as:

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

Higher ratio indicates the strong short-term solvency position and vice-versa.

ii) Cash and Bank Balance to Total Deposits Ratio: - Cash and bank balance is said to be first line defense of every bank. The ratio between the cash and bank balance and total deposit measures the ability of a bank to meet the unanticipated call on all types of deposit. Higher the ratio greater will be the ability to meet the sudden demand of deposit. But every ratio is not desirable since bank has to pay interest on deposit. This also maximizes the cost of fund to the bank.

$$\text{Cash and bank balance to total deposit ratio} = \frac{\text{Cash \& bank balance}}{\text{Total deposits}}$$

Where,

Cash and bank balance is composed up of cash on hand including foreign cheques and other cash item; balance with domestic banks and aboard. Deposits include current, saving, fixed money at short call notice and other types of deposits.

iii) Cash and Bank Balance to Current Assets Ratio: - This ratio shows the bank's liquidity capacity on the basis of cash and bank balance that is the most liquid assets. High the ratio indicates the bank's ability to meet the daily cash requirements of their customer deposits and vice versa. But the high ratio is not preferred as the bank has to pay more interest on deposit and will increase the cost of fund. Low ratio is also very dangerous, as the bank may not be able to make the payment against the cheques presented by the customers. We have,

$$\text{Cash and bank balance to current assets ratio} = \frac{\text{Cash \& bank balance}}{\text{Current assets}}$$

iv) Investment on Government Securities to Current Assets Ratio: - This ratio is used to find out the percentage of current assets invested on government securities, treasury bills and development bonds. We can find out as:

Investment on Govt. securities to total current assets ratio =

$$\frac{\text{Investment on Govt. Securities}}{\text{Current assets}}$$

Where,

Investment on Government Securities involves treasury bills and development bonds etc.

B. Assets Management Ratio:

A set of ratio which measure how efficiently a firm is managing its assets and whether or not the level of those assets is properly related to the level of operation. In this study this ratio is used to indicate how effectively the selected banks have arranged and invest their limited resources. The assets management ratios measure how effectively the firm is managing its assets. These ratios are designed to answer this question; does the total amount of each type of assets as reported on the balance sheet seem reasonable or not. If a firm has excessive investments in assets, then its capital cost will be unduly high and its stock price will be suffer.

i) Loan and Advances to Total Deposits Ratio: - This ratio is calculated to find out how successfully the selected banks are utilizing their collections or deposits on loan and advances for the purpose of earning profit. We have,

$$\text{Loan and Advances to Total Deposits Ratio} \times \frac{\text{Loan and Advances}}{\text{Total Deposits}}$$

ii) Total Investment to Total Deposits Ratio: - Investment is one of the major sources of earning profit. It shows how properly firm's deposit has been invested on government securities and shares and debentures of other companies.

$$\text{Total Investment to Total Deposits Ratio} \times \frac{\text{Total Investment}}{\text{Total Deposits}}$$

iii) Loan and Advances to Total Working Fund Ratio: - This ratio shows the ability of selected banks in terms of earning high profit from loan and advances. Loan and advances to working fund ratio can be calculated by dividing loan and advances amount by total working fund.

$$\text{Loan and Advances to Total Working Fund Ratio} \times \frac{\text{Loan and Advance}}{\text{Total Working Fund}}$$

iv) Investment on Government Securities to Total Working Fund Ratio: - Investment on government securities to working fund ratio shows how much part of total investment is there on government securities in percentage, it is calculated for this purpose by following formula:

$$\text{Investment on Govt. Securities to TWF Ratio} \times \frac{\text{Investment on Govt. Securities}}{\text{Total Working Fund}}$$

C. Profitability Ratio:

This ratio is related to profit of the banks is essential for the survival of the bank, so it is regarded as the engine that drives the banks and indicates economics progress. It calculated to measure the overall efficiency of the banks.

i) Return on Loan and Advances Ratio: - Return on loan and advances ratio shows how efficiently the banks have utilized their resources to earn good return from provided loan and advances. This ratio is computed as,

$$\text{Return on Loan and Advances Ratio} \times \frac{\text{Net Profit / Loss}}{\text{Loan and Advances}}$$

ii) Return on Total Working Fund Ratio: - Return on total working fund ratio measures the profit earning capacity by utilizing available resources i.e. total assets. Return will be higher if the bank's working fund is well managed and efficiently utilized. Maximizing taxes, this in the legal options available will also improve the return. We have,

$$\text{Return on Total Working Fund Ratio} = \frac{\text{Net Profit}}{\text{Total Working Fund}}$$

iii) Total Interest Earned to Total Working Fund Ratio: - This ratio reflects the extent to which the banks are successful in mobilizing these total assets to acquire income as interest. This ratio actually reveals the earning capacity of commercial banks by mobilizing its working fund. Higher the ratio higher will be the income as interest. We have,

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

iv) Total Interest paid to Total working Fund Ratio: - This ratio measures the percentage of total interest expenses on total working fund and vice-versa. This ratio is calculated as,

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

D. Risk Ratios:

Commonly, risk means chance or possibility of loss, uncertainty which lies in the business transaction of investment management. When a firm wants to bear risk and uncertainty, profitability and effectiveness of the firm is increased. This ratio checks the degree of risk involved in the various financial operations. For this study following risk ratios are used to analyze and interprets the financial data and investment policy.

i) Credit Risk Ratio: - Bank utilizes its collected funds in providing credit to different sectors. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. Generally credit risk ratio shows proportion of non-performing assets in the total investment plus loan and advances of a bank it is computed as:

$$\text{Credit Risk Ratio} = \frac{\text{Non Performing Loan}}{\text{Total Loan and Advance}}$$

ii) Liquidity Risk Ratio: - The liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the liquid assets and they are considered as banks liquidity sources and deposit as the liquidity needs. The ratio of cash and bank balance to total deposit is an indicator of bank's liquidity of need. This ratio is low if funds are kept idle as cash balance but this reduces profitability, when the banks makes loan, its profitability increase and also the risk.

Thus, higher liquidity ratio indicates less profitable return and vice-versa. This ratio is calculated as below:

$$\text{Liquidity Risk Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

iii) Asset Risk Ratio: - Bank utilizes its collected funds in providing credit to different sectors. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. Generally Asset risk ratio shows proportion of non-performing assets in the total investment plus loan and advances of a bank it is computed as:

$$\text{Credit Risk Ratio} = \frac{\text{Total Investment } \Gamma \text{ Loan and Advances}}{\text{Total Outside Assets}}$$

E. Other Ratios

a) Earning per Share (EPS): EPS refers to net profit divided by total numbers of share outstanding. EPS measure the efficiency of a firm in relative terms. It is a widely used ratio, which measures the profit available to the ordinary shareholders on per share basis. The amount of EPS measures the efficiency of a firm in relative terms. This ratio is calculated as;

$$\text{Earnings per Share (EPS)} = \frac{\text{Net profit (loss)}}{\text{Total number of shares outstanding}}$$

b) Market Price per Share

Market price per share is the price at which shares are traded in the stock market. The secondary markets provide liquidity for securities purchased in primary market. Generally MPS is determined through supply and demand factors.

c) Price Earning Ratio

This ratio is closely related to the earning per share. It is calculated by dividing the market value per share by EPS. Price earning ratio indicates investor's judgments or expectation about the firm's performance. This ratio widely used by the security analysis to value the firm's performance. This ratio widely used by the security analysis to value the firm's performance as accepted by investors. Price earning ratio reflects investor expectations about the growth in the firm's earning. Higher ratio indicates the more value of the stock that is being ascribed to future earning as opposed to present earning.

Here, total equity capital includes shareholders' reserve including profit and loss account, general loan loss provision and share capital i.e. ordinary share preference share capital.

$$\text{Price Earning ratio} = \frac{\text{Market price per Share}}{\text{Earning per Share}}$$

3.7 Statistical Tools

Under this heading some statistical tool such as coefficient of correlation analysis between different variables, trend analysis of deposit, loan and advances, net profit and EPS are used to achieve the objective of the study.

3.7.1 Average Mean

An average is a single value related from a group of values to represent them in someway, a value, which is supposed to stand for whole group of which it is a part, as typical of all the values in the group. There are various types of averages. Arithmetic mean (AM, Simple & Weighted), median, mode, geometric mean, harmonic mean are the major types of averages.

Mathematically:

Arithmetic Mean (AM) is given by,

$$\bar{X} = \frac{\sum X}{n}$$

Where, \bar{X} = Arithmetic mean

$\sum X$ = Sum of all the values of the variable X

n = Number of observations

3.7.2 Standard deviation

The standard deviation measures the absolute dispersion. It is said that higher value of standard deviation the higher the variability and vice versa. Karl Pearson introduced the concept of standard deviation in 1823 A. D. and this is denoted by the small Greek letter (pronounced sigma) the formula to calculate the standard deviation is given below:

$$\sigma = \sqrt{\frac{\sum x^2}{N}}$$

Where, $\sum x = \sum fX - Z\bar{X}f$

3.7.3 Coefficient of variation

The coefficient of variation reflects the relation between standard deviation and mean. The relative measure of dispersion based on the standard deviations known as coefficient of variation. The coefficient of dispersion based on standard deviation multiplied by 100 is known as the CV. It is used for comparing variability of two distributions; the CV is defined as,

$$CV = \frac{\sigma}{\bar{X}} \times 100$$

Greater the CV, the more variable or conversely less consistent, less uniform, less sustainable and homogenous than the consistent more uniform, more stable and homogenous. This nature of CV uses that actual size of working capital.

3.7.4 Coefficient of correlation (r)

Correlation analysis is the statistical tools that we can use to describe the degree to which one variable is linear related to another. Coefficient of correlation is the measurement of the degree of relationship between two casually related sets of figure whether positive or negative. Its values lie somewhere ranging between - 1 to +1. If the both variables are constantly changing in the similar direction, the value of coefficient will be +1, two variables take place in opposite deflection. The correlation is said to be perfect negative. In this study, simple correlation is use to examine the relationship of different factors with working capital and other variable.

$$\text{Coefficient of correlation (r)} = \frac{\text{CoVariance of X \& Y}}{\sqrt{\sigma_x \sigma_y}}$$

Deposit have played a very important role in performance of commercial banks and similarly loan & advances are important to mobilize the collected deposits. Coefficient of Correlation between deposit and loan & advances measures the degree of relationship between the two variables. In this analysis, deposit is independent variable (X) and loan & advances is dependent variables(Y). The main objectives of computing 'r' between these two variables are to justify whether deposits are significantly used on loan & advances in a proper way or not.

The following table shows the value of 'r', 'r²' probable Error (P.Er) and P.Er between deposit and loan & advances for the study period 2006/07 to 2010/11.

3.7.5 Trend Analysis

The least square method to trend analysis has been used in measuring the trend analysis. This method is widely used in practice. The straight line trend of a series of data is represented by the following formula.

$$Y = a + bx$$

Here,

Y is the dependent variable, a is y intercept or value of y when x=0, b is the slope of the trend line or amount of change that comes in y for a unit change in x.

Where,

Y = Dependent variable

x = Independent variable

a = Y – intercept

b = Slope of the trend line

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

Here collected data are analyzed and interpreted according to as per the stated methodology in the previous chapter. The main source of data is secondary data. Presentation and analysis of data is the main body of the study. Here researcher has analyzed and diagnosed financial performance of Bank of Katmandu Limited and Nepal SBI Bank Limited are shown in different tables and figures to make the analysis simple and understandable. All the financial positions of both the banks are analyzed by calculating following ratio.

4.1 Financial Analysis

Financials ratios related to the financial performance are presented to evaluate and analyze the performance of BOK and NSBIL. Some important financial ratios are calculated in the point of view of financial performance. The ratios are designed and calculated to highlight the relationship between financial items and figures. It is a kind of mathematical procedure that shows the relationship where one item is divided by another.

4.1.1 Ratio Analysis

Ratio analysis shows the mathematical relationship between two accounting figures. It helps to analyze the financial strengths and weaknesses of the banks. It is also inevitable for the quantitative judgment with which the financial performance of banks can be presented properly.

4.1.1.1 Liquidity Ratio

Commercial bank must maintain its satisfactory liquidity position to satisfy the credit needs of community, to meet demands for deposit–withdrawals, pay maturity obligation in time to satisfy immediate needs without loss to bank and consequent impact on long-run profit. Liquidity ratio is mainly used to analyze the short-term strength of commercial banks.

A. Analysis of Current Ratio

This ratio measures the liquidity position of the commercial banks. It indicates the ability of Banks to meet the current liquidity.

Table No. 4.1

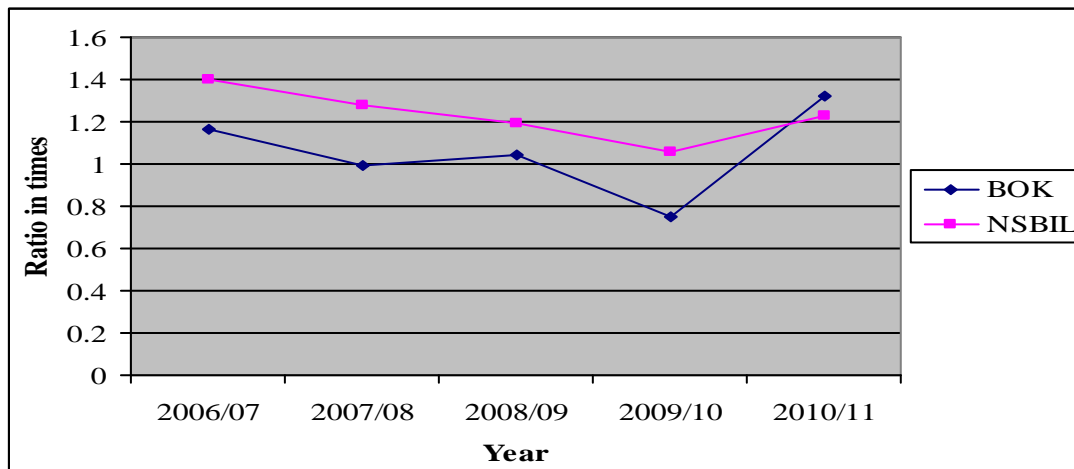
Current assets to current liability (in times)

Fiscal Year	BOK			NSBIL		
	Current Assets	Current Liabilities	Ratio in Times	Current Assets	Current Liabilities	Ratio in Times
2006/07	10181.86	8733.63	1.166	10854.50	7743.20	1.40
2007/08	11684.67	11761.25	0.993	12376.80	9651.10	1.28
2008/09	14435.32	13832.9	1.044	25111.70	21094.50	1.19
2009/10	15767.92	20970.55	0.752	31966.34	30177.13	1.06
2010/11	24882.06	18839.49	1.321	46705.60	38109.10	1.23
Mean			1.055			1.232
S.d.			0.2115			0.124
C.V.			0.2004			0.1009

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.1

Current assets to current liability



Above table and figure shows the current ratio of BOK and NSBIL banks during the study period. The current ratio of BOK and NSBIL has a fluctuating trend. The highest current ratio of BOK is 1.321 in F/Y 2010/11 and lower ratio is 0.752 times in F/Y

2009/10. Similarly highest current ratio of NSBIL is 1.40 in F/Y 2006/07 and lowest ratio is 1.06 in 2009/10. The average current ratio of BOK and NSBIL are 1.055 and 1.232. In an average, liquidity position of NSBIL is greater than BOK as it has a higher mean ratio. So, NSBIL is sound in meeting short-term obligation than BOK. The S. D. and C.V. of NSBIL is less than BOK. It can be said that current ratio of NSBIL is more consistent than that of BOK. Lastly, from the above analysis it is known that these two banks moderate liquidity position because the standard ratio is about just 1:1. They have just managed to meet the standard ratio. 1:1.5 is called good current ratio. Generally, banks require more liquid assets as compared to current liabilities in order to provide better banking service but these two banks have lower liquidity ratio than standard ratio.

B) Cash and Bank Balance to Total Deposit Ratio

Cash and Bank Balance to Total Deposit Ratio indicates the bank ability to meet their daily requirement of depositors. Higher ratio shows the greater ability of the firms to meet customer demands on their deposits. Following table shows cash and bank balance to total deposit of BOK and NSBIL during the study period.

Table No. 4.2

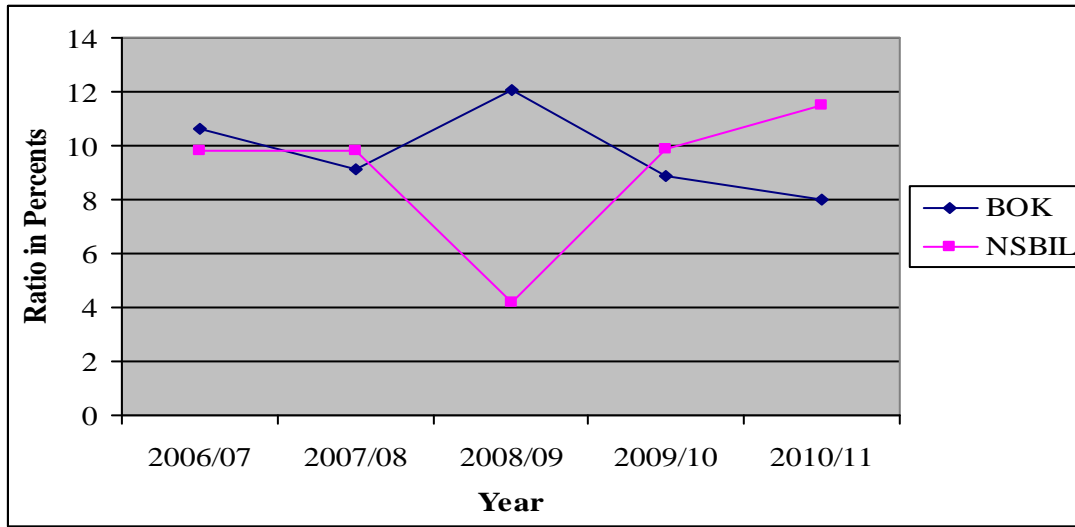
Cash and Bank Balance to Total Deposit Ratio

Fiscal Year	BOK			NSBIL		
	Cash and Bank Balance	Total Deposit	Ratio in Percent	Cash and Bank Balance	Total Deposit	Ratio in Percent
2006/07	1315.9	12388.93	10.62	1122.69	11445.29	9.81
2007/08	1440.47	15833.74	9.097	1342.96	13715.39	9.79
2008/09	2182.11	18083.98	12.07	1176.44	27957.22	4.21
2009/10	1798.37	20315.83	8.852	3441.26	34896.42	9.86
2010/11	1678.93	21018.42	7.988	4877.83	42415.44	11.50
Mean			9.725			9.034
S.d.			1.617			2.793
C.V.			0.166			0.309

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.2

Cash and Bank Balance to Total Deposit Ratio



The table and figure 4.2 reveals that the cash and bank balance to total deposit ratio of BOK and NSBIL are in fluctuating trend. The highest ratio of BOK is 12.07 percent in FY 2008/09 and lowest is 7.988 percent in F/Y 2010/11. Similarly, the highest ratio of NSBIL is 11.50 percent in FY 2010/11 and lowest ratio is 4.21 percent in 2008/09.

