COMPARATIVE STUDY ON FINANCIAL PERFORMANCE OF BANK OF KATHMANDU AND HIMALAYAN BANK LIMITED

By:

KAMAL KHATRI

Roll No: 1336/062

TU Regd. No. 7-2-39-219-2002

Shanker Dev Campus

A proposal Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

In partial fulfillment of the requirement for the degree of

Master of Business Studies (M.B.S.)

Kathmandu, Nepal

September, 2011

VIVA - VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by

By:

KAMAL KHATRI

Entitled

COMPARATIVE STUDY ON FINANCIAL PERFORMANCE OF BANK OF KATHMANDU AND HIMALAYAN BANK LIMITED

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.)

<u>Viva-Voce Committee</u>

Head of Research Department ……………………………

Member (Thesis Supervisor): ……………………………..

Member (Thesis Supervisor): ……………………………..

Member (External Expert): ……………………………..

RECOMMENDATION

This is to certify that the thesis:

Submitted by

KAMAL KHATRI

Entitled

COMPARATIVE STUDY ON FINANCIAL PERFORMANCE OF BANK OF KATHMANDU AND HIMALAYAN BANK LIMITED

Has been prepared as approved by this department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

______________ ______________________________ __________________________

As.Prof. Prakash Singh Pradhan Prof. Bisheshwor Man Shrestha Prof. Dr. Kamal Deep Dhakal _________ (Thesis Supervisor) (Head of Research Department) (Campus Chief)

____

Dhruba Subedi

(Thesis Supervisor)

DECLARATION

I hereby declare that the work reported in this thesis entitled " COMPARATIVE STUDY ON FINANCIAL PERFORMANCE OF BANK OF KATHMANDU AND HIMALAYAN 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 Prakash Singh Pradhan associate professor and Dhruba Subedi lecturer of Shanker Dev Campus.

Researcher

Kamal Khatri

1336 / 062

ACKNOWLEDGEMENT

This entitled thesis Entitled "COMPARATIVE STUDY ON FINANCIAL PERFORMANCE OF BANK OF KATHMANDU AND HIMALAYAN BANK LIMITED has been prepared for the partial fulfillment of the requirement of Master's Degree of Business Studies (M.B.S) under the Faculty of Management, Tribhuvan University, is based on research models involving the use of quantitative as well as qualitative aspect of Financial Analysis.

I wish to extend my deep sense of indebtedness to my thesis supervisors Mr. Prakash Singh Pradhan Associate Professor & Mr. Dhruba Subedi lecturer of Shanker Dev College, who provided me valuable guidelines, insightful comments, encouragement and generous treatment to complete this thesis. Similarly, I also extremely indebted to all the lecture of Shankar Dev Campus, who encourages me in my entire academic attempt.

I express my heartfelt gratitude to my parents and all my family members as well as all friends and colleagues. Without their cordial cooperation this work could have been very difficult for me. Similarly, at last special thanks goes to Mr. Ram Limbu and Miss Dichhya Amatya to help me to every step of thesis work.

Thank You.

Kamal Khatri

LIST OF TABLES

LIST OF FIGURES

TABLE OF CONTENT

ABBREVIATION

ADB	Agricultural Development Bank
AGM	Annual General Meeting
BOK	Bank of Kathmandu Limited
BPS	Book-value Per Share
BS	Bikram Sambat (Abbreviation of Bikram Era)
CEO	Chief Executives Officer
CV	Coefficient of Variation
DPS	Dividend per Share
EBL	Everest Bank Limited
EPS	Earning Per Share
GDP	Gross Domestic Product
HBL	Himalayan Bank Limited
G/N	Government of Nepal
IMF	International Monetary Fund
MBL	Machhapuchre Bank Limited
MPS	Market Price of Share
NABIL	Nabil Bank Limited
NBL	Nepal Bank Limited
NEPSE	Nepal Stock Exchange
NIB	Nepal Investment Bank Limited
NICB	Nepal Industrial & Commercial Bank Limited
NPV	Net Present Value
NRB	Nepal Rastra Bank
PE	Price Earnings
RBB	Rastra Banijya Bank
SBI	Nepal State Bank of India Limited
SCBNL	Standard Chartered Bank Nepal Limited
SEBO/N	Security Board of Nepal

CHAPTER – I

INTRODUCTION

1.2 Background of the Study

Nepal is one of the least developed countries characterized by high population growth rate, low per capita income, and low rate of capital formation having unlimited resources. Therefore, Nepal like other developing countries has been facing the problem of accelerating the pace of economic development and Nepal is not the exception.

A sound banking system is a precondition for healthy economy and economic policy formulation. An efficient banking system becomes a top priority as country moves toward free market economy which allows private sectors saving to be retained in the country for the promotion of investment needed for the growth

The establishment of banking industry is relatively recent in Nepal. Some crude bank operations were in practice even in the ancient times. According to historical record, the king of Katmandu, Guna Kama Dev, borrowed money to reconstruct his kingdom in 723 AD. A merchant named 'Shankhadhar' paid all the debts of the people and 'Nepal Sambat' (Nepal Era) was established for the remembrance of that occasion in 880 AD. Likewise, Jayasthiti Malla classified the people in 4 classes and 64 castes by their occupations. One of those castes, which were engaged in money lending business at the time, was called 'Tankadhari'. All these descriptions serve as evidence of prevalence of money lending and borrowing practices in Nepal.

"Before 1842 BS, the local 'goldsmith' and 'money lenders' participated in general type of economic activities by collecting valuable metals from the public. Gradually, it evolved as 'Tejaratha Adda' under the prime minister ship of Ranodeep Singh" (Bhushal; 2055: 41).

During the prime minister ship of Ranodeep Singh (1877-1885 AD) '*Tejaratha Adda*' was established as the first financial institution of the country. At the beginning, only government staff was allowed to take loan at 5% interest rate. Later on, the general public was also allowed to take the loan at the same rate of interest with gold and silver ornaments as security of collateral. The credit facilities of '*Tejaratha Adda'* were also extended outside the valley during the prime minister ship of Chandra Shamsher.

Although this institution did not accept any deposits, it had played an important role in the development process of banking system in Nepal.

The main defects of this institution were: there was no further financial institution set-up and there was no effort to expand the services. Above all of the defects, this institution did not accept any deposit from the public. In the absence of saving-mobilization, the 'Adda' faced financial problems, making it impossible to cater to the credit and services need of general population throughout the country. After that, again for a long time, several unorganized bankers and indigenous moneylenders continued to flourish as the sole provider of credit and services to the general public.

At the same time, the government started trade with India and Tibet. Following it, various indigenous bankers started handling even trade because huge transfer of the money could safely be made only through these bankers in the absence of modern banking institutions. Hence, the need of banking institution was realized. This was even strongly supported by the situation caused by 1934 AD's earthquake, where there was a need of finance for the reconstruction.

In Nepal, commercial banking started with the establishment of Nepal Bank Limited under the Nepal Bank Act, 1993 BS. Majority of authorized capital (i.e. 51%) was contributed by the government and the remaining (49%) by the public. It was established in 1994 BS. There was a political revolution in 2007 BS. Solid and even more important event took place in the 14th of Baisakh, 2013 BS because a central bank, Nepal Rastra Bank (NRB), was established with Rs. 1 Crore authorized capital under the Nepal Rastra Bank Act, 2012. Besides the central banking functions, it has a heavy burden to develop the whole economy, such as giving timely direction to all the financial institutions, to help and industry by mobilizing its capital, to issue shares and debentures, to promote the banking habit and transactions, and to fix the exchange rate with foreign currency.

The gradual development of commercial banks moved in parallel with the economic liberalization policy of the government that caused the establishment of more commercial banks. The financial policy of the government welcomed the establishment of JVBs. Such sort of commercial banks are established under the Commercial Bank Act 2031 BS and registered with the recommendation of the NRB. Nepal Bank Ltd (NBL) and Rastriya Banijya Bank (RBB) are the only commercial banks established before 2041 BS. Nepal Arab Bank (NAB) was the first bank in Nepal to be established as a JVB. The number or JVB has significantly increased after liberalization of economic policy of the government following restoration of democracy in 2046 BS. Foreign banks have the dominant role in managing the JVBs in Nepal as they hold majority of shares. These banks have been investing their capital in manufacturing industry, trading business, hotel, textile and medicine. The banks have their objectives to serve in financial sector in spite of its main objectives of making profit, which is a positive aspect.

1.1.1. Concept of Commercial Banks

"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."(Grywinshki; 1993:87).

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."

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.

"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." (Jauch & Glueck; 1998:232).

"A joint venture is the joining of forces between tow or more enterprises for the purpose of carrying out a specific operation (Industrial or commercial investment, production and trade)" (Gupta; 1984:15).

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.

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 25 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." (Lindgren; 1996:28).

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.

1.1.2. Role of the Commercial Banks

The entry of JVBs in Nepal has taken the concept of banking to a new level. The Nepalese people have been able to benefit from the state of the art and customized services these banks have to offer. There is no doubt that JVBs have become the choice of people when it comes to banking. And since the industry is still relatively growing, a lot can be achieved in the years to come.

"Joint venture banks are already playing a dynamic and vital role in the economic development of the country. This will undoubtedly increase with the passage of time." (Chopra; 2056:2).

"Joint venture banks are successful not only in penetrating the market but also consolidating their position over the years. It is due to its customer orientation and strong marketing strategy" (Thakur; 2056:81).

In order to specifically point out the roles, it can be presented as under;

Healthy Competition: The induction of joint venture banks also brings the benefit of healthy competition. The competition would force the domestic banks; Nepal Bank Ltd. and Rastriya Banijya Bank to improve their services and efficiency.

Foreign Investment: Foreign investment is one of the important aspects for the development of the country. When looking at the possibility of investing in Nepal, multinational companies are unfamiliar with the local companies to build up their confidence for investment by providing necessary information and financial support.

New Banking Techniques: Modern banking services are being provided to Nepalese financial system by new JVBs. New banking techniques such as tele-banking, computerization, Automated Telling Machines, Debit Cards and Credit Cards are the important contribution of JVBs to the gradual changing commercial banking scenario.

1.2. Focus of the Study

Nepal's entry into privately and publicly owned commercial/joint venture banks is relatively new compared to other countries. It can be said that the poor performance of Nepalese commercial banks as well as the national bank owes to the lack of effective policies and measures taken by the government towards the collective improvement of the Nepalese banking sector.

This study focuses on the financial performance of two joint venture banks, viz., BOK and HBL. Ratio analysis has been used to assess the financial strengths and weakness of these banks.

1.3. Statement of the Problem

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. In Nepal, the profitability rate, operating expenses, dividend distribution among the shareholders etc. have been found to be inconsistent. The problem of the study will ultimately find out the reason behind the differences in their financial performance.

The tendency to concentrate JVBs only in urban areas like Katmandu, Biratnagar and Pokhara etc. has raised the certain questions. This state of affairs cannot contribute much to the socio-economic development of the country where 90% of the population lives in the rural areas and 81% of population depends upon agriculture. These JVBs are reluctant to extend their operation in rural areas. Despite the circular of NRB, the central bank of the country, regarding compulsory investment of 10% of their total investment in the rural areas, these banks are inclines to pay fines rather than direct their resources to such less profitable sector. This problem needs to be solved, so that even the small investors in the rural areas can benefit from the services of such banks. Moreover, even the existing branches of the commercial banks in the rural areas do not seem to have been able to mobilize the local resources effectively.

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 like Nepal Arab Bank Ltd (now NABIL), Nepal Grindlays Bank Ltd. (now SCBNL) and Nepal Indo-Suez Bank Ltd. (now NIBL) who 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.

- The present study seeks to explore the efficiency and weakness of BOK and HBL with the help of ratio analysis.
- Thus, this study attempts to answer the following research questions:

- What is the comparative position of two banks in term of liquidity, profitability, turnover, leverage and capital adequacy?
- Is there any difference in financial performance between BOK and HBL?
- How is the liquidity position of the banks?
- What is the overall financial status of banks?

1.4. Objectives of the Study

The overriding objective of this dissertation is to study the financial performance of BOK and HBL. To be more specific, this proposed study keeps the following objectives;

- To present the existing financial position of BOK and HBL
- To examine the relative financial performance of BOK and HBL 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 HBL and BOK.

1.5. Significance of the Study

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. Limitation of the Study

The time was the major limitation of the study. As a partial fulfillment for the degree of Masters of Business Studies.

- The scope of the study is limited within the framework of ratio analysis only. The study doesn't cover other financial performance analysis techniques.
- Reference of Journals and Articles could not be presented due to unavailability of suitable materials.
- Since the study is fully based on the secondary data collected from various sources, their relevancy will depend upon the authenticity of the publishers.
- The study is about only five fiscal year 2004/05 to 2008/09.

1.7. Organization of the Study

This dissertation will be presented in the following order:

Chapter 1: Introduction

in this segment following heading are explained. Background of the study, Focus of the study, statement of the problem, objectives of the study, limitation of the study is also presented in this chapter.

Chapter 2: Review of Literature

Various related books, periodicals, reports and other publications have been studied and reviewed in this part of the dissertation. This chapter broadly consists of two segments-review of conceptual framework and review of previous studies.

Chapter 3: Research Methodology

This segment of the study attempts to explain the methodology of the research undertaken. The chapter contains research design, sources of data, population and sample, method of data collection and analysis.

Chapter 4: Presentation & Analysis of Data

The calculated results of each of the ratios are presented in a tabulated form in this segment of the dissertation. Along with the tabulated data, a graphical presentation is also made along with the findings and interpretations of the calculated figures.

Chapter 5: Summary, Conclusion, and Recommendations

The whole study is summarized and concluded in this final chapter. A list of recommendations derived from the analysis is presented at the end of the chapter.

CHAPTER - II

REVIEW OF LITERATURE

The review of literature basically highlights the existing literature and research work related to the present research being conducted with the view of finding out what had been already explained by the authors and researchers and how the current research adds further benefits to the field of research. This review of literature had been classified into three subgroups as follow.

Conceptual Review

Review of related studies

Reviews of journal and articles

Review of Thesis

2.1 Conceptual Review

2.1.1 Bank

Banking, transactions carried on by any individual or firm engaged in providing financial services to consumers, businesses, or government enterprises. In the broadest sense, banking consists of safeguarding and transfer of funds, lending or facilitating loans, guaranteeing creditworthiness, and exchange of money. These services are provided by such institutions as commercial banks, savings banks, trust companies, finance companies, and merchant banks or other institutions engaged in investment banking. A narrower and more common definition of banking is the acceptance, transfer, and, most important, creation of deposits. This includes such depository institutions as commercial banks, savings and loan associations (more common in the United States), building societies, and mutual savings banks. All countries subject banking to government regulation and supervision, normally implemented by central banking authorities. For further information on central banks and investment banking, see the relevant articles.

2.1.2 Concept of Commercial Bank

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

Banks are business firm; like Frisbee Manufacturer, fast food chains and textbook publishers, bankers buy inputs, message them a bit, burn a little incense, say the magic words, and out pop some output from the oven. If there lick holds, they sell the finished product for more than it costs to buy the raw materials in the first place. For bankers, the raw materials are money.

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 gives 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.

2.1.3 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. The analysis and interpretation of financial statements depend on the nature and type of information available there in" (Panday; 2004: 31).

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" (Khan and Jain; 1993:13).

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"**.**

2.1.4 Financial Performance 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 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 derivate 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; 1998:56).

"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. (Pandey/2004/560). 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" (Metcalf; 1976:157).

"Financial Statement Analysis allows managers, investors and creditors as well as potential investors and creditors to teach 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 bas been improving or deteriorating over time. (Weston/1996:306). 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.

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" (Helfert, 1992:2).

"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”(P. K. Jain;1996:36- 37).

“The Analysis and interpretation of financial statement depicts the actual position of a firm regarding the objectives of that firm within a specified period of time. "Financial appraisal is a process of synthesis and summarization of financial and operative data with a view to get an insight into the operative activities of a business enterprise. It is a technique of X-raying the financial position as well as progress of a concern" as observed by Robert H. Wessel.

“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 J. Fred; 1996:78).

“Financial Performance 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 (P. K.Jain; 1996:37).

2.1.5 Objectives of Financial Performance 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 rea1meaning and significance of financial data,
- The long term liquidity of its fund.

2.1.6 Need of Financial Performance Analysis/ Financial Statement Analysis

The need for the Analysis of financial statement arises in order to address the following questions (Pradhan Radhe Shayam/ "Management of Working Capital"2000: 47-48).

- 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?

2.1.7 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"(Agrawal Govinda Ram/1993:582).

"The parties that are benefited by the results or conclusion drawn from the analysis of financial performance can be numerated as" (Srivastava/ 1993:58-59)

- 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.

2.1.8 Process of Financial Performances 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.

2.1.9 Types of Financial Performance 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"(Man Mohan;1997:356).

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 governmental agencies 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.

2.1.10 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 Fl0w 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 are numerical, there should not be the tendency to regard them as a precise portrayals of a firm true financial status. 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) 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 (Panday/1998: 133).

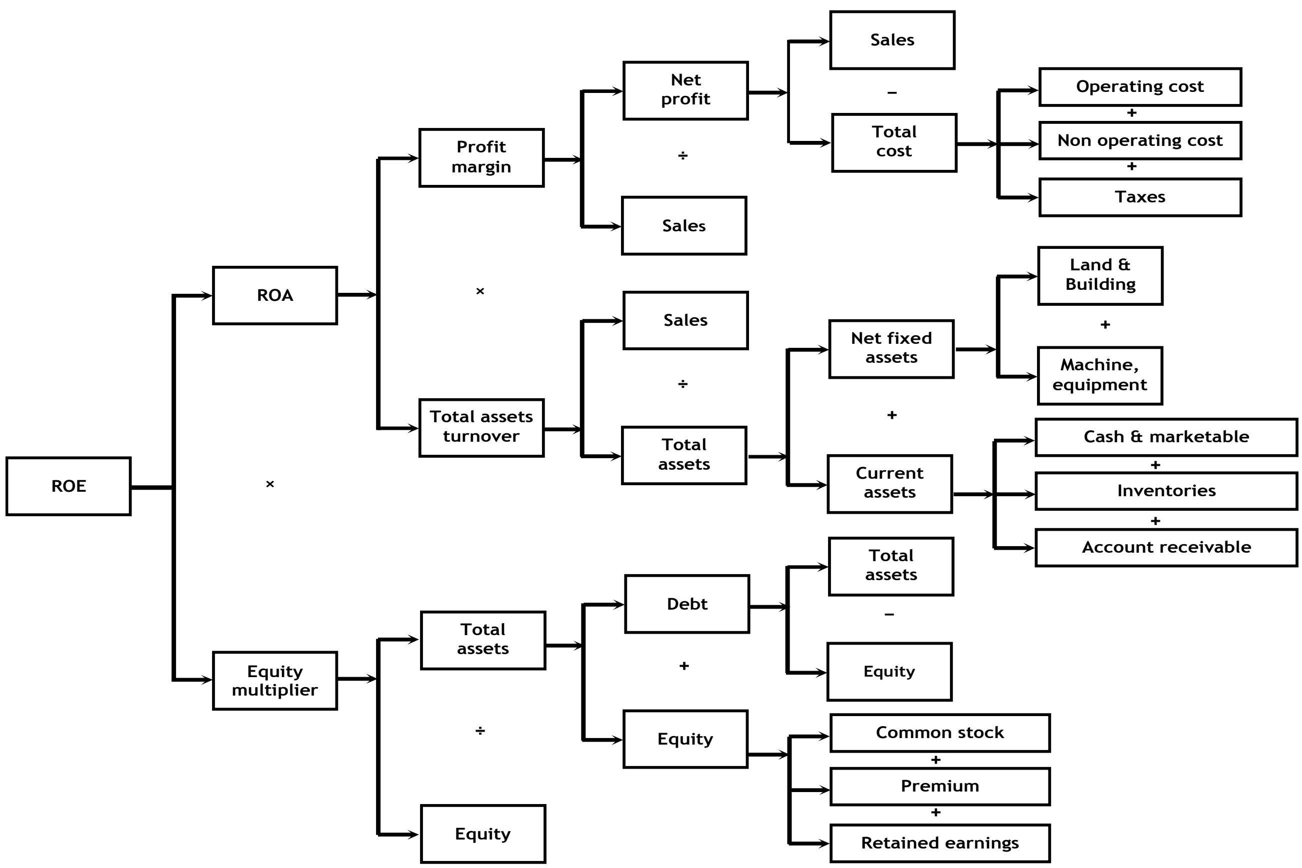
b. Du Pont System of Financial Statement Analysis

“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 2.1

Du Pont System of Financial Analysis



Source: F. Weston and E. F. Brigham. The Dryden Press. 9th Edition, P99.

