

**A COMPARATIVE STUDY OF FINANCIAL PERFORMANCE  
OF BANK OF KATHMANDU LIMITED AND  
NABIL BANK LIMITED**

**By**  
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*In partial fulfillment of the requirement for the degree of*  
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# **RECOMMENDATION**

This is to certify that the Thesis

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**SABITA SHRESTHA**

Entitled:

**A COMPARATIVE STUDY OF FINANCIAL PERFORMANCE  
OF BANK OF KATHMANDU LIMITED AND  
NABIL BANK LIMITED**

*has been prepared as approved by this Department in the prescribed format of the  
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# VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

By

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*And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the degree of*

**Master of Business Studies (MBS)**

## Viva-Voce Committee

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## **DECLARATION**

I hereby declare that the work reported in this thesis entitled "**A Comparative Study of Financial Performance of Bank of Kathmandu Limited and Nabil 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 for the Master's Degree in Business Study (M.B.S.) under the supervision of **Rita Maskey** and **Kamal Prakash Adhikari** of Shanker Dev Campus.

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## ACKNOWLEDGEMENT

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I would like to extend my appreciation to the staffs of BOK and NABIL who provided me the necessary data and information

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**Sabita Shrestha**

## ABBREVIATIONS

&	:	And
B.S.	:	Bikram Sambat
BFI	:	Bank and Financial Institutions
Bok	:	Bank of Kathmandu
BVPS	:	Book Value per Share
C.R.	:	Current Ratio
C.V.	:	Coefficient of Variation
DFL	:	Degree of Financial Leverage
DPR	:	Dividend Payout Ratio
DPS	:	Dividend per Share
EBIT	:	Earning Before Interest and Tax
EBT	:	Earning Before Tax
EPS	:	Earning Per Share
F/Y	:	Fiscal Year
i.e.	:	That is
JVBs	:	Joint Venture Banks
M	:	Market Value Per Share
N	:	Number of Year
NABIL	:	Nepal Arab Bank Limited
NBA	:	Non-Banking Assets
NPA	:	Non-Performing Assets
NPAT	:	Net Profit after Tax
NRB	:	Nepal Rastra Bank
P. Er.	:	Probable Error
P/E	:	Price Earning
P/L	:	Profit & Loss
r	:	Correlation Coefficient

$r^2$	:	Coefficient of Determination
ROA	:	Return on Total Assets
ROE	:	Return on Equity
Rs	:	Rupees
S.D.	:	Standard Deviation
WTO	:	World Trade Organization

# CHAPTER - I

## INTRODUCTION

### 1.1 Background of the Study

Nepal is an underdeveloped country per capita income of US \$ 240 and most of the people are under poverty line. Many features are there for slow pace of the development such as land locked position, lack of vagaries and misuse of resources, poor economy policy and institutional weakness.

Capital accumulation plays an important role in accelerating the economic growth of a nation, which in terms is basically determined, among others, by saving and investment propensities. However, the capacity to save in the developing countries is quite low with a relatively higher marginal propensity of consumption. As a result, such countries are badly entrapped in to the circle of poverty. So, the basic problem for the developing countries is raising the level of saving and thus investments.

The basis for the financial planning, analysis and decision-making is the financial information. Financial information is needed to predict, compare and evaluate the firm's earning ability. It is required to aid in economic decision- making. The financial information of an enterprise is contained in the financial statement or accounting reports.

"Financial statement analysis applies analytical tools and techniques to general purpose financial statements and related data to derive to estimates and interferences useful in business decisions. It is a screening tool in selecting investment or merger candidates and is a forecasting tool of future financial conditions and consequences. It is a diagnostic tool in assessing financing, investing and operating activities and is an evaluation tool for managerial and other business decision "(Bernstein, Leopard. A, Wild John J., 1998: 3)

Financial Statement analysis reduces over reliance on hunches, guesses, and intuition and in turn, it diminishes our uncertainty in decision-making. It does not lesson the need for



expert judgment but rather establishes an effective and systematic basis for making business decisions.

Financial statements of a firm mainly include income statement and the balance sheet. They are important source of financial information regarding the firm's operations and its financial position. To analyze the financial performance, strength, and weakness of the firm, many types of tools and techniques are used.

Ratio analysis is one of the very popular and widely used tools of financial analysis. Ratio analysis is done with different ratios. Which are calculated from the accounting data contained in the financial statement? It is the primary tool for examining the firm's financial position and performance. Ratios are used as yardstick for evaluating the financial condition and performance of the firm.

Commercial banks play an important role in affair of the economy in various ways. The operations of commercial banks record the economic pulse of the economy. The size and composition of their transaction mirror the economic happening in the country. They are essential instruments of accelerated growth in a developing economy, by mobilizing community savings and diverting them into productive channels commercial banks expand and appreciate the value of aggregate economic activity in the economy.

The financial system in Nepal has from a narrow, repressed regime till the eighties to a dynamic expanding sector in the nineties. Indicators of the last decade shown that the sector has growth both quantitatively and qualitatively. It could be observed that, at the same time, the financial market has become more competitive, dynamic and also compels. This constitutional network and the volume of operations of financial system have expanded and diversified with the number of increased in commercial banks.

The adoption of the market economy has given birth too many private commercial banks in the country as said earlier. So far, all these banks are doing very well in the slowdown

in the economy, interest rates are falling down. All the banks are with funds and looking for safe and profitable avenues to invest in it.

The researcher has attempted to analysis the comparative financial performance of Bank of Kathmandu Limited and Nabil Bank Limited and their individual strength on the basis of their internal reports and published annual reports. For the purpose, different tools and techniques have been applied to judge the performance of these organizations, drawn out the strength and weakness of the firms and try to prescribe measures to improve the performance of these two banks.

### **1.1.1 Concept of Banking**

Bank is financial institution that plays a significant role in the development of the country. It facilitates the growth of trade and industry of the national economy. Bank is a resource mobilizing institution that accepts deposit from various sources and invests such accumulated resources in primary, secondary and tertiary sectors. Hence, bank can be considered as the backbone of a country's overall development.

Bank can also be defined as a financial intermediary between depositors and entrepreneurs. It is a financial institution, that accept deposits and channels the money into leading activities. In a general sense bank acts as a financial intermediary. Intermediation is between depositors and entrepreneurs. A bank is an institution that deals with money by accepting deposits from general public, corporate bodies and private organization and develops those deposits for profitable purpose in the form of loans and advance. Bank by accepting deposits take up the role of custodian of public money. So, the simplest definition is that, bank takes the savings of the public by providing them with certain rate of interest and loans it to needly customers charging them higher rate of return and thus, earns some profit by doing these transactions.

According to Concise oxford Dictionary, the term bank has been defined as, "A bank is an establishment of the custody of money which it pays out on customers order." In other

word of Kent, "A bank is an organization whose principle operations are concerned with the accumulation of the temporarily idle money of the general public for the purpose of advancing to other for expenditure."

The banking sector is largely responsible for collecting household saving in terms of different types of deposits and regulating them in the society by lending in different sectors of economy. The banking sector has now reached to most remote areas of the country and has experienced a good deal in the growth of the economy. By lending their resources in small scale industries under intensive banking program has enabled the banks to share in the economic growth of the economy" (*Shrestha, 1993: 32*).

A banker or bank is a person or company carrying on the business of receiving moneys and collecting draft for customers subject to the obligation of honoring cheque drawn upon them from time by the customers to the extent of the amounts available on their current accounts.

Banks are institutions whose debits-usually referred to as "bank deposits" are commonly accepted in final settlement of other people's debt. Bank is also defined as an institution, which accepts deposits from the public and in turn advances loan by creating credit. It is different from other financial institutions in the sense that they cannot create credit through they may be accepting deposits and making advances. Banking institution is indispensable in a modern society. It plays a pivotal role in the economic development of a country and forms the core of the money market in the advanced country.

Various types of banking institutions are performing different functions. There is for instance the central bank, which controls the entire currency and credit of the country. It is the organ of government that under takes the major financial operations and by other means influences the behavior of financial institutions so as to support the economic policy of the government. Similarly, commercial banks also perform different functions by accepting the deposits and advancing loans etc. but in modern times, commercial

banks are concentrated in their activities of fulfilling the financial needs of their customers. The commercial banks have become the heart of financial system as they hold the deposit of the people, government and business units and investing activities to individuals, business firm and government.

### **1.1.2 Historical Development of Banking System in Nepal**

"Banking concept existed even in the ancient period when the rich people used to issue the common people against the providers of safe keeping of their valuable items on the presentation of the receipt: the depositors would get bank their gold and valuables of the paying a small amount of safe keeping and saving" (*Paul, 1973: 27*).

The history of banking in Nepal can be described as a component of gradual and economic sphere of the Nepalese life. Even the financial system is still in evolutionary phase. Though establishment of banking industry was very recent, some crude bank operation was in practice even in ancient times. In Nepalese chronicle, it was recorded that "Shankhadhar" a merchant introduced the new era known as "Nepalese Sambat" from Kantipur in 880 A.D. after having paid all the outstanding debt of the country. This shows basic of money lending practice in ancient Nepal. In 11th century during Malla Regime there was an evidence of professional moneylenders and bankers. It is further believed of professional moneylenders and bankers. It is further believed that money lending business; particularly for financing the foreign trade with Tibet became quite popular during regime of Mallas. However, in the absence of any regulatory measures, the unscrupulous moneylenders were known to have charged exorbitant rate of interest and other extra dues on loans advanced.

The establishment of the "Tejarath Adda" by prime ministers "Ranoddip Singh" during the year 1877 A.D. was fully subscribed by government of Kathmandu valley, which played vital role in the banking system, was regarded as the father of the modern banking institution. The prime task of "Tejarath Adda" was granting of loans and safeguarding of total national deposits. At that time, Indian currency was commonly used in most part of

Terai. The primary task of the Tejarath Adda" was to attract the deposits in government exchequer at the beginning but later on public was also allowed to take the loan at the same rate of interest with gold and silver ornaments as securities and collateral. Although the institution did not accept any deposits, it had played an important role in development process of banking system in Nepal.

The main defects of this institution showed that 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 charter to the country. Udyog Parishad (Industrial Development Board) was constituted in 1936 A.D. One year after its establishment, it formulated the "Company act" and "Nepal Bank Act" In 1937 A.D.

In the year 1937 A.D. the establishment of Nepal Bank Limited, with the Imperial Bank of India came into existence under "Nepal Bank Act 1936 A.D." as the first commercial bank of Nepal. At that time Nepalese economy was characterized by the existence of dual currency system (Indian and Nepalese), which was effecting economic stability and development of nation. Thus, the need of establishment of the central bank required great urgency. As result, Nepal Rastra Bank was established as central bank of country on 29<sup>th</sup> October 1956 A.D. under NRB Act 1955 A.D. with the authorized capital of Rs. 10 million fully subscribed by government.

Integrated and speedy development of the country is possible only when the competitive banking services reach nooks and corners of the country. To cope this situation government setup Rastriya Banijya Bank in 1965 A.D. as a fully government owned commercial bank. With the come up of RBB, banking services spread to both urban as well as rural area. Agriculture Development Bank was established for the promotion of agriculture sector in country. When the government adopted liberal and market oriented economic policy in the mid 80's Nepal allowed the entry of foreign banks of joint venture basis with foreign capital, technology and experience. Nepal Arab Bank Ltd. was the first

joint venture bank established on 1984 A.D. under the commercial bank act 1974 A.D. With the opening of NABIL the door of opening joint venture banks was opened to the private sector.

### **1.1.3 Concept of Commercial Banks**

Financial intermediaries play significant role to the development of national economy. They influence savings and surpluses considerably, which results investments. Financial intermediaries collect financial resources and supply them to the productive sectors that boosts the trade and industry and at last development of the country's economy.

As per Commercial Bank Act 1974 A.D., *“A commercial Bank means the bank which deals in exchanging currency, accepting deposits, giving loans and doing commercial transactions”*

In the beginning commercial bank's functions were confined to accepting deposits and giving loans but now it increase manifold. Commercial Banks are found operating throughout the world. Bank of Venice set up in 1157, is the first commercial bank. Nepal Bank Limited established on 15<sup>th</sup> November 1937 A.D. is the first commercial bank in Nepal. Major functions of commercial banks are: Accepting various types of deposits, lending money in various productive sectors, Guarantee (G' tee) Remittance, Bills and others.

Commercial banks are also financial intermediaries they mediate people who save money and who want to secure the use of money by accepting the deposits, borrowing funds and advancing loans. In addition to these primary functions, commercial banks, collect checks and bills, open letter of the credit, guarantee on behalf of customers, undertake capital and other many activities, exchange foreign currencies etc.

"A commercial bank is one which exchanges money, deposits money, accepts, grants loan and performs commercial banking functions and which is not a bank meant for

cooperative agriculture industries or for such specific purpose"(Nepal Commercial Bank Act, 1974 : 1).