The mean ratio of BOK and NSBIL are 9.725 percent and 9.034 percent respectively. BOK has little higher ratio than the NSBIL, which shows its greater ability to pay depositors money as they want. Similarly, the coefficient of variation of BOK is 0.1663 times and NSBIL is 0.2703 times. So S.D. and C.V. of BOK are lower than the NSBIL which indicate more consistency in its ratio.

The analysis concludes that the cash and bank balance position of BOK with respect to NSBIL is better in order to serve its customer's deposits. It implies better liquidity position of BOK from the viewpoint of depositor. In contrast a high ratio of cash and bank balance may be undesirable which indicates the bank's inability to invest its funds in income generating areas. Thus BOK should invest in more productive sectors like short-term marketable securities insuring enough liquidity which will help the bank to improve its profitability.

C) Cash and Bank Balance to Current Assets Ratio

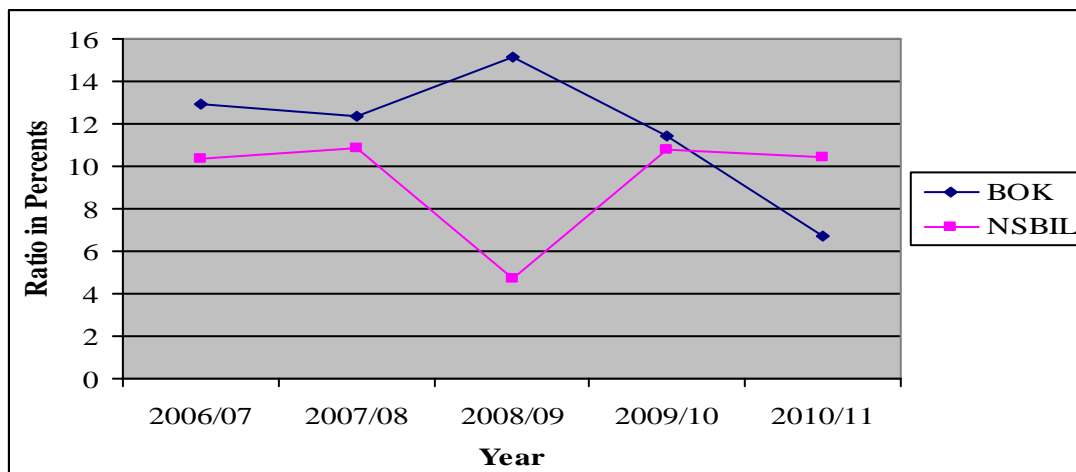
Cash and Bank Balance are the most liquid or quick assets. Cash and bank balance to current assets ratio represents the liquidity capacity of the banks as per cash and bank balance. Higher the ratios, better the ability of the banks to meet the daily cash requirement of their customers. Following table shows the cash and bank balance to current assets of BOK and NSBIL.

Table No. 4.3
Cash and Bank Balance to Current Asset Ratio

Fiscal Year	BOK			NSBIL		
	Cash and Bank Balance	Current Asset	Ratio	Cash and Bank Balance	Current Asset	Ratio
2006/07	1315.9	10181.86	12.92	1122.69	10854.5	10.34
2007/08	1440.47	11684.67	12.33	1342.96	12376.8	10.85
2008/09	2182.11	14435.32	15.12	1176.44	25111.7	4.68
2009/10	1798.37	15767.92	11.40	3441.26	31966.34	10.77
2010/11	1678.93	24882.06	6.75	4877.83	46705.6	10.44
Mean			11.70			9.416
S.d.			3.089			2.656
C.V.			0.2639			0.2821

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.3
Cash and Bank Balance to Current Asset Ratio



The table and figure 4.3 reveals that cash and bank balance to current assets ratio of BOK is in fluctuating trend over the study period. The highest ratio of BOK is 15.12 percent in F/Y 2008/09 and lowest ratio is 6.75 in F/Y 2010/11. Similarly the highest ratio of NSBIL is 10.85 percent in F/Y 2007/08 and lowest ratio is 4.68% in F/Y 2008/09. The mean ratio of BOK and NSBIL is 11.70 percent and 9.416 percent respectively. The higher mean ratio shows that BOK's liquidity position is better than that of NSBIL. Moreover, the C.V. of BOK is lower than NSBIL. The lower C.V. of BOK indicates that it has more consistency in the ratios compared to NSBIL.

Regarding the above analysis, it can be concluded that BOK has a better ability to meet daily cash requirements of their customers but there is no fix policy to maintain the standard ratio of cash balance over the period.

D) Investment on Government Securities to Current Assets Ratio

This ratio examines that portion of a commercial bank's current assets, which is invested on different government securities. More or less, each commercial bank is interested to invest their collected funds on different securities issued by government at different times to utilize their excess funds and for other purpose. Although those securities can be sold easily in the financial market and they can be converted into cash, they are liquid assets like cash and bank balance. It shows the portion of current assets to banks that are invested on various securities. Government securities are the more secured investment alternatives. These securities are also called risk less investment but return generated is lesser than others risky assets.

Table No. 4.4

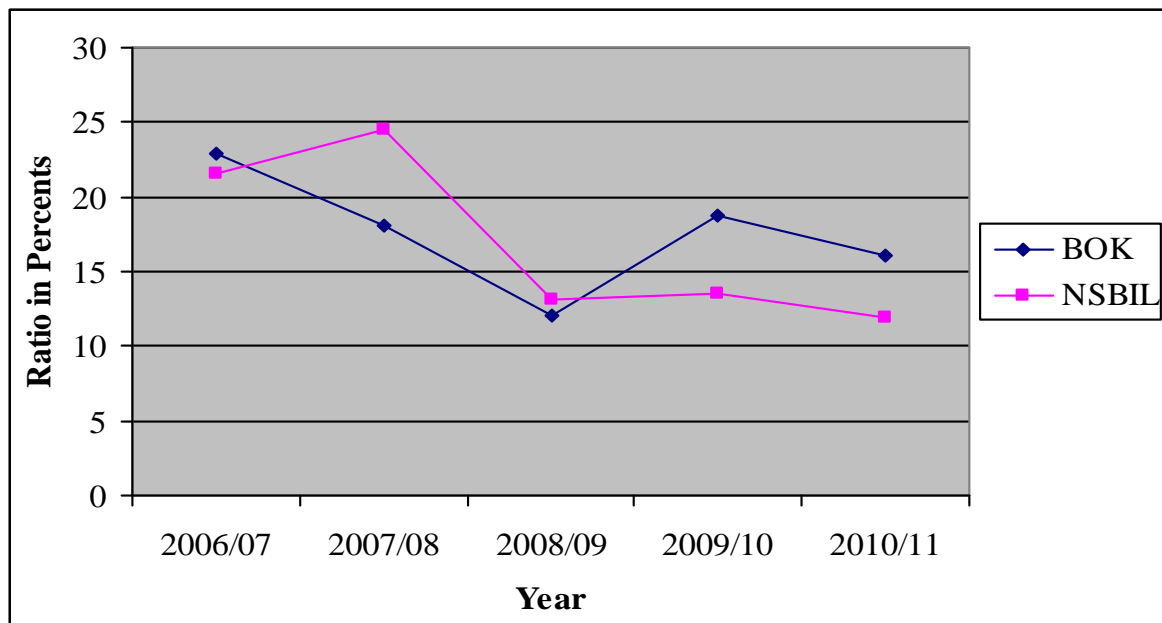
Investment on Government Securities to Current Assets Ratio

Fiscal Year	BOK			NSBIL		
	Investment on Government Securities	Current Assets	Ratio	Investment on Government Securities	Current Assets	Ratio
2006/07	2332.04	10181.86	22.90	2345.58	10854.5	21.61
2007/08	2113.22	11684.67	18.08	3035.55	12376.8	24.53
2008/09	1744.98	14435.32	12.09	3306.57	25111.7	13.17
2009/10	2954.93	15767.92	18.74	4313.32	31966.34	13.49
2010/11	4002.14	24882.06	16.08	5574.84	46705.6	11.94
Mean			15.71			16.948
S.d.			6.325			5.713
C.V.			0.4025			0.3371

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.4

Investment on Government Securities to Current Assets Ratio



Above Table and Figure shows investment on government securities to current assets ratio of BOK and NSBIL. Both Banks have fluctuating and decreasing in ratios. The table show the highest ratio of BOK is 22.90 percent in FY 2006/07 and lowest is 12.09 percent in FY 2008/09. In the same way, the highest ratio of NSBIL is 24.53 percent in FY 2007/08 and lowest is 11.94 percent in FY 2010/11.

The mean ratio of BOK and NSBIL are 15.71 and 16.948 percent. The average ration of BOK is lower than the mean ratio of NSBIL. It means NSBIL has invested more money in risk free assets than BOK has. In another words BOK has emphasized more on loan and advances and other short term investment than investment in govt. securities. For minimization of investment risk, BOK should divert its investment in govt. securities. Similarly, S.D. and C.V of BOK are 6.325 and 0.4025 where as NSBIL have 5.713 and 0.3371 times respectively. The higher C.V. of BOK shows the more inconsistency in the ratios with compare to NSBIL.

4.1.1.2 Assets Management Ratio

A commercial bank must be able to manage it's assets very well to earn higher profit, so to satisfy it's customers and also for its own existence. Assets management ratio measures how efficiently the bank manages the resources at its command. Through following ratios, assets management ability of banks has been measured.

A) Loan and Advance to Total Deposit Ratio

This ratio actually measures the extent to which the banks are successful to mobilize the total deposit on loan and advances for the purpose of profit generation. A higher ratio of loan and advances indicates better mobilization of collection deposit and vice-versa. But it should be noted that too high ratio might not be better from its liquidity point of view. Following Table shows the loan and advances to total deposit ratio of related banks.

Table No. 4.5

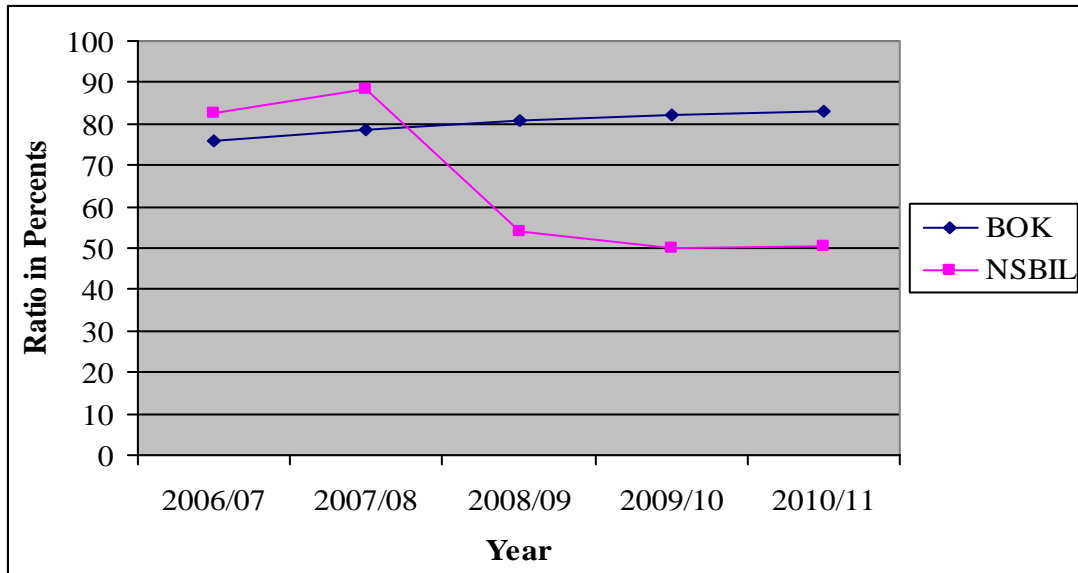
Loan and Advance to Total Deposit Ratio

Fiscal Year	BOK			NSBIL		
	Loan and Advance	Total Deposit	Ratio in Percent	Loan and Advance	Total Deposit	Ratio in Percent
2006/07	9399.33	12388.93	75.87	9460.45	11445.29	82.66
2007/08	12462.64	15833.74	78.77	12113.7	13715.39	88.32
2008/09	14647.3	18083.98	80.99	15131.74	27957.22	54.13
2009/10	16664.93	20315.83	82.03	17480.55	34896.42	50.09
2010/11	17468.19	21018.42	83.11	21365.77	42415.44	50.37
Mean			80.14			65.11
S.d.			2.889			18.776
C.V.			0.0361			0.2883

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.5

Loan and Advance to Total Deposit Ratio



The table and figure 4.5 shows that the loan and advances to total deposit ratio of BOK and NSBIL. The ratio of BOK has continuously increasing trend where as NSBIL has

decreasing trend. The highest ratio of BOK is 83.11% in F/Y 2010/11 and lowest ratio is 75.87% in F/Y 2006/07. Similarly highest ratio of NSBIL is 88.32% in F/Y 2007/08 and lowest ratio is 50.09% in F/Y 2009/10. The mean ratio of BOK and NSBIL are 80.14% and 65.11% respectively. So BOK has higher ratio than that of NSBIL. It indicates the better mobilization of deposit by BOK as loan and advance. It reveals that the deposit of BOK is used as loan and advances to earn more income. According to NRB directives less than 80% of loan and advances to total deposit ratio is required to enable better mobilization of collected deposit. Here NSBIL seems to little lower lending from its deposit. The mean, S.D. and C.V of BOK is lower than NSBIL. The higher C. V. and S. D. of NSBIL indicate more inconsistency in their ratios with compare to BOK.

B) Total Investment to Total Deposit Ratio

Commercial banks and financial companies invest their collected funds in various government securities and other financial or non-financial companies. This ratio measures how successfully and efficiently the banks are mobilizing their funds at investment in various securities. This ratio of BOK and NSBIL are calculated and presentation below.

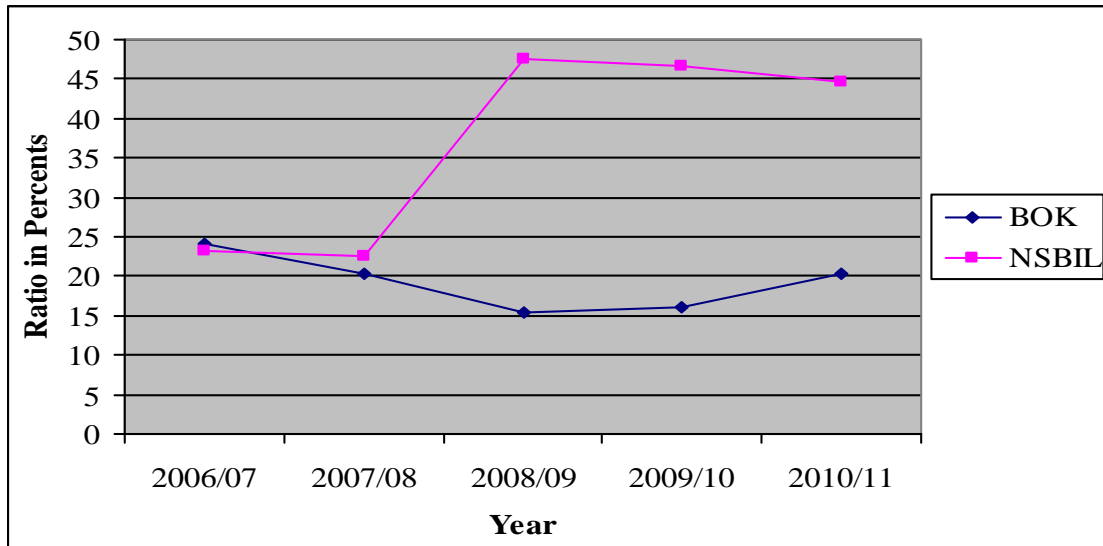
Table No. 4.6
Total Investment to Total Deposit Ratio

Fiscal Year	BOK			NSBIL		
	Total Investment	Total Deposit	Ratio	Total Investment	Total Deposit	Ratio
2006/07	2992.43	12388.93	24.15	2659.45	11445.29	23.24
2007/08	3204.07	15833.74	20.24	3088.89	13715.39	22.52
2008/09	2783.6	18083.98	15.39	13286.18	27957.22	47.52
2009/10	3269.2	20315.83	16.09	16305.63	34896.42	46.73
2010/11	4286.6	21018.42	20.39	18911.02	42415.44	44.59
Mean			19.25			36.92
S.d.			3.577			12.864
C.V.			0.1858			0.3484

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.6

Total Investment to Total Deposit Ratio



Above table and figure reveals that total investment to total deposit ratio of BOK and NSBIL. Both the banks have fluctuating trend in total investment to total deposit ratio. The highest ratio of BOK is 24.15 percent in FY 2006/07 and lowest ratio is 15.39 percent in FY 2008/09 in the same way the highest ratio of NSBIL 47.52% percent in FY 2008/09 and lowest ratio is 22.52 percent in FY 2007/08. Investment volume of BOK is decreasing and increasing at last where as NSBIL has highly increased in F/Y 2008/09 than decreasing smoothly at last. The mean ratio of the BOK and NSBIL are 19.25% and 36.92% respectively, which shows that NSBIL has a higher ratio. It signifies that NSBIL has successfully allocated its deposit in investment portfolio. The S.D. and C.V. of NSBIL are higher than BOK which indicate more inconsistent ratio.

C) Loan and Advances to Total Assets Ratio

A commercial bank's working fund plays very active role in profit generation through fund mobilization. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loan and advances for the purpose of income generation. A high ratio indicates better mobilization of funds as loan and advance and vice-versa. The following table shows loan and advances to total assets of BOK and NSBIL as follows.