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:

ROE = ROA x equity multiplier

= profit margin x total assets turnover x equity multiplier

= Net profit/sales x sales/total assets x total assets/ equity

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 it 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 which 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.

2.1.11 Limitations of Financial Performance Analysis

Financial Performance Analysis is of great significance for investor, creditor, management, economist, and other parties having interest in business. It helps management to evaluate its efficiency in past performance and takes decision relating to the future. (Jain, 1989:33) However, it is not free from drawbacks. Its limitations are listed below.

(a) Historical nature of financial statements:

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

(b) No subject for judgment:

Financial analysis is a tool to be used by experts, analysts etc. to evaluate the financial performance of firm. That's why it may lead to faulty conclusion if used by unskilled analyst.

(c) Reliability of figures:

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

(d) Single year analysis is not much valuable:

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

(e) Result may have different interpretation: Different users may differently interpret the result derived from the analysis. For example, a high current ratio may suit the banker but it may be the cause of inefficiency of the management due to under-utilization of fund.

(t) Change in accounting methods:

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

(g) Pitfall in inter-firm comparison:

When different firms are adopting different procedures, records, objectives, policies and different items under similar heading, comparison will be more difficult. If done, it will not provide reliable basis to assess the performance, efficiency, profitability and financial condition of the firm as compared to the whole industry.

(h) Price level change reduces the validity of analysis:

The continuous and rapid changes in the value of money, in the present day, economically also reduces the validity. Acquisition of assets at different level of prices make comparison useless as no meaningful conclusion can be drawn from a comparative analysis of such items relating to several accounting periods.

(i) Selection of appropriate tool

There are different tools of analysis available to the analyst. The tools to be used in a particular situation depend on skill, training, intelligence and expertise of the analyst. If wrong tool is used, it may lead to wrong conclusion. This may be harmful to the interest of business. (Orne and Walchowicz, 1997:120)

2.2 Review of Journal and Articles

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

Thapa, G.B. (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 (Thapa, 1994:29-37).

Pradhan, R.S. (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 (Pradhan, 2003:123-133).

2.3 Review of Thesis

Shrestha, S. (1993) has conducted a study on "*Investment Planning of Commercial Banks in Nepal*" with the objectives:

1. To evaluate the financial performance of commercial banks in Nepal.
2. To examine the investment of commercial banks of Nepal with reference to securities, loans & advances.
3. To establish the relationship of banks' portfolio variables with the national income and interest rates.

The research findings of the study are summarized as:

- The general trend of commercial banks asset holding is growing. Deposits have been a major source of funds. The excess reserve level of the banks allows idle money and loss of opportunity. Debt equity ratios are very high, greater than 100%.

- The return ratios are on the average higher for foreign joint venture banks than for the Nepalese bank but return of asset found to be statistically some. Risk taking attitude is higher in foreign joint venture banks. The total management achievement index is higher in case of foreign banks in comparison to the Nepalese banks.

- The hypothesis that the commercial banks have non –professional style of decision making in investment has been accepted. The investment of commercial banks in shares and securities is normal and not found to have strategic decision towards investment in shares and securities. Yield from the security has been found to be satisfactory.

- Investment in various economic sectors shows industrial and commercial sector taking higher shares of loan till 1990.

- Investment in various sectors has a positive impact on the national income from their respective sectors.

- Lending in priority sector showed cottage and small industry sector sharing higher loans.

- Priority sector lending showed positive impact on the national income.

The secured loan analysis showed commercial loan as being very important followed by social and industrial loans. The loan loss ratio has been found to be increase with low recovery of loan. Demand of bank credit has been found to be affected by the national income and lending and Treasury bill rate. The investment of commercial banks on government securities has been observed to be affected by total deposit, cash reserve requirements and Treasury bill and lending rates. Interest rates, lending rate, deposit rate were found to constitute a set of significant variables affecting the bank portfolio composition (Sherestha, 1993:86).

Tuladhar, U. (2000) conducted a study on "*A study on investment policy of Nepal Grindlays Bank Limited in comparison to other Joint venture Banks of Nepal*" with the objective of:

1. To study the fund mobilization and investment policy with respect to fee-based off – balance sheet transaction and fund based on balance sheet transactions.

2. To study the liquidity, efficiency of assets management and profitability position.

3. To evaluate the growth ratios of loan and advances and total investment with respective growth rate of total deposit and net profit.

4. To perform an empirical study of the customer's views and ideas regarding the existing services and adopted invested policy of the Joint venture banks.

The study is mainly based on secondary data and in some aspects of the study primary data are also collected through questionnaire survey of 100 respondents.
The research findings of the study are as follows:

- From the analysis of primary data concerning in which sector should JVBs invest; 28.37% respondents emphasized on educational sector to be invested by these JVBs as the potential investment sector. Consequently poverty stricken and deprived sector was given second priority (26.24), whereas industrial sector (18.44), tourism sector (16%), agricultural sector (16%) , and construction sector (4.25) are given third, fourth, fifth and sixth priority respectively.

From the analysis of secondary data, following conclusions were drawn:

- Nepal Grindlays Bank Ltd. Has maintained consistent and successful liquidity than NABIL Bank Ltd. and Himalayan Bank Ltd.

- The mean of total investment to total deposits ratio of Nepal Grindlays Bank Ltd. Is higher than the other JVBs. The mean of the loan and advances to total deposits ratio of Nepal Grindlays Bank Ltd. is less and inconsistent than NABIL Bank Ltd. and Himalayan Bank Ltd.

- Loan and advances to working fund ratio of Nepal Grindlays Bank Ltd. was found less than the mean ratio of other banks. Investment on government securities to working fund ratio of Nepal Grindlays Bank Ltd. had the highest mean ratio than NABIL Bank Ltd. and Himalayan Ltd. during the study period.

- It was found that total Off-balance sheet operation to loan and advances ratio of Nepal Grindlays Bank Ltd. is found to be of highest mean ratio than that of NABIL Bank Ltd., and Himalayan Bank Ltd. it means Nepal Grindlays Bank Ltd. used to perform highest off-balance sheet operation than the other two JVBs i.e., used to give priority to provide letter of credit, guarantee and others (e.g. trade finance) excessively than to others. The mean of investment on shares and debentures to total working fund ratio of Nepal Grindlays Bank Ltd. was found less than NABIL Bank Ltd. but higher than Himalayan Bank Ltd.

- The profitability position of Nepal Grindlays Bank Ltd. is higher than NABIL Bank Ltd. and Himalayan Bank Ltd. as well as it use to provide interest to the customers for different activities consistently. The volume of growth ratio of loan and advances of Nepal Grindlays Bank Ltd. is found higher than that of NABIL Bank Ltd. but lower than Himalayan Bank Ltd. It indicates that all the JVBs used to provide loan and advances in increasing manner. From the analysis of growth ratio of total investment it is found that Nepal Grindlays Bank Ltd. and NABIL Bank Ltd. have negative growth ratio i.e., they Used to reduce the investment during the study period. But it is increasing in the case of Himalayan Bank Ltd.

- The growth ratio of net profit of Nepal Grindlays Bank Ltd. seemed to be more Satisfactory than NABIL Bank Ltd. but in case of Himalayan Bank it seemed to be very high.

Kapadi, R.B. (2002) has conduct research on "*A Comparative Study on Performance of NABIL Bank Ltd and Standard Chartered Bank Limited.*" The study of this thesis is the descriptive analytical method. The core objective of this thesis is to analyze the financial performance of NABIL bank and SCBNL this includes the examining of liquidity capital structure and activity and profitability ratios of the ratio joint venture sample banks.

The specific objectives of his research are:

1. To examine the trend of deposits and loan and advances of NABIL bank and SCBNL.

2. To study the liquidity profitability capital structure activity and capital adequacy position of NABIL bank and SCBNL.

3. To suggest and recommended some measures by evaluating and finding financial performance of NABIL bank SCBNL on the basis of finding.

From the detail analysis the research finds the following findings of the study.

He found that most of the capital structure ratios show that the capital structure of both the banks is highly leveraged.

- Total debt to equity ratio of both the banks reveals that the claims of the outsider exceeds mere than that of the owner’s over the bank asset. However NABIL bank seems to be more leveraged than SCBNL.

- Total debt to total assets ratio of both the banks has always been over 88, which indicates the excessively geared capital structure. Comparatively NABIL bank has used a little more debt financial than SCBNL. Long-term debt to total assets ratio of NABIL bank is seems to be greater as per mean, which shows more use of long-term debt by NABIL bank than by SCBNL.

- Long-term debt to net worth ratio of both the banks is following the fluctuating trend. The mean proportion of outsiders fund and owners fund employed in the total capitalization of NABIL bank is higher than that of SCBNL. This implies that it is following an aggressive strategy of higher risk higher return policy.

- The fixed asset to net worth ratio of NABIL bank is higher than that of SCBNL as per mean ratio. But the investment of owners' equity in fixed assets for both the banks are minimum as is commonly seen in various financial institutions.

Loudari, S.R. (2003) conducted a study on "*A study on investment policy of Nepal Indosuez Bank Ltd. in comparison to Nepal SBI Bank Ltd.*" with the objective of:

1. To examine the liquidity, asset management and profitability position and investment policy of NIBL in comparison to Nepal SBI Bank Ltd.

2. To study the growth ratios of loans and advances and investment to total deposit and net profit of NIBL in comparison to Nepal SBI bank ltd.

3. To analyses relationship between deposit and investment, deposits and loan & advances, net profit and outside assets of Nepal Indosuez Bank Ltd. In comparison to Nepal SBI Bank Ltd.

The research findings of the study are as follows:

- Current ratios for both the banks are satisfactory. Although Cash reserve ratio is managed by both banks as per Nepal Rastrya Bank directives, both banks have not paid sufficient insight towards cash management. Their cash reserves have fluctuated in a high degree.
- Nepal SBI Bank ltd. has increased investment in government securities where as Nepal Indosuez Bank has decreased.
- Nepal Indosuez Bank Ltd. has maintained both current ratio and cash reserve ratio better than Nepal SBI Bank Ltd. But its cash and bank balance, investment in government securities and loan and advances in comparison to current assets are lower than that of Nepal SBI Bank Ltd.
- Deposit utilization of Nepal Indosuez Bank Ltd. is less effective than that of Nepal SBI Bank Ltd. Further Nepal Indosuez Bank Ltd. has invested lesser amount on government securities and shares and debenture than that of Nepal SBI Bank.

- Nepal Indosuez Bank Ltd. did a better performance in return on total assets and loan and advances and interest earning, but it paid lower interest amount to working fund.
- The analysis of growth ratios shows that growth ratios of total deposit, loan and advances, total investment and net profit of Nepal Indosuez Bank are less than that of Nepal SBI Bank.

The trend value of loan and advances to total deposits ratio is decreasing in case of both banks. The trend value of total investment to total deposits ratio is also decreasing in case of both banks

Shrestha, D.G. (2004) on his thesis entitled "*Role of Rastriya Banijya Bank in priority sector credit & its recovery*" has tried to reveal the following objectives:

1. To identified the compliance of the target loan limit to be invested in priority sector credit as prescribed by NRB.

2. To analyze the relationship of credit (loan & advances) with total deposit & also with PSC of RBB.

3. To examine the situation of deprived sector credit (DSC) of RBB.

4. To analyze the disbursement, recovery status & NPA position under Priority Sector Credit (PSC) of RBB.(Purpose wise)

The major findings made by the researcher are as follows:

- Bank's total no of borrowers in PSC about 76 % to 78 % of borrowers lie under DSC & out of the total loan outstanding of RBB invested on PSC about 28 % to 29 % has been invested under DSC.

- RBB is very much success in complying the NRB policy.

- Bank was not able to fully utilize the collected deposits in a proper way.

- The study reveals that the disbursement & recovery under DSC is in decreasing trend; however the ratio of repayment to disbursement is in increasing trend.

- Loan repayment under DSC was more satisfactory from industry sector that the agriculture sector & services sector.
- The trend valves of recovery of RBB under PSC shows that the recovery position of the bank is in downward sloping whereas its overdue loan under PSC is in increasing trend which brings no return to the bank.

Shrestha, S. (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:

1. To analyze the functions, objectives procedure and activities of the NB bank
2. To analyze the lending practices and resources utilizations of NB bank.
3. To determine the impact of growth in deposit on liquidity and lending practices.
4. To examine the lending efficiency and its contribution to profit.
5. 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, S. P. (2006) has conduct research on "*A Comparative study on financial performance of Standard Chartered Bank Limited and Nepal Bangledesh 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:

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

2. To access the debt servicing of the joint venture commercial bank.

3. To examine the correlation and the signification of their relationship between different ratios related to capital structure.

4. To provide suggestions and recommendations for the optimal capital structure of the joint venture commercial bank.

5. 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, G. D. (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, Ram (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.

1. To evaluate various financial ration of the Nabil Bank.
2. To analyze the portfolio of lending of selected sector of banks
3. To determine the impact of deposit in liquidity and its effect on lending practices.
4. 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 posses' higher financial risk and vice-versa. It represents good condition of Total assets to net worth ratio.

- In the aspect of profitability position, total net profit to gross income, the total interest income to total income ratio of bank is in increasing trend. The study shows the little high earning capacity of NABIL through loan and advances.

- Earning per share and The Price 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.

Shrestha, Sumnima. (2009) “Credit risk management of Nabil Bank Limited and Nepal Investment Bank Limited in Nepal” The main objective of the study is to evaluate the credit risk management. In order to achieve this, the following specific objectives have been formulated

- To evaluate the status of the loan portfolio of the banks.
- To evaluate problems and weakness in credit risk management.
- To review the prevailing laws rules and regulation enforced by Nepal Rastra Bank and assess its impact on profitability and liquidity of bank.
- To offer suitable suggestions based on findings of this study.

The liquidity position of NIB is comparatively better than NABIL. Commercial banks have to maintain more liquid assets but the current ratios of some banks are below the standard of 1:1. The mean current ratio of NABIL is 1.89 and NIB is 1.99 the current ratio of NIB is little higher than NABIL. Cash and bank balance to total deposit ratio of NIB has higher than NABIL

The loan & advances to total deposit ratio of NABIL is lower than NIB. The total investment to total deposit of NABIL is higher than NIB i.e. 34.40% > 27.45%. It shows the NABIL is mobilizing its funds on investment in various securities efficiently. The loan & advances to total assets ratio of NIB is greater than NABIL. Investment on government securities to total assets ratio of NABIL is higher than NIB. This indicates that NABIL has invested more portions of total assets on government securities. So an asset management aspect of NABIL is better than NIB.

The profitability position of NABIL and NIB are Return on loan & advances ratio of NABIL is higher than that of NIB i.e. 4.64%> 2.46%. Return on total assets ratio of NABIL is slightly higher than NIB i.e. 2.61% > 1.79%. However, NABIL seems successful in managing and utilizing the available assets in order to generate revenue

The credit risk ratio shows the proportion of no-performing loan in total Loan & Advances. Average credit risk ratio of NIB is higher than NABIL. These Ratios indicate the more efficient operating of credit management of both banks according to NRB directives because according to NRB directives NPL ratio must be less than 5%. The liquidity risk of the bank defines its liquidity need for deposit. The average mean ratio of NIB is greater than that of NABIL. The analysis shows that both banks have the Asset Risk Ratio in fluctuating trend.

Niroula,Sarita kumara(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 objective 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.

2.3 Research Gap

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make this study meaningful and purposeful. There are various researchers conduct on lending practice, credit policy, financial performance and credit management of various commercial banks. Some of the researchers have done the financial performance between two or three different commercial bank. In order to perform those analysis researchers have used various ratio analysis. The past researches in measuring financial performance 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. Past Researchers are not properly analyzed about banking performance and its impact on the profitability. The ratios are not categorized according to nature. Here in this research all ratios are categorized according to their area and nature.

In this research comparative study of financial performance of BOK and HBL is measuring by various ratios, trend analysis and various statistical tools as well and financial tools are used for analyzing survey data. Since the researcher have used data only five fiscal year but all the data are current and fact. Clearly these are the issue in Nepalese commercial bank the previous scholar could not the present facts. This study tries show financial performance by applying and analyzing various financial tools like liquidity ratio, activity ratio, profitability ratio and, lending efficiency ratio as well as different statistical tools like average mean, standard deviation coefficient of correlation and trend analysis. Probably this will be the appropriate research in the area of financial performance of Bank and financial institutions.

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).

Thus, Research is a systematic inquiry seeking facts through objectives verifiable methods in order to discover the relationship among them and to deduce from them broad principles or laws. It is really a method of critical thinking by defining and redefining problems, formulating hypothesis or suggested solution, collecting, organizing and evaluating data, making decisions and making conclusions to determine whether they fit the formulated hypothesis.

The main objective of this topic is to analyze, examine, highlight and compete the financial performances of BOK and HBL and recommend suggestions for improvements. This chapter looks into the research designs, nature and sources of data, data collection, procedures and tools and techniques of analysis.

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, 1989:59).

Since the main objectives 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

Twenty-three 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 JVBs because of the limited time period and showed also taken in to consideration of the partial fulfillment of the Master's Degree. Currently aggregate 28 commercial banks are running in Nepal. They all 28 Commercial bank are taken as population. Thus two joint venture banks i.e. BOK and HBL 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 performance 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.

3.7 Analysis of Financial Rations

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.

3.7.1 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.

The following ratios are evaluated and interpreted under liquidity ratios:

i) Current Ratio

Current ratio indicates whether the concern has instant ability to payout the current liabilities as they mature. The ratio is the yardstick t judge the soundness of the short term financial position of the business unit or industry. Standard of current ratio is 2:1.

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

Where, current assets = cash in hand, cash at bank, bills receivable, sundry debtors or account receivable, short term loan & advances, inventories , prepaid expenses etc.

Current Liabilities = Bills Payable, Sundry Creditor, Accrued expenses, Bank overdraft, short term loan, provision for taxation, etc.

ii) Cash and Bank balance to Current Assets Ratio

Cash and Bank balance to current assets ratio reveals the position of cash and bank into cash and bank balance in total of current assets.

$$\text{Cash and Bank balance to Current Asset Ratio } X \frac{\text{Cash and Bank balance}}{\text{Current Asset}}$$

In the present study cash and bank balances includes cash on hand including foreign cheques other cash item and balance with domestic banks and abroad. Cash and bank balances are highly liquid assets than other current assets. So this ratio scans higher liquidity position than current ratio.

iii) Investment of Government Securities to Current Assets Ratio

Government securities are slightly liquid assets as well as confidential investment until the state is living. So it is also a very important and very near cash item of current assets. Investments on Government securities to current assets ratio visualize the proportion of investment on government securities to current assets. Investment of Government Securities to Current

Assets Ratio $$X \frac{\text{Investment on Government Security}}{\text{Current Asset}}$$

iv) Loan and Advances to Current Assets Ratio

Loan and advances to current assets ratio reflects the capability of bank discounting and purchasing the bill, loans and overdraft facilities to the customer to make a profit, mobilization its fund in the best way. A commercial bank should not keep its all collected funds as cash and bank balance but they should be invested as loan and advances to the customers.

$$\text{Loan and Advance to Current Asset Ratio } X \frac{\text{Loan and Advance}}{\text{Current Asset}}$$

v) Cash and Bank Balance to Total Deposit Ratio

Cash and Bank Balance is said to be the first defense of every banks. The ratio between the cash & bank balance and total deposit measure the ability of the bank to meet the unanticipated cash and all type of deposit.

$$\text{Cash and Bank balance Total Deposit Ratio X} \frac{\text{Cash and Bank balance}}{\text{Total Deposit}}$$

3.7.2

Activity Ratio

Activity or turnover ratio measures the efficiency of the bank to manage its assets in profitable and satisfactory manner. These ratios are employed to evaluate the efficiency with which the firm manages and utilize its assets.