Commercial Banks are heart of financial system they hold the deposits of many person, government establishment business unit. They make fund available through their lending and investing activities to borrowers, individuals, business firms and services for the producers to customers and the financial activities of the government. They provide the large portion of the medium of exchange and they are media through which monetary policy is affected. These facts show that the commercial banking system of nation is important to the functioning of the economy (*Read, Cotler, Will, Smith, 1976:39*).

In content of Nepal, commercial banks are operated under "Commercial Bank Act 1974 A. D.", In addition to Commercial Bank Act, Nepal Rastra Bank also lays down other many directives.

#### **1.1.4 Joint Venture Banks**

A Joint Venture Bank is joining of forces between two or more enterprises for the purchase of carrying out a specific operation i.e. industrial and commercial investment production or trade" (*Gupta, 1984: 15*).

The joint venture is common variant for expansion. "A joint venture business involves in equity arrangement between two or more independent enterprises which results in the creation of new organization" (*Jauch and Glueck, 1988: 232*). this thought identified the joint venture as a mutual understanding among two or more firms then bringing a new enterprise in existence. Basically, they are constant about the ownership of new firms. In what proportion they are, going to contribute ownership is also decided mutually. Firms within a country as well as operating in different countries may participate in a venture that happens to be more common firm's indifferent countries. The foreign joint venture banks with full-fledged banking functions in Nepal are formed under Company Act 1964 A.D. and operated under the Banijaya Bank Act 1974 A.D. Joint Venture Bank have been established for trading to achieve mutual exchanges of goods and services, for sharing

comparative advantages by performing joint investment schemes between Nepalese investors, financial and non-financial institutions as well as private investors and their parents banks. The parent banks that have experience in highly mechanized and efficient modern banking services in the many part of the world have come to Nepal with superior technology, advanced management skills and international network of banking. "The existence of foreign joint venture bank has presented an environment of healthy competition among the existing commercial banks. The increased competition had led to improve their quality and has caused an extension of services by simplifying procedures and training" (Chopras, 1990: 231). The concept of joint venture banks is an innovation in finance and it is at a growing stage, mostly in developing countries.

"HMG's deliberate policy of allowing foreign JVB's to operate in Nepal is basically targeted to encourage local traditionally run commercial banks to enhance their balanceable capacity through competition efficiency, modernization via computerization and prompt customer service" (*Shrestha, 1984: 44*).

Joint venture banks in Nepal are expected to be the medium of economic development and uplift the community under the guidance, operate under supervision, controlling and direction of Nepal Rastra Bank. Nepal Arab Bank Limited was the first joint venture bank of Nepal, established in 12<sup>th</sup> July 1984 A. D. until now there are nine joint venture banks operating in different parts of Kingdom of Nepal.

The following are the JVBs that have been established in Nepal.

<b>S. N.</b>	<b>Joint Venture Banks</b>	<b>Established Date Head</b>	<b>Head Office</b>
1	Nepal Arab Bank Limited	12 <sup>th</sup> July 1984 A.D.	Kathmandu
2	Nepal Investment Bank Limited (Formerly Nepal Indo-suez Bank)	27 <sup>th</sup> February 1986 A.D.	Kathmandu
3	Standard Chartered Bank Limited (Formerly Nepal Grindlays Bank)	30 <sup>th</sup> January 1987 A.D.	Kathmandu
4	Himalayan Bank Limited	18 <sup>th</sup> January 1993A.D.	Kathmandu
5	Nepal SBI Bank Limited	7 <sup>th</sup> July 1993 A.D.	Kathmandu
6	Nepal Bangladesh Bank Limited	6 <sup>th</sup> June 1994 A.D.	Kathmandu



7	Everest Bank Limited	18 <sup>th</sup> October 1994 A.D.	Kathmandu
8	Bank of Kathmandu Limited	12 <sup>th</sup> March 1995 A.D.	Kathmandu
9	Nepal Bank of Cylon Limited	14 <sup>th</sup> October 1996 A.D.	Siddharthanagar

(Source: [www.nepalstock.com](http://www.nepalstock.com))

At present, there are various JVBs in Nepal and the researcher has attempted to take only two i.e. Bank of Kathmandu Ltd. And Nabil Bank Ltd. for purpose of the research study.

### **Bank of Kathmandu Limited**

Bank of Kathmandu Limited incorporated in 1993A.D. and came into operation in March 1995 A.D. as a modern commercial bank with joint investment of Siam commercial Bank of Thailand. Its authorized capital was 24 crore in which 50% share capital was invested by Nepalese entrepreneurs, 30% share capital was invested by Siam Commercial Bank of Thailand & remaining 20% to general public. When Siam Commercial Bank divested its full capital and its ownership is handed over to the Nepalese management team.

Bank of Kathmandu Limited has become a prominent name in the Nepalese banking sector. We would like to express our sincere gratitude to our customers, shareholders, employees and other stakeholders for their support and co-operation for leading the bank to the present height of achievements. We wish to reiterate here that whatever activity we undertake; we put in conscious efforts to glorify our corporate slogan, "We make your life easier". We would also like to elucidate that Bank of Kathmandu is committed to delivering quality service to customers, generating good return to shareholders, providing attractive incentives to employees and serving the community through stronger corporate social responsibility endeavor.

Bank of Kathmandu Limited (BOK) has today become a landmark in the Nepalese banking sector by being among the few commercial banks which is entirely managed by Nepalese professionals and owned by the general public.

BOK started its operation in 12<sup>th</sup> March 1995 A.D. with the objective to stimulate the Nepalese economy and take it to newer heights. BOK also aims to facilitate the nation's economy and to become more competitive globally. To achieve these, BOK has been focusing on its set objectives right from the beginning. To highlight its few objectives:

To contribute to the sustainable development of the nation by mobilizing domestic savings and channeling them to productive areas

- ) To use the latest banking technology to provide better, reliable and efficient services at a reasonable cost
- ) To facilitate trade by making financial transactions easier, faster and more reliable through relationships with foreign banks and money transfer agencies
- ) To contribute to the overall social development of Nepal

#### **Share Subscription and Capital Structure:**

<b>S.N.</b>	<b>Subscription</b>	<b>% Holding</b>
1	<b>Promoter</b>	41.81%
i	Other Institution	2.20%
ii	Individual	39.61%
2	<b>General public</b>	58.19%
	<b>Total</b>	100%

<b>Share Capital</b>	<b>Amount</b>
Authorized capital	1,000,000,000
Issued capital	844,397,900
Paid up capital	844,397,900

(Source: [www.bok.com.np](http://www.bok.com.np))

At the end of financial year 2009 respectively.

#### **Nabil Bank Limited**

Nabil Bank Limited (Nabil) commenced its operation on 12<sup>th</sup> July 1984 A.D. as the first joint venture bank in Nepal, Dubai Bank Limited. Dubai (Later acquired by Emirates Bank International limited, Dubai) was the first joint venture partner of Nabil. Currently NB (international) limited. Ireland is the foreign partner.

Nabil Bank limited had the official name Nepal Arab Bank Limited till 31<sup>st</sup> December 2001A.D. Nabil is the pioneer in introducing many innovative products and marketing concept in banking sector of Nepal with 15 venture and private banks operating in Nepal. Success of Nabil is a milestone in the banking history of Nepal as it paved the way for the establishment of many commercial banks and financial institutions. Nabil was incorporated with the objective of extending international standards modern banking services to various sectors of the society.

Nabil provides a full range of commercial banking services through its 40 points of representation across the kingdom and over 170 reputed correspondent banks across the globe. Moreover, Nabil has a good name in the market for its highly personalized services to the customers. At the time of commencement it had Rs 100 million as Authorized Capital. Now, the Authorized capital of the bank is Rs. 500 million while the issued and paid up capital is Rs. 49, 16, 54,400.

Nabil provides a full range of commercial banking services through its outlets spread across the nation and reputed correspondent banks across the globe. Moreover, Nabil has a good name in the market for its highly personalized services to the customers. At the time of commencement. It had Rs 100 million as Authorized Capital. Now, the Authorized capital of the bank is Rs. 500 million while the issued and paid up capital is Rs. 49,16,54,400. The share holding of NABIL Bank Ltd. is as following.

#### **Share Subscription and Capital Structure**

<b>S.N.</b>	<b>Subscription</b>	<b>% Holding</b>
1	<b>Promoter</b>	70%
i	Foreign institution	50%
ii	Other licensed institution	6.15%
iii	Other Entities	11.08%
iv	Individual	2.77%
2	<b>General public</b>	30%
	<b>Total</b>	100%
<b>Share Capital</b>		<b>Amount</b>
Authorized capital		1,600,000,000
Issued capital		965,747,000
Paid up capital		965,747,000

(Source: [www.nibl.com.np](http://www.nibl.com.np))

At the end of financial year 2009 respectively.

## **1.2 Focus of the Study**

Commercial banks play an important role in affairs of the economy in various ways. The operations of commercial banks record the economic pulse of the economy. The size and composition of their transaction mirror the economic happening in the country. They are essential instruments to accelerated growth. By mobilization community saving and diverting them into productive channels, commercial banks expand the tempo and appreciate the value of aggregate economic activity.

The financial system in Nepal has evolved from a narrow, repressed regime till the eighties to a dynamic, expanding sector in the nineties. Indicators of the last decade show that the sector has growth both quantitatively and qualitatively. It could be observed that, at the same time, the financial market has become more competitive, dynamic and also complex. The institutional network and the volume of operations of the financial system have expanded rapidly in last few years. This research is based on mainly two banks namely Bank of Kathmandu and Nabil Bank Limited.

The main focus of this is to analyze the comparative performance of BOK and NABIL and their individual strength on the basis of their internal reports and published annual reports. For the purpose, different tools and techniques have been applied to judge the performance of these organizations, draw out the strength and weakness of the firm and try to prescribe remedial measures to improve the performance of these two banks.

## **1.3 Statement of the Problem**

In modern days, especially in Nepal, Banks are being considered not as dealers of money transaction but also dealers of investment in the country. Banks are the active players of money market and capital market as well. In fact, economic liberalization and privatization policy adopted by the government has open up the opportunity and threat as to the banking sectors. As a result, we see a rapid growth in the numbers of commercial

banks in the country and of course, the rapid increment in numbers of commercial banks in small kingdom like Nepal has created tough and bottle neck competition among bankers.

A comparative study of financial performance is a basic process which provides information about the profitability, liquidity position, earning capacity, efficiency in operation, credit worthiness, sources and uses of capital, financial achievement and status of the company. The information obtained can be used to measure the efficiency and effectiveness of the company in respect of developing financial resources in the profitable manner.

The main problematic of the study is to inquire into the financial performance of the two banks, namely, Bank of Kathmandu Ltd. (BOK) and Nabil Bank Ltd. (NB). This study has aimed to find out the answers to the following questions.

- i. Comparatively between Bank of Kathmandu and Nabil Bank Ltd., whose financial performance is better? Whether these two banks are able to meet their obligations or not?
- ii. Do they manage and utilize their assets efficiently?
- iii. The overall financial statements analysis and financial position indicate any special strength and weakness of these two banks?
- iv. Do they receive sufficient refund in their employed resources?
- v. Are they maintaining sufficient liquidity position?
- vi. What are the operational results to their profitability?
- vii. What is the relationship between total deposit and total investment over the year?

In this context, the main purpose of the study is analyzing comparatively the overall financial performance of Bank of Kathmandu and Nabil bank Ltd. In terms of profitability, liquidity, turnover and efficiency in operation as well as other related dimensions.

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

The primary objectives of this study are to make comparative of the financial performance of selected commercial bank namely, Bank of Kathmandu and Nabil Bank Ltd. and to recommended suggestion for the improvement of state of affairs. Some of other objectives are:

- i. To evaluate the liquidity position to measure the strength of financial performance of selected banks.
- ii. To evaluate the activity and operation with reference to mobilization of the collected funds.
- iii. To analyze price earning, market value to book value per share and dividend payout.
- iv. To evaluate the earning and profitability position of selected banks and the relationship between total deposit and total investment.
- v. To identify the relationship between interest earned and operating profit.

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

Analysis of financial performance of any company is very important. Actually, on the basis of the financial analysis we can say that the concerned company is strong or not. The financials published by the banks gives the meaningful picture to the public regarding the financial position of the banks. Thus, the analysis of these statements is necessary in order to give the full and clear-cut position and performance of the banks. This study is mainly compare the financial performance of BOK and NABIL which compare the position of selected bank under the study, which encourage to improve the different position and performance of the selected banks. From data presentation and analysis researcher finds different and weakness of the selective banks which is recommended to the banks for their further improvement. Banking Institutions definitely contribute and play an important role for domestic resource mobilization, economic development and maintains economic confidence of various segments and extends credit to people.