Table No. 4.7

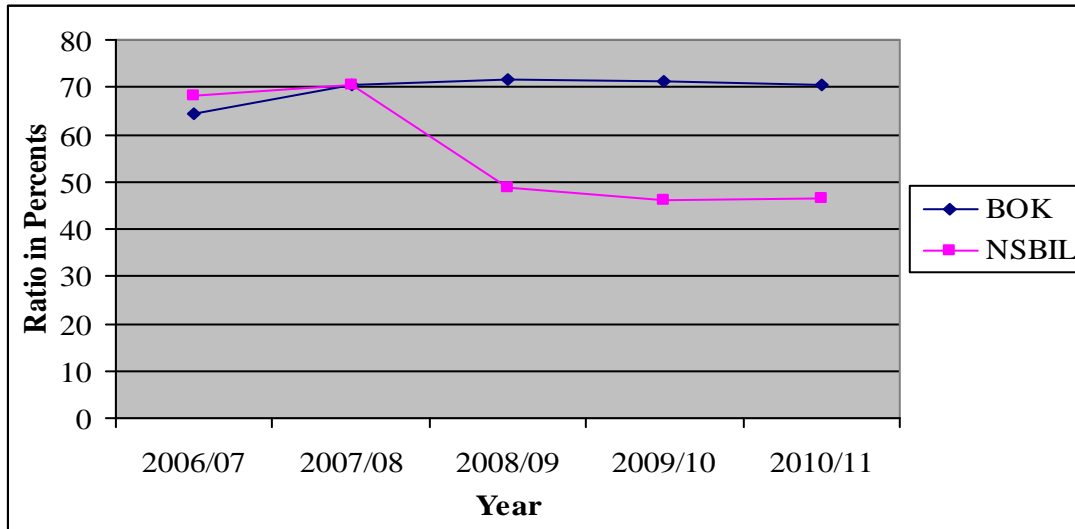
Loan and Advances to Total Assets Ratio

Fiscal Year	BOK			NSBIL		
	Loan and Advances	Total Assets	Ratio in Percent	Loan and Advances	Total Assets	Ratio in Percent
2006/07	9399.33	14581.39	64.46	9460.45	13901.2	68.05
2007/08	12462.64	17721.93	70.32	12113.7	17187.45	70.48
2008/09	14647.3	20496	71.46	15131.74	30916.68	48.94
2009/10	16664.93	23396.19	71.23	17480.55	38047.68	45.94
2010/11	17468.19	24757.75	70.56	21365.77	46088.23	46.36
Mean			69.61			55.95
S.d.			2.914			12.235
C.V.			0.0419			0.188

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.7

Loan and Advances to Total Assets Ratio



The table and figure 4.7 shows the loan and advances to total assets ratio of BOK and NSBIL during the study period. Loan and advances to total assets of BOK constant low fluctuation whereas NSBIL has fluctuating decreasing trend. While observing their ratios

BOK has constant and NSBIL has fickle. The highest ratio of BOK is 71.46% in F/Y 2008/09 and lowest is 64.46% in F/Y 2006/07. Similarly the highest ratio of NSBIL is 70.48% in F/Y 2007/08 and lowest is 45.94% in F/Y 2009/10. The mean ratio of BOK and NSBIL are 69.61% and 55.95% respectively. So BOK has higher ratio than NSBIL. It reveals that in total assets of BOK has high proportion as loan and advances. BOK has utilized its total assets more efficiently in the form of loan and advances. The lower C.V. of BOK (0.0419) than NSBIL (0.188) states that it has more uniformity in these ratios throughout the study period than NSBIL. Both S.D. and C.V. of NSBIL have higher than the BOK which indicate inconsistency in its ratio.

D) Investment on Government Securities to Total Assets ratio

Among all possible sectors, investment on government securities is a less risky investment. Investment on government securities to total assets ratio measures how successfully selected banks have applied their total assets on various forms of government securities for profit maximization and risk minimization. Higher the ratio indicates better the position of investment on government securities and vice-versa.

Table No. 4.8

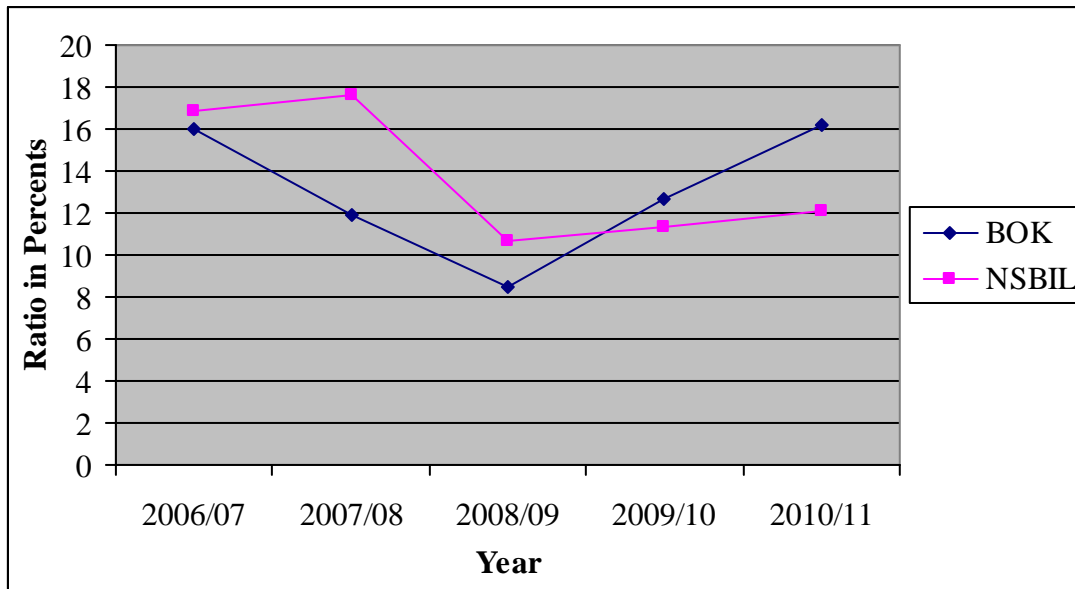
Investment on Government Securities to Total Assets ratio

Fiscal Year	BOK			NSBIL		
	Investment on Government Securities	Total Assets	Ratio in Percent	Investment on Government Securities	Total Assets	Ratio in Percent
2006/07	2332.04	14581.39	15.99	2345.58	13901.2	16.87
2007/08	2113.22	17721.93	11.92	3035.55	17187.45	17.66
2008/09	1744.98	20496	8.51	3306.57	30916.68	10.69
2009/10	2954.93	23396.19	12.63	4313.32	38047.68	11.34
2010/11	4002.14	24757.75	16.16	5574.84	46088.23	12.10
Mean			13.04			13.732
S.d.			3.177			3.275
C.V.			0.2436			0.2385

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.8

Investment on Government Securities to Total Assets ratio



Above table and figure shows that the investment on government treasury bills to total assets of BOK and NSBIL. The BOK has decreasing till 2008/09 and increasing thereafter whereas NSBIL has fluctuating trend. The highest ratio of BOK is 16.16% in 2010/11 and NSBIL is 17.66% in 2007/08 and the lowest ratio of BOK and NSBIL are 8.51% and 10.69% in 2008/09 respectively. The mean ratio of BOK and NSBIL are 13.04% and 13.732% respectively. The ratio of NSBIL has little higher than BOK. It means NSBIL has invested more assets in risk free assets than BOK. In another words BOK has emphasized more on loan and advances and other short-term investment than investment in govt. securities. There is more variability in the ratio of BOK as compare to NSBIL. It shows that there is little inconsistency in the ratio of BOK during the study period.

4.1.1.3 Profitability Ratio

The major performance indicator of any firm is its profit. The objective of investment policy is to earn good return. Any organization has a desire to earn higher profit which would help the firm to survive and it also indicates the efficient operation of the firm. Profit is the essential part of business activities that helps to meet internal obligation,

overcome the future contingencies, make a good investment policy, expand the banking transaction etc. Profitability ratios are the best indicators of overall efficiency. Here, these ratios presented and analyzed which are related with profit as well as fund mobilization. Through the following ratios, effort has been made to measure the profit earning capacity of BOK and NSBIL.

A) Return on Loan and advances

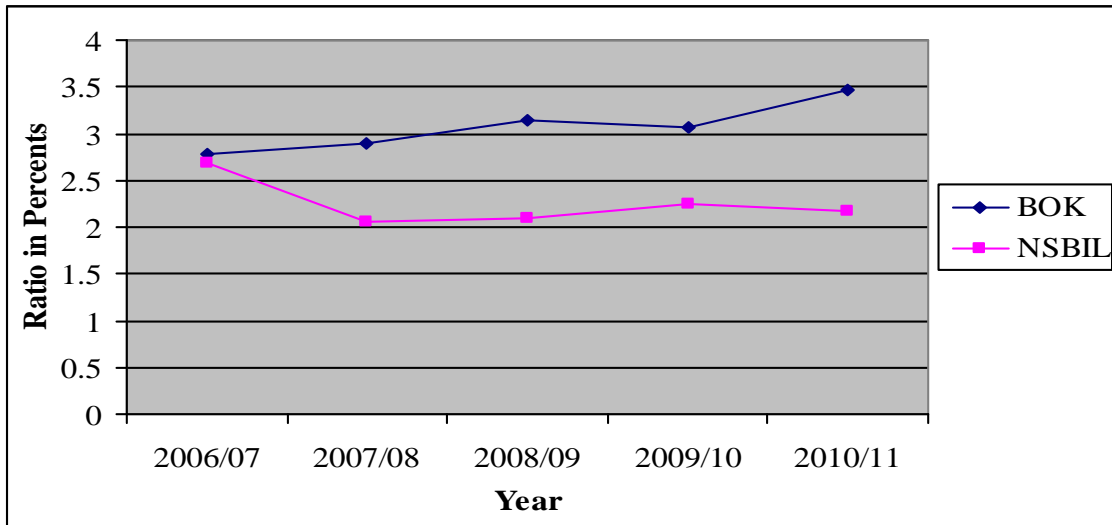
Every bank's financial institution tries to mobilize their deposits on loan and advances properly. So this ratio helps to measure the earning capacity of selected banks. Returns on loan and advances ratio of selected banks are presented as follows.

Table No. 4.9
Return on Loan and advances

Fiscal Year	BOK			NSBIL		
	Net Profit	Loan and Advances	Ratio	Net Profit	Loan and Advances	Ratio
2006/07	262.39	9399.33	2.79	254.91	9460.45	2.69
2007/08	361.49	12462.64	2.90	247.77	12113.7	2.05
2008/09	461.73	14647.3	3.15	316.37	15131.74	2.09
2009/10	509.63	16664.93	3.06	391.74	17480.55	2.24
2010/11	605.15	17468.19	3.46	464.56	21365.77	2.17
Mean			3.07			2.248
S.d.			0.259			0.2577
C.V.			0.0842			0.1146

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.9
Return on Loan and advances



The table and figure 4.9 shows that return on loan and advances ratio of BOK and NSBIL. The ratio of BOK has increasing trend where as NSBIL are fluctuating form. The highest ratio of BOK is 3.46% in the year 2010/11 and lowest ratio is 2.79% in year 2006/07. The mean ratio is 3.07%. Whereas highest ratio of NSBIL is 2.69% in year 2006/07 and lowest ratio is 2.05% in 2007/08. The mean ratio of NSBIL is 2.248%. This both banks show the normal earning capacity in loan and advances and same earning capacity in form of loan and advances. The average ratio of BOK is higher than NSBIL. Which indicate that return from loan and advance of BOK is higher than NSBIL. It can be concluded that BOK has utilized the loan and advance for the profit generation in earning capacity. However both banks seem to have poor performance in order to have returns from loan and advances because return on loan and advances is less than five percent as five percent is benchmarking ratio in this case. The ratio of BOK is consistency than NSBIL due to lower C.V.

B) Return on Total Assets

This ratio measures the overall profitability of all working fund i.e. Total assets. A firm has to earn satisfactory return on working funds for its survival. The following table shows return on total assets ratio of selected banks.

Table No. 4.10

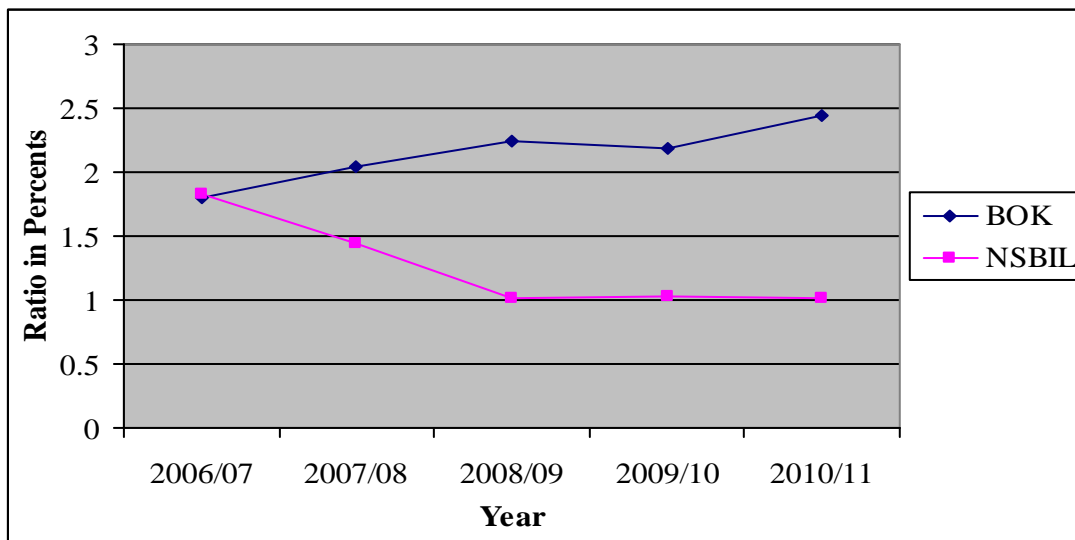
Return on Total Assets Ratio

Fiscal Year	BOK			NSBIL		
	Net Profit	Total Asset	Ratio	Net Profit	Total Asset	Ratio
2006/07	262.39	14581.39	1.80	254.91	13901.2	1.83
2007/08	361.49	17721.93	2.04	247.77	17187.45	1.44
2008/09	461.73	20496	2.25	316.37	30916.68	1.02
2009/10	509.63	23396.19	2.18	391.74	38047.68	1.03
2010/11	605.15	24757.75	2.44	464.56	46088.23	1.01
Mean			2.143			1.266
S.d.			0.241			0.3640
C.V.			0.1126			0.2875

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.10

Return on Total Assets Ratio



Above table and figure shows the return on assets of BOK and NSBIL. This table states the net profit to total assets of selected banks during the study period. The ratio of BOK is increasing trend of return on its total assets where as NSBIL has decreasing form. However, BOK seems successful in managing and utilizing the available assets in order to generate revenue. The highest ratio of BOK is 2.44 in F/Y 2010/11 and lowest ratio is

1.80 percent in F/Y 2006/07. Similarly highest ratio of NSBIL is 1.83% in F/Y 2006/07 and lowest ratio is 1.01 percent in F/Y 2010/11. The C.V of BOK and NSBIL are 0.1126 and 0.2875 respectively.

The average return on assets ratio of BOK and NSBIL are 2.143 and 1.266. The return on total asset of BOK is higher than that of NSBIL. BOK has also higher ratio in each year beside F/Y 2006/07. Where as S.D. and C.V. of NSBIL has relatively high it indicate less uniformity in the ratios. So return from total asset of BOK is relatively better than NSBIL.

C) Return on Equity

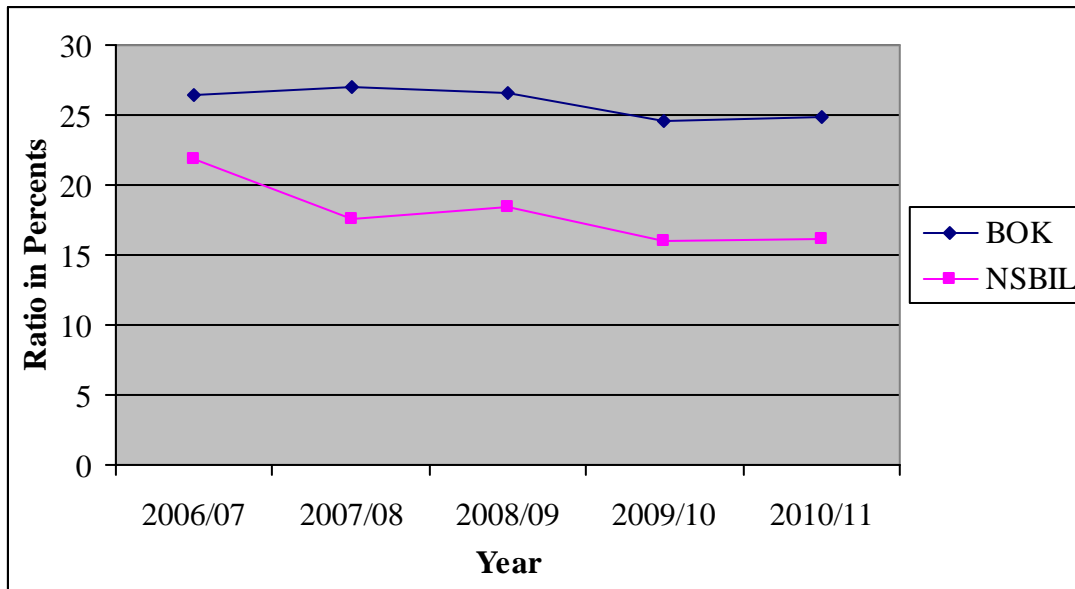
Equity capital of any bank is its owned capital. The prime objective of any bank is wealth maximization or in other words to earn higher profit and there by, maximizing return on its equity capital. Return on equity measures the profitability of a bank. It reflects the extend to which the bank has been successful to mobilize or utilize its equity capital. A higher ratio indicates higher success in mobilizing its owned capital and vice-versa. Following table shows the return on equity of BOK and NSBIL during the study period.

Table No. 4.11
Return on Equity Ratio

Fiscal Year	BOK			NSBIL		
	Net Profit	Total Equity	Ratio	Net Profit	Total Equity	Ratio
2006/07	262.39	993.27	26.42	254.91	1163.29	21.91
2007/08	361.49	1342.07	26.93	247.77	1414.64	17.51
2008/09	461.73	1741.59	26.51	316.37	1712.61	18.47
2009/10	509.63	2073.53	24.58	391.74	2450.55	15.99
2010/11	605.15	2435.19	24.85	464.56	2879.29	16.13
Mean			25.86			18.002
S.d.			1.067			2.413
C.V.			0.0413			0.1340

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.11
Return on Equity Ratio



Above table and figure 4.11 shows return on equity ratio of BOK and NSBIL. The data indicates that BOK constant and NSBIL have decreasing tendency of return on equity ratio. The highest ratio of BOK is 26.93% in F/Y 2007/08 and lowest ratio is 24.58% in F/Y 2009/10. Similarly highest ratio of NSBIL is 21.91% in F/Y 2006/07 and lowest ratio is 16.00% in F/Y 2009/10. The average return on equity ratio of BOK and NSBIL are 25.86% and 18.002%. The average mean ratio of BOK has higher mean ratio than that of NSBIL.

According to mean ratio BOK is generating higher ROE in comparison with NSBIL. In brief, it signifies that the shareholders of BOK are getting higher return but in case of NSBIL, they are getting lesser. It can be concluded that BOK has better utilized the equity for the profit generation. It proves to be strength for BOK in attracting future investment also while NSBIL shows its weakness regarding efficient utilization of its owner's equity in comparison to BOK. But recent year NSBIL doing well due increasing its ROE. NSBIL is relatively more inconsistent throughout the study period because its C.V is higher.

D) Interest Earned to Total Assets Ratio

Interest earned to total assets ratio evaluates how successful the selected banks are at mobilizing their total assets to achieve higher amount of interest. Higher ratio indicates higher interest income of the selected banks. The total interest earned to total assets ratio of BOK and NSBIL.