A commercials bank must manage its assets properly to earn high profit.

Under this chapter following ratios are studied.

i) Loan and Advance to Total Deposit Ratio

This ratio measure the extent to which the banks are successful to mobilize their total deposit on loan and advances.

$$\text{Loan and Advance to Total Deposit Ratio X} \frac{\text{Loan and Advances}}{\text{Total Deposit}}$$

ii) Total Investment to Total Deposit Ratio.

This ratio measures the extent to which the banks are able to mobilize their deposit on investment on various securities. A high ratio indicates the success in mobilizing deposits in securities and vice versa.

$$\text{Total Investment to Total Deposit Ratio X} \frac{\text{Total Investment}}{\text{Total Deposit}}$$

iii) Loan and Advances to working Fund Ratio

This ratio reflects the extent to which the commercial banks are success in the mobilizing their assets as loan and advances for the purpose of income generation. A high ratio indicates better mobilization of fund as loan and advances and vice versa.

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

Total working fund is the total assets. It composed up of current assets, fixed assets, miscellaneous assets, investment, loan for development bank etc.

3.7.3 Profitability Ratio

Profitability ratio indicates degree of success in achieving desired profit level. Profitability ratio, which measures management overall effectiveness, are shown by the returns generated on sale and investment. A bank should be able to earn profit to survive and grow over a long period of time. Profit is the indicator of effective operation of a bank. The banks acquire profit by providing different services to its customer or by making investment of different kind.

Profitability ratio measures the efficiency of bank. Higher profit ratio shows higher efficiency of the bank. The following profitability ratios are related to study in this heading.

i) Return on Equity (ROE)

If banks can mobilize its equity capital properly, they can earn high profit. The return on equity capital measures the extend to which a bank is successful to mobilize its equity.

$$\text{Return on Equity X} \frac{\text{Net Profit}}{\text{Total Equity Capitals}}$$

Equity Capital includes paid up equity, Profit & Loss Account, Various Reserve, General loan, loss provision etc.

ii) Interest Earned to Working Fund Ratio

This ratio reflects the extent to which the banks are successful in mobilizing their total assets to generate high income as interest. A high ratio is indicator for high earning power of the bank on its total working fund and vice versa.

$$\text{Interest Paid to Working Fund Ratio X} \frac{\text{Interest Earned}}{\text{Total Asset}}$$

iii) Interest Paid to Total Assets Ratio

This ratio measure the percentage of total interest paid against the total Assets. A high ratio indicates the higher interest expenses on total working fund and vice versa.

$$\text{Interest Paid to Total Assets Ratio X} \frac{\text{Interest Paid}}{\text{Total Asset}}$$

iv) Interest Earned to Operating Income Ratio

This ratio reflects the extent to which the banks have successfully mobilized its fund in interest bearing assets. It measures the magnitude of interest income in total income.

$$\text{Interest Earned to Operating Income Ratio } X \frac{\text{Total Interest Earned}}{\text{Total Operating Icomr}}$$

Where, Total operating income includes the interest income, commission & discount, income from dividend, foreign exchange income and others

v) Return on Total Assets Ratio

Its measures the profit earning capacity by utilizing available resources i.e. total assets. Return will be higher if the banks working fund is well managed and efficiently utilized. Where, Net profit includes the profit that is left to the internal equities after all costs, charges and expenses.

$$\text{Return on working Fund } X \frac{\text{Net Profit}}{\text{Total Asset}}$$

vi) Return on Loan and Advances Ratio

Its measures the earning capacity of commercial banks on its total deposits mobilized on loan and advances.

$$\text{Return on Loan \&Advances Ratio } X \frac{\text{Net Profit}}{\text{Loan and Advances}}$$

vii) Earning per Share (EPS)

EPS measures the profitability of common shareholder. The earning may be on a per share basis.

$$\text{Earning Per Share } X \frac{\text{Net Income Available to the common stockholders}}{\text{Total No. of Common stock outstanding}}$$

3.7.4 Lending efficiency Ratio

This ratio is concerned with measuring the efficiency of bank. This ratio also shows the utility of available fund. One following is the various types of lending efficiency ratio.

i) Loan Loss Provision to Total Loan and Advances ratio

Loan loss provision to total loan and advances describes the quality assets that a bank holding. The provision for loan loss reflects the increasing probability of non-performing loan. The provision of loan mean the net profit of the banks will come down by such amount. Increase in loan loss provision decreases in profit result to decreases in dividends but its positive impact is that strengthens financial conditions of the bank by controlling the credit risk and reduced the risks related deposits. So, it can said that loan suffer it only for short term while the good financial conditions and safety of loans will make banks prosperity regulating increasing profits for long term.

The low ratio indicates the good quality of assets in total volume of loan and advances. High ratio indicates more risky assets in total volume of loan advances.

$$\text{Loan loss provision to total loan and advances} = \frac{\text{Loan loss provision}}{\text{Total loan and advances}}$$

ii) Non-Performing Loan to Total Loan and Advances

This ratio shows the relationship of Non-Performing loan and total loan and advances and is to determine how efficiently the total loan and advances have been used by management. Higher ratio shows the low efficient operating of the management and lower ratio shows the more efficient operating of credit management.

$$\text{Non - performing loan to total loan and advance Ratio X} \frac{\text{Non - performing loand}}{\text{Total Loan and Advances}}$$

iii) Interest Expenses to Total Deposit Ratio

This ratio measures the percentage of total interest paid against total deposit. A high ratio indicates higher interest expenses on total deposit. Commercial banks are dependent upon its ability to generate cheaper fund. The cheaper fund has more the probability of generating loans, advances, and vice versa.

$$\text{Interest Expenses to Total Deposit Ratio X } \frac{\text{Interest Expenses}}{\text{Total Deposit Ratio}}$$

3.8 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.

3.8.1 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,

$$\bar{X} \text{ X } \frac{X}{n}$$

Where, $\bar{X}$ = Arithmetic mean

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

n = Number of observations

3.8.2 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:

$$\pm \text{ X} \sqrt{\frac{x^2}{N}}$$

Where, x = $\int X \text{ Z } \bar{X} \int$

3.8.3 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,

$$CV = \frac{\pm}{\overline{X}}\ \varepsilon\ 100$$

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

3.8.4 Coefficient of correlation (r)

Correlation analysis is the statistical tools that we can use to describe the degree to which one variable is liner 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 defection. 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.

$$\text{Coefficient of correlation (r)} = \frac{\text{CoVariance of X \& Y}}{\pm_X\ \ \pm_Y}$$

Deposit have played a very important role in performance of commercial banks and similarly loan & advances are important to mobile 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', 'r^{2}' probable Error (P.Er) and P.Er between deposit and loan & advances for the study period 2002/03 to 2006/07.

3.8.5 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 seires 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

Introduction review of literature and research methodology presented in the previous chapters provides the basic inputs to analyze and interpret the data. Presentation and analysis of data is the main body of the study. In this chapter data collected are analyzed and interpreted as per the stated methodology in the previous chapter. The main source of data are secondary data. In this chapter, researcher has analyzed and diagnosed financial performance of Bank of Katmandu Limited and Himalayan Bank Limited are shown in different tables and diagrams to make the analysis simple and understandable. All the financial position of both the banks are analyze by calculating following ratio.

4.1 Financial Analysis

Here financials ratios related to the financial performance are presented to evaluate and analyze the performance of commercial Banks i.e. BOK and HBL. 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 precedure 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 posting to satisfy the credit needs of community, to meet demands for deposit–withdrawals, pay maturity obligation in time and convert non-cash assets into cash 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

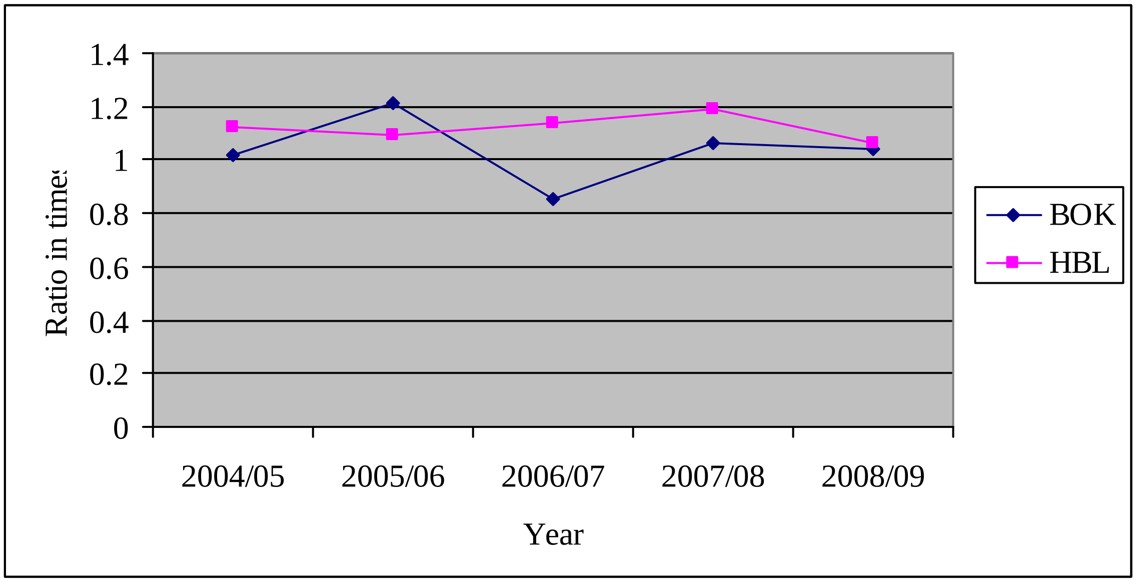
Current assets to current liability (in times)

Name of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D.	C.V.
BOK	1.02	1.21	0.85	1.06	1.04	1.04	0.126	0.121
HBL	1.12	1.09	1.14	1.19	1.06	1.12	0.049	0.044

Source: Annual Report of Concern Banks

Figure No 4.1

Current assets to current liability (in times)



Above Table and Figure shows the current ratio of selected commercial banks during the study period. The current ratio of BOK and HBL has a fluctuating trend. In general, it can be said that both the banks have sound ability to meet their short- term obligations. In the case of BOK the C.R. has high in 2005/06 and HBL has high in 2007/08 i.e. 1.19. In an average, liquidity position of HBL is greater than BOK i.e. 1.12>1.04 as it has a higher mean ratio. So, HBL is sound in meeting short-term obligation than BOK. Likewise, S. D. and C.V. of HBL is less than BOK i.e. 0.044 < 0.121. It can be said that C.R. of HBL is more consistent than that of BOK.

Lastly, from the above analysis it is known that these two banks do not have a good liquidity position because the standard ratio is 1:1. They have just managed to meet the standard 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.

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 HBL during the study period.

Table No. 4.2

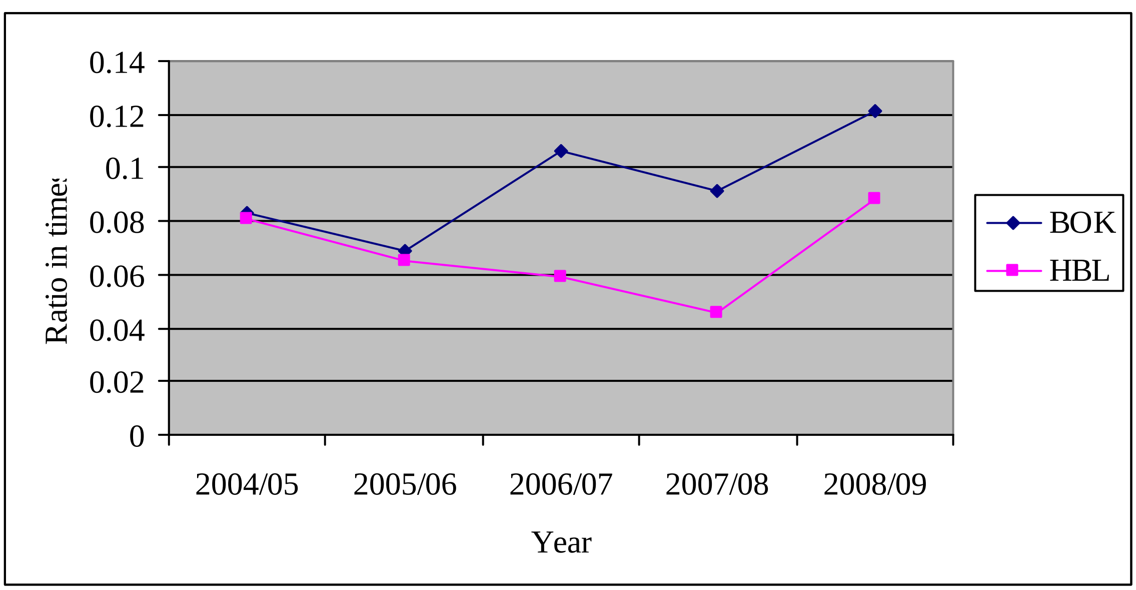
Cash and Bank Balance to Total Deposit Ratio (in times)

Name of	Fiscal Year							
Banks	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D.	C.V. (%)
BOK	0.083	0.069	0.106	0.091	0.121	0.094	0.0201	0.215
HBL	0.081	0.065	0.059	0.046	0.088	0.068	0.017	0.254

Source: Source: Annual Report of Concern Banks

Figure No 4.2

Cash and Bank Balance to Total Deposit Ratio (in times)



Above Table and Figure revels that the Cash and Bank Balance to Total Deposit Ratio of BOK and HBL are in fluctuating trend. The highest ratio of BOK is 0.121 times in FY 2008/09 and lowest is 0.069 times in FY 2005/06. Similarly, the highest ratio of HBL is 0.088 times in FY 2008/09 and lowest in 0.046 in 2007/08.

The mean ratio of BOK and HBL are 0.094 times and 0.068 times respectively. BOK has higher ratio than the HBL, which shows its greater ability to pay depositors money as they want. Similarly, the coefficient of variation of BOK is 0.215 times and HBL is 0.254 times. S.D. of BOK is lower than the HBL

The above analysis concludes that the cash and bank balance position of BOK with respect to HBL is better in order to serve its customer's deposits. It implies better liquidity position of BOK from the viewpoint of depositor demand. 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 the states the cash and bank balance to current assets BOK and HBL during the study period.

Table No. 4.3

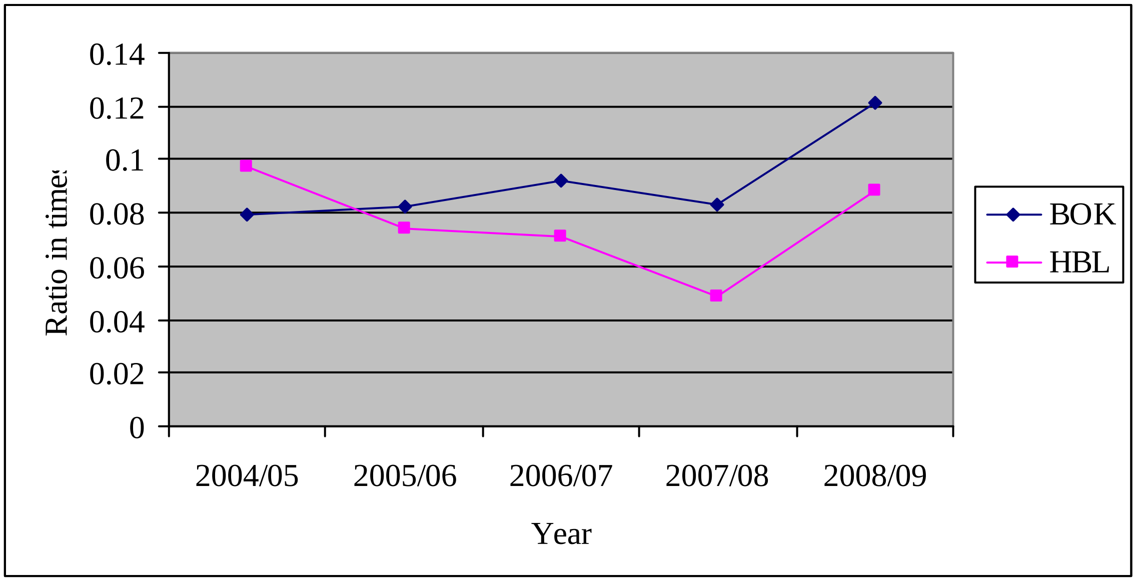
Cash and Bank Balance to Current Asset Ratio (in times)

Name of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D.	C.V.
BOK	0.079	0.082	0.092	0.083	0.151	0.098	0.0302	0.309
HBL	0.097	0.074	0.071	0.049	0.102	0.079	0.0215	0.273

Source: Source: Annual Report of Concern Banks

Figure No 4.3

Cash and Bank Balance to Current Asset Ratio (in times)



Above Table and Figure reveals that cash and bank balance to current assets ratio of BOK is in fluctuating trend. But ratio of HBL is continuously decreasing to fiscal year 2007/08 and it has bounceed back in 2008/09. The mean ratio of BOK and HBL is 0.098 times and 0.079 times respectively. The higher mean ratio shows that BOK's liquidity position is better than that of HBL. Moreover, the .S.D and C.V. of HBL is lower than BOK. The lower C.V. of HBL indicates that it has more consistency in the ratios ias compared to BOK.

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

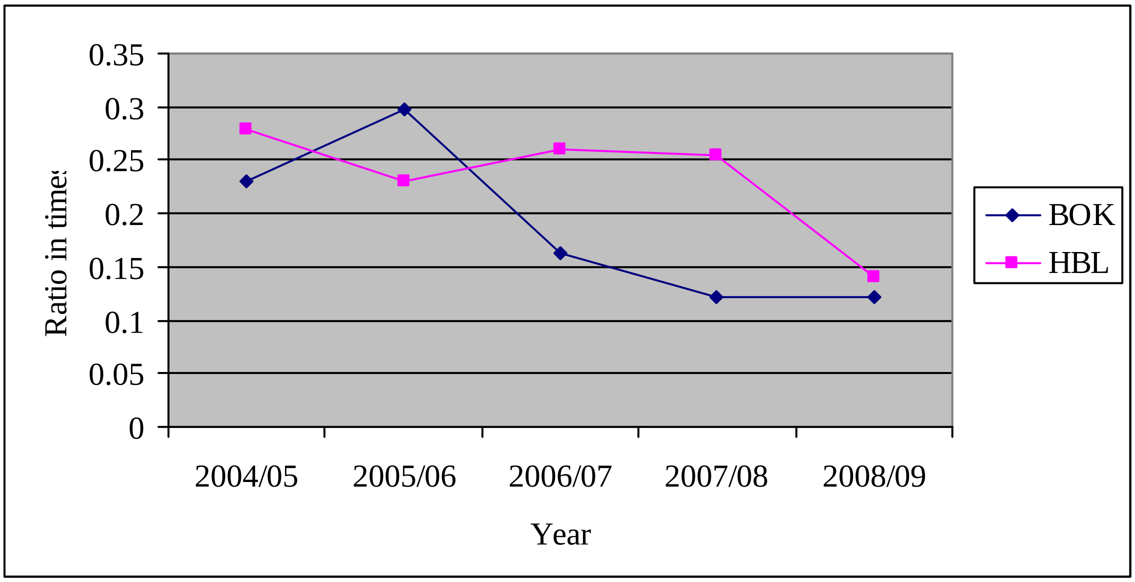
Investment on Government Securities to Current Assets Ratio (in times)

Name of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D.	C.V.
BOK	0.230	0.298	0.163	0.122	0.121	0.187	0.076	0.408
HBL	0.278	0.231	0.260	0.254	0.141	0.232	0.054	0.231

Source: Source: Annual Report of Concern Banks

Figure No 4.4

Investment on Government Securities to Current Assets Ratio (in times)



Above Table and Figure shows investment on government securities to current assets ratio of BOK and HBL. Both Banks have fluctuating ratios. The table shows the highest ratio of BOK is 0.298 times in FY 2005/06 and lowest is 0.121 times in FY 2008/09. In the same way, the highest ratio of HBL is 0.278 times in FY 2004/05 and lowest is 0.141 times in FY 2008/09.