- a. This study has multidimensional significance in particular area of concerned banks which have been undertaken that justifies for finding out important points and facts to researcher, shareholders, brokers, traders, financial institution, and public knowledge.
- b. This study helps and justify for finding out the financial performance of concerned selected commercial banks and Government of Nepal to make plans and policies.
- c. This study certainly input the policymakers of concerned selected banks for making plans and policies of the effective banking system.

### **1.6 Limitation of the Study**

Every works have its own restriction and limitation due to the lack of time resources and knowledge. Despite the enough efforts of researcher. This study faced a number of limitations some of these were inadequate coverage of banks, time periods, reliability of financial and statistical tools used and other variation. This thesis is not free from limitation. The study is presented just for the partial fulfillment of M.B.S. (Master's of Business Studied) degree. The researcher has come across many problems while presenting the thesis. Following are the major limitations of this thesis.

- i. This study is based especially on secondary data like annual reports of the banks under review, journals, unpublished as well as published these works and other published articles and reports.
- ii. The whole study is based on data of five years period, i.e. from FY 2004/05 to 2008/09.
- iii. The study is related to only two commercial banks, namely, Bank of Kathmandu (BOK) Ltd. And Nabil Bank (NABIL) Ltd.
- iv. The study will be focused on comparative financial performance of BOK and NABIL.
- v. Time and research are measure constraints.

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

The study on the comparative financial analysis of BOK and NABIL has been divided into five chapters viz. Introduction, Review of Literature, Research Methodology, presentation and Analysis of Data and Summary, Conclusion and Recommendation.

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

The introduction chapter briefly explains about the meaning and historical background of commercial bank in Nepal and also the joint venture banks. IT describes the introduction of research study, which explains the focus of the study, statement of problem, objective of the study, significance of the study and limitation of the study.

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

In this second chapter, the relevant and pertinent literature and various studies have been reviewed. The review has been made in respect of theoretical background of the rules, regulations and principles of banking which are relevant to this research work.

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

The third chapter briefly explains about the research methodology that has been used to evaluate the financial performance of the banks under consideration. This chapter consists of research design, sample and population, source of data and financial tools and techniques to measure the financial performance BOK and NABIL.

### **Chapter - IV: Presentation and Analysis of Data**

In this fourth chapter, the data required for the study has been presented analyzed and interpreted by using various tools and techniques of financial management, accounts and statistics to present the result relating to the study in a very lucid manner.

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

The fifth chapter is the final chapter of the study, which consists of the summary of the four earlier chapters. This chapter tries to fetch out a conclusion of the study and attempts to offer various suggestion and recommendations for the improvement of the future



performances of the three banks under review. Finally, bibliography and appendix are represented at the end of the study.

## **CHAPTER - II**

### **REVIEW OF LITERATURE**

Review of the literature is focused and directed towards specific purposes. It is a selective subject. A researcher has to select the kind of literature to be reviewed and determine the purpose. It starts with the selections of a problem for research, continues through the various stages of the research process and end with report writing. Reviewing different available literature from various sources is the major objective of this chapter. The prime focus for collecting external literacy information through various textbooks, research journals and research thesis. Various articles relating to different aspects of commercial bank will help to conduct the study smoothly. Review of literature is divided into two categories.

#### **2.1 Conceptual Frame Work/Theoretical Review**

Financial decisions are very sensitive and important and cannot be taken blindly or in a vacuum. Financial decisions must be based on proper financial analysis by using, financial tools-such as financial ratios are used to measure the financial performance of the company. "Financial analysis is to analyze the achieved statement to see if the result meet the objectives of the firm, to identify problems, if any, in the past or present and /or likely to be in the future, and to provide recommendation to solve the problems" (*Pradhan, 2000: 120*).

"Financial analysis is process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet, which represents analysis snapshots of the firm's financial position analysis at analysis moment in time and next, income statement, that deposits analysis summary of the firm's profitability overtime" (*Vanhorn & Watchowlcz, 1997: 120*).

Similarly, Hampton has stated that "It is the process of determining the significant operating and financial statements. The goal of such analysis is to determining the

efficiency and performance of the firm's management, as reflected in the financial records and reports" (*Hampton, 1998: 98*). In financial analysis, certain guideline or criteria are included:

- a. Historical evidence of performance as a base of financial performance analysis.
- b. Economic consideration such as trend and averages of price level, business profit interest rates, dividend policy, security price movements.

Financial statement gives insight knowledge on the firm's financial position at a point of time and on its operations over some past companies regarding what they have performed financially. Financial report is reporting about what the company has done in terms of assets, liability, income and expenses. On the other hand financial statement also highlights other aspects of company such as liquidity, activity, capital structure and market. "Financial statement analysis involves a comparison of analysis 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 the current strengths and weakness and to suggest actions that might enable the firm to take advantage of the strength and correct its weakness" (*Western, Besley & Brigham, 1996: 78*). The following are the some important financial ratios to analysis the financial performance of selected banks:

### **I. Liquidity Ratio**

A liquidity ratio measures the ability of the firm to meet its current obligations. In fact, analysis of liquidity need the preparation of cash budgets and cash and funds flow statements; but liquidity ratios, by establishing a relationship between cash and other current assets to current obligations, provide a quick measure of liquidity a firm should ensure that it doesn't suffer from lack of liquidity, and also that it doesn't have excess liquidity. The failure of company to meet its obligation due to lack of sufficient liquidity, will result in poor creditworthiness, loss of creditors' confidence, or even in legal tangles resulting in the closure of the company. A very high degree of liquidity is also bad; idle

assets. Therefore, it is necessary to strike a proper balance between high liquidity and lack of liquidity.

## **II. Leverage Ratio**

The short-term creditors, like bankers and suppliers of raw materials, are more concerned with the firm's debt-paying ability. On the other hand, long-term creditors, like debenture holders, financial institutions etc., are more concerned with the firm's long-term financial strength. In fact, a firm should have a strong short as well as long-term financial position. To judge the long-term financial position of the firm, financial leverage, or capital structure ratios are calculated. These ratios indicate mix of debt and owners' equity in financing the firm's assets. The process of magnifying the shareholders' return through the use of debt is called financial leverage or financial gearing or trading on equity.

## **III. Activity Ratio**

Activity ratios are concerned with the measuring of efficiency in assets management. These ratios are employed to evaluate the efficiency with which the bank manages and utilizes funds. These ratios are also called turnover ratios because they indicate the speed with which the assets are being converted or turned over into sales.

## **IV. Profitability Ratio**

A company should earn profits to survive and grow over a long period of time. Profit is the difference between revenues and expenses over a period of time. Profit is the ultimate output of the company, and it will have no future if it fails to make sufficient profits. Therefore, the financial manager should continuously evaluate the efficiency of the company in terms of the profits. The profitability ratios are calculated to measure the operating efficiency of company. Besides management of the company, creditors and owners are also interested in the probability of the firm. Creditors want to get interest and repayment of principal regularly only when the company earns enough profits.

## **V. Credit Ratio**

Credit ratios are calculated in order to measure the credit position of the banks. It shows what portion of collected deposits are used to make credit and remain cash and bank balances to make immediate payments. Nepal Rastea Bank has specified some guidelines in respect of preparation of financial statement by the commercial banks are as follows:

- a. The commercial banks should prepare the statements of Balance sheet and profit and loss Account as per the format and procedures prescribed by NRB. The statements of Balance Sheet and Profit and Loss A/C as well as schedules there to should be considered as statutory forms. Section (25) of commercial Banking Act, 2031 requires completion of audit of such statements within 5 (five) months from the closure of the fiscal year. The period of Shrawan to Ashad is considered as the fiscal year of the commercial banks.
- b. Bank should, after completing the audit, publish the Annual Reports containing the Balance sheet, Profit and Loss A/C and Cash flow statement, including the schedules relating to such financial statements in the national level principle newspapers for the information of the general public.
- c. The Balance sheet and Profit and Loss A/C have to be prepared on the basis of the generally accepted accounting principles, the prevailing accounting policies in banking as well as the international accounting standards. Accounting policies once adopted by the management should be followed consistently. In the case of any change in the policies, the particulars of the previous as well as new policy and the effect in the bank's profitability should be disclosed.
- d. The commercial banks must complete the annual General Meeting within 6 months from the closure of financial year (within the end of push of each fiscal year).
- e. The auditors, upon completion of the audit work of banks, shall submit a copy of preliminary audit report presented to the bank management, to NRB. Unless approval s given after detail scrutiny of above reports and inspection of financial statements of each bank by NRB, publishing the Annual Reports for the purpose of annual General Meeting in prohibited.

Financial statement published by the listed company in the stock exchange are collected and analyzed by Nepal Stock Exchange for the calculation of the financial performance of the concerned company. In fact, financial statement comprises of:

### **Balance Sheet**

It is very important means of analysis of financial performance of any company. It companies assets, liabilities and shareholder's equity.

### **Statement of Profit and Loss Account**

It also very important means of financial performance of any company. It comprises of income and expensed over the period of time.

### **Statement of Retained Earning**

This statement explains about the Company's position of earnings to be paid as dividend and the portion of profit to be retained for future uses. It also explains how profit, dividend and other transaction affect the retained earnings and share-holders' equity.

Financial analysis is done on the basis of financial statement of the concerned company.

The objective of financial analysis can be described as:

- ) To get the entire information that can be used at the time of decision making.
- ) To judge overall performance and management effectiveness.
- ) To identify the deficiencies and weaknesses.
- ) To take corrective action in time to check such deficiencies and improve the performance.
- ) To evaluate the possible implications of alternative course of actions.
- ) To get in dept information of possibilities of brining changes worthwhile.

## **2.2 Review of Related Books**

**Western & Copeland** (1991) entitled "*Short Term Financial Management*", the author has highlighted the types of short-term financing and its related issues. Following are the objectives of this chapter

- a. Discuss the nature and type of short-term financing.
- b. Evaluate the significance of working capital management of the firm.
- c. Explain the relationship between sales growth and the need to finance in current assets.

Short-term financing is defined as debt scheduled for repayment within one year. A large number of short-term credits are available and the financial manager must know the advantages and disadvantages of each. The main types of short-term financing are:

### **A. Trade Credit**

Trade credit is a customary part of doing business in most industries. It is convenient and informal. Whether trade credit costs more or less than other forms of financing is a moot question. Because in such cases the buyer has no option but to buy the goods from the creditors. The trade credit is not applicable to the commercial banks.

### **B. Loans from Commercial Banks**

Loan from the commercial banks is very important source of financing. Commercial banks take into consideration of following factors while providing loan to its customer.

- ) Forms of loan
- ) Size of Customers
- ) Maturity
- ) Security
- ) Compensation Balance
- ) Repayment of Bank loan

### C. Commercial Paper

In recent years, the issuance of commercial paper has become an increasingly important source of short term financing for many types of corporations, including utilities, finance companies, insurance companies, and bank holding companies and manufacturing companies. Commercial paper consists of unsecured promissory notes issued by the firms to finance short-term credit lines.

In conclusion, the author has quoted that trade credit is the largest single category of short-term financing. It is especially important for smaller firm. Bank credit occupies a pivotal position in the short-tem money market. Banks provide the marginal credit that allows the firms to expand more rapidly than is possible through retained earnings and trade credits. Commercial paper is physically similar to a bank loan. It is sold in broad and impersonal market. The highest rated firms are the main users of the commercial paper. Working capital management encompasses all aspects of administration of current assets and current liabilities. Short-term financial management is widely used in place of working capital management and it covers all decisions of an organization involving cash flows in short term.

**Van Horne** (2000) entitled "*Liquidity, Cash and Marketable Securities*", the author has focused on the current assets and short-term financing. According to the author, Liquidity and liquid assets like cash and cashable assets are more important for the company to discharge the current liabilities. The objectives of the chapter can be explained as follows:

- ) Discuss the term liquidity and its role.
- ) Explain the various aspects of cash management and collections.
- ) Explain the various aspects of investment in marketable securities.
- ) Also to focus on the aspect of portfolio Management.

The, term liquid assets refer to money and assets that are readily convertible into cash. Cash is said to be more liquid asset in comparison to other assets. Because other assets have varying degree of liquidity depending on the way of conversion into cash. For the



other assets, liquidity has two dimensions (i) the time necessary to convert the assets into money (ii) the degree of certainty, associated with conversion ratio. Since, assessment of financial performance also depends on the degree of liquidity of the company, so the company under consideration should be enough liquid to discharge its current liability in time. Other aspects of liability involve cash management and collections. Cash management refers to managing monies of the firm in order to maximize cash availability and interest income on any idle funds. The financial manager has to tackle the cash management and collection of funds seriously. Cash management and collection comprises various aspects like.

- ) Transferring funds.
- ) Concentration Banking.
- ) Lockbox System.
- ) Control of disbursements.
- ) Mobilizing funds and slowing disbursement.
- ) Payroll and dividend disbursements.
- ) Zero Balance Account.
- ) Electronic funds Transfers.