Table No. 4.12

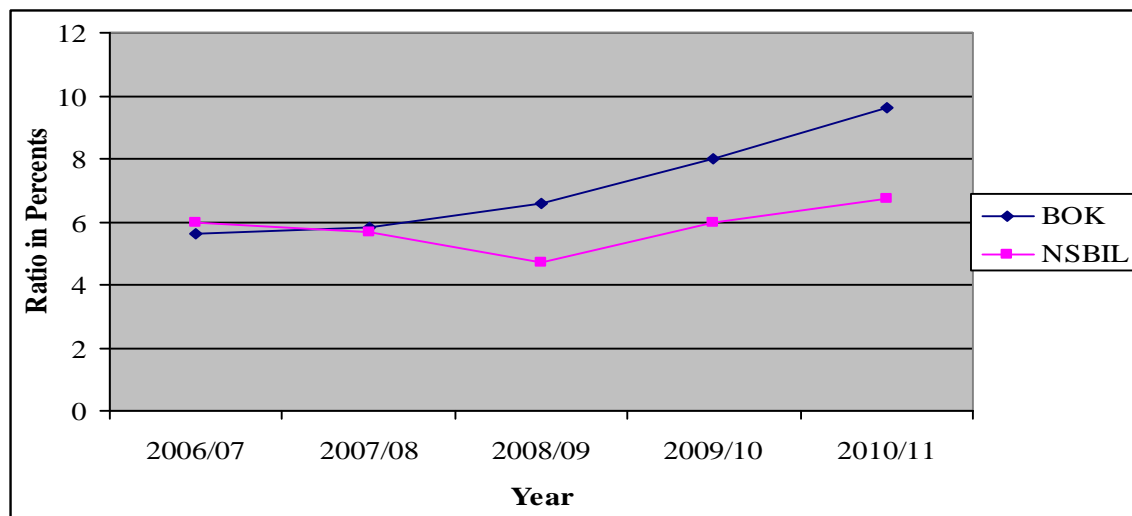
Interest Earned to Total Assets Ratio

Fiscal Year	BOK			NSBIL		
	Interest Earned	Total Assets	Ratio in Percent	Interest Earned	Total Assets	Ratio in Percent
2006/07	819	14581.39	5.62	831.12	13901.2	5.98
2007/08	1034.16	17721.93	5.83	970.51	17187.45	5.65
2008/09	1347.76	20496	6.58	1460.45	30916.68	4.72
2009/10	1870.85	23396.19	7.99	2269.7	38047.68	5.97
2010/11	2386.78	24757.75	9.64	3104.23	46088.23	6.74
Mean			7.13			5.81
S.d.			1.683			0.730
C.V.			0.2359			0.1256

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.12

Interest Earned to Total Assets Ratio



Above table and figure shows the increased total interest earned to total asset ratio of BOK and NSBIL. Both the banks have increasing total interest earned to total asset ratio during studied period. Which indicate both banks doing well in interest earning. The highest ratio of BOK is 9.64 percent and lowest ratio is 5.62 percent similarly highest ratio of NSBIL is 6.47 percent and lowest ratio is 4.72 percent. The higher Total assets and interest earned in BOK, it seems conscious about managing its assets in order to earn more interest ratio. The average mean ratio of BOK and NSBIL are 7.13 and 5.81 percent respectively. The mean ratio of BOK is little more than that of NSBIL. In comparison, BOK seems effective in interest earning capacity. Moreover, NSBIL has higher uniformity in the ratios during the study period due to having lower C.V. anyway It can be concluded that both BOK and NSBIL has successfully mobilized their fund in interest generating assets due to increasing form of ratio.

E) Total Interest Earned To Total outside Assets Ratio

The main assets of commercial banks are outside assets, which includes loan and advances, investment on government securities, investment on shares and debentures and other all types of investment. Thus, this ratio reflects the extent to which the banks are successful to earn interest as major income on all the outside assets. A higher ratio indicates higher earning on such total assets and vice-versa. The following table exhibits the ratio of total interest earned to total outside assets of BOK and NSBIL during the study period.

Table No. 4.13

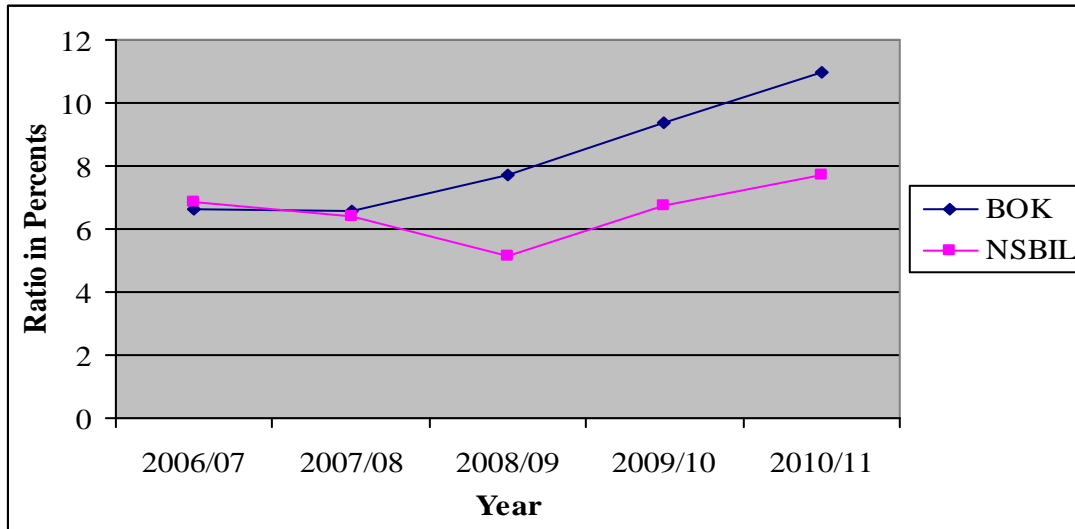
Total Interest Earned To Total outside Assets Ratio

Fiscal Year	BOK			NSBIL		
	Interest Earned	Total outside Assets	Ratio in Percent	Interest Earned	Total outside Assets	Ratio in Percent
2006/07	819	12391.80	6.61	831.12	12119.9	6.86
2007/08	1034.16	15666.70	6.60	970.51	15202.59	6.38
2008/09	1347.76	17430.90	7.73	1460.45	28417.92	5.14
2009/10	1870.85	19934.14	9.38	2269.7	33786.18	6.72
2010/11	2386.78	21754.79	10.97	3104.23	40276.79	7.71
Mean			8.259			6.562
S.d.			1.895			0.934
C.V.			0.2295			0.1423

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.13

Total Interest Earned To Total outside Assets Ratio



The table and figure 4.13 shows the total interest earned to total outside assets ratio. The total interest earned to total outside assets ratio of both bank BOK and NSBIL are in

increasing during the study period. BOK has highest ratio in the year 2010/11 with 10.97% and lowest in the years 2007/08 with 6.60%. Similarly, NSBIL has the highest ratio in the year 2010/11 with 7.11% and the lowest in the year 2008/09 with 5.14%. The mean ratio of BOK and NSBIL are 8.259% and 6.562% respectively. Here BOK seems to have more efficiency in generating total interest through well utilizations of outside assets. It also has relatively consistency in returns as well. The C.V. of BOK is also higher than NSBIL so inconsistency in interest earned to total outside asset ratio.

F) Total interest earned to Total operating income Ratio

Total interest earned to total operating income ratio reveals that portion of interest income on total operating income of the firms. The major sources of income for the bank are interest income so the banks should mobilize their funds in more interest generating sectors. This ratio measures how successfully the selected banks have been mobilizing their fund uninterested generating assets during last from FY 2006/07 to 2010/11 are presented to analyze in the following table. The major sources of income for the bank are interest income. So the banks should mobilize their funds in more interest generating sectors considering the risk and return.

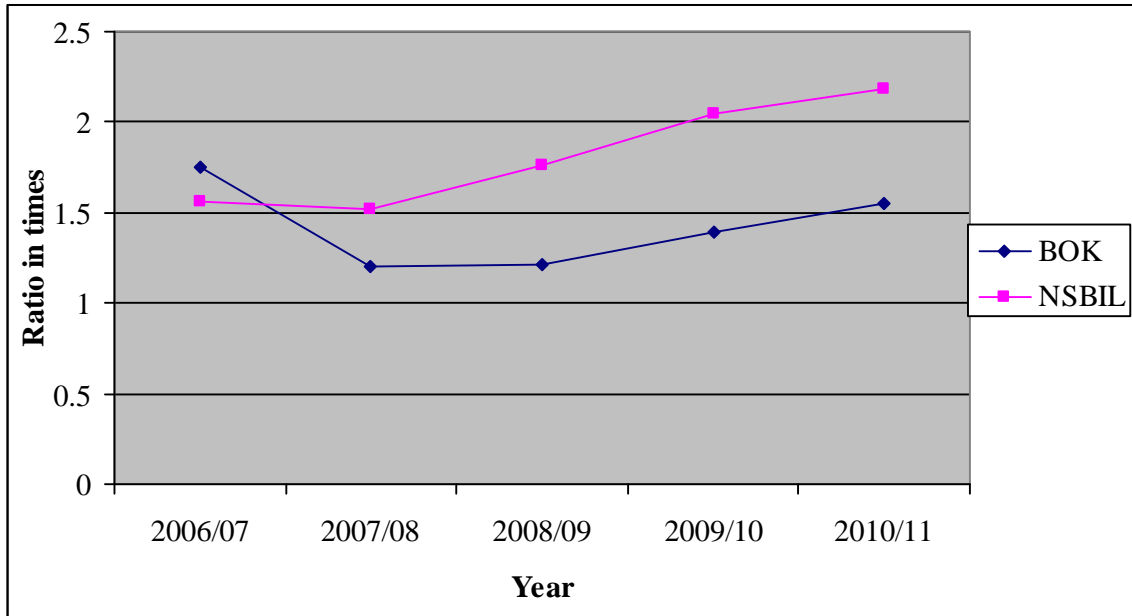
Table No. 4.14
Interest Earned to Operating Income Ratio

Fiscal Year	BOK			NSBIL		
	Interest Earned	Operating Income	Ratio in times	Interest Earned	Operating Income	Ratio in times
2006/07	819	469	1.75	831.12	533.51	1.56
2007/08	1034.16	862.96	1.20	970.51	638.06	1.52
2008/09	1347.76	1114.82	1.21	1460.45	828.67	1.76
2009/10	1870.85	1342.7	1.39	2269.7	1106.68	2.05
2010/11	2386.78	1538.32	1.55	3104.23	1421.06	2.18
Mean			1.42			1.81
S.d.			0.234			0.295
C.V.			0.1645			0.1623

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.14

Interest Earned to Operating Income Ratio



Above table and figure shows interest earned to operating income ratio of BOK and NSBIL. Both banks have increasing its ratio of from fiscal year 2007/08 during the study period. The NSBIL has greater ratio of total interest earn in its total operating income beside first year of study period. The average mean ratio of BOK and NSBIL are 1.42 times and 1.81 times respectively. NSBIL has higher ratio, it indicates the high contribution in operating income made by lending and investing activities (core banking activity). BOK has lower ratio, it indicates that high contribution in operating income is not made by lending and investing activities (core banking activity). High contribution in operating income made by lending and investing activities (core banking activity) may not good in long run but in short run it is not so bad. Thus, from short term view, NSBIL is in good condition. In overall, both banks have managed sound interest earned to operating income ratio. The C.V of BOK is higher than NSBIL. So the ratio of BOK is more inconsistency than NSBIL.

G) Total Interest Paid to Total Assets Ratio

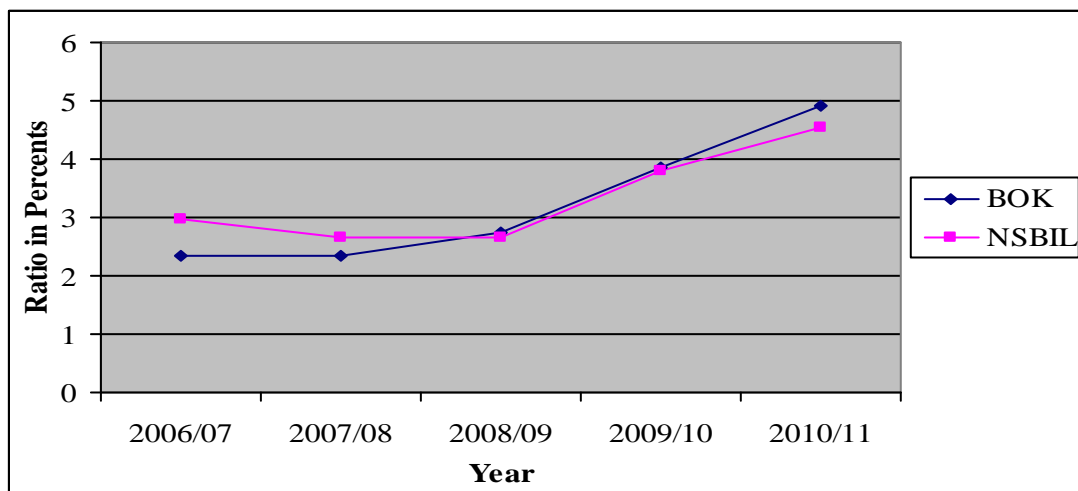
Total interest paid to total assets ratio help to show and measure the percentage of interest paid by the firm in comparison with total assets. If interest paid to total assets ratio is higher, there will be higher interest expenditure on total assets. The following table shows that total interest paid to total assets of BOK and NSBIL.

Table No. 4.15
Interest Paid to Total Assets Ratio

Fiscal Year	BOK			NSBIL		
	Interest Paid	Total Assets	Ratio	Interest Paid	Total Assets	Ratio
2006/07	339.18	14581.39	2.33	412.26	13901.2	2.97
2007/08	417.54	17721.93	2.35	454.92	17187.45	2.65
2008/09	563.11	20496	2.75	824.7	30916.68	2.67
2009/10	902.93	23396.19	3.86	1443.69	38047.68	3.79
2010/11	1218.79	24757.75	4.92	2096.04	46088.23	4.55
Mean			3.242			3.326
S.d.			1.126			0.826
C.V.			0.3474			0.2483

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.15
Interest Paid to Total Assets Ratio



The table and figure no 4.15 shows the interest paid to total asset ratio of BOK and NSBIL. Both banks have increasing form of interest paid to total asset ratio. Its means both bank has increasing its interest cost. The highest ratio of BOK is 4.92% and lowest ratio is 2.33%. Similarly highest ratio of NSBIL is 4.55% and lowest ratio is 65%. The mean ratio of BOK and NSBIL has 3.242 and 3.326 percent. The mean ratio of NSBIL is little more than that of BOK. In comparison, NSBIL seems ineffective in getting cheaper fund from the mean point of view. However, BOK has been conscious in each year for getting cheaper fund as it has decreased ratio in each year whereas NSBIL has been less conscious in each year as its ratio is in increasing trend in each year. The C.V. of BOK is greater than NSBIL which indicates inconsistency in interest paid to total asset ratio.

4.1.1.4 Risk Ratio

Risk is uncertainty of future. Risk and uncertainty is a part of business. All the business activities are influenced by risk, so business organizations cannot achieve a good return as per their desires. The profitability of risk makes banks investment a challenging task. Bank has to take risk to get return on its investment. The risk taken is compensated by the increase in profit. So the banks have to accept the risk thoughtfully and manage it efficiently. A bank has to have idea of the level of risk that one has to bear while investing its funds. Through following ratios, effort has been made to measure the level of risk inherent in the BOK and NSBIL.

A) Credit Risk Ratio

Credit risk ratio measures the possibility that loan will not be repaid or that investment will deteriorate in quality or go into default with consequent loss to the bank. By definition, credit risk ratio is expressed as the percentage of non- performing loan to total Loan and Advances.

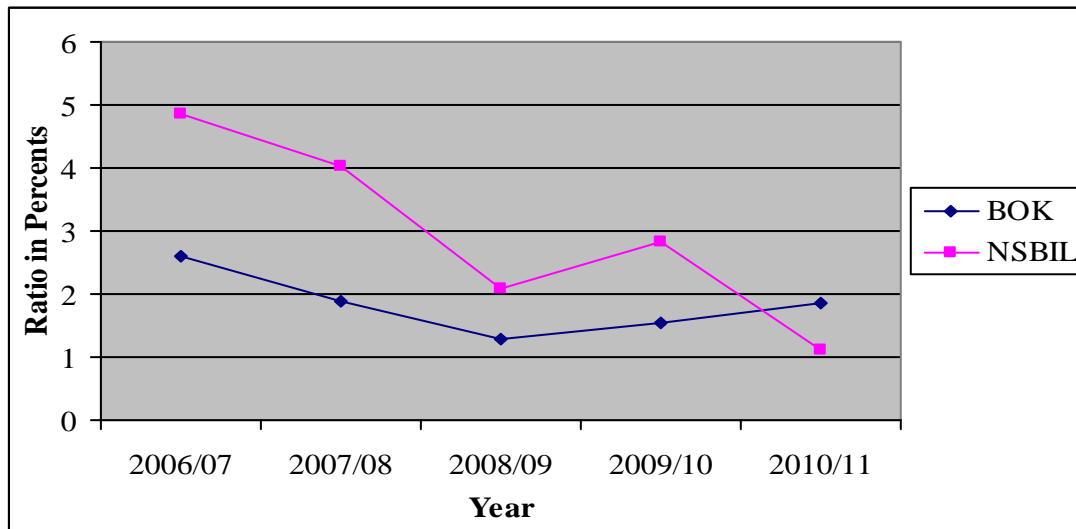
Bank utilizes its collected funds by providing credit to different sections. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. The credit risk ratio shows the proportion of non-performing assets in total Loan and Advances. Higher ratio indicates more risky assets in the volume of Loan and Advances of the bank and vice-versa.

Table No. 4.16
Credit Risk Ratio

Fiscal Year	BOK			NSBIL		
	Non-Performing Loan	Total Loan	Ratio	Non-Performing Loan	Total Loan	Ratio
2006/07	243.3	9399.33	2.59	458.76	9460.45	4.85
2007/08	236.9	12462.64	1.90	488.41	12113.7	4.03
2008/09	190.32	14647.3	1.299	315.95	15131.74	2.09
2009/10	257.22	16664.93	1.54	492.58	17480.55	2.82
2010/11	326.33	17468.19	1.87	239.3	21365.77	1.12
Mean			1.839			2.982
S.d.			0.486			1.489
C.V.			0.2642			0.4996

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.16
Credit Risk Ratio



Above table shows that NPL to total loan and advances of BOK and NSBIL are in decreasing trend where as BOK is increasing at last. Decreasing trend is the good sign of efficient credit management. From mean point of view, non-performing loan to total loan

and advances ratio of BOK and NSBIL are 1.839% and 20982% respectively during the study period. These Ratios indicate the more efficient operating of credit management of both banks according to NRB directives. However, in comparison, BOK is more efficient at operating credit management than NSBIL. In another words, NSBIL is less efficient at operating credit management than BOK. The BOK bank has efficiently used the total loan and advances than that of NSBIL in credit risk aspect. Here BOK is more successful in loan recovery because it has lower non performing loan in total Loan and Advances. Ratio of BOK is also more consistency than NSBIL due to having lower C.V.