The mean ratio of BOK is 0.187 i.e. 18.70 percent which is lower than the mean ratio of HBL 0.232 i.e. 23.20 percent. It means HBL 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. is 0.076 and 0.054 and C.V is 0.408 and 0.231 ok BOK and HBL respectively.

The higher C.V. of BOK shows the more inconsistency in the ratios with compare to HBL.

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

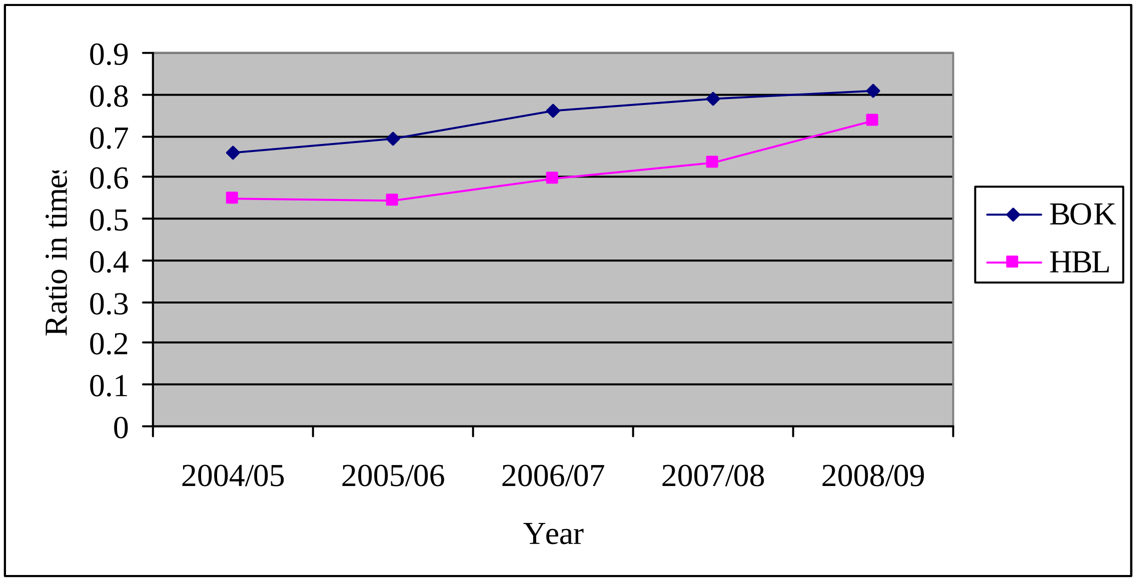
Loan and Advance to Total Deposit Ratio (in times)

Name of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D.	C.V.
BOK	0.661	0.692	0.759	0.787	0.810	0.742	0.0632	0.085
HBL	0.549	0.544	0.595	0.634	0.736	0.612	0.0785	0.128

Source: Source: Annual Report of Concern Banks

Figure No 4.5

Loan and Advance to Total Deposit Ratio (in times)



Above Table and Figure shows that the loan and advances to total deposit ratio of BOK and HBL is fluctuating trends. The ratio of BOK has more fluctuating and incresing trend. BOK has higher ratio than that of HBL in each year and mean too. It indicates the better mobilization of deposit by BOK. The mean of BOK and HBL are 74.20% and 61.20% respectively. So BOK has higher ratio than that of HBL. It reveals that the deposit of BOK is quickly converted in to loan and advances to earn income. According to NRB directives less than 80% of loan and advances to total deposit ratio is required to to enable better mobilization of collected deposit.

The mean, S.D. and C.V of BOK is 0.742, 0.0632 and 0.085 similarly, HBL has 0.612, 0.0785 and 0.0128. By the analysis, BOK is more efficient in using the deposit in profit generating sector than HBL.

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 HBL are calculated and presentation below.

Table No. 4.6

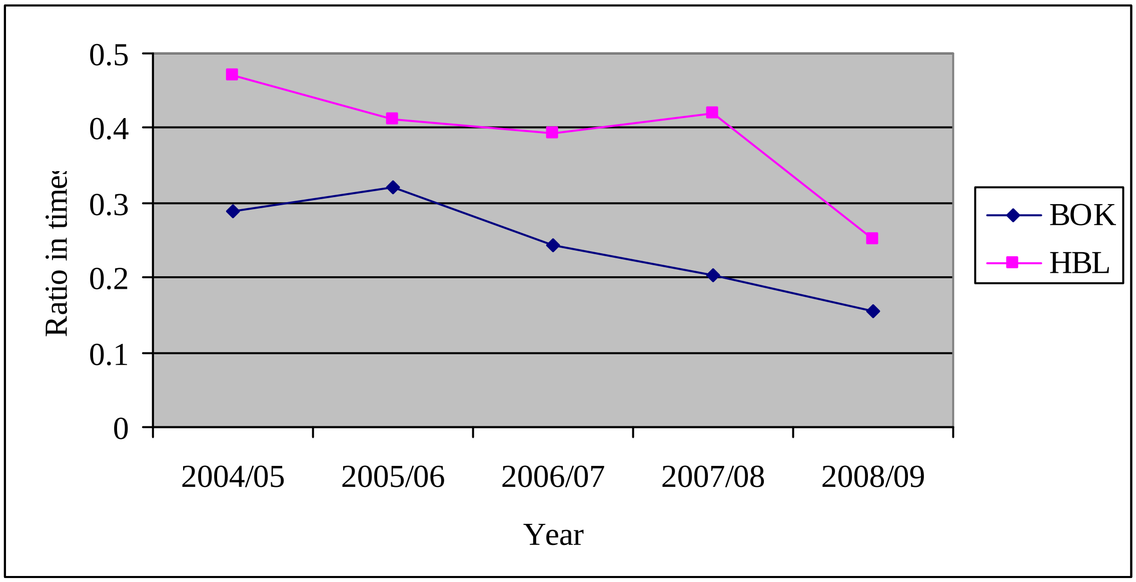
Total Investment to Total Deposit Ratio (in times)

Name of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D.	C.V.
BOK	0.290	0.322	0.242	0.202	0.154	0.242	0.0673	0.278
HBL	0.471	0.411	0.394	0.419	0.251	0.389	0.0824	0.212

Source: Source: Annual Report of Concern Banks

Figure No 4.6

Total Investment to Total Deposit Ratio (in times)



Above Table and Figure shows that total investment to total deposit ratio of BOK and HBL. Both the banks have fluctuating trend in total investment to total deposit ratio. Higher ratio of BOK is 32.2 percent in FY 2005/06 and lowest ratio is 15.40 percent in FY 2008/09 in the same way the highest ratio of HBL 47.1% percent in FY 2004/05 and lowest ratio is 25.10% percent in FY 2008/09. Investment volume of BOK is lower than that of HBL because more funds of BOK were used in profitable loans to achieve optimum mix of interest earning assets.

The mean of the ratio of BOK and HBL are 24.20% and 38.90% respectively which shows that HBL has a higher ratio. It signifies that HBL has successfully allocated its deposit in investment portfolio. The C.V. of BOK is higher than HBL i.e. 0.278 > 0.212. HBL thus seems to be more consistent.

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 HBL as follows.

Table No. 4.7

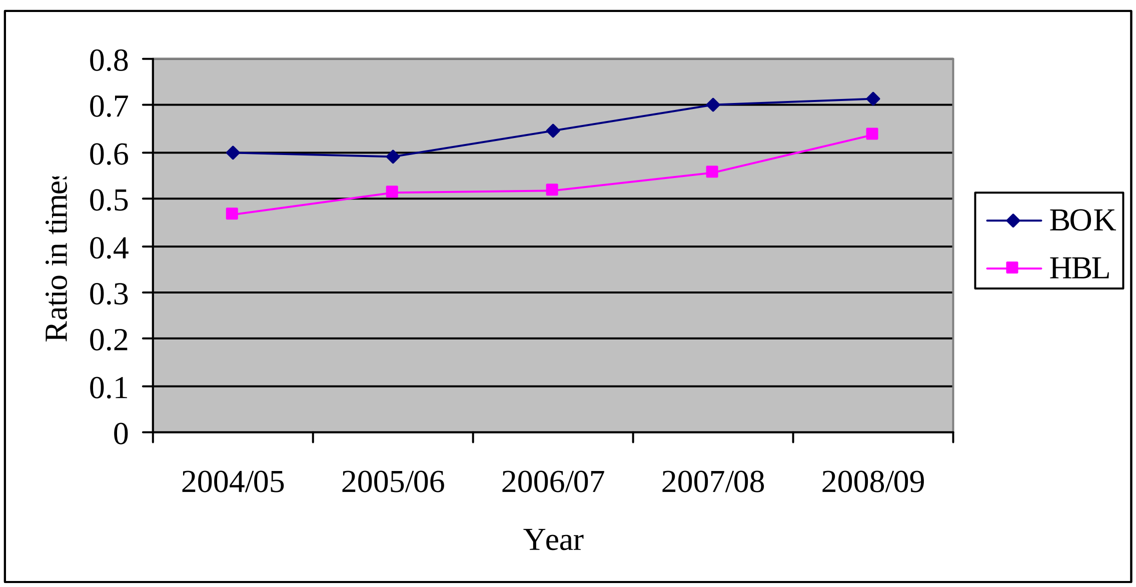
Loan and Advances to Total Assets Ratio (in times)

Name of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D.	C.V.
BOK	0.599	0.591	0.645	0.703	0.715	0.651	0.0571	0.0877
HBL	0.466	0.515	0.519	0.558	0.637	0.538	0.0638	0.118

Source: Source: Annual Report of Concern Banks

Figure No 4.7

Loan and Advances to Total Assets Ratio (in times)



Above Table and Figure shows the loan and advances to total assets ratio of BOK and HBL during the study period. Loan and advances to total assets of both BOK and HBL has an increasing trend. While observing their ratios; BOK is better at mobilizing fund as loan and advances and it seems quite successful in generating higher ratio each year.

The mean of BOK and HBL are 65.10% and 53.80% respectively. So BOK has higher ratio than HBL. It reveals that in total assets, BOK has high proportion of loan and advances. BOK has utilized its total assets more efficiently in the form of loan and advances. The lower C.V. of BOK (0.0877) states that it has more uniformity in these ratios throughout the study period than HBL. S.D. and C.V. of BOK has less than the HBL.

D) Investment on Government Securities to Total Assets ratio

It is not possible to convert all collection, deposit and other resources into loan and advances for the banks. Therefore, they arrange their total assets in various sectors. 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, the better the position of fund mobilization into investment on government securities and vice-versa.

Table No. 4.8

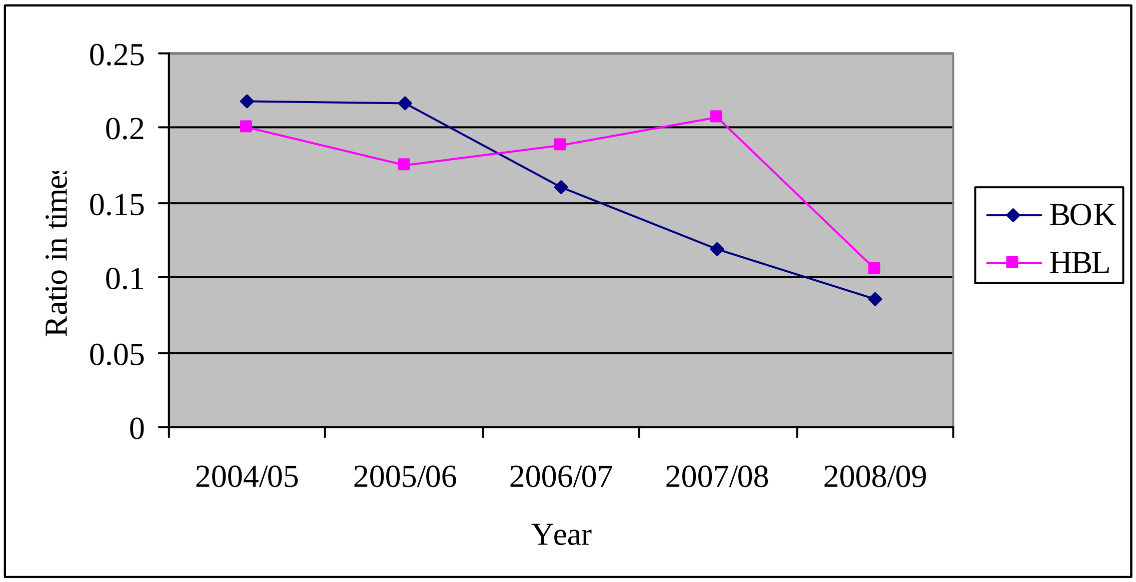
Investment on Government Securities to Total Assets ratio (in times)

Name of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D.	C.V.
BOK	0.218	0.217	0.160	0.119	0.085	0.159	0.0589	0.369
HBL	0.20	0.175	0.188	0.207	0.105	0.175	0.0408	0.233

Source: Source: Annual Report of Concern Banks

Figure No 4.8

Investment on Government Securities to Total Assets ratio (in times)



Above Table and figure shows that the investment on government treasury bills to Total assets of BOK is in decreasing trend and HBL are in fluctuating trend. The highest ratio of BOK is 21.80% in 2004/05 and HBL is 20.7% in 2007/08 and the lowest ratio of BOK and HBL are 8.5% and 10.50% in 2008/09 respectively.

From the table we notice that mean ratio of BOK and HBL are 15.90% and 17.50% respectively. BOK has higher mean. It means BOK has invested more money in risk free assets than HBL has. In another words HBL has emphasized more on loan and advances and other short-term investment than investment in govt. securities. For minimization of investment risk, HBL should divert its investment in govt. securities.

There is more variability in the ratio of BOK as compare to HBL. It shows that there is more inconsistency in the ratio of BOK during the study period, which is indicated by higher C.V. of BOK which shows inconsistency in its investment.

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 thst 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 efficiently. 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 HBL.

A) Return on Loan and advances

Every 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

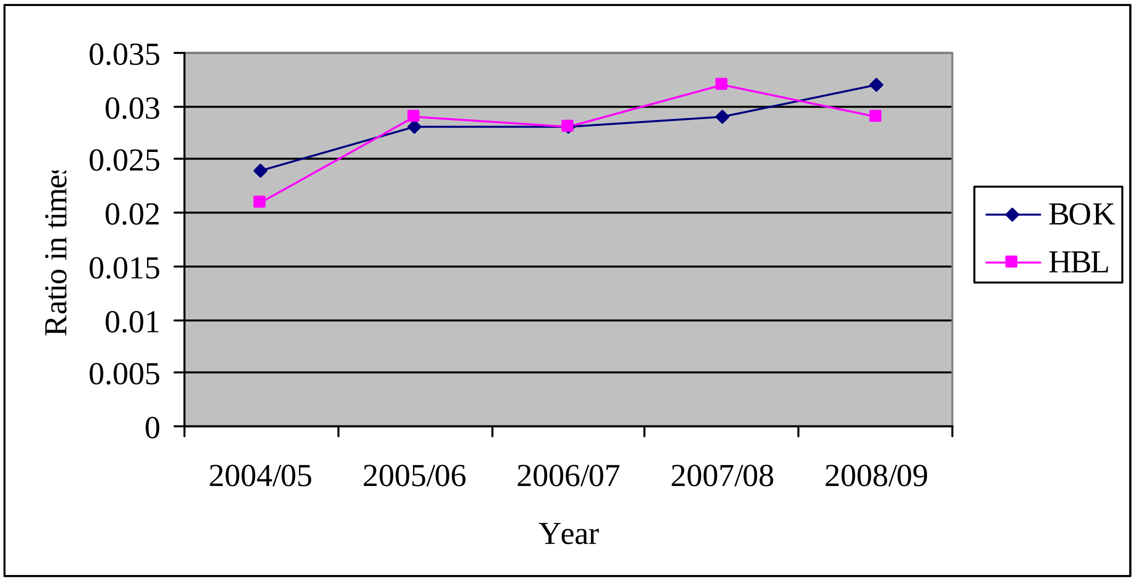
Return on Loan and advances (in times)

Name of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D.	C.V.
BOK	0.024	0.028	0.028	0.029	0.032	0.028	0.0029	0.101
HBL	0.021	0.029	0.028	0.032	0.029	0.028	0.0032	0.115

Source: Source: Annual Report of Concern Banks

Figure No 4.9

Return on Loan and advances (in times)



Above Table and Figure shows that return on loan and advances ratio of BOK has an increasing trend and that of HBL has been fluctuating. The highest ratio of BOK is 3.20% in the year 2008/2009 and lowest ratio 2.40% in year 2004/2005. The mean ratio is 2.80%.Whereas highest ratio of HBL is 3.20% in year 2007/2008 and lowest ratio is 2.10% in 2004/2005. The mean ratio of HBL is 2.80%. This both banks show the normal earning capacity in loan and advances and same earning capacity in form of loan and advances.

From the table we notice that BOK has higher Ratios in two years, HBL has higher ratios in another two years and the ratios match in the remaining one year but both banks have same mean ratio i.e. 2.80%. It can be concluded that both banks have utilized the loan and advance for the profit generation in same 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.

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

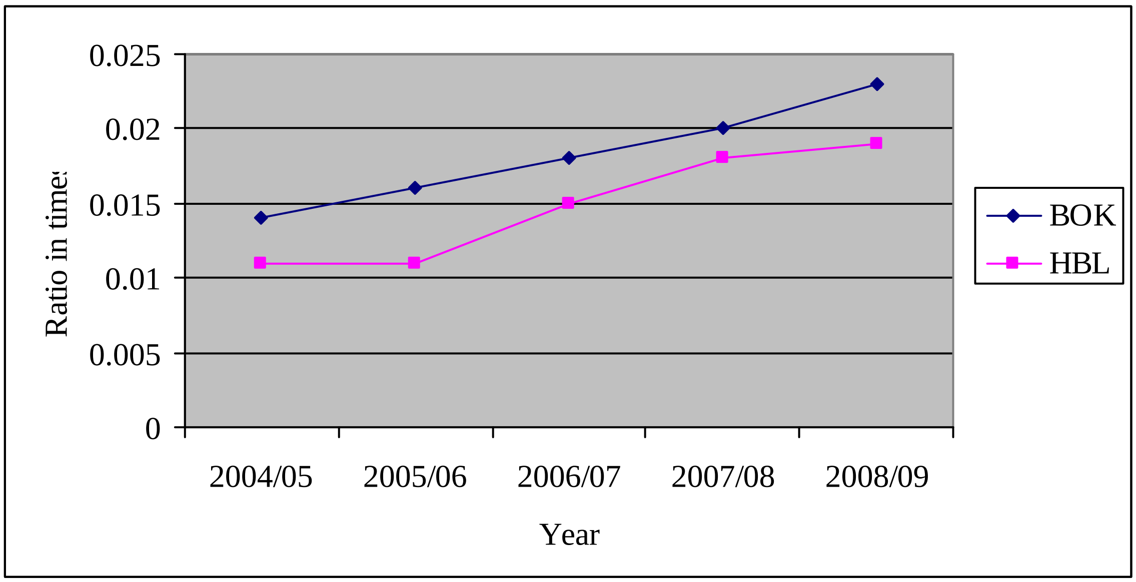
Return on Total Assets Ratio (in times)

Name of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D.	C.V.
BOK	0.014	0.016	0.018	0.020	0.023	0.0182	0.0035	0.192
HBL	0.011	0.011	0.015	0.018	0.19	0.0145	0.0038	0.262

Source: Source: Annual Report of Concern Banks

Figure No 4.10

Return on Total Assets Ratio



Above Table and Figure shows the Return on Total Assets of BOK and HBL. This table states the net profit to total assets of selected banks during the study period. Both banks have constantly increasing trend of return on its total assets however, BOK seems successful in managing and utilizing the available assets in order to generate revenue since its ROA is 1.82.% of total assets in an average which is higher than that of HBL. BOK has also higher ratio in each years. Where as S.D. and C.V .of HBL has relatively high it indicate less uniformity in the ratios.