The author has also highlighted on investment in marketable securities to properly maintain the liquidity in the firm. According to author a good financial manager should always try to invest the portion of an excess liquid assets. The yields on these sorts of marketable securities may vary due to default risk, coupon rate and other factors involved. The financial manager should consider following aspects while taking decision regarding the investment in marketable securities:

- ) Default risk.
- ) Marketability.
- ) Maturity Period.
- ) Coupon Rate.
- ) Taxability.

## **Types of Marketable Security**

- J Treasury Security.
- J Repurchase Agreement -Agency Security.
- J Bankers Acceptance.
- J Commercial Paper.
- J Negotiable Certificates of Deposits.
- J Euro Donors.
- J Short-Term Municipal Bonds.

Regarding the portfolio management, the author has emphasized that the financial manager should the investment portfolio in accordance with the need of fund. The term 'portfolio' means collection of investments in different securities. In portfolio analysis, financial manager should analyze future risk and return of securities. The objective of portfolio management is to help developing a portfolio that has the maximum return at chosen level of risk efficient portfolio provides the highest possible return for any specified rate of return. In portfolio analysis, the financial manage should estimate the expected return and the risk of holding securities in a portfolio. In portfolio management, expected return and portfolio risk calculated as follows.

## **Portfolio Returns**

The portfolio returns is calculated by using following formula

$$r_p = W_1 r_1 + W_2 r_2 + \dots + W_n r_n$$

Where,

$r_p$  = Expected portfolio return

$r_1$  = Expected return for stock 1

$r_2$  =Expected return for stock 2

$W_1$  =Weight for stock 1

$W_2$  =Weight for stock 2

## Portfolio Risk

Portfolio risk is measured by the variance or standard deviation of the return of the portfolio. The variance of returns from a portfolio made up of two assets is defined by following equation:

$$\sigma_p^2 = w_1^2 \sigma_1^2 + w_2^2 \sigma_2^2 + 2w_1w_2\text{cov}(r_1, r_2)$$

Where,

$\sigma_p^2$  = variance of the portfolio's rates of return

$w_1$  = weight for asset 1

$\sigma_1^2$  = variance for assets 1

$w_2$  = weight for asset 2

$\sigma_2^2$  = variance for asset 2

$\text{Cov}(r_1, r_2)$  = Covariance of returns between asset 1 and asset 2

Instead of Variance, standard deviation ( $\sigma_p$ ) can be used to measure the risk of the portfolio. Standard deviation is equally valid as the variance but is easier to interpret. The following equation is used for the calculation of standard deviation of a two asset portfolio.

In conclusion, for the cash management the company should attempt to accelerate cash collections and handle disbursement so that maximum liquidity is maintained in the company. On the other hand, the financial manager should try to use the excess cash in a number of securities. The financial manager should select the best possible portfolio considering the cash flow pattern and other things of the company.

For the financial analysis of any company there needs the financial information. The base of financial planning, analysis and decision-making is the financial information. Financial information is need to predict, compare to evaluate the firm's earning and expanding ability. It is also needed to help in economic decision making like investment and financing decision-making. (Pandey, 2001: 30-53)

In this book, the author has pointed out of the following objectives in 2nd chapter "Statement of Financial Information".

- a. Discuss the nature, content, form and utility of two financial statements, viz. Balance sheet and profit and loss account.
- b. Show relationship between Balance sheet and profit and loss statements.
- c. Distinguish between accounting profit and economic profit.

Any firm communicates financial information to the users through financial statements and reports. Thus, financial statements contain summarized information of the firm's financial affairs. These statements are the means to present the firm's financial situations to the users. Preparation of these statements is the responsibility of top management. As the investors, and financial analysis to examine the firm's performance in order to make investment decision use this statement, they should be prepared very carefully and contain as much information as possible. There are two basic financial statements prepared for the analysis of financial performance of any Company, (i) Balance sheet or statement of final position and profit and loss account or Income statement.

### **Balance Sheet**

Balance sheet is the most significant financial statement. It indicates the financial condition or the state of affairs of a business at a particular moment of time. Balance sheet is the base for the analysis of financial performance of any company. Balance sheet contains information about resources and obligations of a firm entity and about its owners' equity. Balance sheet provides a snapshot of the financial position of the firm at the close of fiscal year.

As we know, Balance sheet is very important tools for the analysis of financial performance. The functions severed by Balance sheet can be pointed out as follows:

- ) It gives concise summary of the firm's resource obligations.
- ) It is a measure of the firm's liquidity.
- ) It is a measure of the firm's solvency.

## **Profit and Loss Account**

Balance sheet plays very significant role for the banker and other creditors because it indicates the firm's financial Solvency and liquidity, where as profit and loss account reflect the earning capacity and potentiality of the firm. The profit and loss account is a scoreboard of the firm's performance during a period. Since the profit and loss account reflects the results of operations for a period, it is a flow statement. In contrast, balance sheet is a stock or status statement as it shows assets, liability and owners' equity at a point of time.

Profit and Loss account presents the summary of revenues and expenses and net income of a firm. It serves as a measure of the firm's profitability. The functions of profit and loss account can be described as follows:

- a. It gives a concise summary of the firm's revenue and expenses during a period.
- b. It measures the firm's profitability.
- c. It communicates information regarding the results of the firm's activities to owners and other.

In conclusion, financial information is required for a financial planning, analysis and decision-making. The user of financial information includes owner's managers, employees, customers, suppliers and society. The financial statements like Balance Sheet and P/L account are the basic instruments for the analysis of financial performance.

**Sharma** (2001), entitled "*Financial Structure*", the author has explained about the financial structure of firm. According to the author, the term financial structure is wider than the capital structure. It refers to the structure of total finance of the company. It consists of both short-term financing and long-term financing.

The objectives of this chapter can be explained as follows:

- ) Discuss and explain the term financial structure
- ) Explain about various financial leverages.
- ) Also explain about financial leverage and risk associated.

) Explain the various factors affecting financial structure.

The financial decision of the firm is one of the important decisions for the achievement of the maximization of the shareholder' wealth. For this, a financial manager should select a sound financial mix (financial structure), which help to achieve the objective of the firm. The term financial structure refers to the proportion of each type of capital, such as debt, preferred stock, and common equity issued by the firm.

The financial leverage is concerned with the relationship between the firm's earnings before interest taxes and the earning available for common stock holder. Financial leverage measures financial risk, and financial performance of the firm. It shows how much debt the firm employees in its capital structure.

Financial Leverage and Degree of Financial Leverage can be measured by using following equations:

$$FL = \frac{EBIT}{EBT}$$

Here,

FL= Financial leverage

EBIT =Earning before interest and tax

EBT = Earning before tax

The effect of financial leverage is such that an increase in the firm's EBIT results in a more than proportional increase in the firm's earning per share. Where as a decrease in the firm's EBIT results in a more than proportional decrease in EPS.

### **Measuring the Degree of Financial Leverage (DFL)**

The degree of the financial leverage (DFL) is the numerical measure of the firm's financial leverage. The following equation is used to, calculate DFL.

$$DFL = \frac{\% \text{ change in EPS}}{\% \text{ change in EBIT}} > 1$$

Here,

DFL = Degree of financial leverage

EPS = Earning per share

EBIT = Earning before interest and tax

The degree of financial leverage is defined as the percentage change in EPS due to a given percentage change in EBIT.

In this chapter, the author has pointed out following factors that affects the financial structure of the company. Following are the main factors that affect the financial structure:

- a. Growth rate of sales
- b. Sales stability
- c. Assets structure
- d. Management Attitude
- e. Lender attitude
- f. Competitive structure

A company's financial-structure is affected by above factors. Therefore, in choosing an appropriate capital structure, the financial manager should consider above mentioned factors.

### **2.3 Review of Journals and Articles**

**Abraham** (2007), in his article, “*A Model of Financial Performance Analysis Adapted for Nonprofit Organizations*”, has stated that measurement of financial performance by ratio analysis helps identify organizational strengths and weaknesses by detecting financial anomalies and focusing attention on issues of organizational importance. Given that the mission of a nonprofit organization is the reason its existence, it is appropriate to focus on financial resources in their relationship to mission. The application of this financial performance model to an individual organization will indicate a number of issues which need to be grasped. However it must be realized that these issues will not be

purely financial, but bear direct relationships to the culture and traditions of the organization - for mission is central to the heart of every NPO.

This view is consistent with the challenge for nonprofit organizations to explore new ways of raising the operating revenue and capital they need to pursue their mission. To continue as a viable organization into the future, an NPO may have to deal with some difficult issues, issues that may very well move people out of their comfort zones. The organization's management team may need to consider advice on how to say goodbye to services, programs and assets that have outlived their time because it's vitally important in a changing environment, as your customers or clients needs change, that you adapt your services to meet their current and future needs.

**Pradhan** (1994), in his research "*Financial Management Practices in Nepal*" has studied about the major feature of financial management practices in Nepal. To address his issue, distributing a multiple questionnaire, which contained questions on various aspects of financial management practices in Nepal, carried out a survey of 78 enterprises.

He found among the several finance functions, the most important finance function appeared to be working capital management, while the least important one appeared to be maintaining good relations with stockholders. The finding reveals that banks and retained earnings are the two most widely used financing sources. Most enterprises do not borrow from one bank only and then so switch between banks to whichever offers best interest rates. Most enterprises find that banks are flexible in interest rates and covenants. He further found that among the bank loans of 1-5 years are more popular in private sector. In periods of tight money, the majority of private sector enterprises feel that bank will treat all firms equally while public sector does not feel so. Similarly he concluded that the majority of enterprises in trade sector find that banks, interest rate is just right while the majority in non-traded sector find that the same is one higher side.



**Pille** (2008), in his article, “*Financial Performance Analysis of Ontario (Canada) Credit Unions: An Application of DEA in the Regulatory Environment*” has stated that the equity/asset ratio and some DEA models appear to be equally competent in predicting the failure of Credit Unions. However, DEA Model 1 offers indicators of where the problems are and how to address them. Hence it should be the preferred tool for the regulator. Each of the models shows that failures, on average, have lower scores than healthy units, for up to three years before failure, thus our Hypothesis is proven. Prediction of failure is most reliable at one year prior to failure, and declines as we go further out.

Prediction improves when only larger asset sized DMUs are included, and also when failures due to plant closure or fraud are excluded. Catastrophic failures due to the latter two causes cannot be predicted and should be excluded from all analyses. DICO management believes that many cases of mismanagement are actually fraud but that cannot be proven. If this belief is true, then prediction of failure is more difficult than it would otherwise be. The models in this work do not consider the risk involved if a Credit Union has a large proportion of its assets in a single large loan or investment. Yet, this may be the most serious potential problem because a large loan default may well wipe out the entire equity of the Credit Union. Hence, size matters because the relative size between the firm's equity and the largest loan or investment is a crucial survival issue.

**McGrann and Richardson** (2009), in their article, “*Measuring Producer Level Beef Cattle Alliance Financial Performance*”, have stated that there has been a movement toward developing production and marketing alliances in the beef cattle sector in the United States to improve communications and ultimately provide higher priced branded products that are more consistent with consumer demand. Beef cattle producers do not employ a consistent methodology to measure the financial performance of participating in an alliance. Nor do they have the information to negotiate agreements that are financially sustainable at the producer level. Given the concentration of packer and retail sector there is little reason to expect them to share cost and financial returns information beyond the general corporate total business performance required by public traded

corporations. Described is a methodology to measure financial performance from breeding, growing and finishing segments to measure return on assets from an alliance. Application of the methodology is demonstrated in an example from cow-calf to finishing phase.

The methodology uses cost accounting and economic analysis to calculate ROA as a measure of alliance's financial sustainability. Questions of profitability, competitiveness and the opportunity cost of participation can be addressed. This information can be used to inform the margin sectors, feed yards, packers and retailers to provide them insights into what share of increased revenue from branded product sales must be passed to the cow-calf segment. The cow-calf segment must absorb the added costs and cyclical financial loss to participate in alliances. Increased revenue is required to make branded products a more profitable marketing option for beef producers. The return can be compared to ROA in the other segments of the alliance to establish the criteria for net margin sharing or to evaluate alternative production or marketing systems irrespective to the information shared by the concentrated packer and retail sectors. Further studies to employ this methodology with producer members of an alliance could provide valuable decision information for participants to negotiate alliance arrangements.

**Shrestha** (54th Anniversary), in this article "*Supervisory Challenges in the Nepalese Banking Sector*", Nepal Rastra Bank Samachar, the author has suggested that the Current global crises is among the greatest challenges to the world economy. Unlike past financial crises, which were confined to particular regions, the current financial continent is quickly spreading across continents. Many countries around the world have experienced impact of global financial crises. The global financial crisis has led policy makers to focus increased attention on the crucial role of banking supervision. Ongoing changes in the structure and nature of banking as well as banking crises, across the globe have focused the attention of policy makers on the appropriate structure, scope and degree of independence of banking supervision. Independence for banks and financial institutions (BFI) supervisory authorities enhances their ability to enforce actions. The

issue regarding the independence of supervisory authorities is the degree to which BFI supervisors should be subject to political and economic policy pressure and influence.