(B) Liquidity Risk Ratio:

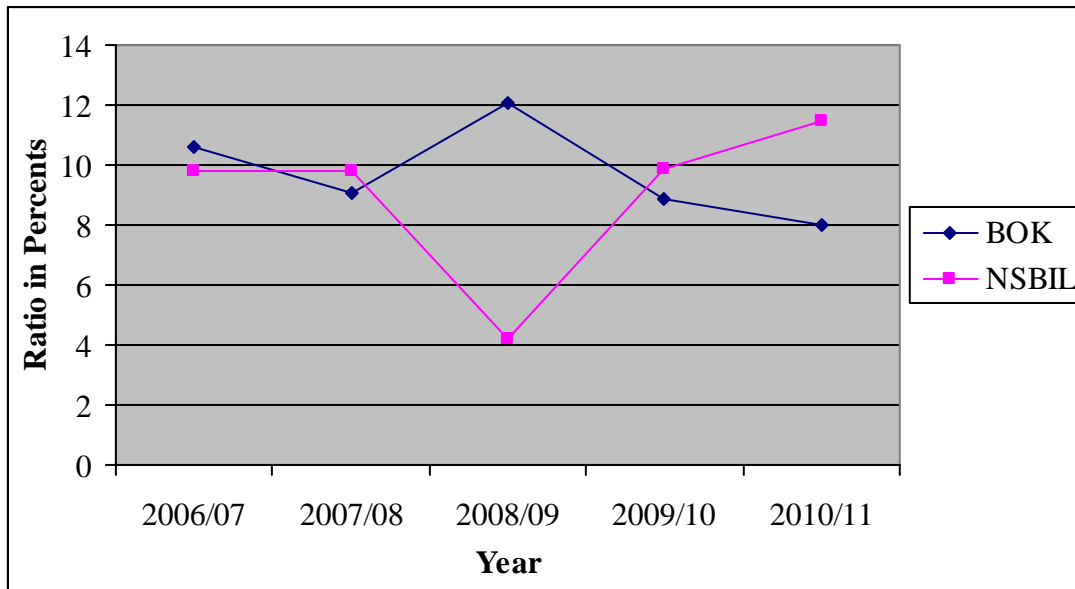
The liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets, they are considered as banks liquidity sources and deposit as the liquidity needs. The ratio of cash and bank balance to total deposit is an indicator of bank's liquidity in need. This ratio is low if funds are kept idle as cash balance but this reduces profitability, when the banks makes loan, its profitability increase and also the risk. Thus, higher liquidity ratio indicates less profitable return and vice-versa. This ratio is calculated as below:

Table No. 4.17
Liquidity Risk Ratio

Fiscal Year	BOK			NSBIL		
	Cash and bank balance	Total Deposit	Ratio	Cash and bank balance	Total Deposit	Ratio
2006/07	1315.9	12388.93	10.62	1122.69	11445.29	9.81
2007/08	1440.47	15833.74	9.097	1342.96	13715.39	9.79
2008/09	2182.11	18083.98	12.07	1176.44	27957.22	4.21
2009/10	1798.37	20315.83	8.852	3441.26	34896.42	9.86
2010/11	1678.93	21018.42	7.99	4877.83	42415.44	11.50
Mean			9.725			9.034
S.d.			1.6175			2.793
C.V.			0.1663			0.3092

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.17
Liquidity Risk Ratio



Above table and figure shows cash and bank balance to total deposits ratio of the BOK and NSBIL are in fluctuating trend. The highest ratio of BOK is 112.07% in F/Y 2008/09 and lowest ratio is 7.99% in F/Y 2010/11. Similarly highest ratio of NSBIL is 11.50% in F/Y 2010/11 and lowest ratio is 4.21% in F/Y 2008/09 respectively. The average mean ratio of BOK is little greater than that of NSBIL (i.e.9.725>9.034%). It signifies that BOK has sound liquid fund to make immediate payment to the depositors. Lower C. V. and S.d indicate more consistency in ratio of BOK rather than NSBIL.

C.) Asset Risk Ratio:

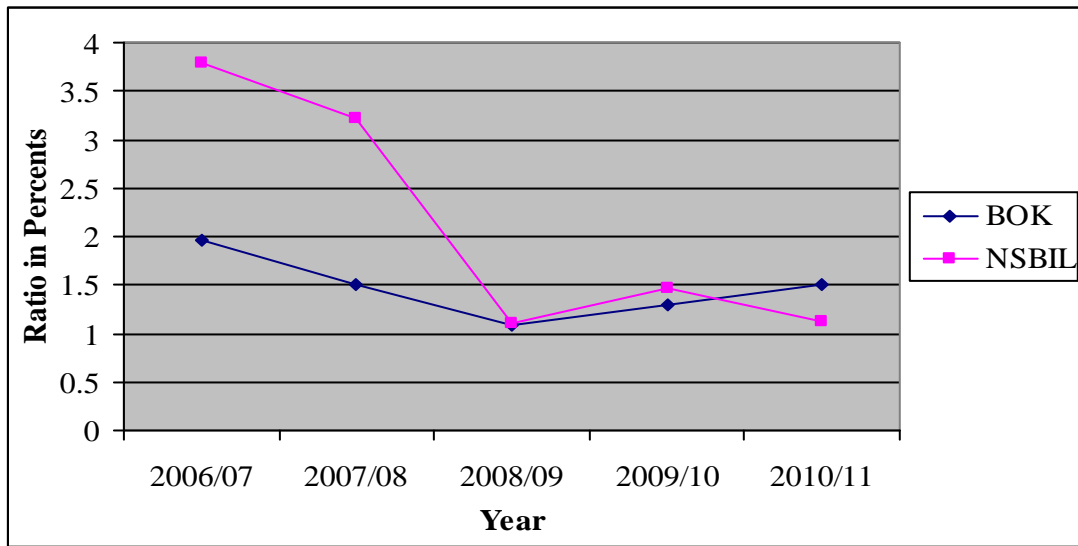
Bank utilizes its collected funds in providing credit to different sectors. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. Generally asset risk ratio shows proportion of non-performing assets in the total investment plus loan and advances of a bank it is computed.

Table No. 4.18
Asset Risk Ratio

Fiscal Year	BOK			NSBIL		
	NPL	Outside Asset	Ratio	NPL	Outside Asset	Ratio
2006/07	243.3	12391.80	1.96	458.76	12119.9	3.79
2007/08	236.9	15666.70	1.512	488.41	15202.59	3.21
2008/09	190.32	17430.90	1.09	315.95	28417.92	1.11
2009/10	257.22	19934.14	1.29	492.58	33786.18	1.46
2010/11	326.33	21754.79	1.50	239.3	21365.78649	1.12
Mean			1.471			2.138
S.d.			0.3244			1.268
C.V.			0.2205			0.5931

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.18
Asset Risk Ratio



The table and figure 4.18 shows that non-performing asset to total outside asset ratio of BOK and NSBIL. The non-performing asset to total outside asset ratio of BOK and NSBIL are in decreasing trend where as BOK is increasing at last. Decreasing trend is the

good sign of efficient asset management. The highest ratio of BOK is 1.96% and lowest 1.09%. Similarly highest ratio of NSBIL is 3.79% and lowest is 1.11%. The average mean non-performing asset to total outside asset ratio of BOK and NSBIL are 1.471% and 2.138% respectively during the study period. These Ratios indicate the more efficient operating of asset management of both banks. However, in comparison, BOK is more efficient in asset management than NSBIL. In another words, NSBIL is less efficient at asset management than OK. But decreasing form of ratio indicate better performance of NSBIL. Ratio of BOK is less consistency than NSBIL due to having higher C.V.

4.1.1.5 Other Ratios

A) Earning Per Share

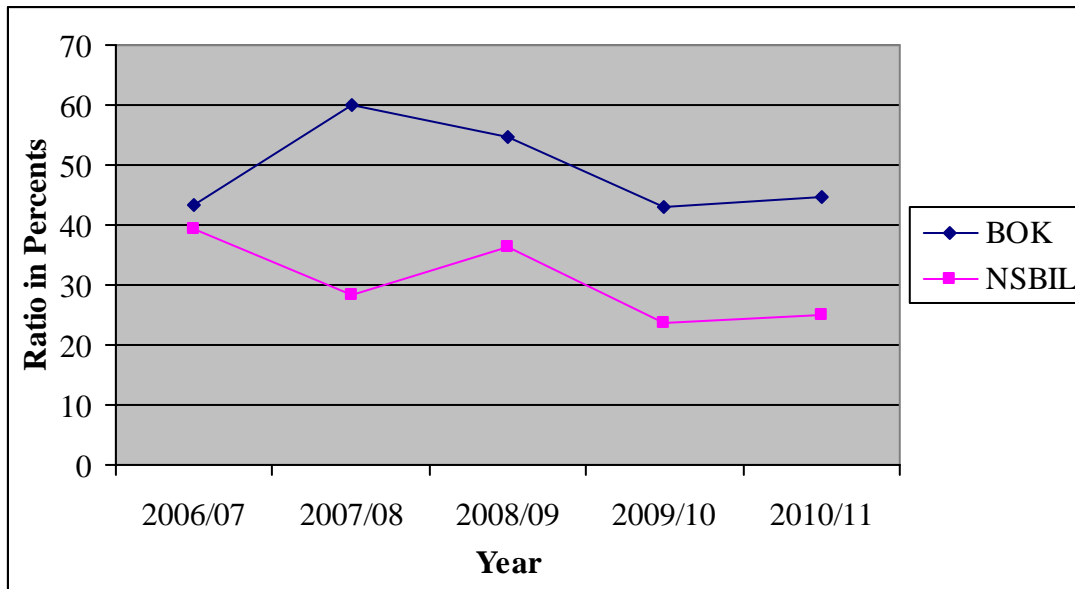
EPS measure the efficiency of a firm in relative terms. It is a widely used ratio, which measures the profit available to the ordinary shareholders on per share basis. Earning per share calculation made over years indicates whether the bank's earning power on per share basis has changed over that period or not but it doesn't reflect how much is paid as dividend and how much is retained in the business. Following table shows the EPS of related banks during the study period.

Table No. 4.19
Earning Per Share

Fiscal Year	BOK			NSBIL		
	Net profit	Total equity	Ratio	Net profit	Total equity	Ratio
2006/07	262.39	6031413	43.50	254.91	647798400	39.35
2007/08	361.49	6031413	59.94	247.77	874527840	28.33
2008/09	461.73	8443979	54.68	316.37	1224338976	36.18
2009/10	509.63	11821571	43.08	391.74	1861324239	23.69
2010/11	605.15	13594807	44.51	464.56	2102966165	24.85
Mean			49.142			30.48
S.d.			7.7023			6.957
C.V.			0.1567			0.2282

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.19
Earning Per Share



Above table and figure 4.19 shows that earning price per share of BOK and NSBIL. Both BOK and NSBIL bank have fluctuating trend of EPS. While observing their ratios in overall BOK is better mobilizing its resources to get more earning per share (EPS). The highest EPS of BOK is 59.94 and lowest is 43.08 percent. Similarly highest EPS of NSBIL is 39.35 and lowest is 23.69 percent. The average EPS of BOK and NSBIL are 49.142 and 30.48. The mean and every year EPS of BOK seems higher than NSBIL which indicates successful in generating higher EPS in each year and in average too. It is quite satisfying to state that BOK has been able to maximize shareholder wealth from the view point of EPS. The S.D of BOK is higher than NSBIL but C.V. of NSBIL is higher which indicates inconsistency in its EPS.

B) Dividend per Share

Shareholders want to receive dividend from their investment. They may have interest to know about the firm's activities, earning, and dividend so; each firm must announce the total dividend and dividend per Share which shows the position of the firm. A firm wants to distribute dividend to its shareholder if a firm suppose the insufficient investment opportunities and sector. Sometimes, it does not distribute dividend and sometime issues

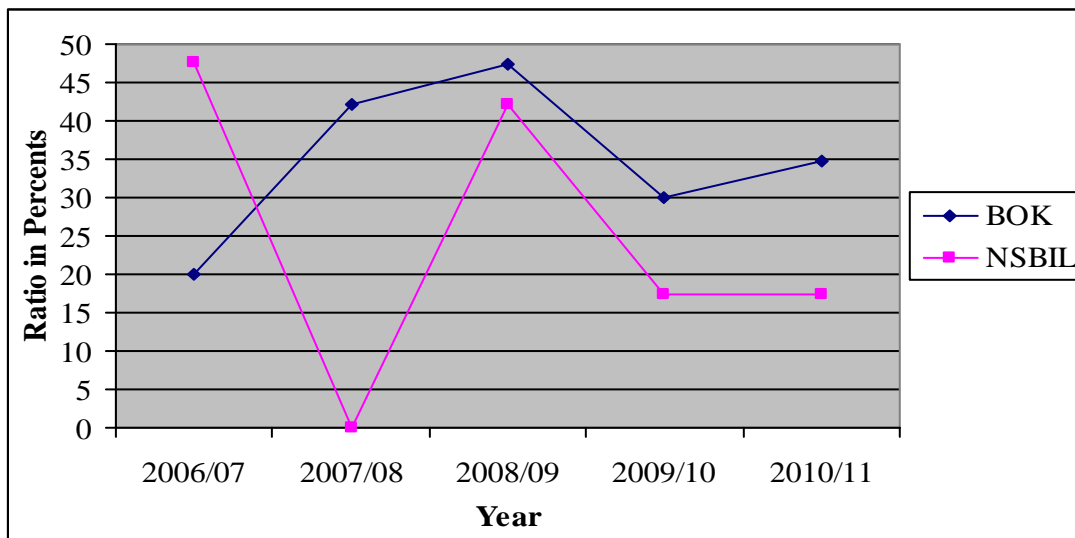
bonus shares. On the other hand, shareholders want to receive dividend from their investment. They may have interest to know about the firm's activities, earning, divisible profit or proposed dividend or declared dividend. So, each firm must announce the total dividend and dividend per share which show the position of the firm.

Table No. 4.20
Dividend per Share

Fiscal Year	BOK			NSBIL		
	Cash	Stock	Total Dividend	Cash	Stock	Total Dividend
2006/07	20	0.00	20.00	12.59	35	47.59
2007/08	2.11	40	42.11			-
2008/09	7.37	40	47.37	2.11	40	42.11
2009/10	15	20	30.00	5	12.5	17.5
2010/11	18	16	34.75	5	12.5	17.5
Mean			34.846			31.175
S.d.			10.648			15.948
C.V.			0.3056			0.5116

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.20
Dividend per Share



The above statistics shows that dividend per share of BOK and NSBIL seem to be fluctuating. The dividend per share of BOK is higher than NSBIL every year beside first fiscal year. The highest dividend 47.37% provided in 2008/09 and lowest 20% provided in F/Y 2006/07 by BOK. Similarly the highest dividend 47.59% provided in 2006/07 and lowest zero in F/Y 2007/08. Average dividend per share of BOK is higher than that of NSBIL (i.e. 34.846>31.175) percent. The S.D. and C.V. of NSBIL is high so it indicate high volatile and inconsistency in dividends during the study period. It can be concluded shareholder of BOK having higher dividend than that shareholder of NSBIL.

C) Market Price per Share

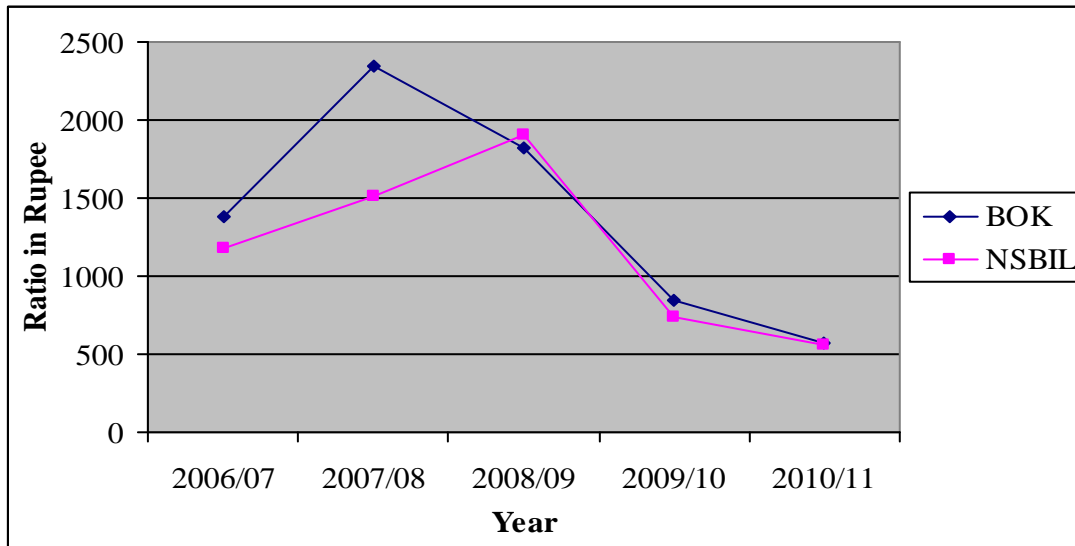
Market price per share is the price at which shares are traded in the stock market. The secondary markets provide liquidity for securities purchased in primary market. Generally MPS is determined through supply and demand factors.

Table No. 4.21
Market price per share (in Rs)

Fiscal Year	BOK	NSBIL
	MPS	MPS
2006/07	1375	1176
2007/08	2350	1511
2008/09	1825	1900
2009/10	840	741
2010/11	570	565
Mean	1392	1178.6
S.d.	722.14	547.47
C.V.	0.5188	0.4645

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.21
Market price per share



Above Table and Figure shows market price of the share of BOK and NSBIL. Both bank BOK and NSBIL has decreasing its share price from second and third fiscal year during the study period. It indicates that decline of stock of BOK in share market start from F/Y 2007/08 and NSBIL from 2008/09. This tends low performance of company and low expectation from company. The highest MPS of BOK is 2350 and lowest is 570 similarly highest MPS of NSBIL is 1900 and lowest is 565. Average mean price of BOK is greater than that of NSBIL i.e. 1392 > 1178.60 Rupee. It indicates that shareholder of BOK are getting higher price. The S.D. and C.V. of BOK high than NSBIL which indicate inconsistency in market price of BOK.