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 HBL during the study period.

Table No. 4.11

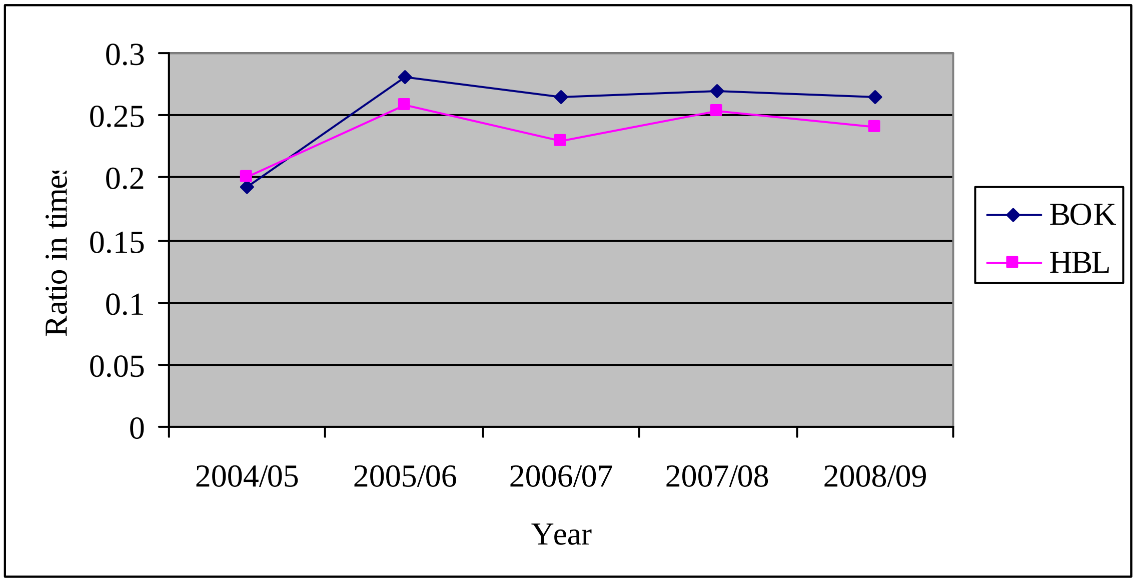
Return on Equity Ratio (in times)

Name of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D.	C.V.
BOK	0.193	0.281	0.264	0.269	0.265	0.255	0.0345	0.136
HBL	0.200	0.259	0.229	0.253	0.241	0.236	0.0234	0.099

Source: Source: Annual Report of Concern Banks

Figure No 4.11

Return on Equity Ratio (in times)



Above table and Figure shows Return on Equity Ratio of BOK and HBL. Above data indicates that BOK and HBL have fluctuating return on equity ratio. BOK has lower ratio in 1st year but has higher ratio in the other 4 years. However, BOK has higher mean ratio than that of HBL (i.e. 25.5%>23.6%).

Despite stiff competition and an adverse macro economic environment, BOK is currently generating higher ROE in comparison with HBL. In brief, it signifies that the shareholders of BOK are getting higher return but in case of HBL, they are getting lesser. It can be concluded that BOK has better utilized the equity for the profit generation. It proves to be a strength for BOK in attracting future investment also while HBL shows its weakness regarding efficient utilization of its owner's equity in comparison to BOK.

BOK is relatively more inconsistent throughout the study period because its C.V is higher.

D) Total Interest Earned to Total Assets Ratio

Total 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 HBL

Table No. 4.12

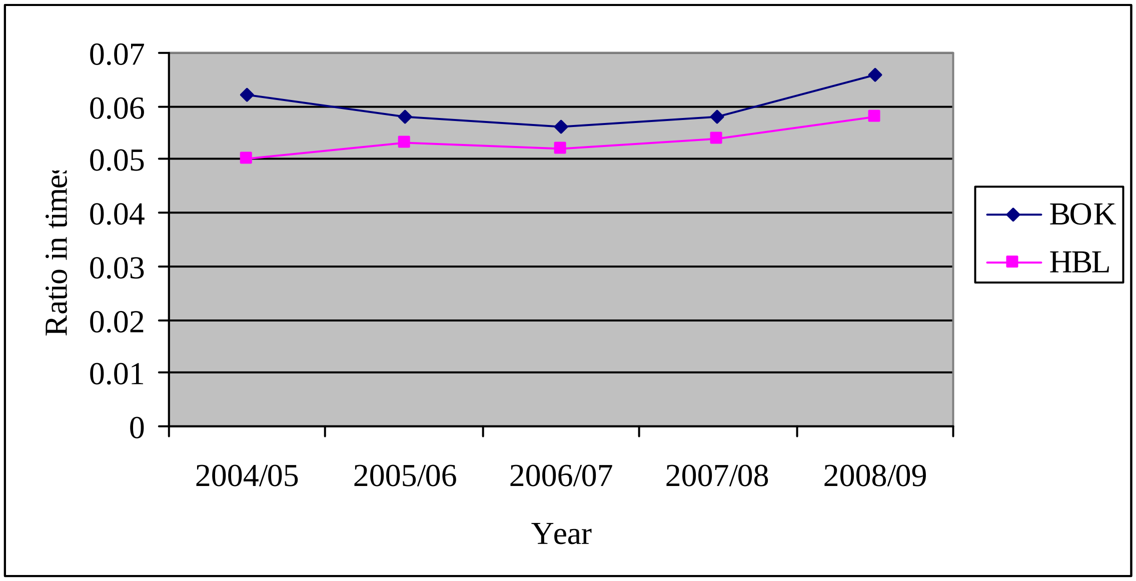
Total Interest Earned to Total Assets Ratio (in times)

Name of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D.	C.V.
BOK	0.062	0.058	0.056	0.058	0.066	0.060	0.004	0.067
HBL	0.050	0.053	0.052	0.054	0.058	0.054	0.0032	0.059

Source: Source: Annual Report of Concern Banks

Figure No 4.12

Total Interest Earned to Total Assets Ratio (in times)



Above Table and Figure, shows both the banks have increased total interest earned during studied period. Despite the higher Total assets and interest earned in BOK, it seems less conscious about managing its assets in order to earn more interest ratio. both BOK and HBL shows a fluctuating trend of the interest earned ratio with average ratio of 5.40% 6.00% respectively. The mean ratio of BOK is more than that of HBL. In comparison, BOK seems effective in earning interest to some extent

Moreover, BOK also has higher uniformity in the ratios during the study period. It can be concluded that BOK has successfully mobilized their fund in interest generating assets.

E) Total Interest Earned To Total outside Assets Ratio

The main assets of commercial banks are it's 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 No. 4.15 exhibits the ratio of total interest earned to total outside assets of BOK and HBL during the study period.

Table No. 4.13

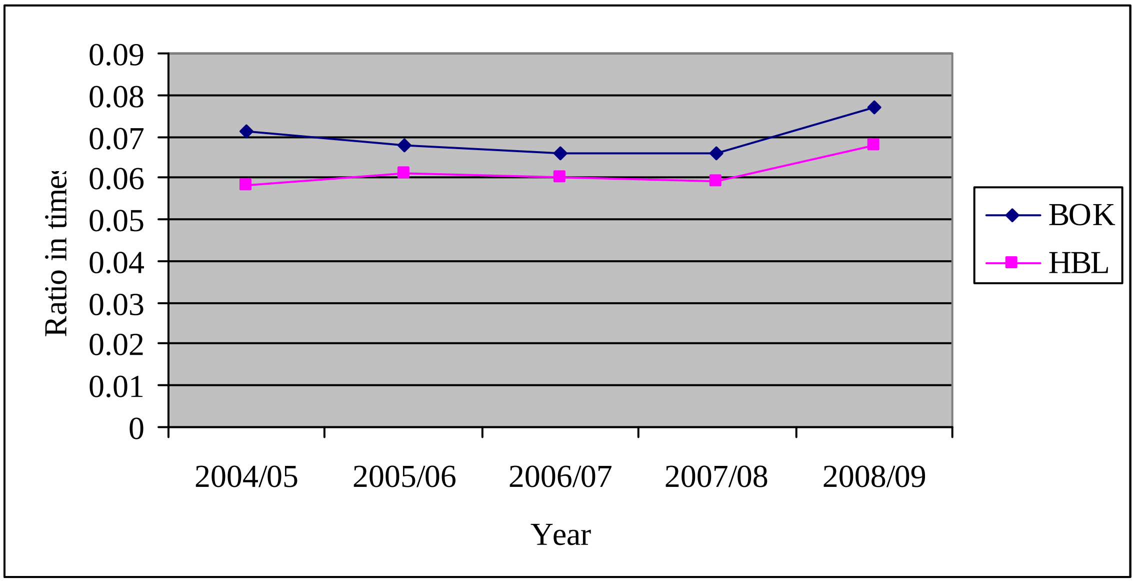
Total Interest Earned To Total outside Assets Ratio (in times)

Name of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D.	C.V.
BOK	0.071	0.068	0.066	0.066	0.077	0.069	0.0046	0.066
HBL	0.058	0.061	0.060	0.059	0.068	0.062	0.0039	0.065

Source: Source: Annual Report of Concern Banks

Figure No 4.13

Total Interest Earned To Total outside Assets Ratio



Above Table and Figure shows the total interest earned to total outside assets ratio. The total interest earned to total outside assets ratio of both bank BOK and HBL are in fluctuating trend. BOK has its ratios highest in the year 2008/2009 with 7.7% and lowest in the years 2006/07 and 2007/08 with 6.6% in both the years. Similarly, HBL has the highest ratio in the year 2008/09 with 6.8% and the lowest in the year 2004/05 with 5.8%. The mean ratio of BOK and HBL are 6.90% and 6.20% respectively. Here BOK seems to have more efficiency in generating total interest through well utilizatios of outside assets. But it has relatively inconsistent returns.

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 considering the risk and return. This ratio measures how successfully the selected banks have been mobilizing their fund uninterested generating assets during last from FY 2004/05 to 2008/09 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

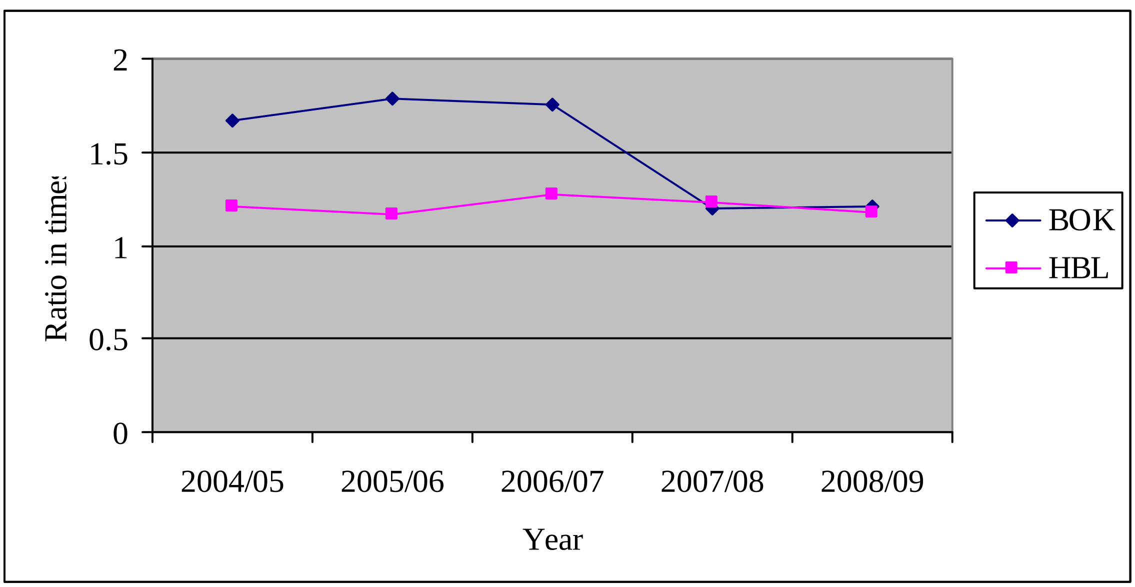
Interest Earned to Operating Income Ratio (in times)

Name of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D.	C.V.
BOK	1.67	1.79	1.75	1.20	1.21	1.527	0.298	0.195
HBL	1.21	1.17	1.27	1.23	1.18	1.21	0.043	0.035

Source: *Source: Annual Report of Concern Banks*

Figure No 4.14

Interest Earned to Operating Income Ratio (in times)



Above table shows Interest Earned to Operating Income Ratio of BOK and HBL. Both banks has fluctuating ratio of study period. BOK has greater share of total interest earn in its total operating income in most of the years and mean too. The mean ratio of HBL and BOK are 1.21 times and 1.527 times respectively. BOK has higher ratio, it indicates the high contribution in operating income made by lending and investing activities (core banking activity).HBL 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, BOK is in good condition but from long term view, HBL is in good condition. In overall, HBL has managed sound interest earned to operating income ratio.

The mean, S.D. and C.V of BOK is 1.527, 0.298 and 0.195 times similarly HBL have 1.21, 0.043 and 0.035 times.

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 HBL.

Table No. 4.15

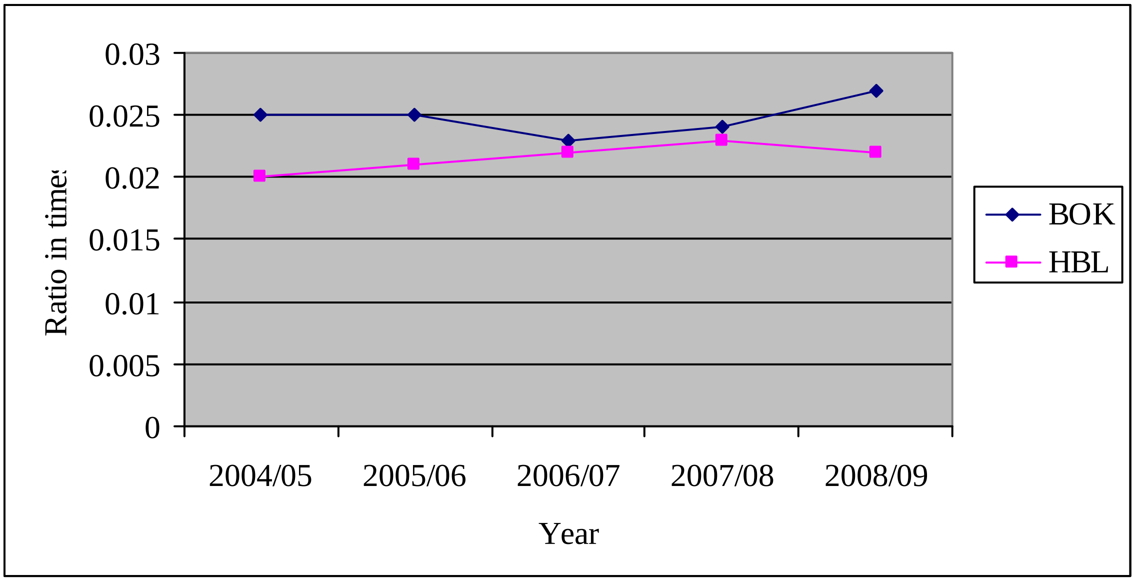
Interest Paid to Total Assets Ratio (in times)

Name of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D.	C.V.
BOK	0.025	0.025	0.023	0.024	0.027	0.025	0.0015	0.0598
HBL	0.020	0.021	0.022	0.023	0.022	0.022	0.152	0.0696

Source: Source: Annual Report of Concern Banks

Figure No 4.15

Interest Paid to Total Assets Ratio (in times)



Due to the higher ratio of BOK in each year, it seems less conscious about borrowing cheaper fund. BOK shows the decreasing trend in the interest paid ratio except in latter two years and its average ratio is 2.50% whereas HBL also shows increasing trend till the final year and it has maintained average ratio2.20%. The mean ratio of BOK is more than that of HBL. In comparison, BOK 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 HBL has been less conscious in each year as its ratio is in increasing trend in each year.

The S.D. and C. V. of HBL is greater than BOK which indicates high risk taken by HBL rather than BOK.

4.1.1.4 Activity Risk Ratio

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 HBL.

A) Credit Risk Ratio/Non-Performing Loan to Total Loan 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 4.16

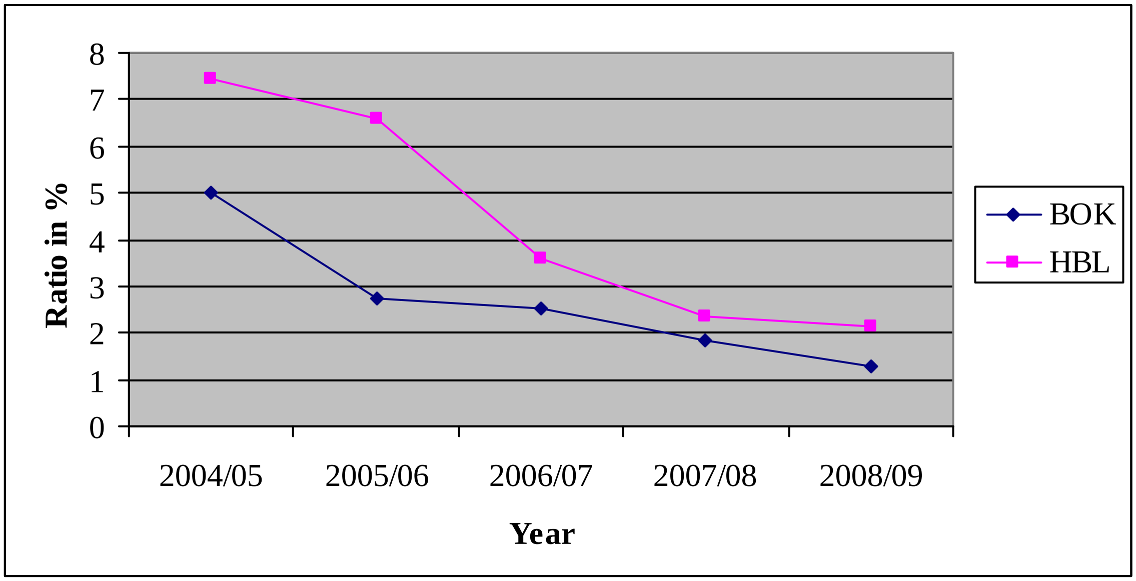
Credit Risk Ratio (in times)

Name of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D.	C.V.
BOK	4.99	2.72	2.51	1.86	1.30	2.676	1.409	0.53
HBL	7.44	6.60	3.61	2.36	2.16	4.434	2.443	0.55

Source: Source: Annual Report of Concern Banks

Figure No 4.16

Credit Risk Ratio (in times)



Above table shows that NPL to total loan and advances of BOK and HBL are in decreasing trend. 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 HBL are 2.676 % and 4.434% 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 HBL. In another words, HBL is less efficient at operating credit management than BOK. As, BOK has lower ratio, BOK has efficiently used the total loan and advances than that of HBL Here BOK is more successful in loan recovery because it has lower non performing loan in total Loan and Advances.