How these issues are addressed is important because policies that fail to provide for an appropriate BFI supervisory framework may undermine BFI performance and even lead to full-scale BFI crises.

### **What Nepal Rastra Bank (NRB) is doing?**

BFI supervision is concentrated mainly on lowering the probability of a situation where a BFI becomes insolvent, whereby it pursues the objective of preventing a disruption to the stability of the financial system as a whole. The NRB is responsible for two other important assignments besides monetary policy. The first is to ensure that those who are placing their resources in BFIs are protected. The NRB is required to ensure that BFIs are completely managed completely transparent. The second responsibility of the NRB is to ensure that BFIs act as efficient financial intermediaries utilizing the domestic savings effectively to create jobs and improve national welfare.

The NRB has worked vigorously to enhance enforcement of the Banking and Financial Institution Act, 2063 (BAFIA) and the various regulations that govern implementation of this statute. The NRB had also revised prudential regulations based on global experience. During the past few years, the NRB supervision has identified several infringements to the banking laws and regulations. One major problem area was the categorization of loans (Housing, Margin Lending, Personal Loan etc.) Where several BFI has failed to conform to prudential regulations by categorizing loans to have been of better quality than was warranted following a close examination of the collateral offered. Failure to categorize loans properly led to under provisioning making some BFIs appear healthier by declaring higher dividends than were actually justified. Re-categorization required by the NRB supervision process led to the need for additional provisioning to meet statutory requirements and increased transparency and accountability for the benefit of both the customer and the financial sector.

The NRB supervisors have thoroughly scrutinized the margin lending activities of the BFIs and provided proper regulations on this matter. The NRB has implemented BASEL II framework for the commercial banks for better capitalizations of the banks. However, the effective implementation of BASEL II is demanding and requires on the part of banks and supervisors considerable efforts and significant resources.

The NRB has also continuously analyzing the connected lending activities of the BFIs for the better implementations of the corporate governance practices. The NRB's efforts on having more transparency on the BFIs activities also brought good results in the performance of banking and financial sector. However, lot many things have to be done further for the development of effective supervision to ensure resilient banking and financial system in Nepal.

### **Why has the performance of BFIs been Disappointing?**

The financial services industry continues to become more global in its reach. This demands the development of innovative supervisory and cooperative arrangements. Supervision and regulation of BFIs contributes to ensuring stability in the financial sector. Although the manner of NRB supervision over the banking sector depends on the political, economic and cultural conditions, the trend appear to be being built consolidated supervision is a reflection of developments in financial markets through the influence of market integration, financial innovations and technological progress. The banking sector data analysis revealed that the performance of large government owned banks is very much disappointing as their presence are associated with slower financial and economic development. However, the performance of some private sector BFI is also disappointing and need more corrective actions immediately. They have weak incentives for sound lending and recovery, credit misallocation etc. The borrowers of these BFIs also have culture of non-payment of loan. Generally, Nepalese BFIs are facing the problem of poor governance and bad management, which is frequently evidenced by

political intervention, poor lending practices, bad concentrations of credit, connected lending, poor internal control, less transparency, insider abuse and fraudulent activities.

### **Challenges in the NRB Supervision**

The three main pillars constitute the vision for banking sector in Nepal. First is the achievement of sound legal framework for the banking sector. Second is the achievement of an efficient and stable financial sector. Third is increased access to financial service. However, the shortcomings in legal framework should be reviewed for addressing the gaps, inconsistencies and deficiencies in the prevailing legislation. With regard to efficiency, the NRB aim to achieve a more competitive financial sector.

The NRB supervision resolve to eradicate instances of noncompliance brought to light a number of challenges. These problems of an inadequate legal framework for enforcing remedial action and gaps in supervisory capacity to perform critical transaction and to form an independent opinion on the value of securities that collateralize non-performing loans. The second challenges were to comprehensively review the unified directives issued in 2005 and to align them to international best practice. The unified guidelines focused in improving asset quality and ensuring higher standards of corporate governance should be improved further according to global best practice.

An important challenge faced by the BFIs has been the disposal of collateral used to secure non-performing loans. This problem should be addressed immediately by the NRB for gradual elimination of over-reliance on collateral based lending and implementation of a prompt write-off policy for non-performing assets. These changes have the benefit of improving credit allocation in favor of creditworthy borrowers, maintaining financial discipline among borrowers and early recognition of bad debts. In order to deal with problems associated with non-performing loans, the NRB supervisory approach should be changed by placing a greater emphasis on the specific risks that individual BFIs face. In this regard, the adoption of pro-active risk based supervisory methods is highly suggested. The traditional approach is largely reactive and often attempted to address weakness that had occurred.

A risk based supervision approach demands fundamental changes in the manner which BFIs approach their business. All business decisions must henceforth be subjected to a rigorous risk based assessment and all potential risks associated with these decisions will be identified, measured, monitored and controlled. The main challenge to risk based supervision approach is the need to enhance the supervisory skills of the NRB staffs so as to ensure that the BFIs risk management frameworks are properly monitored and evaluated for adequacy. The risk management guidelines should be elaborated further, in order to assist BFIs in overcoming this challenge, which spell out minimum requirements for risk management systems and frameworks.

The publication of interest rates bank charges and fees should be in favor of bank customers to make informed choices on which BFIs they bank with. The NRB believes that continued publication of charges and fees would enhance competition in the provision of products and services.

The level of quality of banking supervision depends on its institutional structure, which influences, to a large extent, the stability and efficiency of the banking sector and thereby the whole economy. Thus, strengthening of regulation and supervision capacity of NRB to the best international practices is very much urgent. The prime focus should be given on prevailing regulations on loan loss provisioning, credit exposure, connected lending, corporate governance, transparency and prompt corrective action.

Another issue, which is most, discussed in the banking arena that the undercapitalized BFIs should or should not be allowed to operate? This issue is particularly important for private BFIs without a reputation to protect. Last but not the least, the prevailing licensing policies for BFIs should be revised according to the actual banking need of the country and the process of fit and proper test should be conducted in such a way that ensures presence of good governance and transparency from the very beginning. Keeping views on ever increasing number of BFIs, the NRB supervision jobs is being very

challenging in the sense of coverage, problem identification, resolutions and prompt corrective actions.

### **Concluding Remarks**

The global financial crises have revealed that weak financial systems and their supervision are the most important factors contributing to macro instability. Financial markets are different from product markets and therefore, greater liberalization goes along with deeper supervision and higher degree of regulation. Any destabilization in financial markets affects even those who are not in financial markets. On the other hand, financial markets can drive the real economy. Therefore, transparency disclosures, prudential norms and capitalization are the main fundamentals in the banking and financial sector. This is essential because depositors have no other security except that BFIs are well regulated. For the depositors' protection and ease the supervision job, the NRB should revisit the present licensing policy to ensure well-diversified ownership and control, "fit and proper" status of important shareholders, Directors and CEO, minimum capital/net worth for optimal operations and systemic stability and transparency and fairness of policy and process of the BFIs. As the financial system is changing, its supervision must change as well. Last but not the least, to drive the change and meet the challenges we need bankers with not only requisite leadership and technical skills but also ethical standards of the highest order.

### **2.4 Review of Related Thesis**

Prior to this, numerous researches had been carried out by students in respect to various aspects of "commercial bank financial performance or soundness." In this section, some relevant theses have been reviewed in order to facilitate the subject matters of current study.

**Shrestha** (2007), in her thesis entitled "*A comparative study of financial performance of Everest Bank Ltd. And Nepal SBI Bank Ltd.*", has pointed out following objectives.

) To determine the profitability of NSBL and EBL.

- )] To evaluate the status of collection and utilization of financial resources.
- )] To provide meaningful suggestions and recommendations to these banks for improvement in their financial performance.

**Major Findings of the study are as follows:**

- )] EBL has got as sound earning position as of NSBL. The liquidity position of NSBL is higher than the EBL.
- )] NSBL has maintained higher cash and bank balance to current assets ratio than EBL. The NSBL has maintained higher liquidity than EBL.
- )] NSBL is strongly recommended to increase its earnings per share and dividend per share to keep investors within the bank. The NSBL is paying more dividends to its shareholders than EBL that will increase its market share price.

**Pandey (2009)**, in his thesis entitled, “*A comparative analysis of financial performance of Nabil Bank Ltd., Investment Bank Ltd. And Standard Chartered Bank Ltd.*,” has pointed out following objectives.

- )] To evaluate the activity and operation with reference to mobilization of the collected funds.
- )] To analyze price earning, market value to book value per share and dividend payout.
- )] Identify the relationship between interest earned and operating profit.
- )] To evaluate the liquidity position to measure the strength of financial performance of selected banks.
- )] To study the present of the three joint venture banks.

**Major Finding of this study are as follows:**

- )] Nabil Bank and SCBNL have been successful in utilizing the depositor’s fund more efficiently in generating more profit.
- )] SCBNL was providing highest return to its shareholder than other banks.



- J NIBL and Nabil Bank have been successful in using the depositor's fund properly in lone and advances than SCBNL over the study period.
- J Net income of SCBNL is the highest than other banks. SCBNL is highest EPs and that of NIBL and Nabil Bank are lowest. SCBNL provides the highest return on equity as compared to other commercial banks under study.

**Sadula** (2007), in his thesis entitled "*Financial performance of commercial banks and returns to investors: With special reference to BOK, EBL, SCBNL, NIBL and NABIL*" has pointed out following objectives:

- J To evaluate Liquidity position of these Banks.
- J To analyze comparative financial performance of these banks.
- J To study comparative position of selected banks.
- J To offer a package of suggestion to improve the financial performance.

**Major Findings of this study are as follows:**

- J Commercial Bank except SCBNL and NABIL are not maintaining constant DP Ratio, It is recommended to maintain a constant DP Ratio so as to have the confidence of general shareholders.
- J Net income of SCBNL is the highest and that of BOK is lowest during the study period. SCBNL has highest EPS and that of BOK is the lowest. SCBNL and NABIL are continuously paying the dividend maintaining higher DP Ratio. SCBNL provides the highest return on equity as compared to other commercial banks under study.

**Shrestha** (2010), in her thesis entitled "*A Comparative Study of Financial Performance Standard Chartered Bank Nepal Ltd., Nabil Bank Ltd. And Himalayan Bank Ltd.*" has pointed out following objectives:

- J To analyze and compare the liquidity, portability, efficiency and leverage position among three commercial banks.
- J To analyze and compare solvency ratio such as capital adequacy ratio.

- ) To examine the position of NPA in the banks.
- ) To analyze the financial strength and weakness of these banks.

**Major Findings of this study are as follows:**

- ) The liquidity position of NABIL is best than that of SCBNL and HBL, as the current ratio of NABIL is highest than that of SCBNL and HBL.
- ) HBL is most efficient in utilizing the fixed deposit in granting loan and advance than NABIL and SCBNL.
- ) NABIL has utilized its assets more effectively to generate highest profit than SCBNL and HBL, since the average net profit to total assets of NABIL is highest.
- ) SCBNL is the has the highest control on interest expenses than other banks , as the interest paid to interest income of SCBNL and HBL.
- ) SCBNL has got as sound earning position as of NABIL and HBL. SCBNL is providing highest return to it's share holders then other banks.

**Tamrakar** (2010), in her thesis entitled, “*A Comparative Study on the Financial Performance of Nepal Investment Bank Ltd and Laxmi Bank Ltd.*” has pointed out following objectives.

- ) To compare analyze the liquidity, profitability, capital structure, capital adequacy leverageness and operation of NIBL and LXBL.
- ) To evaluate trend in growth of net profit loan and advance, total deposit, net interest earned EPS and DPS of these selected banks and make a projection of these for next five years,
- ) To analyze the relationship between DPS and EPS of NIBL and LXBL.
- ) To evaluate the soundness of profitability and operating efficiency of LXBL comparing with that of NIBL.
- ) To evaluate the relationship between the to variables in term of total deposits to total investment, total deposits to total net profit of LXBL and NIBL.
- ) To make suggestion for the improvements of financial performance of NIBL and LXBL for the future.

**Major Findings of this study are as follows:**

- J NIBL has higher and better liquidity position than that of LXBL.
- J LXBL has to increase the utilization of its current assets by providing loan and advances.
- J LXBL is successfully utilizing its resources in profit generating field than NIBL and LXBL bank requires to utilized fixed deposits in loan and advance more efficiently.
- J NIBL's performance is better than LXBL. It is managed to LXBL bank to Utilized optimally both its equity fund long term fund.