D) Price Earning Ratio

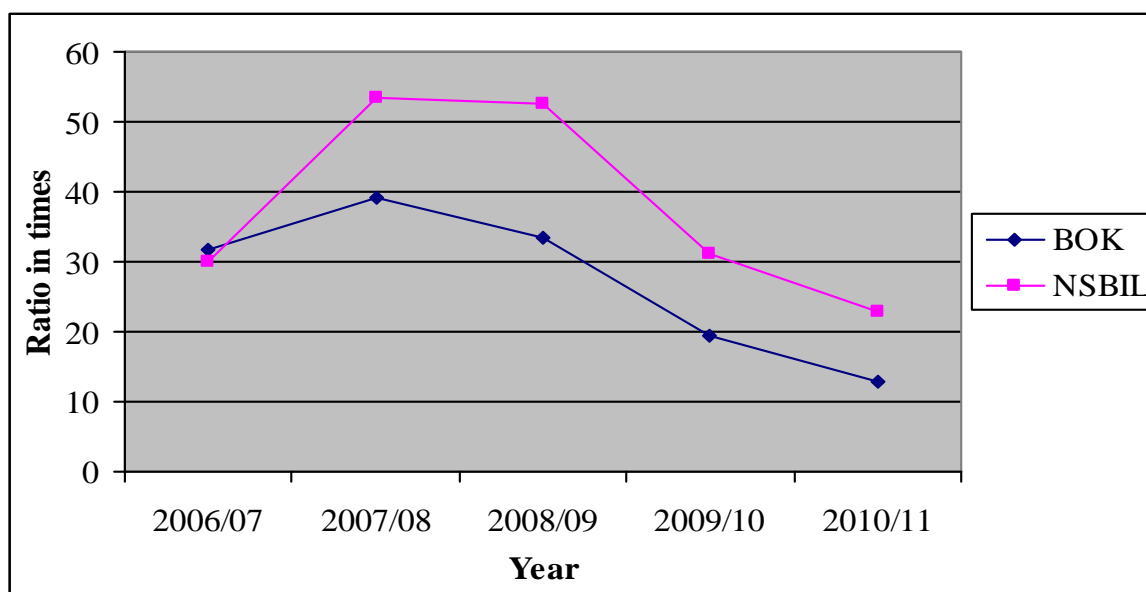
Price earning ratio is closely related to the earning per share. It is calculated by dividing the market value per share by EPS. Price earning ratio indicates investor’s judgments or expectation about the firm’s performance. This ratio widely used by the security analysis to value the firm’s performance. This ratio widely used by the security analysis to value the firm’s performance as accepted by investors. Price earning ratio reflects investor expectations about the growth in the firm’s earning. Higher ratio indicates the more value of the stock that is being ascribed to future earning as opposed to present earning.

Table No. 4.22
Price Earning Ratio

Fiscal Year	BOK			NSBIL		
	MPS (in Rs)	EPS (in Rs)	PE/Ratio	MPS (in Rs)	EPS (in Rs)	PE/Ratio
2006/07	1375	43.5	31.609	39.35	1176	29.89
2007/08	2350	59.94	39.206	28.33	1511	53.34
2008/09	1825	54.68	33.376	36.18	1900	52.52
2009/10	840	43.08	19.499	23.69	741	31.28
2010/11	570	44.51	12.806	24.85	565	22.74
Mean			27.299			37.95
S.d.			10.819			14.053
C.V.			0.3963			0.3703

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.22
Price Earning Ratio



Above table and figure shows that price earning ratio earning of BOK and NSBIL. The PE ratio BOK and NSBIL are decreasing from F/Y 2007/08. From the mean point of

view, mean ratio of the BOK and NSBIL are 27.299 and 37.95 times respectively. It indicates that for getting Rs 1 as earning, one should invest Rs 27.299 in BOK and Rs 37.95 in NSBIL. Looking the mean ratio we conclude that in short run, investor of NSBIL are getting better profitability because they are selling their shares in high price. But from the long term view and sustainable fair price, investor of NSBIL will get better profitability and they will be in safe side a little bit in comparison with BOK. The S.D of NSBIL is high than the BOK but C.V is lower. it indicate that inconsistency in price earning ratio of BOK.

4.2 Statistical Analysis

Statistical tool is one of the important tools to analyze the data. There are various tools for the analysis of tabulated data such as, mean, standard deviation, regression analysis, co-relation analysis, trend analysis, various types of tests etc. There is convenient statistical tools are used in this thesis study.

4.2.1 Coefficient of Correlation Analysis

Co-efficient of co-relation shows the relationship between two or more than two variables. It measures that the two variables are positively or negatively co-related. For this purpose, Karl Pearson's co-efficient of correlation has been taken and applied to find out and analyze the relationship between deposit and loan and advances, deposit and total investment, total assets and net profit, total investment and net profit and also analyze the correlation of total deposit, total investment, loan and advances and net profit BOK and NSBIL using Karl Persons coefficient of correlation, value of coefficient of determination (R^2) probable error (P.Er.) and (6 P.Er.) are also calculated and value of them are analyzed.

A) Correlation Coefficient between Deposit and Loan and Advances

Deposit have played vary important role in performance of a commercial banks and similarly loan and advances are very important to mobilize the collected deposits. Co-efficient of correlation between deposit and loan and advances measures the degree of relationship between these two variables. In this analysis, deposit is independent variable

(X) and loan and advances are dependent variable (Y). The main objectives of computing ‘r’ between these two variables is to justify whether deposit are significantly used as loan and advances in proper way or not.

Table No. 4.23
Correlation between Deposit and Loan and Advances

Name of Banks	Evaluation Criteria				
	r	r ²	P.Er.	6 P.Er.	Remarks
BOK	0.999	0.998	0.0006	0.0036	Significant
NSBIL	0.981	0.962	0.0114	0.0681	Significant

Source: Through SPSS Data Editor

The table 4.23 represents that coefficient of correlation between deposits and loan and advances of BOK and NSBIL are 0.999 and 0.981 It is shows that both have the positive relationship between these two variables. It refers that deposit and loan and advances of BOK move together very closely. Moreover, the coefficient of determination of BOK is 0.998. It means 99.80 percent of variation in loan and advances has been explained by deposit. Similarly, value of coefficient of determination of NSBIL is 0.962. It refers that 96.2 percent variance in loan and advances are affected by total deposit. The correlation coefficient of both banks is significant because the correlation coefficient is greater than the relative value of 6 P. Er. In other words, there is significant relationship between deposits and loan and advances of BOK and NSBIL.

B) Coefficient of Correlation between Total Deposits and Total Investment

The coefficient of correlation between deposit and investment measures the degree of relationship between these two variables or deposit is significantly utilized or not. In correlation analysis, deposit is independent variable (X) and total investment is dependent variable (Y). The following Table No. 4.24 shows the coefficient correlation between deposits and total investments i.e. r, P. Er., 6 P. Er. and coefficient of determination (R²) of BOK and NSBIL during the study period.

Table No. 4.24

Correlation between Deposit and Total Investment

Name of Banks	Evaluation Criteria				
	r	r ²	P.Er.	6 P. Er.	Remarks
BOK	0.59	0.3481	0.1966	1.1799	Insignificant
NSBIL	0.991	0.982	0.0054	0.0324	Significant

Source: Through SPSS Data Editor

Above table shows the coefficient of correlation between total deposit and total investment of BOK and NSBIL. The correlation of BOK is 0.59. It shows the normal degree of positive correlation. In addition, coefficient of determination of BOK is 0.3481, It means only 34.81 percent of total investment is explained by total deposit. The correlation coefficient is insignificant because the correlation coefficient is less than 6 P. Err. It refers that there is insignificant relationship between total deposit and total investment of BOK.

Similarly, correlation coefficient between total deposit and total investment of NSBIL is 0.991. The value of coefficient of determination is 0.982 this refers that 98.2 percent of the variation in total investment is explained by total deposit least are determined by other factor. The correlation coefficient is significant because the correlation coefficient is higher than 6 P. Er. It refers that there is significant relationship between total deposit and total investment of NSBIL.

From the above analysis, the conclusion can be drawn in the case of BOK and NSBIL that BOK has moderate degree positive correlation where as NSBIL has high degree positive correlation. This indicates that NSBIL is successful to mobilize its deposit in proper way in comparison to BOK.

C) Co-efficient of Correlation between Loan and advance and Net Profit

Co-efficient of correlation between total assets and net profit is used to measure the degree of relationship between two variable i.e. Loan and advance and net profit of BOK

and NSBIL during the study period. Where Loan and advance is independent variable (X) and net profit is dependent variable (Y). The main objective of calculating this ratio is to determine the degree of relationship whether there the net profit is significantly correlated or not and the variation of net profit to loan and advance through the coefficient of determination. The following table shows the 'r', R², P.Er. and 6 P. Er. between those variables of BOK and NSBIL for the study period.

Table No. 4.25
Correlation between Loan and advance and Net profit

Name of Banks	Evaluation Criterions				
	r	r ²	P.Er.	6 P.Er.	Remarks
BOK	0.984	0.9682	0.00958	0.0575	Significant
NSBIL	0.967	0.935	0.0196	0.1175	Significant

Source: Through SPSS Data Editor

The table 4.25 shows correlation coefficient between loan & advance and net profit is 0.984 of BOK. It refers that there is positive correlation between these two variables. Here, 96.82 percent of net profit is contributed by Loan and advance as its coefficient of determination is 0.9682 shows. Moreover, this relationship is significant because the coefficient of correlation is more than 6 P.Er.

Likewise NSBIL also has positive correlation between loan & advance and net profit by 0.967. The coefficient of determination R² is 0.935 which indicates that 93.50 percent variability in net profit is explained by Loan and advance. The correlation coefficient is more than 6 P.Er. So relationship between Loan and advance and net profit is significant for NSBIL. It refers that there is significant relationship between total deposit and total investment of NSBIL. In calculation, BOK has more significant relationship between loan and advance and net profit than that of NSBIL.

D) Coefficient of Correlation between Total Investment and Net Profit

Coefficient of correlation between total investment and net profit measures the degree of their relationship. In the, correlation analysis, investment is independent variable and net

profit is dependent variable. The following Table shows the coefficient of correlation coefficient of determination, probable error and six times of P. Er. During the fiscal year 2006/07 to 2010/11.

Table No. 4.26
Correlation between Total Investment and Net Profit

Name of Banks	Evaluation Criteria				
	r	r ²	P.Er.	6 P.Er.	Remarks
BOK	0.689	0.4747	0.1585	0.9507	Insignificant
NSBIL	0.603	0.3641	0.1918	1.1509	Insignificant

Source: Through SPSS Data Editor

Above Table shows the correlation coefficient between total investment and net profit of BOK and NSBIL. The correlation coefficient between total investment and net profit of BOK is 0.689 which implies there is positive correlation between total investment and net profit. In addition, coefficient of determination of BOK is 0.4747. It means 47.47 percent of Profit is contributed by total investment. The correlation is not significant at all due to coefficient of correlation is lower than 6 P Error. On the other hand NSBIL has also moderate degree of positive correlation between total investment and net profit i.e. 0.603. The coefficient of determination of NSBIL is 0.3641 It means 36.41 percent of Profit is contribute by total investment. This relationship is also insignificant as its correlation coefficient is lower than 1.1509. The both BOK and NSBIL have insignificant relationship between total investment and net profit. Thus it can be concluded that the degree of relationship between total investment and net profit of NSBIL is poor than the BOK.

E) Coefficient of Correlation of Total Deposit between BOK and NSBIL

Coefficient of correlation of total deposit between BOK and NSBIL and shows their linear relationship. Here analyzed the how total deposit of different bank interrelated.

Table No. 4.27

Correlation between Total Deposit of BOK and NSBIL

Evaluation Criteria				
R	R ²	P. Er.	6 P. Er.	Remarks
0.950	0.9022	0.0295	0.1769	Significant

Source: Through SPSS Data Editor

The above table shows positive correlation between BOK and NSBIL in case of total deposit. This table shows how the total deposit of BOK and NSBIL correlated. The 0.950 of correlation coefficient shows that there is highly positive correlation between these two banks in this regard. The relation is also significant because the correlation coefficient is high than 6 P.Er. As the 0.9022 of coefficient of determination, this shows the 90.22 percent of the degree of relationship. This all indicate that total deposit of both banks moves same direction.

F) Coefficient of Correlation of Loan and Advances between BOK and NSBIL

The coefficient of correlation of loan & advances between BOK and NSBIL has been given below.

Table No. 4.28

Correlation between Loan and Advances of BOK and NSBIL

Evaluation Criteria				
R	R ²	P.Er.	6 P.Er.	Remarks
0.966	0.9333	0.0201	0.1207	Significant

Source: Through SPSS Data Editor

Above table shows that there is positive correlation between loan and advances of BOK and NSBIL. The correlation coefficient between two banks is 0.966. It means loan and advances of these two banks moves in the same direction in high proportion. This correlation coefficient is significant in order to show the relationship between loan and advances of these two banks because correlation coefficient is greater than 6 P.Er. The

coefficient of determination is 0.9333 which shows the 93.33 percent of the degree of relationship.

G) Coefficient of Correlation of Net Profit between BOK and NSBIL

The coefficient of net profit between the selected commercial banks shows the relationship between the banks.

Table No. 4.29
Correlation between Net Profit of BOK and NSBIL

Evaluation Criteria				
R	R ²	P.Er.	6 P.Er.	Remarks
0.936	0.8762	0.0374	0.2241	Significant

Source: Through SPSS Data Editor

Above statistics shows that there is high degree positive correlation between net profits of BOK and NSBIL which is indicated by correlation coefficient of 0.936. This table shows how the net profit of BOK and NSBIL interrelated. This relationship is significant because its correlation coefficient is greater than 6 P.Er. The coefficient of determination is 0.8762 which shows the 87.62 percent of the degree of relationship.

4.2.2 Time Series Analysis (Trend Analysis)

Trend analysis plays an important role in the analysis and interpretation of financial statement. Trend in general terms, signifies a tendency. It helps in forecasting and planning future operation. Trend analysis is a statistical tool, which shows the previous trend of the financial performance and forecasts the future financial results of the firms.

A) Trend Analysis of Total Deposit:

Deposits are the important part in banking sector hence its trend for next seven years will be forecasted for future analysis. This is calculated by the least square method. Here the effort has been made to calculate the trend values of Total deposit of BOK and NSBIL for further five year

$$Y = a + bx$$

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where $x = X - \text{Middle year}$

Where as

$$Y_c = 17528.18 + 2174.107 * X \text{ of BOK}$$

$$Y_c = 26086 + 8312.13 * X \text{ of NSBIL}$$

Table No. 4.30

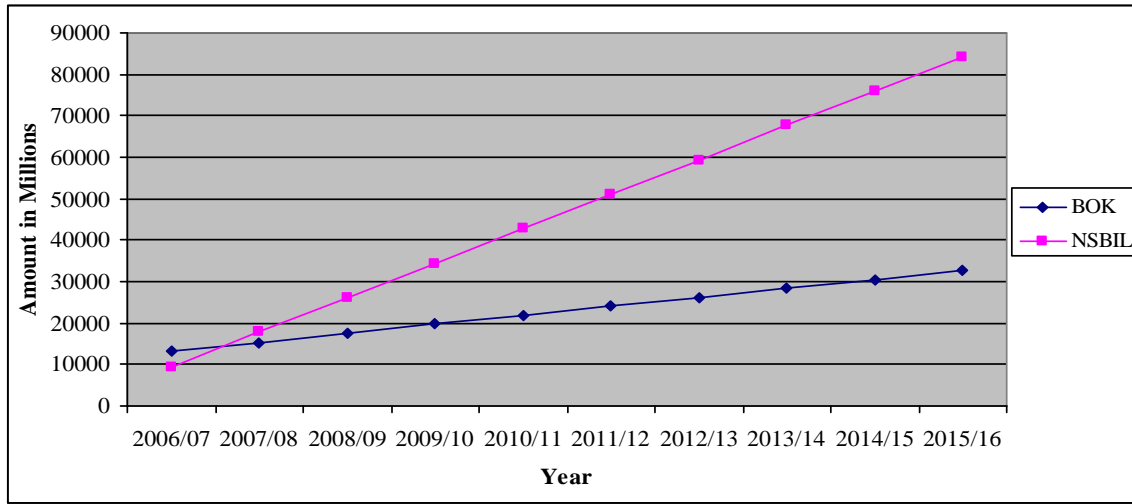
Trend analysis of Total Deposit of BOK and NSBIL		
Year(x)	BOK	NSBIL
2006/07	13179.97	9443.74
2007/08	15354.07	17764.9
2008/09	17528.18	26086
2009/10	19702.29	34407.1
2010/11	21876.39	42728.3
2011/12	24050.5	51049.4
2012/13	26224.61	59370.5
2013/14	28398.72	67691.7
2014/15	30572.82	76012.8
2015/16	32746.93	84333.9

Source: Trend value of Concern Bank

Appendix -1

Figure No 4.23

Trend Line of Total Deposit of BOK and NSBIL



Above Table and figure shows that trend of total deposit of BOK and NSBIL. Both Banks is in increasing trend. The rate of increment of total deposit for NSBIL seems to be higher and aggressive than that of BOK. The actual trend value of total deposit for NSBIL is more than that of BOK. The trend analysis has projected deposit amount in fiscal year FY 2011/12 to FY 2015/16. From the above trend analysis it is clear that NSBIL has higher position in collecting deposit than NSBIL.

B) Trend Analysis of Loan and advances

Here, the trend values of loan and advances Between BOK and NSBIL have been calculated for further five year. The following Table shows the actual and trend values of BOK and NSBIL.

$Y = a + bx$

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$Y = a + b x \dots\dots\dots (I)$

$Yc = 14128.48 + 2034.001 * X$ of Bank of Kathmandu Limited

$Yc = 15110.4 + 2917.75 * X$ of Nepal SBI Bank Limited

Table No. 4.31

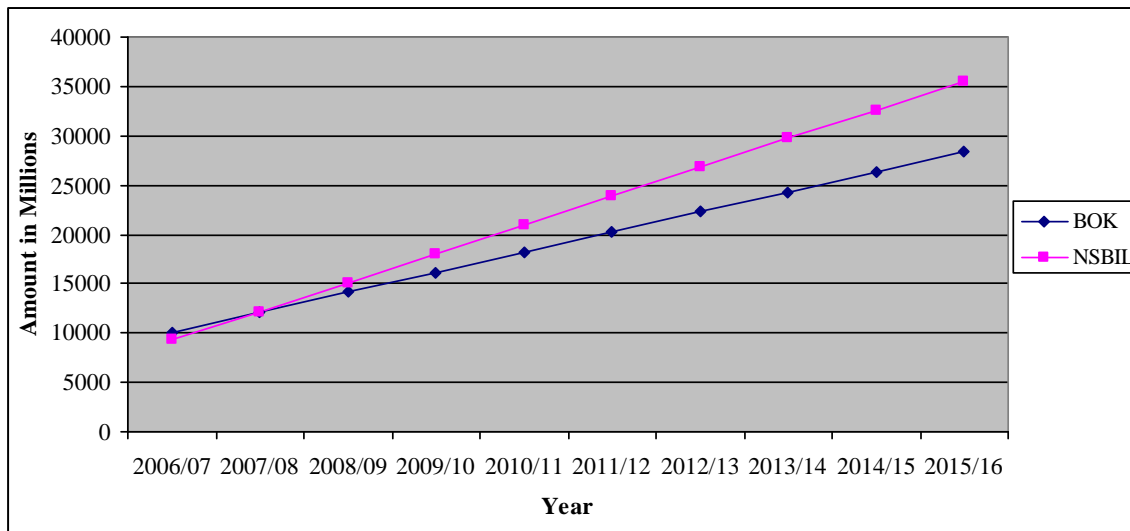
Trend analysis of Total Loan and Advance of BOK and NSBIL		
Year(x)	BOK	NSBIL
2006/07	10060.48	9274.9
2007/08	12094.48	12192.7
2008/09	14128.48	15110.4
2009/10	16162.48	18028.2
2010/11	18196.48	20945.9
2011/12	20230.48	23863.7
2012/13	22264.48	26781.4
2013/14	24298.49	29699.2
2014/15	26332.49	32616.9
2015/16	28366.49	35534.7

Source: Trend value of Concern Bank

Appendix - 2

Figure No 4.24

Trend line of Total Loan and Advance of BOK and NSBIL



Above Table and figure depicts that trend of loan and advances of BOK and NSBIL. Both Banks has in increasing trend. The increasing trend of NSBIL is higher and aggressive than BOK. The trend projected for father five year FY 2011/12 to FY 2015/16. From the above analysis, it is clear that both NSBIL and BOK is mobilizing its collected

deposits and other funds in the form of loan and advances. But above table and figure shows NSBIL has highly mobilizing loan and advances than the BOK. So trend of loan and advance of NSBIL seems to be better than BOK.