(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: 4.17

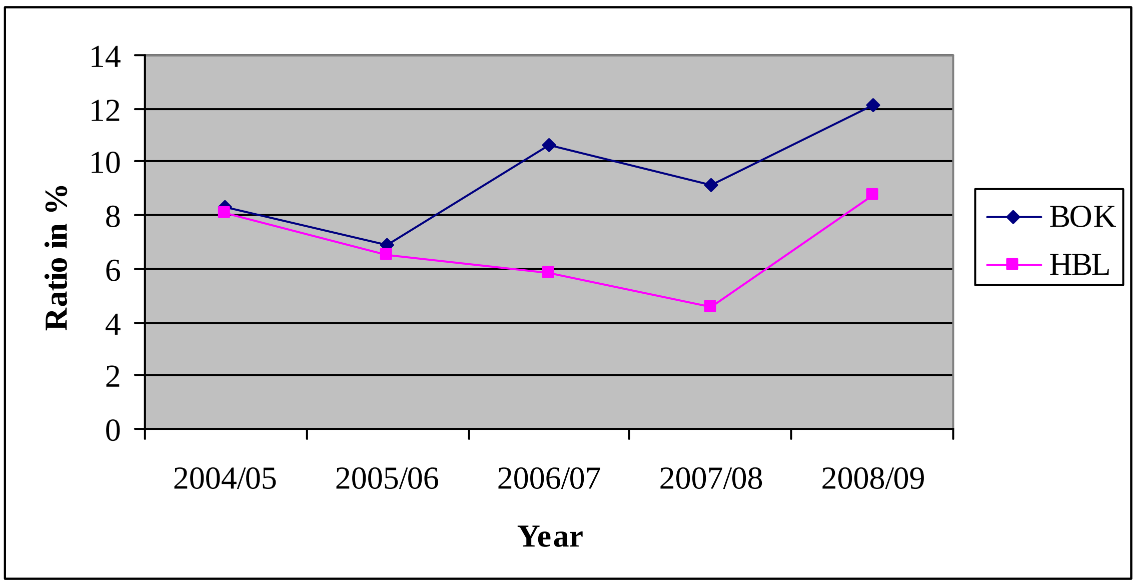
Liquidity Risk Ratio (in times)

Name of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D.	C.V.
BOK	8.3	6.9	10.6	9.1	12.1	9.4	2.017	0.215
HBL	8.12	6.48	5.85	4.55	8.79	6.758	1.715	0.254

Source: *Annual Report of Concern Banks*

Figure No 4.17

Liquidity Risk Ratio (in times)



Above Table and Figure shows cash and bank balance to total deposits ratio of the BOK is in fluctuating trend whereas ratio of HBL is in decreasing trend till 2008/09. The highest ratios of BOK and HBL are 12.1% and 8.79%% respectively in 2008/09 whereas lowest ratio of BOK and HBL are 6.9% and 4.55% in 2005/06 and 2007/08 respectively. The average mean ratio of BOK is greater than that of HBL (i.e.9.4%>6.758%). It signifies that BOK has sound liquid fund to make immediate payment to the depositors

4.1.1.6 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. 4.18

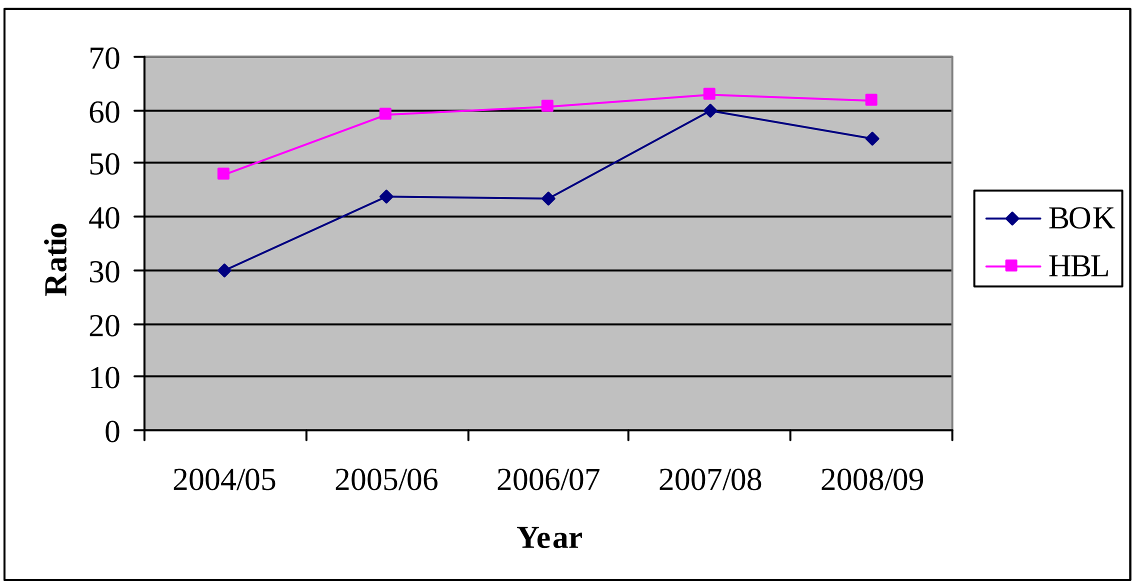
Earning Per Share (in Rs.)

Name of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D.	C.V.
BOK	30.09	43.67	43.50	59.93	54.68	46.37	11.55	0.249
HBL	47.91	59.24	60.66	62.74	61.90	58.49	6.0601	0.104

Source: *Annual Report of Concern Banks*

Figure No 4.18

Earning Per Share (in Rs.)



Above Table and Figure shows that earning price per share of BOK and HBL. BOK has fluctuating trend of EPS and HBL has increasing trend of EPS except in 2008/09. While observing their ratios in overall; HBL is better mobilizing it resources to get more earning per share (EPS) and it seems quite successful by generating higher EPS in each year and in average too. It is quite satisfying to state that HBL has been able to maximizing shareholder wealth from the view pointy of EPS. However earning of both banks are in increasing trend but with increase in number of share outstanding the EPS of both banks are in decreasing trend.

The S.D of BOK is higher than HBL. C.V. of HBL is lower.

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. 4.19

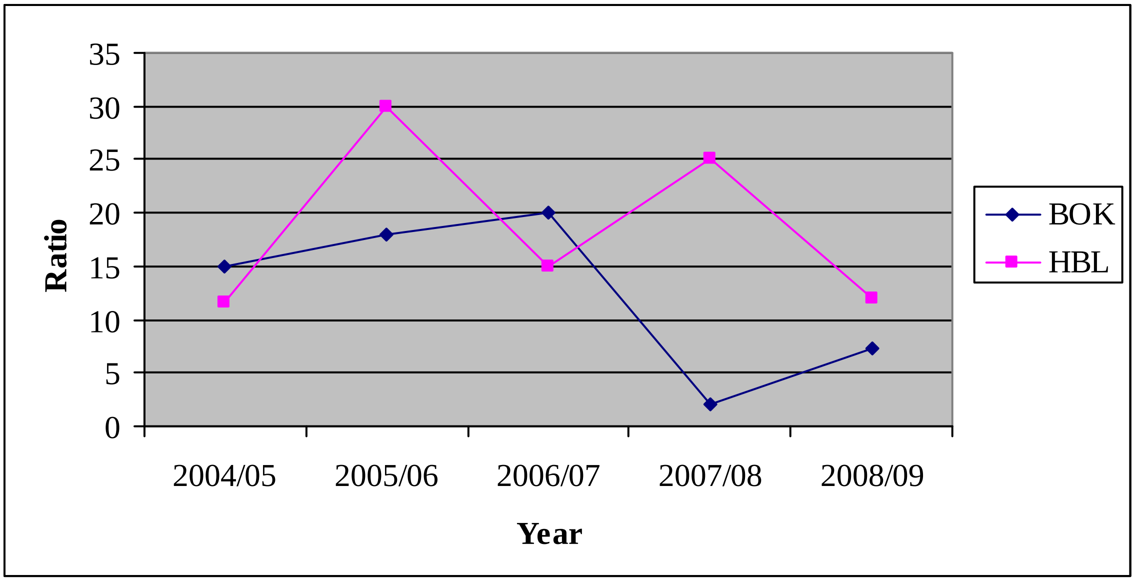
Dividend per Share (in Rs.)

Name of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D.	C.V.
BOK	15	18	20	2.11	7.37	12.49	7.534	0.6029
HBL	11.58	30	15	25	12	18.72	8.316	0.4444

Source: Annual Report of Concern Banks

Figure No 4.19

Dividend per Share (in Rs.)



The above statistics shows the dividend per share of HBL and BOK seem to be equal that of BOK in 2005/06 and in 2007/08 and in other studied period BOK has higher ratio. Average dividend per share of HBL is little higher than that of BOK (i.e18.72>12.49), the S.D. of BOK is high so it indicate high volatile in dividend and high C.V. indicate more inconsistency in dividends during the study period.

It can be concluded HBL has adopted the policy of paying high amount in the form of cash dividends where as BOK is trying to capitalized its earnings by keeping it in the form of retained earnings.

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. 4.20

Market price per share (in Rs.)

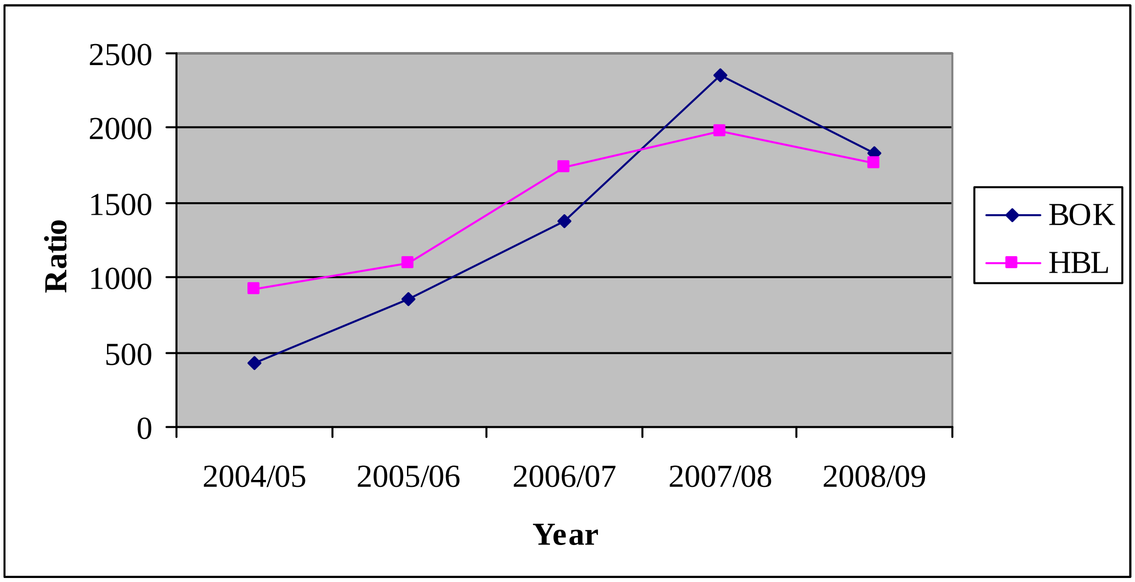
Name of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D.	C.V.
BOK	430	850	1375	2350	1825	1366	761.80	0.557

HBL	920	1100	1740	1980	1760	1500	461.52	0.308

Source: Annual Report of Concern Banks

Figure No 4.20

Market price per share (in Rs.)



Above Table and Figure shows market price of the share of BOK and HBL. Both bank BOK and HBL has increasing trend of Market price except in 2008/09. Its indicate better performance of company and high expectation by shareholder. Average mean price of HBL is greater than that of BOK. i.e. 1500 >1366. It indicates that shareholder of HBL are getting higher price. The S.D. and C.V. of BOK high than HBL.

D) 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.

Table No. 4.21

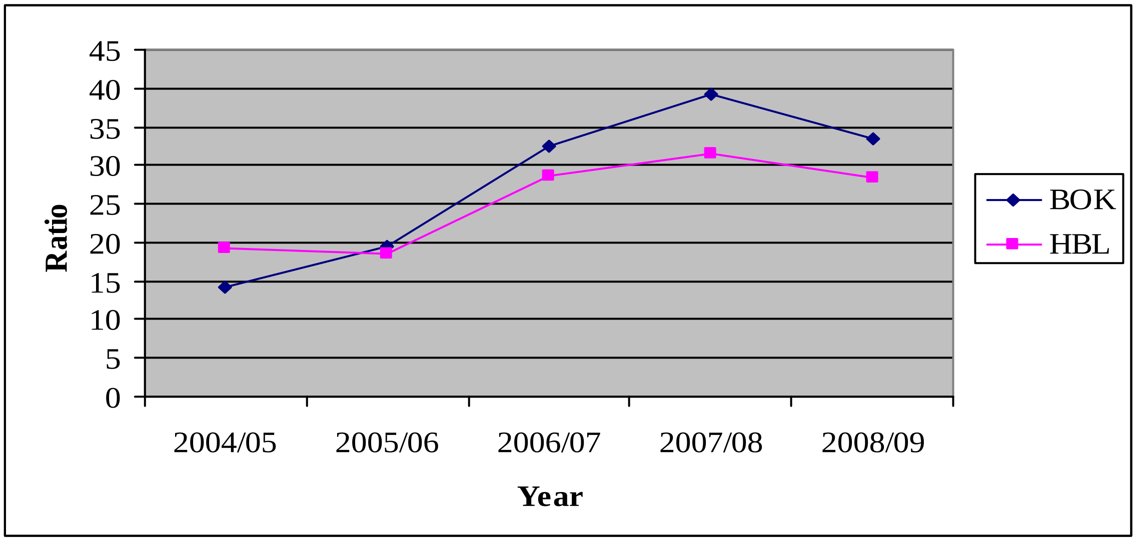
Price Earning Ratio (in times)

Name of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D.	C.V.
BOK	14.29	19.47	32.60	39.21	33.37	27.79	10.44	0.376
HBL	19.20	18.57	28.69	31.56	28.43	25.29	5.978	0.236

Source: Annual Report of Concern Banks

Figure No 4.21

Price Earning Ratio (in times)



Above Table and Figure shows that price earning ratio earning of BOK and HBL are in increasing trend. From the mean point of view, mean ratio of the BOK and HBL are 27.79 and 25.29 times respectively. It indicates that for getting Rs 1 as earning, one should invest Rs 27.79 in BOK and Rs 25.29 in HBL. Looking the mean ratio we conclude that in short run, investor of BOK are getting better profitability because they are selling their shares in high price although EPS of BOK is lower in comparison than that of HBL. But from the long term view and sustainable fair price, investor of HBL will get better profitability and they will be in safe side a little bit in comparison with BOK.

The S.D and C.V of BOK is high than the HBL it indicate its risk to invest in BOK rather than the HBL.

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 HBL 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. 4.22

Correlation between Deposit and Loan and Advances

Name of Banks	**Evaluation Criterions**				
	r	R^2	P.Er.	6 P.Er.	Remarks
BOK	0.999	0.998001	0.000603	0.003618	Significant
HBL	0.973	0.946729	0.016069	0.096417	Significant

Source: Through SPSS Data Editor

From the above table, it is found that coefficient of correlation between deposits and loan and advances of BOK and HBL is 0.999 and 0.973. 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 but not proportionately. 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 HBL is 0.9467. It refers that 94.67 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.

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 (R^2) of BOK and HBL during the study period.

Table No. 4.23

Correlation between Deposit and Total Investment

Name of Banks	**Evaluation Criterions**				
	r	R^2	P.Er.	6 P.Er.	Remarks
BOK	0.036	0.001296	0.301264	1.807583	Insignificant
HBL	-0.331	0.109561	0.268605	1.611631	inSignificant

Source: Through SPSS Data Editor

From the above Table, the researcher found that the coefficient of correlation between total deposit and total investment of BOK is 0.036. It shows the low degree positive correlation. In addition, coefficient of determination of BOK is 0.00123 It means only 1.23 percent of total investment is explained by total deposit. The correlation coefficient is insignificant because the correlation coefficient is less than 6 P.Er. It refers that there is no significant relationship between total deposit and total investment of BOK.

Similarly, there is low degree correlation negative coefficient between total deposit and total investment of HBL, which is indicator by correlation coefficient of -0.331. The value of coefficient of determination is found 0.1095 this refers that 10.95 percent of the variation in total investment is explained by total deposit. The correlation coefficient is insignificant because the correlation coefficient is less than 6 P.Er. It refers that there is no significant relationship between total deposit and total investment of HBL

From the above analysis, the conclusion can be drawn in the case of BOK and HBL that HBL has moderate degree negative correlation where as BOK has low degree positive correlation. This indicates that HBL 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 HBL 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', R^2, P.Er. and 6 P. Er. between those variables of BOK and HBL for the study period.

Table No. 4.24

Correlation between Loan and advance and Net profit

Name of Banks	**Evaluation Criterions**				
	r	R^2	P.Er.	6 P.Er.	Remarks
BOK	0.997	0.994009	0.001807	0.010843	Significant
HBL	0.977	0.954529	0.013717	0.082299	Significant

Source: Through SPSS Data Editor

Above Table shows correlation coefficient between, Loan and advance and net profit is 0.997 of BOK. It refers that there is positive correlation between these two variables. Here, 99.4 percent of net profit is contribute by Loan and advance as its coefficient of determination of 0.994 shows. Moreover, this relationship is significant because the coefficient of correlation is more than 6 P.Er. Likewise HBL also high degree positive correlation i.e. 0.986 between Loan and advance and net profit. The coefficient of determination R^2 is 0.972 which indicates that 97.2 percent variability in net profit is explained by Loan and advance. Moreover, greater correlation coefficient than 6P.Er. Shows that the relationship between Loan and advance and net profit is significant for HBL. In calculation, BOK has more significant relationship between Loan and advance and net profit than that of HBL.

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 2003/04 to 2007/08.

Table No. 4.25

Correlation between Total Investment and Net Profit

Name of Banks	Evaluation Criterions				
	r	R^2	P.Er.	6 P.Er.	Remarks
BOK	0.03	0.0009	0.301383	1.8083	Insignificant
HBL	-0.379	0.143641	0.258325	1.549949	Insignificant

Source: Through SPSS Data Editor

Above Table shows, correlation coefficient between total investment and net profit of BOK is 0.03 which implies there is positive correlation between total investment and net profit. In addition, coefficient of determination of BOK is 0.0009. It means only 0.9 percent of Profit is contribute by total investment. Obviously, this correlation is not significant at all due to coefficient of determination is lower than P.Error. On the other hand HBL has low degree of negative correlation between total investment and net profit i.e. -0.379. The coefficient of determination of HBL is 0.1436 It means 14.36 percent of Profit is contribute by total investment but this relationship is insignificant as its correlation coefficient is lower than 6 P.Er. i.e. 1.55. Both HBL and BOk has 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 BOK is little poor than the HBL. This little correlation coefficient indicates that the bank has poor performed in order to generate net profit.

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

Coefficient of correlation of total deposit between BOK and HBL and shows their linear relationship.

Table No. 4.26

Correlation between Total Deposit of BOK and HBL

Evaluation Criterions				
R	R^2	P.Er.	6 P.Er.	Remarks
0.983	0.966289	0.010169	0.061014	Significant

Source: Through SPSS Data Editor

This Table shows how the total deposit of BOK and HBL is related 0.983 of correlation coefficient shows that there is highly positive correlation between this two banks in this regard. But this correlation coefficient is also significant because the correlation coefficient is high than 6 P.Er. As the 0.966 of coefficient of determination, which shows the 96.6 percent of the degree of relationship.The degree of relationship between these two banks is also high.

F) Coefficient of Correlation of Total Investment between BOK and HBL

The coefficient of correlation of total investment between selected commercial banks is shown as follow:

Table No. 4.27

Correlation between Total Investment of BOK and HBL

Evaluation Criterions				
R	R^2	P.Er.	6 P.Er.	Remarks
0.311	0.096721	0.272478	1.63487	Insignificant

Source: Through SPSS Data Editor

The above table reveals that there is moderate positive correlation between BOK and HBL in case of total investment i.e. 0.311. It implies that the total investment of BOK and HBL move in the same direction. Here $R^2 < 6$ P.Er. Therefore, correlation coefficient is not significant. This can be said that both BOK and HBL increase its total investment as same direction. The coefficient of determination is 0.0967, which shows the only 9.67 percent of the degree of relationship.

G) Coefficient of Correlation of Loan and Advances between BOK and HBL

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

Table No. 4.28

Correlation between Loan and Advances of BOK and HBL

Evaluation Criterions				
R	R^2	P.Er.	6 P.Er.	Remarks
0.977	0.954529	0.013717	0.082299	Significant

Source: Through SPSS Data Editor

Above Table show that there is high degree positive correlation between the loan and advances of BOK and HBL. The correlation coefficient between two bank is 0.977. 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 0.954 which shows the 95.4 percent of the degree of relationship.