**2.5 Research Gap**

Large numbers of research are available bearing the same topic, "A comparative analysis of financial performance of commercial Banks". I will draw insights from them. However, the researcher were sustain gap by covering the relevant data and information from the year 2004/05 to 2008/09. The researcher has selected two commercial banks of Nepal as sample banks i.e. Bank of Kathmandu Ltd. and NABIL Bank Ltd. That itself demonstrates the gap of this research from the previous one because the researcher has not found any research done in these banks in collective form. Under this topics many researcher have been done but none of the researcher undertaken regarding the case study of financial performance between the Bank of Kathmandu Ltd. and NABIL Bank Ltd. These banks are leading commercial banks as compared to other commercial banks by which we can find for the perfect comparison between highly growing commercial bank rather than rapidly growing new commercial banks. Financial analysis is the major function of every commercial bank for evaluating the financial performance. Therefore it is the major concern of stakeholders to know the financial situation of the bank.

BOK and NABIL are the leading commercial banks of the country having the huge market share and its investment activities and these banks has significant impact on developing the economy of the country. Every year the financial performances are changing according to the environment of the country. Hence, this study fulfills the

prevailing research gap about the in depth analysis of the financial performance which is the major concern of the shareholders and stakeholders. This research work will help to acquire knowledge regarding tools and technique used and extra knowledge for the further researchers who are going to study in the topics related to the financial performance of commercial bank.

## **CHAPTER – III**

### **RESEARCH METHODOLOGY**

This chapter highlights about the methodology adopted in the process of present study. It also focuses about sources and limitations of the data, which are used in the present study. The financial performances of the banks are analyzed using descriptive and diagnostic approach. Under descriptive analysis, the growth of commercial banks in terms of bank branches, assets holding and the sources and uses of funds, excess reserves are discussed. In diagnostic analysis, the return and risk ratio, total management achievement index and stability ratio are analyzed. Further, diagnostic analysis related to the investment of commercial banks in shares and securities and loan made in various sector and provision of loan loss is discussed. Statistical tools are also used to find the correlation between deposit and loans.

#### **3.1 Introduction**

Research Methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it we study the various steps that we generally adopted by a researcher, studying his research problem along with the logic behind them.

“Research is the process of systematic and in-depth study or search for any particular topic, subject or area of investigation, backed by collection, presentation and interpretation or relevant details or data” (*Michael, 1985; 57*). In other words, research methodology is a systematized way to solve the research problem.

The prime objective of this study is to compare, evaluate and assess the financial performance of selected banks, i.e. Bank of Kathmandu Ltd. and NABIL Bank Ltd. This chapter contains these methods that make convenience for comparison of the performance made, so far by these banks by analyzing the strength and weakness of the financial performance of these two banks.

“Research Methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view” (*Kothari, 1994: 19*). A research methodology helps us to find out accuracy, validity and suitability. The justification on the present study, the applied methodology will be used. The research methodology used in the present study is briefly mentioned below.

### **3.2 Research Design**

Research design is the plan structure and strategy of investigation conceived so as to obtain answer to research questions and to control variances. In other words research design is the frame work for a study that helps the analysis of data related to study topic. A research design is the arrangement of conditions, for collecting and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure” (*Chaire, Selliz and Others, 1967: 261*).

Research design is very important for scientific investigation. Research design gives the investigator a systematic direction to research work. Actually, research design in a plan for data collection and analysis. It presents a series of guideposts to enables the researcher to process in the right direction in order to achieve the goal. A research design is the specification of methods and procedures for acquiring the information needed. It is the overall operational pattern of framework of the project that stipulates what information to be collected from which sources by what procedures. There are various approaches of research design. For our convenience, in this thesis, a comparative analysis of financial performance of two banks based on descriptive and analytical research design.

### **3.3 Sources of Data**

This study mainly based on secondary data. Secondary data are collected from their respective annual report especially from profit and loss account, balance sheet and other publications made by the banks. Also some data has been gathered from Nepal Stock

Exchange's Website. Similarly, articles, journals related to the financial performance study, previous research report etc., have also taken into account while collecting information.

### **3.4 Populations and Sample**

At present there are 29 commercial banks operating in Nepal under the guidance of Nepal Rastra Bank. For the purpose of convenience only, two commercial banks viz. Bank of Kathmandu Limited and NABIL Bank Limited have been taken as sample of this study and rest of the commercial banks are considered as population. Five years data are taken to conduct the study from FY i.e. 2004/05 to 2008/09. Following commercial banks have been selected for the study. They are:

1. Bank of Kathmandu Limited.
2. NABIL Bank Limited

### **3.5 Data Processing Procedure**

In this study, the data extracted from annual financial reports published by BOK & NABIL has been processed and interpreted considering the requirement of the study. Besides the above stated sources of data, a detailed review of literature have been conducted for the purpose of collecting other relevant data and information. Such data and information are mainly collected from Library of Shanker Dev Campus, Central Library of Tribhuvan University. Such data, information, facts and figures have been edited, tabulated and calculated before analysis. Then, results were concluded and interpretations were made. The financial and statistical tools and techniques have been applied in data processing procedure. The relevant data of five years have been rearranged, presented, analyzed and interpreted.

### **3.6 Method of Data Analysis**

For the purpose of the study, financial statements of the selected commercial banks are analyzed by using financial with the statistical tools.

### **3.6.1 Financial Tools**

In this study, the following financial tools have been used to measure the strength and weakness of the sample banks.

#### **3.6.1.1 Ratio**

Financial analysis is the process of identifying the financial strength and weakness of firm establishing relationship between times of balance sheet and profit and loss account (*Van Horne, 1979: 231*). Ratio analysis is one of the most frequently used tools to evaluate the financial health, operating results and growth (*Poudel, 1996: 67*).

##### **3.6.1.1.1 Liquidity Ratio**

Liquidity ratios are used to judge a firm's ability to meet short-term obligation. It is the comparison between the short-term obligations and short-term resources available to meet these obligations. The liquidity ratio measures the ability of a firm to meet its short-term obligation. In order to ensure short-term solvency, the Banks must maintain adequate liquidity. Liquidity ratio should neither be inadequate nor high. If the liquidity ratio of the bank is not enough, it will result in bad credit ratings, less creditors, confidence, eventually may lead to the bankruptcy. If the company has high degree of liquidity funds, it wills unnecessary tied up in current assets. Thus the banks should endeavor to maintain proper balance between inadequate liquidity and unnecessary liquidity for the survival and for avoiding the risk of insolvency. The following ratios are used to find out the short-term solvency of the banks.

##### **a. Current Ratio**

The current ratio indicates bank's liquidity and short-term debt paying ability. It shows the relationship between current assets and current liabilities. It is calculated dividing the current assets by current liabilities. Thus;



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

Current assets are those assets, which can be converted into cash within a short period of time. Normally, not exceeding one-year. Cash and bank balance, money at call or short notice, loans and advances, investment in government securities and other interest receivable, debtors, bills purchased and discounted and miscellaneous are the examples of current assets. Similarly, current liabilities are those obligations which are payable within a short period. Sometimes it is called working capital ratio. Deposit and other short-term loan, bills payable, tax provision, staff bonus, dividend payables and miscellaneous are the examples of current liabilities.

Generally, the current assets of the company should be twice than current obligations to be technically solvent. For many types of business, 2:1 is considered to be an adequate ratio. If the current ratio of the firm is less than 2:1, the solvency position of the firm is not good. A relatively high value of the current ratio is liquid and has the ability to pay its bills and vice-versa. Lastly, the widely accepted standard of current ratio is 2:1 but accurate standard depends on circumstances in case of seasonal business ratio and the nature of business.

#### **b. Cash and Bank Balance to Current Deposits Ratio**

This ratio is used to measure the bank's ability to meet the current obligations to its current depositors. It examines the commercial bank liquidity capacity on the basis of its most liquid assets i.e. cash and bank balance. This ratio reveals the ability of the banks to make the quick payment of its customer deposits. This ratio is computed by dividing cash and bank balance by current assets. It is calculated by the following formula:

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

A high ratio indicates the sound ability to meet their daily cash requirements of their customer deposits and vice-versa. Both higher and lower ratios are not desirable. The reason is that if a finance company maintains higher ratio of cash, it has to pay interest on deposits and some earning may be lost. In contrast, if bank maintains low ratio of cash, it may fail to make the payment for presented cheques by its customer. So, sufficient and appropriate cash reserve should be maintained properly.

### **c. Cash and Bank Balance to Total Deposits Ratio**

This ratio shows ability of bank's fund to cover their current margin call and saving deposits. It is calculated in order to see the position of cash and bank balance to make the payment of deposits when demanded. This ratio is calculated by the following formula:

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

Here, cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance with domestic banks and balance held in foreign banks. The total deposit encompasses current deposits, saving deposits, fixed deposits, money at call and short deposit and other deposits. A high ratio indicates the greater ability to meet their deposits and vice-versa. Moreover, too high ratio is unfit as capital will be tied-up and opportunity cost will be higher.

### **3.6.1.1.2 Leverage Ratio**

Leverage ratios are concerned with the long-term solvency of the bank and show the proportion of debt and equity in financing. Long-term creditors like debenture holders, financial institutions etc. are more interested to the firm's long-term financial strength. The capital structure ratios mainly highlight on the long-term financial health, debt servicing capacity and strength and weaknesses of the concerns. This ratio may be calculated from the balance sheet items to determine the proportion of debt in total financing. In summary, debt ratios tell us the relative proportions of capital contribution

by creditors and by owners. The following ratios are used for analyzing long-term financial health debt servicing capacity and strengths and weakness of JVBs.

**a. Debt-Equity Ratio**

Debt-equity ratio examines the relative claims of creditors and owners against the bank's assets. Alternatively, the debt to equity ratio indicates the contribution of debt capital and equity capital fund to the total investment. This ratio is computed by using the following formula:

$$\text{Debt-Equity Ratio} = \frac{\text{Total Debts}}{\text{Net Worth}}$$

Here, equity funds comprise shareholders capital, general reserve, general loan loss provisions, inappropriate profit and loss balance etc. This ratio helps to ascertain the measure stake in commercial bank between lenders and owner. If debt portion is too high, there is danger-tempting irresponsibility in the part of the owners.

**b. Debt-Assets Ratio**

This ratio reflects that the portion of outsider's fund financed in the total assets. It signifies the extent of debt financing on the total assets and measure the financial securities to the outsider. This ratio is calculated by using the following formula:

$$\text{Debt-Assets Ratio} = \frac{\text{Total Debts}}{\text{Total Assets}}$$

The numerator consists of short-term and long-term debt. Debt is that sum of money that must be payable. Creditors, bills payable debentures are the examples of debt. A high debt to total assets ratio represents a greater risk to creditors and shareholders and vice versa. This ratio implies a commercial bank success in exploiting debt to be more profitable.

**c. Net Worth to Total Assets Ratio**

This ratio is concerned with the sufficiency of shareholders fund against the total assets. It is very essential for every financial institution to have a balance of required percentage

of total assets at shareholders fund i.e. capital fund. This ratio is derived by dividing shareholders fund by total assets. This can be stated as,

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

Generally, this ratio measures the relative claims of owners of the commercial banks over the bank's assets. A high ratio indicates that out of total assets, shareholders have more controlled owner command and vice-versa.

### **3.6.1.1.3 Activity Ratio**

Activity ratios are concerned with the measuring of efficiency in assets management. This ratio is employed to evaluate the efficiency with the bank manages and utilizes funds. The following ratios are calculated under the activity ratio.

#### **a. Loan and Advance to Total Deposits Ratio**

This ratio is used to see extent to which the banks are successful to mobilize the outsider's funds. It is calculated to measure the percentage of total deposit invested in loan, advance and overdraft. It is the proportion of efficiency i.e. loan the advance among the total deposit of the commercial banks. This ratio is calculated by using the following formula:

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

Higher ratio shows the finance companies ability to provide the loan and advances to the people. A high ratio of loan and advances is considered to be the sign of efficient commercial bank and better mobilization of collected deposits and vice-versa.

#### **b. Loan and Advances to Total Working Fund Ratio**

Loan and advances is the major component in the total working fund (total assets), which indicates the ability of commercial bank are successful in mobilizing their loan and advances on working fund ratio for the purpose of income generation. This ratio is computed by dividing loan and advance by total working fund. This is stated as,

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

Here, the denominator includes all assets of on balance sheet items. In other words, this includes current assets, net fixed assets, loans for development banks and other investment in share, debenture and other etc. A high ratio indicates a better mobilization of fund as loan and advances and vice-versa.

### **c. Total Investment to Total Deposits Ratio**

This ratio is calculated to see how efficiently the banks have mobilized the deposits on investment. This ratio is calculated by using the following formula:

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

The numerator consists of investment of government securities, investment on debenture and bonds, shares in subsidiary commercial bank share in other companies and other investment. A high ratio indicates that the commercial bank's efficiency is more investing on its deposits and low ratio indicates in ability to put its deposit for the lending activities.