C) Trend Analysis of Total Investment

Under this topic has been made to analyze trend analysis total investment of BOK and NSBIL. Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where x = X - Middle year

$$Y_c = 3307.18 + 265.347 * X \text{ of BOK}$$

$$Y_c = 10850.2 + 4571.99 * X \text{ of NSBIL}$$

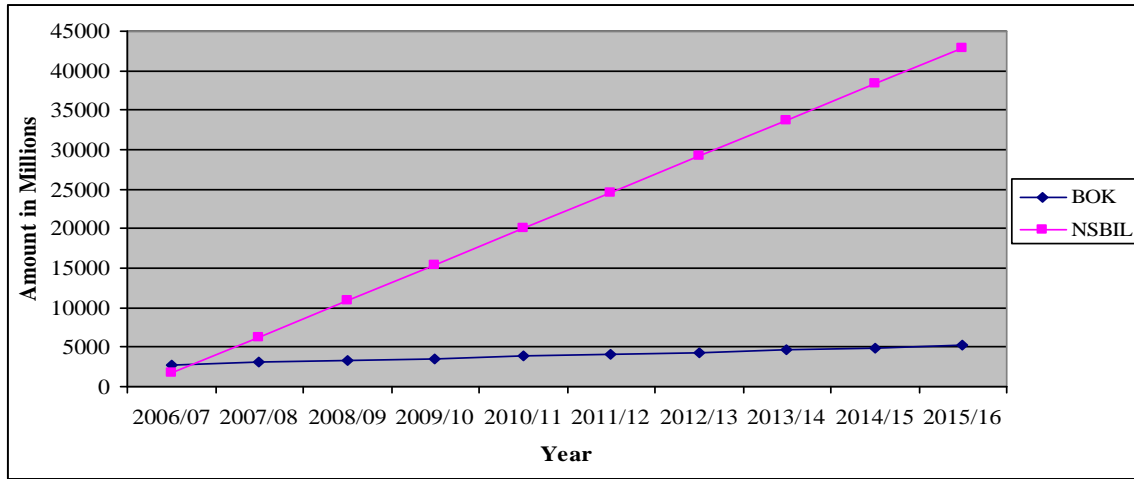
Table No. 4.32

Trend analysis of Total Investment Between BOK and NSBIL		
Year(x)	BOK	NSBIL
2006/07	2776.486	1706.22
2007/08	3041.833	6278.21
2008/09	3307.18	10850.2
2009/10	3572.527	15422.2
2010/11	3837.874	19994.2
2011/12	4103.221	24566.2
2012/13	4368.568	29138.2
2013/14	4633.915	33710.2
2014/15	4899.262	38282.1
2015/16	5164.609	42854.1

Source: Trend value of Concern Bank

Figure No 4.25

Trend Line of Total Investment between BOK and NSBIL



Above table and figure shows the Trend of Total Investment between BOK and NSBIL. Both Bank BOK and NSBIL have increasing trend in making investment. BOK has little trend of increasing, but NSBIL has highly aggressively increasing trend of total investment. The trend of total investment projected to further five year F/Y 2015/16. The forecasted trend projected that the NSBIL has greater increment rate in total investment than the increment rate of BOK. The figure indicates NSBIL has highly mobilized the total investment rather than BOK.

D) Trend Analysis of Net Profit

Here, the trend values of net profit of BOK and NSBIL have been calculated for five years FY 206/07 to FY 2010/11 and forecasting further next five year till FY 2015/16.

$Y = a + bx$

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$Y = a + b x \dots\dots\dots (I)$

Where $x = X - \text{Middle year}$

$Y_c = 440.078 + 83.366 * X \text{ of BOK}$

$Y_c = 335.07 + 56.327 * X \text{ of NSBIL}$

Table No. 4.33

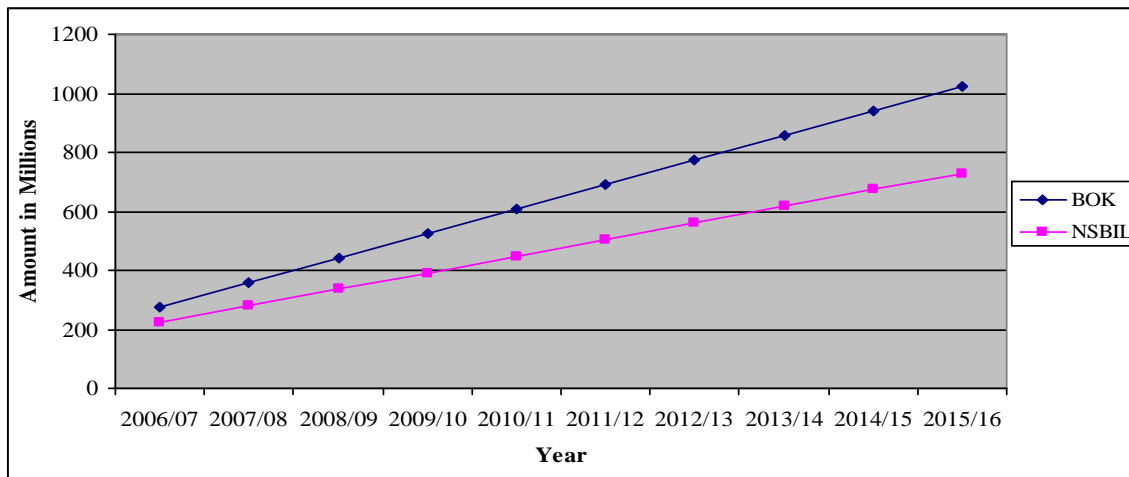
Trend Analysis of Net Profit Between BOK and NSBIL		
Year(x)	BOK	NSBIL
2006/07	273.346	222.416
2007/08	356.712	278.743
2008/09	440.078	335.07
2009/10	523.444	391.397
2010/11	606.81	447.724
2011/12	690.176	504.051
2012/13	773.542	560.378
2013/14	856.908	616.705
2014/15	940.274	673.032
2015/16	1023.64	729.359

Source: Trend value of Concern Bank

Appendix - 4

Figure No 4.26

Trend Line of Net Profit between BOK and NSBIL



The table 4.33 and figure 4.26 reveals the trend of Net profit of BOK and NSBIL. Net profit of both banks BOK and NSBIL forecasted in increasing trend. The trend of increasing value of net profit of BOK is higher than NSBIL. The net profit of BOK and

NSBIL has been increasing every year by Rs. 83.366 million and Rs. 56.327 million respectively. The increment rate of net profit of BOK is little higher than NSBIL. The trend of Net profit projected to FY 2015/16 i.e. further five year. Above statistics, shows that both the banks have consistent net profit throughout the study period. In conclusion, BOK is doing better in order to generate net profit during the projected study period, although both BOK and NSBIL have increasing trend.

4.3 Major Findings of the Study

The researcher has enlisted the major findings in a summarized manner so that a complete picture of the data presentation and analysis can be presented. The following findings are drawn on the financial position of the selected commercial banks.

1. Generally banks have to maintain standard current assets to meet daily business transaction. The current ratio of BOK and NSBIL has a fluctuating trend. The average current ratio of BOK and NSBIL are 1.055 and 1.232. The liquidity position of NSBIL is greater than BOK as it has a higher mean ratio. So, NSBIL is sound in meeting short-term obligation than BOK. Both banks have reasonable liquidity position because the ratio is more than 1:1 ratio.
2. The average cash and bank balance to total deposit ratio of BOK and NSBIL are 9.725 and 9.034 percent. BOK has little higher ratio than the NSBIL, which shows its greater ability to pay depositors money. Liquidity position however is good.
3. The cash and bank balance to current assets ratio of BOK and NSBIL are fluctuating. The mean ratio of BOK is higher than NSBIL. The higher mean ratio shows that BOK's liquidity position is better than that of NSBIL.
4. The investments on government securities to current assets ratio of BOK and NSBIL have fluctuating. The mean ratio of BOK is lower than NSBIL. It means NSBIL has invested more money in risk free assets than BOK. For minimization of investment risk, BOK should divert its investment in govt. securities.
5. The loan and advances to total deposit ratio of BOK has continuously increasing where as NSBIL has fluctuating decreasing form. BOK has higher ratio than that of NSBIL. It indicates the better mobilization of deposit by BOK as loan and

- advance. It reveals that the deposit of BOK utilized quickly as loan and advances to earn income.
6. Both BOK and NSBIL both the banks have fluctuating form of total investment to total deposit ratio. The mean ratio of the BOK and NSBIL are 19.25% and 36.92% respectively, which shows that NSBIL has a higher ratio. It signifies NSBIL utilized its deposit as investment. NSBIL has successfully allocated its deposit in investment portfolio.
 7. The loan and advances to total assets ratio BOK has constant and NSBIL has decreasing. The average ratio of BOK is higher ratio than NSBIL. It reveals that in total assets of BOK has high proportion as loan and advances than NSBIL. BOK has utilized its total assets more efficiently in the form of loan and advances. The BOK has more uniformity in ratios than NSBIL due to lower C.V. of BOK.
 8. The investment on government treasury bills to total assets BOK and NSBIL have fluctuating. The mean ratio of BOK and NSBIL are 13.04% and 13.732% respectively. The ratio of NSBIL has little higher than BOK. It means NSBIL has invested more assets in risk free assets than BOK. In another words BOK has emphasized more on lending and other short-term investment than investment in govt. securities.
 9. The return on loan and advances ratio of BOK has increasing whereas NSBIL has fluctuating form. This both banks show the normal earning capacity in loan and advances and same earning capacity in form of loan and advances but comparatively BOK has high. The average ratio of BOK is higher than NSBIL. Which indicate that return from loan and advance of BOK is higher than NSBIL. BOK has utilized the loan and advance for the profit generation in earning capacity.
 10. The return on total assets of BOK has increasing and NSBIL has decreasing form of return on its total assets. The BOK seems successful in managing and utilizing the available assets in order to generate revenue in increasing form. The ROA of BOK is 2.143% of total assets in an average which is higher than that of NSBIL of 1.266 percent.

11. Return on equity ratio of BOK constant whereas NSBIL have fluctuating. The highest ratio of BOK is 26.93% and lowest ratio is 24.58%. Similarly highest ratio of NSBIL is 21.91% and lowest ratio is 15.99%. The average mean ratio of BOK has higher mean ratio than that of NSBIL. So BOK is generating higher ROE in comparison with NSBIL. The investors of BOK are getting higher return than NSBIL.
12. BOK and NSBIL banks have increasing total interest earned to total asset ratio, which indicate both banks doing well in interest earning. The mean ratio of BOK is more than that of NSBIL. BOK seems effective in interest earning ratio despite having lower asset and interest earning. BOK also has higher uniformity in the ratios during the study period. Both bank doing well due to increasing its interest earnings.
13. The interest earned to total outside assets ratio of both bank BOK and NSBIL are in increasing during the study period. The mean ratio of BOK and NSBIL are 8.259% and 6.562% respectively. Here BOK seems to have more efficiency in generating total interest through well utilizations of outside assets. It also has relatively consistency in returns as well.
14. Interest earned to operating income ratio of BOK and NSBIL banks have increasing its ratio of from fiscal year 2007/08. The BOK has greater share of total interest earn in its total operating income beside first year and mean too. The higher ratio of BOK indicates the high contribution in operating income made by lending and investing activities (core banking activity). The ratio of BOK is more inconsistency than NSBIL.
15. The interest paid to total asset ratio of BOK and NSBIL both banks have increasing condition. The mean ratio of BOK and NSBIL has 3.242 and 3.326 percent. The mean ratio of NSBIL is more than that of BOK. NSBIL seems ineffective in getting cheaper fund from the mean point of view. However, BOK has been conscious in each year for getting cheaper fund as it has decreased ratio in each year whereas NSBIL has less conscious in each year.
16. The credit risk NPL to total loan and advances of BOK and NSBIL are in decreasing where as BOK is increasing at last. Decreasing trend is the good sign

- of efficient credit management. The mean ratio of BOK and NSBIL are 1.839% and 2.982%. These ratios indicate the more efficient operating of credit management of both banks according to NRB directives. However, NSBIL is more efficient at operating credit management than BOK due to aggressively decreasing its credit risk.
17. The liquidity risk cash and bank balance to total deposits ratio of the BOK and NSBIL are in fluctuating. The average mean ratio of BOK is little greater than that of NSBIL (i.e. 9.725 > 9.034%). It signifies that BOK has sound liquid fund to make immediate payment to the depositors.
 18. The asset risk non-performing asset to total outside asset ratio of NSBIL is decreasing trend where as BOK is increasing at last. Decreasing trend is the good sign of efficient asset management. The average asset risk ratio of BOK and NSBIL are 1.471% and 2.138%. These ratios indicate the more efficient operating of asset management of both banks. In comparison, NSBIL is more efficient in asset management than BOK.
 19. The earning price per share BOK and NSBIL have fluctuating form. The average EPS of BOK and NSBIL are 49.142 and 30.48. The EPS of BOK seems higher than NSBIL, which indicate successful to generating higher EPS in each year and in average too. It is quite satisfying to state that BOK has been able to maximizing shareholder wealth from the view point of EPS. But it is decreasing trend which forecast bad performance in future.
 20. The dividend per share of BOK and NSBIL are fluctuating. The dividend per share of BOK is higher than NSBIL. Average dividend per share of BOK is higher than that of NSBIL (i.e. 34.846 > 31.175) percent. It can be concluded shareholder of BOK having higher dividend than that shareholder of NSBIL.
 21. Market price of the share of both bank BOK and NSBIL has decreasing its share price from second fiscal year. This tends low performance and expectation from company. The highest MPS of BOK is 2350 and lowest is 570 similarly highest MPS of NSBIL is 1900 and lowest is 565. Average mean price of BOK is greater than that of NSBIL i.e. 1392 > 1178.6 Rupee. It indicates that shareholder of BOK are getting higher price.

22. The price earning ratio of BOK and NSBIL are decreasing from F/Y 2007/08. The mean ratio of the BOK and NSBIL are 27.299 and 37.95 times. It indicates that for getting Rs 1 as earning, it should invest Rs 27.299 in BOK and Rs 37.95 in NSBIL. In short run, investors of NSBIL are getting better profitability because they are selling their shares in high price. But from the long term view and sustainable fair price, investors of NSBIL have getting better price of its stock. So price of BOK is low and safe side a little bit in comparison with NSBIL.
23. The coefficient of correlation between deposits and loan and advances of BOK and NSBIL are 0.999 and 0.981. Both banks have positive relationship between these two variables. BOK has highly correlated than NSBIL. The relationship between deposits and lending of BOK and NSBIL are significant.
24. The correlation between total deposit and total investment of BOK and NSBIL are 0.59 and 0.991. The correlation of BOK has normal and NSBIL has higher. This indicates that NSBIL is successful to invest its deposit in proper way. The relationship between total deposit and total investment of BOK is insignificant whereas significant relationship of NSBIL.
25. The correlation between loan & advance and net profit of BOK and NSBIL are 0.984 and 0.967. It is positive correlation between these two variables. BOK has 96.82 percent of net profit is contributed by lending as its coefficient of determination is 0.9682. The coefficient of determination 0.935 indicates that 93.5 percent which is explained by Loan and advance of NSBIL. Both bank BOK and NSBIL have significant relationship between loan and advance and net profit.
26. The correlation between total investment and net profit of BOK and NSBIL are 0.689 and 0.603. Both banks have moderate positive correlation but BOK has little higher. Both banks BOK and NSBIL have insignificant relationship. Thus it can be concluded that the degree of relationship between total investment and net profit of NSBIL is poor than the BOK.
27. The correlation of total deposit between BOK and NSBIL is positive. The 0.950 of correlation coefficient shows that there is highly positive correlation between these two banks in this regard. The relation is also significant because the correlation coefficient is high than 6 P Err. As the 0.9022 of coefficient of

- determination, this shows the 90.22 percent of the degree of relationship. This all indicate that total deposit of both banks moves same direction.
28. There is positive correlation between BOK and NSBIL in case of loan and advance by 0.966. It implies that the loan and advance of BOK and NSBIL move in the same direction but not proportionately. The correlation coefficient is significant. But correlation between loan and advances of BOK and NSBIL is highly positive. It means loan and advances of these two banks moves in same direction in high proportion. The relationship between loan and advances of these two banks is significant.
 29. There is positive correlation between net profits of BOK and NSBIL which is indicated by correlation coefficient of 0.936. This table shows how the net profit of BOK and NSBIL interrelated. The coefficient of determination is 0.8762 which shows the 87.62 percent of the degree of relationship. This relationship between net profits of BOK and NSBIL is significant.
 30. The trend of total deposit of BOK and NSBIL banks is increasing trend. The rate of increment of total deposit for NSBIL seems to be higher than that of BOK. The trend analysis shows that NSBIL has higher position in collecting deposit than BOK. Similarly the trend of loan and advances between BOK and NSBIL also increasing trend. The increasing trend of NSBIL is higher and aggressive than BOK. It is clear that both BOK and NSBIL are mobilizing its collected deposits and other funds in the form of loan and advances but NSBIL has little higher. The trend projected to further five year F/Y 2015/16.
 31. The trends of investment of BOK and NSBIL have increasing. BOK has little increasing but NSBIL has highly increasing trend. The forecasted trend of NSBIL has greater increment rate in total investment than BOK. NSBIL has aggressively mobilized the total investment rather than BOK. Similarly the trend of Net profit of BOK and NSBIL are increasing trend. The trend of increasing value of net profit of BOK is higher than NSBIL. The net profit of BOK and NSBIL has been increasing every year by Rs. 83.366 and Rs. 56.327 million respectively. The increment rate of net profit of BOK is little higher than NSBIL. Although both BOK and NSBIL have increasing trend.

CHAPTER – V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This research has been undertaken to evaluate the financial position analysis of commercial banks. The research is about the study on financial position of BOK and NSBIL. In this chapter, summary conclusion and recommendation are included. All the summary and conclusion are made according to obtained data from analysis..