H) Coefficient of Correlation of Net Profit between BOK and HBL

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 HBL

Evaluation Criterions				
R	R^2	P.Er.	6 P.Er.	Remarks
0.990	0.9801	0.006003	0.036018	Significant

Source: Through SPSS Data Editor

Above statistics shows that there is high degree positive correlation between profits of BOK and HBL which is indicated by correlation coefficient of 0.99 This relationship is significant because its correlation coefficient is greater than 6 P.Er. The coefficient of determination is 0.98 which shows the 98 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 HBL for further eight 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……………………. (I)

Where x = X - Middle year

Where as

Y = 13146.88+2363.124 X of BOK

Y = 29575+2508.661 X of HBL

Table No. 4.30

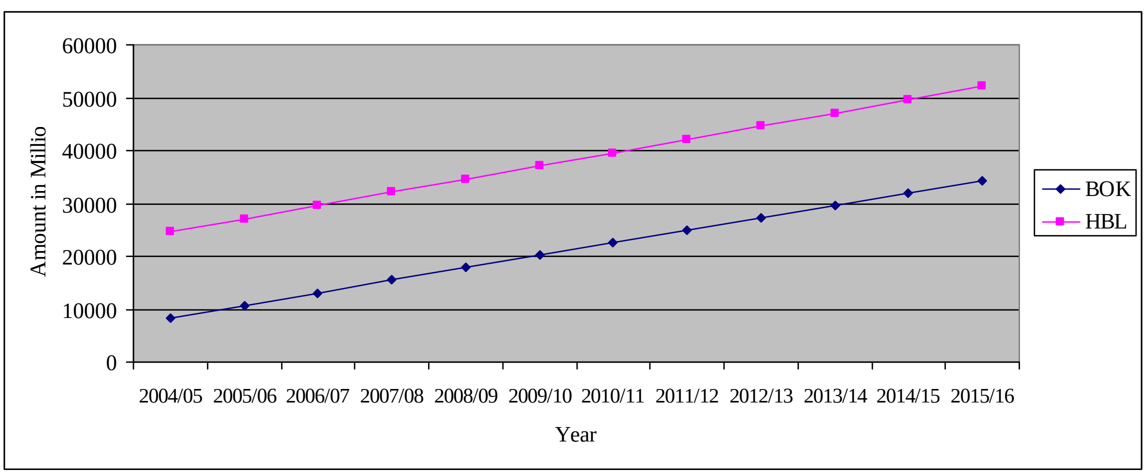
Trend analysis of Total Deposit (in Millon) of BOK and HBL		
Year(x)	BOK	HBL
2004/05	8390.63	24557.7
2005/06	10753.8	27066.3
2006/07	13116.9	29575
2007/08	15480	32083.7
2008/09	17843.1	34592.3
2009/10	20206.3	37101
2010/11	22569.4	39609.6
2011/12	24932.5	42118.3
2012/13	27295.6	44627
2013/14	29658.7	47135.6
2014/15	32021.9	49644.3
2015/16	34385	52152.9

Source: Annul Report of Concern Bank

Appendix -2

Figure No 4.22

Trend Line of Total Deposit of BOK and HBL



Above Table and figure shows that total deposit of BOK and HBL. Both Banks is in increasing trend. The rate of increment of total deposit for HBL seems to be higher than that of BOK. The actual value of total deposit for BOK is quite fluctuated in relation to HBL. The trend analysis has projected deposit amount in fiscal year FY 2008/09 to FY 2015/16. From the above trend analysis it is clear that HBL has higher position in collecting deposit than BOK.

B) Trend Analysis of Loan and advances

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

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……………………. (I)

Y = 9936.186+2267.3 X of BOK

Y = 18541.199+2855.434 X of HBL

Table No. 4.32

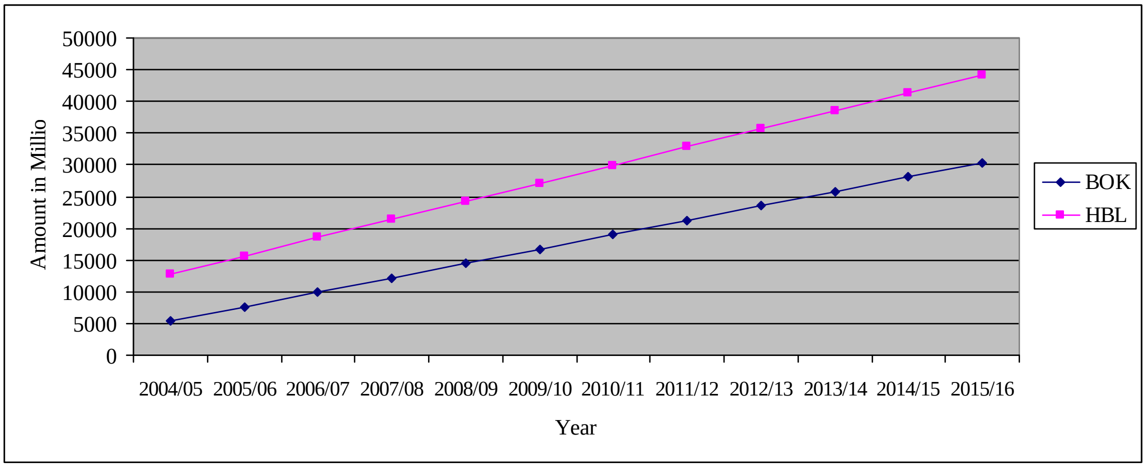
Trend line of Total Loan and Advance (in Million)of BOK and HBL		
Year(x)	BOK	HBL
2004/05	5401.59	12830.3
2005/06	7668.89	15685.8
2006/07	9936.19	18541.2
2007/08	12203.5	21396.6
2008/09	14470.8	24252.1
2009/10	16738.1	27107.5
2010/11	19005.4	29962.9
2011/12	21272.7	32818.4
2012/13	23540	35673.8

2013/14	25807.3	38529.2
2014/15	28074.6	41384.7
2015/16	30341.9	44240.1

Source: Annul Report of Concern Bank

Appendix - 3

Figure No 4.23



Above Table depicts that loan and advances of BOK and HBL. Both Banks has in increasing trend. The increasing trend of HBL is higher than BOK. The actual value of loan and advances for BOK is quite fluctuating in relation to HBL. The trend projected for father eight year FY 2007/08 to FY 2015/16 From the above analysis, it is clear that both BOK and HBL is mobilizing its collected deposits and other funds in the form of loan and advances. Above table and figure shows the HBL has little highly mobilizing loan and advances than the BOK.

C) Trend Analysis of Total Investment

Under this topic, an attempt has been made to analyze trend analysis total investment of BOK and HBL for further eight years

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……………………. (I)

Where x = X - Middle year

Y = 2991.296+19.664 * X of Bank of Kathmandu Limited

Y = 11291.05+ - 351.215 * X of Himalayan Bank Limited X

Table No. 4.33

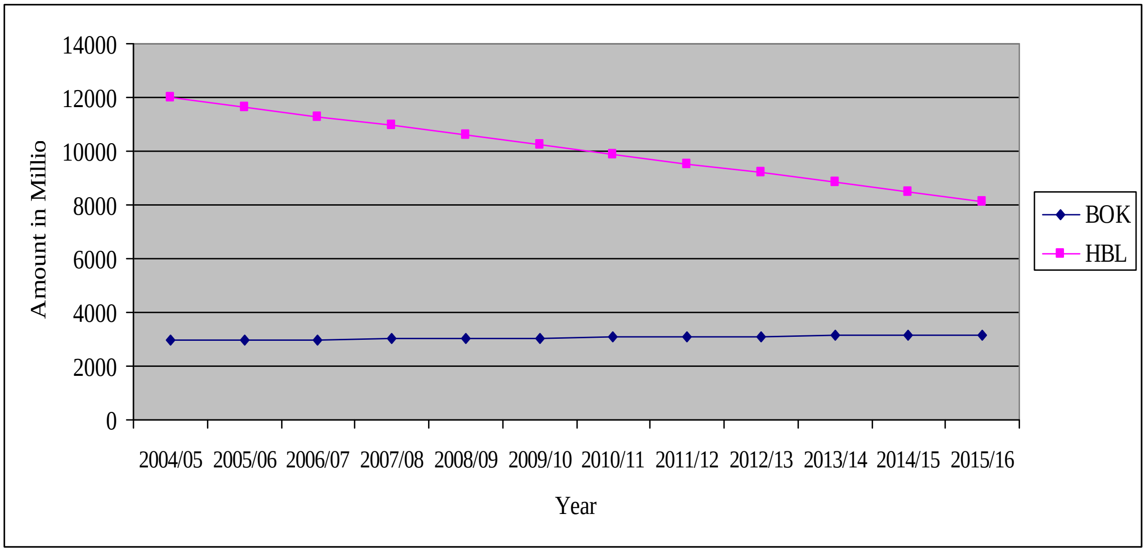
Trend Line of Total Investment (in Million) between BOK and HBL		
Year(x)	BOK	HBL
2004/05	2951.97	11993.5
2005/06	2971.63	11642.3
2006/07	2991.3	11291.1
2007/08	3010.96	10939.8
2008/09	3030.62	10588.6
2009/10	3050.29	10237.4
2010/11	3069.95	9886.19
2011/12	3089.62	9534.98
2012/13	3109.28	9183.76
2013/14	3128.94	8832.55
2014/15	3148.61	8481.33
2015/16	3168.27	8130.12

Source: Annul Report of Concern Bank

Appendix -4

Figure No 4.24

Trend Line of Total Investment between BOK and HBL



Above Table shows the Trend of Total Investment between BOK and HBL. Both Bank BOK and HBL have increasing trend in making investment. BOK has little trend of increasing, but HBL has high increasing trend of total investment. The trend of total investment projected to FY 2015/16. The forecasted trend projected that the HBL has greater increment rate in total investment than the increment rate of BOK. The figure indicates HBL 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 HBL have been calculated for five years FY 2001/02 to FY 2005/06 and forecasting of the same for next two year till FY 2006/2007 and FY 2007/2008.

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……………………. (I)

Where x = X - Middle year

y = 285.514 +80.347 * X of Bank of Kathmandu Limited

y = 529.25 + 106.752 * X of Himalayan Bank Limited

Table No. 4.34

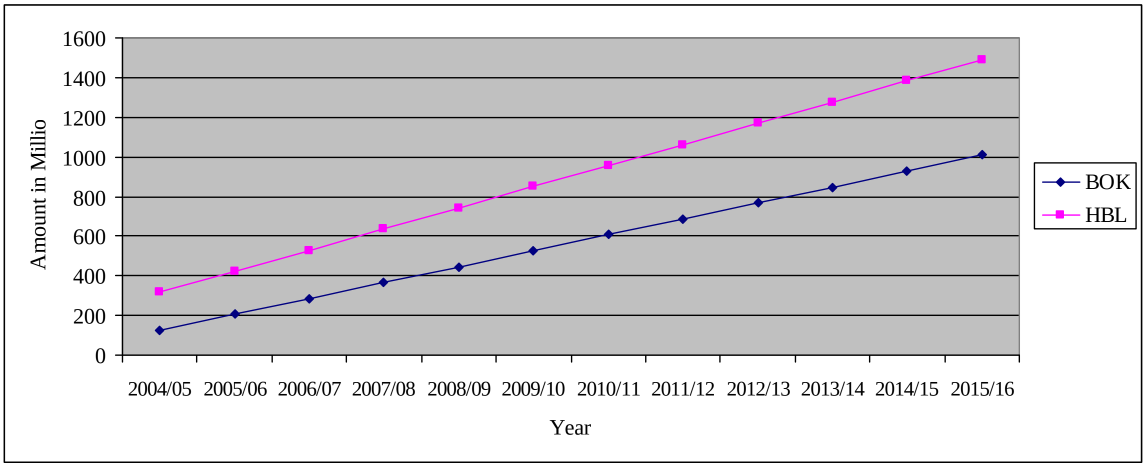
Trend Analysis of Net Profit (in Million) Between BOK and HBL		
Year(x)	BOK	HBL
2004/05	124.82	315.746
2005/06	205.167	422.498
2006/07	285.514	529.25
2007/08	365.861	636.002
2008/09	446.208	742.754
2009/10	526.555	849.506
2010/11	606.902	956.258
2011/12	687.249	1063.01
2012/13	767.596	1169.76
2013/14	847.943	1276.51
2014/15	928.29	1383.27
2015/16	1008.64	1490.02

Source: Annul Report of Concern Bank

Appendix - 5

Figure No 4.25

Trend Line of Net Profit between BOK and HBL



The above Table reveals the trend of Net profit of BOK and HBL. Net profit both bank BOK and HBL forecasted in increasing trend. The trend of increasing value of net profit of HBL is higher than BOK. The net profit of BOK and HBL has been increasing every year by Rs.59.089 million and Rs. 92.92 million respectively. The trend of Net profit projected to FY 2015/16 i.e. further Eight year. Above statistics, shows that both the banks have inconsistent net profit throughout the study period. In conclusion, HBL is doing better in order to generate net profit during the projected study period, though both BOK and HBL have increasing trend.

4.3 Major Findings of the study

From the above research study, following findings are drawn on the financial performance of the selected commercial banks.

1. Generally banks have to maintain more liquid assets but the current ratios of all banks are below the standard of 1:1. The mean current ratio of BOK is 1.04 and HBL is 1.12, the current ratio of HBL is higher than BOK

2. Cash and bank balance to total deposit ratio of BOK is higher HBL than i.e. 9.4% > 6.8% which indicates that the HBL has higher liquidity than. A high ratio of cash and bank balance may be undesirable as it indicates inability to invest in more productive sectors like short-term marketable securities insuring enough liquidity which will help the bank to improve its profitability. Liquidity position however is good.

3. Cash and bank balance to current assets ratio of BOK is little higher than HBL i.e. 9.80%. > 7.9%

4. Investment on government securities to current assets of HBL is higher than BOK i.e. 23.2% > 18.7%. It shows HBL has invested more funds in government securities. BOK has invested little portion of their funds in purchasing government securities.

5. Above findings shows that liquidity position of HBL is comparatively better than BOK. Lower liquidity position of BOK shows that its current assets have been

utilized in some profit generating sectors, but at the same time the bank has weak short-tern solvency position.

6. The loan and advances to total deposit ratio of HBL is lower than BOK 61.2% < 74.2%. It indicates the better mobilization of deposit by BOK. So, BOK is more efficient at utilizing the outsiders' funds in extending credit for profit generating sectors.

7. The total investment to total deposit of HBL is higher than BOK i.e. 38.9% > 24.2%. It shows the HBL is mobilizing its funds on investment in various securities efficiently. It can be said that HBL is more successful in utilizing its total deposit by investing in marketable securities.

8. The loan and advances to total assets ratio of BOK is greater than HBL i.e. 65.1 > 53.8%. It refers that BOK has utilized its total assets more efficiently in the form of loan and advances with more risk because it has greater variability in the ratio.

9. Investment on government securities to total assets ratio of HBL is higher than BOK i.e. 17.5% > 15.9%. This indicates that HBL has invested more portions of total assets on government securities. The higher ratio of HBL shows better fund mobilization.

10. Return on total assets ratio of BOK is slightly higher than HBL i.e. 1.82% > 1.45%. But it has greater variability in the ratio.

11. Return on equity of BOK is higher than HBL i.e. 25.5% > 23.60% which shows that BOK is more successful at earn higher profit through efficient utilization of its equity capital.

12. Total interest earned to total assets ratio of HBL is relatively lower than that of BOK i.e. 5.4% < 6.00% and also has lower variability in the ratio. It indicates that BOK has efficiently used its total assets to earn higher interest income in comparison to HBL and it is also stable in terms of interest earning.

13. Total interest earned to total outside assets ratio of BOK is higher than that of HBL i.e. 6.9% > 6.2%.

14. Total interest earned to total operating income ratio of HBL is lower than BOK i.e. 1.21% > 1.527. It means the greater portion of total operating income is occupied by total interest for BOK. It reveals BOK is successful in mobilizing their funds in interest generating assets.

15. Total interest paid to total assets ratio of BOK is higher than HBL i.e. 2.50 % >2.20%. It shows BOK has higher interest expenditure to total assets. It supports BOK to increase its interest paid to operating income**.**

16. The credit risk ratio shows the proportion of no-performing loan in total Loan and Advances. Average credit risk ratio of BOK is lower than HBL i.e. 2.676<4.434. BOK has efficiently used its total loan and advances than HBL has. Higher ratio indicates more risky assets in the volume of Loan and Advances of the bank and vice-versa.

17. The liquidity risk of the bank defines its liquidity need for deposit. The average mean ratio of BOK is greater than that of HBL (i.e. 9.4% > 6.75). It signifies that BOK has sound liquid fund to make immediate payment to the depositors

18. Average earning per share of HBL is greater than that of BOK i.e. Rs. 61.90 > Rs. 54.68. But HBL has more consistent earning per share as suggested by its lower coefficient of variation.

19. Average dividend per share of HBL is a little higher than that of BOK (i.e18.72>12.49).

20. Average mean price of HBL is greater than that of BOK. i.e.1500 >1366. It indicates that shareholders of HBL are getting higher price It shows HBL has better financial performance than BOK in order to increase market price per share

21. The mean price-earning ratio of BOK is little higher than that of HBL i.e. 27.79 is greater than 25.29. It indicates that to getting Rs 1 as earning, one should invest

Rs 27.79 in BOK and Rs 25.29 in HBL. Looking at the mean ratio we can conclude that in short run, investors of BOK are getting better profitability because they are selling their shares in high price although EPS of BOK is lower in comparison than that of HBL

22. Both BOK and HBL have high positive co-relation between total deposit and loan and advances because BOK and HBL have 0.999 and 0.973 of co-relation coefficient between deposit and loan and advances. These relationships are significant. This can be regarded as good indication in financial performance for the banks.

23. There is positive correlation between total deposit and total investment of BOK and while HBL has a negative correlation. BOK has positive co-relation of 0.036 while HBL has a negative correlation of -0.331. This indicates that BOK is successful to mobilize its deposit in order to make good investment in comparison with HBL.

24. There is positive correlation between Loan and advance and net profit. Correlation between Loan and advance and net profit of BOK is 0.997 and HBL is 0.977. The relationship between Loan and advance and net profit of both banks is significant. In calculation, BOK has more significant relationship between Loan and advance and net profit than that of HBL

25. The degree of relationship between total investment and net profit of HBL is lower than BOK i.e. correlation coefficient between total investment and net profit of BOK and HBL is 0.03 and -0.379 respectively. It refers that BOK is comparatively successful to generate net profit through the total investment in relations to HBL which has a negative correlation.

26. Correlation coefficient of total deposit between BOK and HBL shows high positive correlation i.e. 0.983. The correlation coefficient shows that It refers that total deposit of both banks move in the same direction in this regard. Correlation coefficient is also significant.

27. The correlation of total investment between BOK and HBL is positive correlation i.e. 0.311. It implies that the total investment of both banks move in the same direction but less proportionately. correlation coefficient of bank is insignificant

28. The degree of relationship of loan and advances between the BOK and HBL is high because correlation coefficient between loan and advances of these two banks is 0.977. It means loan and advances of these two banks moves in the same direction in high. Correlation coefficient is also significant

29. The correlation of net profit between BOK and HBL is positive. The relationship is high because correlation coefficient between net profit of these two banks is 0.990. The relationship between two banks is significant because its correlation coefficient is greater than 6 P.Er. The net profit of these two banks also moves very closely in the same direction.

30. BOK and HBL have increasing trend in collecting deposit but the rate of increment of total deposit of HBL seems to be higher than that of BOK. Here HBL is in better position in collecting deposit than BOK.

31. The trend line of loan and advances for both banks is upward slopping. It refers that both the banks are increasing its disbursement of loan and advances. The trend line of loan and advances for HBL seems steeper than BOK. It refers that HBL is more aggressive in mobilizing its collected deposits.

32. The total investment trend line of HBL is downward slopping where as BOK has a straight line. It refers that HBL has better position of total investment than BOK even though it has a downward sloping trendline.

33. The trend line of Net profit for BOK and HBL is upward slopping. The position of HBL is better than BOK as it has a steeper slope as compared to BOK.

34. Both the banks have maintained their ratio pretty well. Trends of Both the banks have increasing trend. HBL is one of the oldest banks of the country and this has givin it an advantage in surviving the competition. However, looking at the past

trends, HBL seems to be facing decline in its efficiency whereas BOK has made significant improvement in its operation. The current positions of both banks is good enough to sustain and survive in the competition and to satisfy its, customers, stakeholders ans its employees.