### **3.6.1.1.4 Profitability Ratio**

Profitability ratio indicates the degree of success in achieving desired profit. This ratio measures how effectively the company manages its fund to earn profit. This ratio is regarded as the most essential element for the commercial bank growth and survival. The different between total revenues and total expenses over a period is known as profit.

Efficient operation of a firm and its ability to pay and adequate return to different parties depend upon firm's profit. It is regarded as the most essential element for commercial bank growth, survival and to compete with competitors. In fact, sufficient profit must be earned to maintain the operation of the company be able to acquire funds from investors for expansion and to contribute towards the goals of the nation. This implies that profit is the measuring rod of companies for the financial performance. Higher the profitability ratio, better the financial performance of the commercial bank and vice-versa. Profitability position can be evaluated through following different way. For the study purpose, the following profitability ratios have been calculated.

**a. Net Profit to Total Assets Ratio**

This ratio measures the profitability with respect to the total assets. It reflects the efficiency of the banks in utilizing its overall resources. This is found by using the following formula:

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

The numerator indicates the position of income left to the interval equities after all costs, charges, expenses have been deducted. Total assets comprise those assets, which appear on the assets side of the balance sheet. The high return on total assets ratio usually indicator that high profit margin and high turnover of total assets and vice-versa.

**b. Total Interest Expenses to Total Interest Income Ratio**

This ratio measures the percentage of total interest expenses against total interest income. It is calculated by the following formula:

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

The numerator consists of total interest expenses on total deposit, loan and advance, borrowing and other deposits. A high ratio indicates high interest expensed on total interest income.

**c. Net Profit to total deposits (Return on Total Deposits)**

This ratio enables to evaluate what extent the management has been successful to mobilize the deposits in generating profit. Higher ratio represents better utilization of profit. It is calculated by using the following formula.

$$\text{Net Profit to Total Deposits} = \frac{\text{Net Profit}}{\text{Total Deposits}}$$

Here, net profit means profit after interest and taxes and total deposit means that total amount deposited in various accounts i.e. current, saving, fixed, call and short deposits and other. Generally, higher ratio indicates better utilization of total deposits and vice versa.

**d. Staff Expenses to Total Income Ratio**

This ratio measures the percentage of staff expenses against total income of the banks. It is calculated by using the following formula:

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

The nominator consists of staff expensed on total income and other deposits. A high ratio indicates high staff expensed on total income.

**e. Return on Net Worth Ratio**

This ratio shows the capacity of the banks to utilize its owner's fund. It helps to judge whether the company has earned satisfactory return for its shareholders or not. Higher

ratio represents the sound management and efficient mobilization of owner's equity. It is calculated by the following formula:

$$\text{Return on Net worth Ratio} = \frac{\text{Net Profit}}{\text{Net Worth}} \times 100\%$$

Here, net worth focuses not only the paid up capital but also include general reserve, capital reserve, ordinary share, preference share, premium on share and other reserve which may distribute to shareholders as dividend.

#### **f. Interest Earned to Total Asset Ratio**

This ratio is used to measure the percentage of interest earned in relation to total assets of the banks. It signifies the mobilization of the bank's assets in interest generating purpose. Higher ratio signifies better efficiency in utilizing the resources in interest generating sectors. It is calculated by using following formula:

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

The numerator comprises total interest income from loans, advances, cash credit and overdrafts, government securities, inter commercial bank and other investment. A high ratio is an indicator of high earning power, and better performance of the JVBs on its total working fund and vice-versa.

#### **g. Return on Investment Ratio**

This ratio measures the percentage of return on total investment. It is calculated by using following formula:

$$\text{Return on Investment Ratio} = \frac{\text{Net Profit}}{\text{Total Investment}} \times 100\%$$



The numerator consists of investment of government securities, investment on debenture and bond, share in subsidiary companies and other investment. A high ratio indicates commercial bank efficiency is more beneficial on its investment.

#### **3.6.1.1.5 Credit Ratio**

Credit ratios are calculated in order to measure the credit position of the banks. It shows what portion of collected deposits are used to make credit and remain cash and bank balances to make immediate payments. The following ratios are used under the credit ratio:

##### **a. Investment on Govt. Securities to Total Working Fund Ratio**

This ratio shows that commercial bank investment on government securities in comparison to the total working fund. It is very significant to know the capacity of commercial bank to mobilize their working fund of different types of government securities to maximize the income. All the deposits of the commercial bank should not invest in loan and advances and other credit from security and liquidity point of view. Therefore, up to some extent, commercial banks seem to be invested to utilize their deposits by purchasing government securities. This ratio is calculated by dividing investment on government securities by total working fund. This is presented as,

Investment on Govt. Securities to Total Working Fund Ratio

$$= \frac{\text{Investment on Government Securities}}{\text{Total Working Fund}}$$

This ratio shows that out of total working fund, how much percentage of it has been occupied by the investment on government securities.

##### **b. Total Investment to Total Deposits Ratio**

This ratio shows the proportion of total deposits mobilization in the different investing areas. It is calculated by using the following formula:

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

This ratio shows that out of total deposits, how much percentage of it has been occupied by the investing in different areas.

### 3.6.2 Statistical Tools

The statistical tools selected for the comparative study of two banks (Bank of Kathmandu Ltd. and NABIL Bank Ltd.) are as follows.

#### 3.6.2.1 Arithmetic Mean

Average is the typical values around which other items of distribution congregate. Arithmetic mean of a given set of observation is their sum divided by the number of observation (*Gupta, 1995:331*).

$$\text{Mathematically, } \bar{X} = \frac{x_1 + x_2 + \dots + x_n}{n} = \frac{\Sigma x}{n}$$

Where,

$\bar{X}$  = Arithmetic Mean

$x_1 + x_2 + \dots + x_n$  = Values of Variable

$\Sigma x$  = Sum of the values of variables x

n = Number of observation

#### 3.6.2.2 The Coefficient of Variation

For comparing the variability of two distributions, we compute the coefficient of variation. A distribution with smaller C.V. is said to be more homogenous or uniform or less variable than other and the series with greater C.V. is said to be more heterogeneous or more variable than others. The coefficient of variation is a relative measure which is useful in comparing the amount of variation in data group with different means:

$$\text{Mathematically, C.V.} = \frac{SD}{\bar{X}} \times 100$$

$$\text{S.D.} = \sqrt{\frac{1}{n} \sum (x - \bar{x})^2}$$

Where,

S.D. = Standard Deviation

$\bar{x}$  = Mean

C.V. = Coefficient of variation

### 3.6.2.3 Coefficient of Correlation

The Coefficient of correlation is an important measure to describe how well one variable is explained by another. It measures the degree of relationship between the two casually related variables. Karl person's coefficient of correlation between two variables X and Y is usually devoted by 'r' which is the numerical measure of linear association between the variables.

Where,

$$r = \frac{\sum xy - \frac{\sum x \sum y}{n}}{\sqrt{\left(\sum x^2 - \frac{(\sum x)^2}{n}\right) \left(\sum y^2 - \frac{(\sum y)^2}{n}\right)}}$$

r = Coefficient of correlation between variable x and y

n = No. of observation of X and Y.

$\sum x$  = Sum of the observations in series X.

$\sum y$  = Sum of the observations in Series Y.

$\sum x^2$  = Sum of square observations in series X.

$\sum y^2$  = Sum of square observations in series Y.

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

#### **3.6.2.4 Probable Error**

The probable error of the coefficient of correlation helps in interpreting the value and measuring the reliability of the coefficient of correlation. Probable error of correlation coefficient usually denoted by P.E. (r) is an old measure of testing the reliability of an observed value of correlation coefficient in so far as it depends upon the conditions of random sampling. It is worked out as:

$$\text{P.E.} = 0.6745 \frac{1 Z r^2}{\sqrt{n}}$$

Where,

r= Correlation Coefficient

n= No. of pairs of observation

$r > \text{PE} (r) \times 6$  (correlation coefficient more than six times of probable error, r is Significant)

$r < \text{PE} (r)$  (Correlation coefficient less than six times of probable error, r is Insignificant)

#### **3.6.2.5 Coefficient of Determination**

The coefficient of determination is the primary way we can measure the extent, or strength of the association this exists between two variables X and Y, It is worked out by squaring the coefficient of correlation.

Where,

$$R = r^2$$

r = Coefficient of correlation

R = Coefficient of determination

#### **3.6.2.6 Trend analysis**

Trend analysis enables to compare two or more companies over different period of time and draw important conclusion about them. It helps in business forecasting and planning future operation.

### 3.6.2.7 Least Square Linear Trend

Straight-line trend implies that irrespective of the seasonal and cyclical swings and irregular fluctuations, the trend values increase or decrease by a constant absolute amount 'b' per unit of time. Hence, the linear trend values from 'a' series in arithmetic progression, the common difference being 'b' the slope of the trend line.

Mathematically,

The straight line trend is given by the following formula:

$$Y = a + bx$$

Where,

Y = Value of dependent variable

a = Y intercept

b = Slope of the trend line

x = Values of independent variable

### 3.6.3 Earning Per Share (EPS)

Earning per share calculations made over years indicates whether or not the company's earning power on per share basis has change over that period. EPS shows the profitability of the company of a per share basis. It is calculated by the following formula:

$$\text{Earning Per Share (EPS)} = \frac{\text{Net Profit after Tax}}{\text{No. of Common Share}}$$

### 3.6.4 Dividend Payout Ratio (D/P Ratio)

This ratio reflects at what percentage of net profit is distributed term of dividend and what percentage is retained in the bank. It is calculated by the following formula:

$$\text{Dividend Pay out Ratio (D/P Ratio)} = \frac{\text{Dividend Per Share}}{\text{Earning Per Share}}$$

### **3.6.5 Price Earning Ratio (P/E Ratio)**

This ratio shows the price currently paid by the market for each rupee of currently reported earning per share. It is calculated by the following formula:

$$\text{Price Earning Ratio (P/E ratio)} = \frac{\text{Market Value Per Share}}{\text{Earning Per Share}}$$

### **3.6.6 Market Value Per Share to Book Value Per Share**

This ratio shows the ratio of market value per share to the book value per share. The market value per share is divided by the book value per share. This ratio shows the price being paid by outsider for each rupee reported in balance sheet. It is calculated by the following formula:

$$\text{Market Value Per Share to Book Value Per Share} = \frac{\text{Market Value Per Share}}{\text{Book Value Per Share}}$$

### **3.6.7 Income and Expenditure Analysis**

Besides the various ratios, income and expenditure analysis be made for evaluation financial performance of the banks. The profit and loss accounts of the banks are used for this analysis.

### **3.7 Analytical Procedure**

For the purpose of the study, financial statements of the selected Banks are analyzed by using financial tool along with the statistical tool.

Financial tools have been used to measure strength and weakness of the two selected commercial bank. Then, the selected banks have been compared and analysis according to the various ratios findings.

Statistical tools have been used to analysis the study for finding which bank have more homogenous or uniform than the other, according to the co-efficient of variation.

Likewise, Karl person co-efficient of correlation should be used to measure the degree of relation between the two related variable. Probable error also should be used to analysis the reliability of the coefficient of correlation.

At last, trend analysis should be done according to the past and present financial statement of three selected banks.

## CHAPTER- IV

### PRESENTATION AND ANALYSIS OF DATA

In this chapter, data collected from secondary sources are presented and analyzed by using financial and statistical tools. The available data are tabulated, analyzed and interpreted so that financial forecast of banks can be done easily. To evaluate the financial performance of selected joint venture banks, ratio analysis, correlation analysis and trend analysis are used in this study.

#### 4.1 Financial Tools

In this study, financial tools have been grouped into liquidity ratio, profitability ratio, activity ratio and leverage ratio etc.

##### 4.1.1 Liquidity Ratio

For analyzing the financial performance of the banks, liquidity ratio is one of the powerful tools. Whether the company is able to meet its current obligation is judged by liquidity ratio.

##### A. Current Ratio

The current ratio is measure of the firm's short-term solvency. It indicates the availability of current assets in rupees for each one rupee of current liabilities. A ratio of greater than one means that the firm has more current assets than current liabilities. Current ratio measures the relationship between current assets and current liabilities.

**Table 4.1**  
**Analysis of Current Ratio**

(In times)

Name of Banks	Fiscal Year					Average		C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOK	1.06	1.02	1.21	1.20	1.14	1.13	0.0753	6.66
NABIL	0.94	0.97	2.08	0.93	1.04	1.20	0.4457	37.14

(Source: See Annex I)



In the table 4.1, current ratio has been calculated dividing current assets by current Liabilities. The above table shows that the current ratio of the banks is below the normal standard of 2:1. On an average basis, current ratio is Nabil bank is 1.20, which is the highest ratio of BOK. BOK has 1.13current ratio. However, considering the average ratio, Nabil Bank is found slightly better liquid than BOK.