5.1 Summary

This research has been study of financial position of commercial banks. Two banks have been selected as sample of the study and five year financial statements of respective banks have been used for the study. The study has been divided into five chapters which include introduction, review of literature, research methodology, data presentation and analysis and summary, conclusion and recommendation. This study mainly based in secondary data, with include published annual report and other publication of banks. Other related information were collected from the concerned banks, NRB, NEPSE, Securities Board of Nepal and different websites. The data have been analyzed by using financial and statistical tools.

The research is about comparative financial position analysis of BOK and NSBIL banks. The researcher has identified that research problem and set objectives to solve research problems about financial analysis of selected commercial banks as described in introduction chapter. The main objective of the study is to analyze the financial position, of sample banks. The specific objectives of the study are to present the existing financial position, strength, financial performance and analyze the liquidity, asset and profitability ratio and lending efficiency ratio of BOK and NSBIL offer suitable suggestions. There related literatures have been reviewed for more effective. This section includes conceptual review and review of related studies. In conceptual review includes concept of banks, financial statement, financial analysis, need and objective of financial analysis, process, significance of financial analysis. In the review of related studies includes review of books, journal and articles and review of previous thesis as well.

Research methodology has been described in third chapter, which is a way to solve the research problems with the help of various tools and techniques. This chapter includes the various financial as well as statistical tools to analyze the data. This chapter includes the research design, population and sample data collection procedure, data period covered and methods of analysis. These studies is mainly conducted on the basis of secondary data collected from annual reports of concern bank, official report, economic journal, financial statement etc.

The presentation and analysis of data has been made comparative analytical and their interpretation has done in chapter four by applying the wide varieties of methodology as stated in chapter three. It includes the various financial and statistical tools. In case of financial tools ratio analysis is done which consists current ratio, liquidity ratio, assets management ratio, profitability ratio, risk ratio and other ratios. Other ratio includes EPS, DPS, MPS and P.E. ratio. Various statistical tools such as arithmetic mean, standard deviation, coefficient of correlation, regression analysis and trend analysis, have been applied to fulfill the objective of this study. The analysis has been done mainly through secondary. The major findings of the study are also included in the final section of the presentation and analysis chapter.

Financial performance analysis involves the use of various financial statements. These statements perform several things like the balance sheet, summarizes the assets, liabilities and owner's equity, the income statement summarizes the revenues and expenses of the firm over a particular period of time. Financial Analysis is used primarily to gain insight into operating and financial problems confronting the firms with respect to these problems. We must be careful to distinguish between the cause of problem and symptom of it. It is thus an attempt to direct the financial statements into their components on the basis of purpose in the one hand and establish relationships between these components and between individual components and totals of these items on the other. Along with this, a study of various important factors over the past several years is also undertaken to have clear understanding of changing profitability and financial condition of the business organization.

For this, financial performance of commercial banks have to pay due consideration while investment, mobilization of fund and use of resources. A healthy development of any commercial bank depends upon its financial performance. A good financial performance of a bank attracts both the borrowers and the lenders, which helps to increase the volume of quality deposits and investment.

5.2 Conclusion

This research is conducted with the major objective of highlighting financial analysis of BOK and NSBIL. Here make analyze the financial analysis in terms of relevant financial and statistical ratios. Following conclusion has been drawn from the study.

For the analysis of liquidity position, the current ratio of BOK and NSBIL has fluctuating form. The average current ratio of BOK and NSBIL are 1.055 and 1.232. The liquidity position of NSBIL is higher than BOK. Although both banks have sound liquidity position because the ratio is more than 1:1 ratio. The average cash and bank balance to total deposit ratio of BOK has little higher ratio than the NSBIL, which shows its greater ability to pay depositors money and cash and bank balance to current assets ratio of BOK and NSBIL are fluctuating. The higher mean ratio shows that BOK's liquidity position is better than that of NSBIL. The investments on government securities to current assets ratio of BOK and NSBIL have fluctuating. It means NSBIL has invested more money in risk free assets than BOK.

The loan and advances to total deposit ratio of BOK has increasing where as NSBIL has fluctuating decreasing form. BOK has higher ratio so better mobilization of as loan and advance. The average loan and advances to total assets of BOK is higher ratio than NSBIL. It reveals that in total assets of BOK has high proportion as loan and advances than NSBIL. The investment on government treasury bills to total assets BOK and NSBIL have fluctuating. NSBIL has invested more assets in risk free assets than BOK. The return on loan and advances ratio of BOK has increasing whereas NSBIL has fluctuating form. This both banks show the normal earning capacity in loan and advances and same earning capacity in form of loan and advances but comparatively BOK has

high. The return from loan and advance of BOK is higher than NSBIL so BOK has utilized the loan and advance for the profit generation in earning capacity. The return on total assets of BOK has increasing and NSBIL has decreasing form. The ROA of BOK is 2.143% of total assets in an average which is higher than that of NSBIL of 1.266 percent. Return on equity ratio of BOK constant whereas NSBIL have fluctuating. The average mean ratio of BOK has higher mean ratio than that of NSBIL. So investors of BOK are getting higher return than NSBIL. Total interest earned to total asset ratio BOK and NSBIL have increasing, which indicate both banks doing well in interest earning. The interest earned to total outside assets ratio also increasing. Interest earned to operating income ratio of BOK and NSBIL banks have increasing its ratio of from fiscal year 2007/08. The higher ratio of BOK indicates the high contribution in operating income made by lending and investing activities or core banking activity. The interest paid to total asset ratio of BOK and NSBIL have increasing. The mean ratio of NSBIL is more than that of BOK. NSBIL seems ineffective in getting cheaper fund than BOK.

The credit risk NPL to total loan and advances of BOK and NSBIL are decreasing where as BOK is increasing at last. There is efficient operating of credit management of both banks according to NRB directives. NSBIL is more efficient at operating credit management than BOK due to aggressively decreasing its credit risk. The liquidity risk ratio of the BOK and NSBIL are in fluctuating. The average ratio of BOK is little greater than that of NSBIL. It signifies that BOK has sound liquid fund to make immediate payment to the depositors. The asset risk of NSBIL is decreasing trend where as BOK is increasing at last. Decreasing trend is the good sign of efficient asset management. These ratios indicate the more efficient operating of asset management of both banks. In comparison, NSBIL is more efficient in asset management than BOK.

The earning price per share BOK and NSBIL have fluctuating form. The EPS of BOK seems higher than NSBIL, which indicate successful to generating higher. The BOK has been able to maximizing shareholder wealth from the view point of EPS. The dividend per share of BOK and NSBIL are also fluctuating. The dividend per share of BOK is higher than NSBIL which indicate the shareholder of BOK having higher dividend than

that shareholder of NSBIL. Market price of the share of both bank BOK and NSBIL has decreasing from. This tends low performance and expectation from company. The highest MPS of BOK is 2350 and lowest is 570 similarly highest MPS of NSBIL is 1900 and lowest is 565. Average mean price of BOK is greater than that of NSBIL. It indicates that shareholder of BOK are getting higher price. The average price earning ratio of BOK and NSBIL are 27.299 and 37.95 times. It indicates that for getting Rs 1 as earning, it should invest Rs 27.299 in BOK and Rs 37.95 in NSBIL. The investors of NSBIL have getting better price of its stock. So price of BOK is low and safe side a little bit in comparison with NSBIL.

In the aspect of statistical analysis, the correlation between deposits and loan and advances of BOK and NSBIL are positive. The relationship of BOK and NSBIL are also significant. The correlation between total deposit and total investment of BOK and NSBIL are 0.59 and 0.991. The correlation of BOK has normal and NSBIL has higher. The relationship between total deposit and total investment of BOK is insignificant whereas significant relationship of NSBIL. The correlation between loan & advance and net profit of BOK and NSBIL are highly positive. There is significant relationship between loan and advance and net profit. The correlations between total investment and net profit of BOK and NSBIL banks have moderate positive correlation but BOK has little higher. Both banks BOK and NSBIL have insignificant relationship. The correlation of total deposit between BOK and NSBIL is positive by 0.950. The relation is also significant because the correlation coefficient is high than 6 P Err. There is 90.22 percent of the degree of relationship. There is positive correlation between BOK and NSBIL in case of loan and advance by 0.966. The correlation coefficient is significant. It means loan and advances of these two banks moves in the same direction in high proportion. There is positive correlation between net profits of BOK and NSBIL by 0.936. This relationship is also significant. The trend of total deposit of BOK and NSBIL banks has increasing trend. The rate of increment of total deposit of NSBIL is higher than BOK. NSBIL has higher position in collecting deposit. Similarly, the loan and advances of BOK and NSBIL are also increasing trend. The increasing trend of NSBIL is higher and aggressive than BOK. Both BOK and NSBIL have mobilizing its funds in the form of

loan and advances. The trends of investment of BOK and NSBIL have increasing. The forecasted trend shows NSBIL has greater increment rate in total investment than BOK. NSBIL has aggressively mobilized the total investment rather than BOK. The trend of Net profit of BOK and NSBIL are also increasing trend. The trend of increasing value of net profit of BOK is higher than NSBIL. The net profit of BOK and NSBIL has been increasing every year by Rs. 83.366 and Rs. 56.327 million respectively. The increment rate of net profit of BOK is little higher than NSBIL. Although both BOK and NSBIL have increasing trend. In this way in aggregate financial position of BOK is higher than NSBIL.

5.3 Recommendation

Based on the analysis and finding of the study, the following recommendations can be made as suggestions to make the financial analysis BOK and NSBIL effective and efficient. This would help to draw some outline and make reform in the respective banks.

-) Generally, banks have to maintained liquid assets. The current ratio of the two banks, BOK and NSBIL is considerable. This can be regarded as good liquidity position. Because both bank have more than 1:1 ratio. This can be regarded as good liquidity position. The liquidity position affects external and internal factors such as prevalent investment situations, central bank requirements and so on. So, it is recommended to maintain sound liquidity position to BOK and NSBIL.
-) Government securities such as Treasury bills, Development bonds, saving certificates etc. are risk less investment alternatives because they are free of default risk as well as liquidity risk and can be easily sold in the market. In this research study, it has found that both banks BOK and NSBIL have made some amount of fund in Government securities. But its recommended to BOK invests more funds in Government securities instead risky lending.
-) Considering the growth position of financial market, the lending policy management capabilities, strategic planning and fund flow situation, bank should maintain enough liquid assets to pay short-term obligations. So, it is recommended to maintain sound liquidity position to BOK and NSBIL.

-) To get success in competitive banking environment, deposit must be utilized as loan and advances. The largest item of bank assets side is loan and advances. It has been found that loan and advances to total deposit ratio of BOK is lower than that of NSBIL. It means BOK has not properly used their existing fund as loan and advances. So BOK is recommended to follow liberal lending policy and to invest more deposit in loan and advances.
-) The NPL of BOK and NSBIL are in decreasing where as BOK is increasing at last. Decreasing trend is the good sign of efficient credit management. The mean ratio of BOK and NSBIL are 1.839% and 2.982%. These ratios indicate the more efficient operating of credit management of both banks according to NRB directives. However, both bank recommended to reduce its nonperforming loan specially for BOK which has increasing at present year.
-) EPS and DPS play a vital role to determine the market price of the share and also indicate the financial performance of banks. Higher EPS and DPS indicate the banks' sound financial position that would help them satisfy their stakeholders. So both bank recommended to increase in this regards.
-) Interest earning is main source of bank. The interest paid to total assets of NSBIL is higher than BOK. The mean ratio of NSBIL is more than that of BOK. NSBIL seems ineffective in getting cheaper fund. However, BOK has been conscious in each year for getting cheaper fund, whereas NSBIL has less conscious in each year. So it is recommended to be conscious about borrowing cheaper fund.
-) Both the banks are recommended to formulate and implement the sound and effective investment policy to increase volume of total investment and loan and advances that helps to meet required level of profitability as well as social responsibility. The banks should consider rural areas in making investment policy.
-) Banks should develop an innovative approach to marketing and formulate new strategies of serving customers in a more convenient and satisfactory way by optimally utilizing the modern technology and offering new facilities to the

customers at competitive prices. Banks are also required to explore new market areas. For this purpose, it is recommended to form a strong market department in central level, which deals with the banking products, places, price and promotion.

-) Political instability directly affected the economic sector such as hotel and tourism, manufacturing and trading sector. Bank loan and advances are decreasing in this sector. So banks should give priority to these sectors as well as create new investing sector to mobilize deposit.
-) In conclusion, BOK has better performance than NSBIL. NSBIL however has been showing significant improvement, Whereas BOK has constant. So both banks should keep up with its growth trend to give strong competition to other banks. In the light of growing competition in the banking sector, both bank BOK and NSBIL should be customer oriented. It should strengthen and activate its marketing function as it is an effective tool to attract and retain the customers.

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Appendix - 1

A. Calculation of Total Deposit of Bank of Kathmandu

Year(x)	Total deposit(Y)	X = x – 2008/09	X ²	XY
2006/07	12388.93	-2	4	-24777.9
2007/08	15833.74	-1	1	-15833.7
2008/09	18083.98	0	0	0
2009/10	20315.83	1	1	20315.83
2010/11	21018.42	2	4	42036.84
Tot n= 5	Y = 87640.9	X = 0	X ² = 10	XY = 21741.07

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where x = X - Middle year

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum XY}{\sum X^2}$$

Here, BOK

$$a = 17528.18$$

$$b = 2174.107$$

$$Y_c = 17528.18 + 2174.107 * X \text{ BOK}$$

B. Trend Analysis of Nepal SBI Bank Limited

Year(x)	Total Deposit(Y)	X = x-2008/09	X ²	XY
2006/07	11445.3	-2	4	-22891
2007/08	13715.4	-1	1	-13715
2008/09	27957.2	0	0	0
2009/10	34896.4	1	1	34896.4
2010/11	42415.4	2	4	84830.9
Tot n= 5	Y = 130430	X = 0	X ² =10	XY = 83121.3

Source: Annul Report of Nepal SBI Bank Limited

Where,

Y = dependent variable

a = Y-intercept

b = slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where x = X - Middle year

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum XY}{\sum X^2}$$

NSBIL

$$a = 26086$$

$$b = 8312.13$$

Where as

$$Y_c = 26086 + 8312.13 * X \text{ of NSBIL}$$

Appendix - 2

A. Calculation of Loan and advances of Bank of Kathmandu

Year(x)	Loan and advances(Y)	X = x – 2008/09	X²	XY
2006/07	9399.33	-2	4	-18798.7
2007/08	12462.64	-1	1	-12462.6
2008/09	14647.3	0	0	0
2009/10	16664.93	1	1	16664.93
2010/11	17468.19	2	4	34936.38
Tot n= 5	Y = 70642.39	X = 0	X ² = 10	XY = 20340.01

$Y = a + bx$

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$Y = a + b x \dots\dots\dots (I)$

Where $x = X - \text{Middle year}$

Here,

$a = \frac{\sum Y}{N}$

$b = \frac{\sum XY}{\sum X^2}$

BOK

$a = 14128.48$

$b = 2034.001$

$Y_c = 14128.48 + 2034.001 * X$ BOK

B. Calculation of Loan and advances of Nepal SBI Bank Limited

Year(x)	Loan and advances (Y)	X = x-2008/09	X ²	XY
2006/07	9460.45	-2	4	-18921
2007/08	12113.7	-1	1	-12114
2008/09	15131.7	0	0	0
2009/10	17480.6	1	1	17480.6
2010/11	21365.8	2	4	42731.5
Tot n= 5	Y = 75552.2	X = 0	X ² =10	XY = 29177.5

Source: Annul Report of Nepal SBI Bank Limited

Where,

Y = dependent variable

a = Y-intercept

b = slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where x = X - Middle year

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum XY}{\sum X^2}$$

NSBIL

$$a = 15110.4$$

$$b = 2917.75$$

Where as

$$Y_c = 15110.4 + 2917.75 * X \text{ of NSBIL}$$

Appendix - 3

A. Calculation of Total Investment of Bank of Kathmandu

Year(x)	Total Investment(Y)	X = x – 2008/09	X ²	XY
2006/07	2992.43	-2	4	-5984.86
2007/08	3204.07	-1	1	-3204.07
2008/09	2783.6	0	0	0
2009/10	3269.2	1	1	3269.2
2010/11	4286.6	2	4	8573.2
Tot n= 5	Y = 16535.9	X = 0	X ² = 10	XY = 2653.47

$$Y = a + bx$$

Where,

Y= dependent variable

a = Y-intercept

b = slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where x = X - Middle year

Here,

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum XY}{\sum X^2}$$

BOK

$$a = 3307.18$$

$$b = 265.347$$

$$Y_c = 3307.18 + 265.347 * X \text{ BOK}$$

B. Calculation of Total Investment of Nepal SBI Bank Limited

Year(x)	Total Investment(Y)	X = x-2008/09	X ²	XY
2006/07	2659.45	-2	4	-5318.9
2007/08	3088.89	-1	1	-3088.9
2008/09	13286.2	0	0	0
2009/10	16305.6	1	1	16305.6
2010/11	18911	2	4	37822
Tot n= 5	Y= 54251.2	X=0	X ² =10	xy = 45719.9

Source: Annul Report of Nepal SBI Bank Limited

$$Y = a + bx$$

Where,

Y = dependent variable

a = Y-intercept

b = slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where x = X - Middle year

Here,

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum XY}{\sum X^2}$$

NSBIL

$$a = 10850.2$$

$$b = 4571.99$$

Where as

$$Y_c = 10850.2 + 4571.99 * X \text{ of NSBIL}$$

Appendix - 4

A. Calculation of Net Profit of Bank of Kathmandu

Year(x)	Net profit	X = x – 2008/09	X ²	XY
2006/07	262.39	-2	4	-524.78
2007/08	361.49	-1	1	-361.49
2008/09	461.73	0	0	0
2009/10	509.63	1	1	509.63
2010/11	605.15	2	4	1210.3
Tot n = 5	Y = 2200.39	X = 0	X ² = 10	XY= 833.66

$$Y = a + bx$$

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where x = X - Middle year

Here,

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum XY}{\sum X^2}$$

BOK

$$a = 440.078$$

$$b = 83.366$$

$$Y_c = 440.078 + 83.366 * X \text{ BOK}$$

B. Calculation of Net Profit of Nepal SBI Bank Limited

Year(x)	Net Profit (Y)	X = x-2008/09	X ²	XY
2006/07	254.91	-2	4	-509.82
2007/08	247.77	-1	1	-247.77
2008/09	316.37	0	0	0
2009/10	391.74	1	1	391.74
2010/11	464.56	2	4	929.12
Tot n= 5	Y = 1675.35	X = 0	X ² =10	XY = 563.27

Source: Annul Report of Nepal SBI Bank Limited

Where,

Y = dependent variable

a = Y-intercept

b = slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where x = X - Middle year

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum XY}{\sum X^2}$$

NSBIL

$$a = 335.07$$

$$b = 56.327$$

Where as

$$Y_c = 335.07 + 56.327 * X \text{ of NSBIL}$$