CHAPTER – V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The researcher has identified that research problem and set objectives to solve research problems about financial performance of Bank of Kathmandu and Himalayan Bank Limited. To make this study more effective, related literatures have been reviewed. The review of literature provides the foundation of knowledge in order to under take this research more precisely.

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 in order to come to the decisions. 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. and authorize web site of Nepal stock exchange and security board of Nepal.

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, 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 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.

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 derivate statements can be produced, such as statement of retained earnings, a sources and uses of funds statements and a statement of cash flows etc

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 teach 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.

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 bas 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.

5.2 Conclusion

The overall aspect of liquidity position of BOK is comparatively better than HBL. BOK has higher ratio than HBL in all instances except for Investment in Government Securities to Current Assets Ratio. HBL has utilized its liquid assets in more profit generating sectors.

HBL and BOK are pretty much similar in their asset management as BOK has higher ratios in Loan and Advance to Total Deposit Ratio and Loans and Advances to Total Assets Ratio whilw HBL has higher ratios in Investment to Total Deposit Ratio and Investment on Government Securities to Total Assets ratio.

Overall profitability ratios show that BOK has earned higher profit in relation to every aspects of the bank than HBL.

HBL faces higher Credit Risk as compared to BOK while BOK has faces higher Liquidity risk than HBL.

Earning per share, dividend per share and market price per share of is higher for HBL in comparison to BOK .It gives good signal of financial performance of the bank in the market. Price- earning of BOK is higher than HBL which is considered better in security analyzing in order to make investment decision.

Both commercial banks HBL and BOK have positive correlation between deposit and loan and advances, while HBL has a negative correlation in deposit and total investment, total assets and net profit total investment and net profit. Comparatively both banks have strong relationship between these variables. It is also found that there is positive correlation between total deposit of BOK and HBL, between loan and advances of both banks and between net profits of both banks

Total Investment, loan and advances, net profit of BOK and HBL are in increasing trend. Its show positive trend of both banks.

Both BOK and HBL have high positive co-relation between total deposit and loan and advances, total deposit and total investment

Correlation analysis between Deposits and Loans and Advances and Loans and advances and Net Profit has a positive relationship from both the banks while BOK shows positive correlation between Total Deposits and Total Investment and Total Investment and Net Profit but HBL shows negative correlation between these two.

Correlation coefficient of total deposit, total investment, loan and advances and net profit between BOK and HBL shows positive correlation. It refers that all the variable of both bank moves in the same direction some are closely in the same direction and some are less proportionately

BOK and HBL have increasing trend in collecting deposit the rate of increment of total deposit for BOK seems to be higher than that of HBL. HBL has better position in collecting deposit than BOK.

The trend line of loan and advances trend line for both banks is upward slopping. It refers that both the banks are increasing in disbursement of loan and advances. The total investment trendline of HBL is upward sloping while that of BOK has a straight line.

The trend line of Net profit for BOK and HBL is upward slopping. The position of HBL is better in order to generate profit than BOK.

The trend analysis reveals that both the banks have maintained their ratio pretty well. Both banks has an increasing trend in most of the sectors. In comparison to both bank every ratio of HBL is higher than the BOK

From the entire research study, overall all financial performance of HBL is little better than BOK. But BOK is operating smoothly and success in becoming the pillar of economic system of the country. HBL being one of the old banks in the country does have certain advantage but it has not been able to keep up with its its past trends while BOK who entered the Nepalese Banking scenario after HBL, has been showing impressive improvement that has definitely helped them survive the cut-throat competition.

The profile of financial executives and customers reveals that more Nepalese investors do not have knowledge about investment practice adopted by commercial banks. Commercial banks have not provided investment priority to the rural sectors but being a it is very necessary to give investment priority to the rural area as Nepal is a develooping country and investment in such sector would definitely help in the development of the priority sectors that would boost up the overall economy of the country. Therefore, the banks should formulate sound investment policies. Good investment practices ensures maximum amount of investment to all sectors with proper utilization.

5.3 Recommendations

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

- Generally, banks have to maintained liquid assets. The current ratio of the two banks, BOK and HBL is considerable. 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. 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 HBL.

- 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 HBL have made some amount of fund in Government securities. But BOK and HBL are recommended to invest more funds in Government securities instead of keeping them idle.

- 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 HBL. 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.

- BOK and HBL have a possible risk because there is large amount of doubtful loan and advances and risky investment. So it is recommended to evaluate the investment opportunities and alternatives using statistical, capital budgeting and other financial tools to avoid large amount of doubtful debt and risk.

- 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.

- 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.

- 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.

- 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 its central level, which deals with the banking products, places, price and promotion.

- In conclusion the HBL has better performance than BOK. HBL needs to retain back its conistency as there are many banks sproutung up in the Nepalese banking scenario and if it continues losing its consistency, it might be too late for them to rise up. BOK however has been showing significant improvement, it should keep up with its growth trend to give strong competition to all the banks in the industry. In the light of growing competition in the banking sector, both bank BOK and HBL should be customer oriented. It should strengthen and activate its marketing function as it is an effective tool to attract and retain the customers.

BIBLIOGRAPHY

American Institute of Banking. (1972). Principles *of Banking Operation.* U.S.A.

Bajracharya, Bodhi B. (2047 BS). *Monetary Policy and Deposit Mobilization in Nepal*: *Rajat Jayanti Smarika RBB*. Kathmandu.

Baxley, James B. (1987). Banking *Management*. New Delhi: Sujeet Publication.

Bista, Bhagat. (2048 BS). *Nepal Ma Adhunik Banking Byabastha.* Kathmandu: Indu Chhapakhana.

Croose, H.D. (1963) *Management Policies for Commercial Banks.* Printice Hall of India, Englewood Cliffs

Frank and Reilly. (1990). *Investment.* The Dryden Press. Tokyo: CBS Publishing Japan Ltd.

Gautam, Kusam Ruru. (2001). *Investment Analysis of Financial Companies in Context of Nepal.* An Unpublished Master's Thesis. Kathmandu: Submitted to Central Department of Managerment, T.U.

Gitman, Lawrance J. and Joehank (1999). *Fundamentals of Investing.* London: Harper and Row Publishers

Grolier Incorporate (1984). Encyclopedia*: The World Book*. U.S.A.: Grolier Incorporate.

Gupta, D.P. (1994). The *Banking System: It's Role in Export Development.* The Financing of Exports from Developing Countries. Geneva: International Trade Center, UNCTAD/GATT.

Gupta, G. D. (2007) *Comparative Analysis of Financial Performance of Commercial Banks in Nepal'* An Unpublished Master's Thesis. Kathmandu: Submitted to Central Department of Managerment, T.U.

Gupta, Ruby (2007). *Comparative Analysis of Financial Performance of Commercial Banks in Nepal*. An Unpublished Master's Thesis. Butwal: Submitted to Central Department of Managerment, T.U.

Economic Survey (2003), *Ministry of Finance Kathmandu: Ministry of Finance*. His Majesty of Government.

Khadka, Raja Ram (2000). *A Study on Investment Policy of NABIL in Comparison to Other Joint Venture Banks of Nepal.* An Unpublished Master's Thesis. Kathmandu: Submitted to Central Department of Managerment, T.U.

Kishi, Dev L (1996). *The Changing Fact to the Banking Sector and the HMG/N Recent Budgetary Policy*. Nepal Bank Limited Patrika, Nepal Bank Limited, Vol. 25.

Kolb, Robert W. and Rodriguez, Ricardo J. (1996). *Financial Institution and Markets*. Massachusetts: Blackwell Publishers Inc.

Kothari, C.R. (1990). *Quantitative Techiniques*. New Delhi:Vikash Publishing House Pvt. Ltd.

Limbu, Ram (2008). *Credit Management of Nabil Bank Limited.* An Unpublished Master's Thesis. Kathmandu: Submitted to Central Department of Managerment, T.U.

Morris, F. (1990). Latin *America's Banking System in 1980*. The World Bank:World Bank's Discussion Paper 81.

Niroula,Sarita kumara(2010) *The Comparative Study on Portfolio Management of Nepal Industrial and Commercial bank and Everest bank ltd.* An Unpublished Master's Thesis. Kathmandu: Submitted to Central Department of Managerment, T.U.

Ojha, Kamala, (1997). *A Study of Priority Sector Investment of Commercial Banks (With Special Reference to Rastriya Banijya Bank)*. An Unpublished Master's Thesis. Kathmandu: Submitted to Central Department of Managerment, T.U.

Pyakuryal, Bishwombhar. (1987). *Workshop on Banking and National Development*. Paper Presentation. Kathmandu:Nepal Bank Limited.

Rana, Surya. (2059 BS). *Corporate Financial Management*. Kathmandu:Ratna Pustak Bhandar.

Rana, Surya Bahadur (2007). *A Comparative Financial Performance Aanlysis of Nabil Bank Ltd. and Himalayan Bank Ltd*. An Unpublished Master's Thesis. Kathmandu: Submitted to Central Department of Managerment, T.U.

Shahi, Prem Bahadur. (1999). *Investment Policy of the Commercial Banks*. An Unpublished Master's Thesis. Kathmandu: Submitted to Central Department of Managerment, T.U.

Sharma, Bhaskar. (2000). *Banking the Future of Competition.* Kathmandu: New Business Age. October.

Sharpe, F. William and Gordon, J. Alexander. (1999). *Investment*. New Delhi:Printice Hall of India Pvt. Ltd.

Shrestha, Sumnima. (2009) Credit risk management of Nabil Bank Limited and Nepal Investment Bank Limited in Nepal An Unpublished Master's Thesis. Kathmandu: Submitted to Central Department of Managerment, T.U.

Shrestha, Sunity. (2055 BS). *Lending Operation of Commercial Banks of Nepal and Its Impact on GDP*. T.U. Kathmandu:The Business Voice of Nepal.

Shrestha, Sunity and Silwal, Dhruba Prasad. (2059 BS). *Statistical Methods in Management.* Kathmandu:Taleju Prakashan.

Shrestha, Shiva Raj. (2055 BS). *Portfolio Management in Commercial Bank.* Theory and Practice. Kathmandu:Nepal Bank Patrika. Baishakh.

Singh, Preeti. (1992). Investment *Management*. Bombay: Himalayan Publishing House.

Singh, S.P. and Singh, S. (1983). *Financial Analysis for Credit Management in Banks*. New Delhi: Vikash Publishing House Ltd.

Thapa, Govinda Bahadur. (1994). *Financial System of Nepal*. Development Vision. Lalitpur: Patan Multiple Campus.

Thapa, Shamiksha. (1999). *A Comparative Study on Investment Policy of Nepal Bangladesh Bank Ltd. and Joint Venture Banks (NABIL and HBL)*. An Unpublished Master's Thesis. Kathmandu: Submitted to Central Department of Managerment, T.U.

Tuladhar, Upendra. (1999). *A Study on Investment Policy of Nepal Grindlays Bank Ltd. Incomparison to Other Joint Venture Banks*. Unpublished Masters Thesis. Kathmandu: Submitted to Central Department of Managerment, T.U.

Wolf, Howard K. and Pant, Prem R. (2002). *A Hand Book for Social Science Research and Thesis Writiing*. Kathamndu:Buddha Academy Publisher's and Distributors Pvt. Ltd.

Websites :

www.bok.com.np

www.himalyanbank.com

www.nrb.org.np

www.nepalstock.com.np

Appendix -1

Profile of Sample Bank

A. Bank of Kathmandu (BOK)

Bank of Kathmandu (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. The collaboration with SCB supported BOK to bring in the technical and managerial expertise in the Nepalese banking sector. 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. Its branches as well as number of eligible staffs have been increasing. Therefore, it has become successful Commercial banks in Nepal.

B. Himalayan Bank Ltd. (HBL)

Himalayan Bank was established in 1993 in joint venture with Habib Bank Limited of Pakistan. Despite the cut-throat competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits.

Legacy of Himalayan lives on in an institution that's known throughout Nepal for its innovative approaches to merchandising and customer service. Products such as Premium Savings Account, HBL Proprietary Card and Millionaire Deposit Scheme besides services such as ATMs and Tele-banking were first introduced by HBL. Other financial institutions in the country have been following our lead by introducing similar products and services. Therefore, we stand for the innovations that we bring about in this country to help our Customers besides modernizing the banking sector. With the highest deposit base and loan portfolio amongst private sector banks and extending guarantees to correspondent banks covering exposure of other local banks under our credit standing with foreign correspondent banks, we believe we obviously lead the banking sector of Nepal. The most recent rating of HBL by Bankers' Almanac as country's number 1 Bank easily confirms our claim.

All Branches of HBL are integrated into Globus (developed by Temenos), the single Banking software where the Bank has made substantial investments. This has helped the Bank provide services like 'Any Branch Banking Facility', Internet Banking and SMS Banking. Living up to the expectations and aspirations of the Customers and other stakeholders of being innovative, HBL very recently introduced several new products and services. Millionaire Deposit Scheme, Small Business Enterprises Loan, Pre-paid Visa Card, International Travel Quota Credit Card, Consumer Finance through Credit Card and online TOEFL, SAT, IELTS, etc. fee payment facility are some of the products and services. HBL also has a dedicated offsite 'Disaster Recovery Management System'. Looking at the number of Nepalese workers abroad and their need for formal money transfer channel; HBL has developed exclusive and proprietary online money transfer software- HimalRemitTM. By deputing our own staff with technical tie-ups with local exchange houses and banks, in the Middle East and Gulf region, HBL is the biggest inward remittance handling Bank in Nepal. All this only reflects that HBL has an outside-in rather than inside-out approach where Customers' needs and wants stand first.

HBL is not only a Bank, It is committed Corporate Citizen also. Corporate Social Responsibility (CSR) holds one of the very important aspects of HBL. Being one of the corporate citizens of the country, HBL has always promoted social activities. Many activities that do a common good to the society have been undertaken by HBL in the past and this happens as HBL on an ongoing basis. Significant portion of the sponsorship budget of the Bank is committed towards activities that assist the society as large.

The Bank's mission is to become preferred provider of quality financial services in the country. There are two components in the mission of the Bank; Preferred Provider and Quality Financial Services, therefore we at HBL believe that the mission will be accomplished only by satisfying these two important components with the Customer at focus. The Bank always strives positioning itself in the hearts and minds of the customers.

Appendix - 2

A. Calculation of Total Deposit of Himalayan Bank Limited

Year(x)	Total deposit in Million (Y)	X = x - 2005/06	X2	XY
2004/05	24814.012	-2	4	-49628
2005/06	26490.852	-1	1	-26490.9
2006/07	30048.418	0	0	0
2007/08	31842.79	1	1	31842.79
2008/09	34681.35	2	4	69362.7
Tot n= 5	∑Y =147877.42	∑X = 0	$\sum X^2 = 10$	∑XY =25086.61

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…………………… (I)

Where x = X - Middle year

$a = \frac{SY}{N}$ $b = \frac{SXY}{SX^2}$

Here, HBL

a = 27041.28

b = 2489.93

Yc = 27041.28 + 2489.93 X of HBL

B. Calculation of Total Deposit of Bank of Kathmandu

Year(x)	Total deposit in Million (Y)	X = x - 2005/06	X^2	XY
2004/05	8942.75	-2	4	-17885.5
2005/06	10485	-1	1	-10485
2006/07	12388.9	0	0	0
2007/08	15833.7	1	1	15833.74
2008/09	18084	2	4	36168
Tot n= 5	∑Y = 65734.42	∑X = 0	$\sum X^2 = 10$	∑XY = 23631.24

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…………………… (I)

Where x = X - Middle year

Here,

$a = \frac{SY}{N}$

$b = \frac{SXY}{SX^2}$

BOK

a = 13146.88

b = 2363.124

Where as

Yc = 13146.88+2363.124 X BOK

Appendix - 3

A. Calculation of Loan and advances of Himalayan Bank Limited

Year(x)	Loan and advances In Million (Y)	X = x - 2005/06	x2	XY
2004/05	13451.168	-2	4	-26902.3
2005/06	15761.977	-1	1	-15762
2006/07	17793.724	0	0	0
2007/08	20179.61	1	1	20179.61
2008/09	25519.52	2	4	51039.04
Tot n= 5	∑Y = 92705.999	∑X = 0	$\sum X^2 = 10$	∑XY = 28554.34

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……………………. (I)

Where x = X - Middle year

Here,

$$a = \frac{SY}{N}$$

$b = \frac{SXY}{SX^2}$

HBL

a = 18541.199

b = 2855.434

Yc= 18541.199 + 2855.434 X HBL

B. Calculation of Loan and advances of Bank of Kathmandu

Year(x)	Loan and advances In Million (Y)	Xx-005/06	x2	XY
2004/05	5912.58	-2	4	-11825.2
2005/06	7259.08	-1	1	-7259.08
2006/07	9399.33	0	0	0
2007/08	12462.6	1	1	12462.64
2008/09	14647.3	2	4	29294.6
Tot n= 5	∑Y = 49680.93	∑X = 0	$\sum X^2 = 10$	∑XY = 22673

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……………………. (I)

Where x = X - Middle year

Here,

$a = \frac{SY}{N}$

$b = \frac{SXY}{SX^2}$

BOK

a = 9936.186

b = 2267.3

Where as

Yc = 9936.186+2267.3 X BOK

Appendix - 4

A. Calculation of Total Asset of Himalayan Bank Limited

Year(x)	Total Asset in Million (Y)	X = x - 2005/06	x2	XY
2004/05	28871.34	-2	4	-57742.7
2005/06	30579.81	-1	1	-30579.8
2006/07	34314.87	0	0	0
2007/08	36857.62	1	1	36857.62
2008/09	40046.69	2	4	80093.38
Tot n= 5	∑Y = 170670.33	∑X = 0	$\sum X^2$ = 10	∑XY = 28628.51

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…………………… (I)

Where x = X - Middle year

Here,

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX^2}$$

HBL

a = 34134.066

b = 2862.85

Yc= 34134.066 + 2862.85 X HBL

B. Calculation of Total Asset of BOK Bank Ltd.

Year(x)	Total Asset in Million (Y)	X = x - 2005/06	X2	XY
2004/05	9857.13	-2	4	-19714.3
2005/06	12278.3	-1	1	-12278.3
2006/07	14581.4	0	0	0
2007/08	17721.9	1	1	17721.93
2008/09	20496	2	4	40992
Tot n= 5	∑Y = 74934.75	∑X = 0	$\sum X^2 = 10$	∑XY = 26721.37

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……………………. (I)

Where x = X - Middle year

Here,

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX^2}$$

BOK

a = 14986.95

b = 2672.137

Where as

Yc = 14986.95+2672.137 X BOK

Appendix - 5

A. Calculation of Net Profit of Himalayan Bank Limited

Year(x)	Net profit in Million (Y)	X = x - 2005/06	x2	XY
2004/05	308.277	-2	4	-616.554
2005/06	457.458	-1	1	-457.458
2006/07	491.824	0	0	0
2007/08	635.87	1	1	635.87
2008/09	752.83	2	4	1505.66
Tot n = 5	$\sum Y = 2646.26$	$\sum X = 0$	$\sum X^2 = 10$	$\sum XY=1067.52$

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…………………… (I)

Where x = X - Middle year

Here,

$a = \frac{SY}{N}$

$b = \frac{SXY}{SX^2}$

HBL

a = 721.212

b = 113.467

Yc= 721.212 + 113.467 X HBL

B. Calculation of Net Profit of Bank of Kathmandu Ltd.

Year(x)	Net profit in Million (Y)	X = x - 2005/06	x2	XY
2004/05	139.52	-2	4	-279.04
2005/06	202.44	-1	1	-202.44
2006/07	262.39	0	0	0
2007/08	361.49	1	1	361.49
2008/09	461.73	2	4	923.46
Tot n= 5	$\sum Y = 1427.57$	$\sum X = 0$	$\sum X^2 = 10$	$\sum XY = 803.47$

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……………………. (I)

Where x = X - Middle year

Here,

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX^2}$$

BOK

a = 285.514

b = 80.347

Where as

Yc = 285.514 +80.347 X BOK