From S.D point of view, BOK has the lowest S.D of 0.0753. Nabil Bank has the highest S.D. of 0.4457. It implies that NABIL has high fluctuation (less homogeneity) with respect to current assets to current liabilities. Similarly, BOK has low fluctuation (more homogeneity) with respect to current assets to current liabilities.

### **B. Cash and Bank Balance to Total Deposit Ratio**

This ratio indicates the ability of banks immediately funds to cover their current margin calls, saving, fixed, call deposit and other deposits and vice versa. This ratio is calculated by dividing cash and bank balance by total deposits. The following table shows the comparative cash and bank balance to deposits ratio.

**Table 4.2**  
**Cash and Bank Balance to Total Deposit Ratio**

(In times)

Name of Banks	Fiscal Year					Average		C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOK	10.11	8.28	6.95	10.62	9.09	9.01	1.3103	14.54
NABIL	6.87	3.83	3.26	5.99	8.37	5.66	1.8987	33.54

(Source: See Annex 2)

In the table 4.2, cash & bank balance to total deposit ratio has been calculated by dividing total cash and bank balance amount by total deposit amount. The above ratio reveals that the ability of banks to cover its short-term deposits. On an average basis, BOK is more in better position with an average 9.01 than NABIL Banks. NABIL Bank has 5.66 respectively.

From S.D point of view, Nabil Bank has the highest S.D. of 1.8987. BOK has the lowest S.D of 1.3103. It indicates that there is high fluctuation (Less homogeneity) in cash and bank balance to total deposit ratio of Nabil Bank over the study period. BOK with lowest S.D. of 1.3103 indicates that there is low fluctuation (more homogeneity) in cash and bank balance to total deposit ratio.

From C.V. viewpoint, Nabil Bank has highest C.V. i.e. 33.54%. BOK has the lowest C.V. is 14.54%. This implies that Nabil Bank is more inconsistent in cash and bank balance to total deposit ratio over the study period. However, BOK with lowest C.V. i.e. 14.54% indicates that it is consistent in cash and bank balance to total deposit ratio over the entire study period.

### C. Cash and Bank Balance to Current Asset Ratio

Cash and bank balance is the most liquid form of current assets. This ratio reflects the position of cash and bank balance to current assets of the bank.

**Table 4.3**

#### **Cash and Bank Balance to Current Asset Ratio**

(In times)

Name of Banks	Fiscal Year					Average		C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOK	8.36	7.95	8.17	10.72	10.19	9.08	1.1441	12.60
NABIL	6.81	3.74	4.55	7.77	12.51	7.00	2.9591	42.27

(Source: See Annex 3)

The above ratio has been derived dividing cash and bank balance by current assets. The table 4.3 shows that the selected JVBS have held less cash and bank balance and utilized the available fund into current assets by issuing short-term loans and advances. Over the study period, on an average BOK has highest ratio of 9.08. And NABIL has lowest ratio of 7.00.

Therefore, on an average, BOK has the highest ratio and NABIL has the lowest ratio of cash and bank balance to current assets. It implies that at some time BOK has held more

cash and bank balance than other sampled JVBS and NABIL has been successful in utilizing the depositor's money in short term loans.

From S.D viewpoint, NABIL has the highest S.D i.e. 2.9591. BOK has lowest S.D. of 1.1441. It implies that NABIL has high fluctuation (less homogeneity) with respect to cash and bank balance to current assets over the study period. Similarly, BOK with lowest S.D. of 1.1441 has low fluctuation (more homogeneity) with respect to cash and bank balance to current assets.

From C.V. point of view, NABIL has the highest C.V. of 42.27% and BOK has the lowest C.V. of 12.60%. It indicates that NABIL has high degree of variability or is inconsistent in holding cash and bank balance to current assets over the study period. BOK has low degree of variability or is consistent in holding cash and bank balance to current assets over the study period.

#### **4.1.2 Profitability Ratio**

Profit is the difference between revenues and expenses over a period of time. This ratio measures the proportion of each components of operating income to total operating income. The main components of operating income are interest earned, commission and discounts, exchange income and other income, bank receives interest from loans and advances, cash credit, overdraft, investment in government securities and bonds, money at call and short notice, debenture, inter-bank loan and others. Bank receives commission by discounting bills of exchange, remittance, foreign currency fluctuation etc. Under this, following ratios are used.

##### **A. Net Profit to Total Assets Ratio**

Net profit refers to profit after interest and taxes. Total assets comprise of those assets that appear on the assets side of the balance sheet. A higher degree of ratio shows that total assets of the banks have been utilized in profit earnings. The following table shows the ratio of net profit to total assets.

**Table 4.4**  
**Net Profit to Total Assets Ratio**

(In times)

Name of Banks	Fiscal Year					Average		C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOK	7.78	7.40	7.60	9.83	9.23	8.37	0.9150	11.65
NABIL	2.43	2.73	3.06	3.23	2.72	2.83	0.2811	9.93

(Source: See Annex 4)

In the table 4.4, net profit to total assets ratio has been derived by dividing net profit by total assets. This ratio shows the relationship between net profit and total assets. On an average, I see that BOK bank has the highest times of net profit 8.37 on total assets. NABIL bank has the lowest profit i.e. 2.83 times on total assets. It indicates that BOK bank has been successful to generate more profit than NABIL bank by using its total assets.

From S.D. point of view, BOK Bank has the highest S.D. of 0.9150 point and NABIL has the lowest S.D. of 0.2811 point. It implies that BOK bank has high fluctuation (less homogeneity) in generating profit than NABIL Bank over the study period, where as NABIL has lowest S.D. of 0.2811 point has low fluctuation (more homogeneity) in generating more profit.

From C.V. point of view, BOK has the highest C.V. of 11.65%. And NABIL has the lowest C.V. of 9.93%. It implies that BOK Bank has higher degree of variability or is inconsistent in generating net profit and NABIL with lowest C.V has lower degree of variability or is consistent in generating more net profit by using total assets in a systematic way.

### **B. Net Profit to Total Deposit Ratio**

This ratio of selected banks measure of NPAT earned by using total deposits. This ratio shows how efficiently the management has utilized its deposits in profit generating activities. This ratio is a mirror for bank's overall financial performance as well as its

success in profit generation. Because of the deposit made by its customer's is the major source of earning of the commercial banks. The higher ratio shows the higher degree of utilization of deposits in generating profit. This ratio is presented by following table.

**Table 4.5**  
**Net Profit to Total Deposit Ratio**

(In times)

Name of Banks	Fiscal Year					Average		C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOK	9.39	8.41	8.40	11.29	10.88	9.67	1.2139	12.55
NABIL	3.10	3.22	3.56	3.28	3.68	3.37	0.2171	6.44

(Source: See Annex 5)

In the table 4.5, net profit to total deposit ratio has been derived by dividing net profit by total deposit. This ratio shows the relationship of net profit and total deposits. On an average point of view, BOK bank has the highest ratio of 9.67 times. And NABIL has the lowest ratio of 3.37 times over the study period. It implies that BOK has been successful in utilizing the depositor's fund more efficiently in generating more profit. NABIL has not managed the deposit efficiently and thus it has failed to generate more profit over the study period.

From S.D. point of view, BOK has the highest S.D. of 1.2139 point. NABIL has the lowest S.D. of 0.2171 point. It implies that BOK bank has high fluctuation (less homogeneity) in generating profit by using deposit where as NABIL with lowest S.D. of 0.2171 indicates it has low fluctuation (more homogeneity) in generating profit by managing the deposit efficiently.

From C.V. point of view, BOK has the highest C.V. of 12.55%. NABIL has the lowest C.V. of 6.44% over the study period. It implies that BOK has high degree of variability or is inconsistent in generating profit and NABIL has lower degree of variability or is more consistent ingenerating profit by employing the deposit efficiently.

### C. Return on Shareholder's Equity or Net worth Ratio

This ratio reveals how profitably the banks have utilized the owner's funds. For the commercial banks, the objective is to earn maximum profit so as to provide reasonable return to the owners. Higher this ratio indicates sound and efficient management. It also indicates towards the favorable condition of wealth maximizations of the bank.

**Table 4.6**  
**Return on Shareholder's Equity or Net worth Ratio**

(In percentage)

Name of Banks	Fiscal Year					Average		C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOK	14.18	19.59	18.57	16.06	16.72	17.02	1.9018	11.17
NABIL	43.52	30.73	31.29	33.88	32.72	34.43	4.6777	13.59

(Source: See Annex 6)

In the table 4.6, return on shareholder's equity or net worth ratio has been derived by dividing net profit by net worth or shareholder's equity. Over the study period, on an average of NABIL has the highest ratio of 34.43%. BOK has the lowest ratio of 17.02% over the study period. It indicates that NABIL was providing highest return to its shareholder than other banks.

From S.D. point of view, NABIL has the highest S.D. 4.6777 point. And BOK has the lowest S.D of 1.9018 point. It implies that, over the study period, Nabil bank has high fluctuation (less homogeneity) in giving the return to shareholders where as in case of BOK there is low fluctuation (more homogeneity) in providing more rate of return to its shareholders the study period.

From C.V. point of view, NABIL has the highest C.V. of 13.59%. BOK bank has the lowest C.V. of 11.17%. It implies that NABIL has higher degree of variability or is inconsistent in providing return to their shareholders. In the same period, BOK bank with lowest C.V. of 11.17%, has lower degree of variability or is consistent in providing return to its shareholder.

#### **D. Net Interest Earned to Total Assets Ratio**

This ratio measures how much interest has been earned in different years by mobilizing the overall assets of the bank. Interest income is main source of income of the banks. Generally, banks generate interest income through the loan and advances, investment, overdrafts, hire purchase finance and loan given to priority and deprived sector as well. A higher ratio represents the better efficiency in mobilizing its resources for the purpose of generating interest income. This ratio has been presented by following table.

**Table 4.7**  
**Net Interest Earned to Total Assets Ratio**

(In times)

<b>Name of Banks</b>	<b>Fiscal Year</b>					<b>Average</b>		<b>C.V.</b>
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOK	6.67	6.45	6.16	5.85	5.62	6.15	0.3825	6.22
NABIL	4.23	4.20	4.70	4.27	3.79	4.24	0.2887	9.83

*(Source: See Annex 7)*

In the table 4.7, net interest earned to total assets ratio has been derived by dividing net interest earned by total assets. On an average, from the above table, I found that, BOK bank has the highest ratio of 6.15 times. It implies that BOK bank has been managing the assets efficiently and earning more interest out of it. NABIL has the lowest ratio of 4.24 times. It implies that NABIL has not been able to utilize the assets efficiently and earning low interest.

From S.D. point of view, BOK bank has the highest S.D. with 0.3825 point. It implies that there is high fluctuation (less homogeneity) in interest earning capacity of BOK bank over the study period. Whereas, NABIL with lowest S.D. of 0.2887 indicates that it has low fluctuation (more homogeneity) in interest earning capacity over the entire study period among sampled banks.

From C.V. point of view, Nabil bank has the highest C.V. of 9.83%. BOK has the lowest C.V. of 6.22%. It implies that Nabil bank has high degree of variability or is inconsistent in earning interest by using of its assets over the study period. Whereas, with the lowest

C.V. of 6.22%, BOK is more consistent or has lower degree of variability in earning interest by the proper use of its total assets over the study period.

#### **4.1.3 Activity Ratio**

This ratio refers how efficiently the organization is managing its resources. Thus, this ratio measures the degree of effectiveness in use of resources or funds by a firm. It is also known as turnover or efficiency ratio or assets management ratio. Turnover or conversion indicates more efficiency of a firm in managing and utilizing its assets. The common activity ratios that are determined under this are as follows.

##### **A. Loan and Advances to Total Deposit Ratio**

Commercial banks utilize the outsider's fund for profit generation purposes. Loan and advances to deposit ratio shows whether the banks are successful in utilizing the outsider funds (i.e. total deposit) for the profit generation purposes (i.e. loan and advances).



**Table 4.8**  
**Loan and Advances to Total Deposit Ratio**

(In times)

Name of Banks	Fiscal Year					Average		C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOK	72.94	66.12	69.23	75.87	78.11	72.45	4.3452	6.10
NABIL	58.01	72.57	66.79	66.60	66.94	66.18	4.6628	7.05

(Source: see annex 8)

In the table 4.8 loan and advances to total deposit ratio has been derived by dividing loan and advances amounts by total deposit amount. This ratio helps to analyze whether the banks have utilized the outsider's fund properly or not. The above table shows that, over the study period on an average basis, BOK has the highest ratio of 72.45 times and NABIL has the lowest ratio of 66.18 times. On an average basis, BOK bank has the highest ratio of 72.45. It implies that BOK bank has been successful in using the depositor's fund properly in loan and advances than NABIL over the study period.

From S.D. point of view, Nabil Bank has the highest S.D of 4.6628 point where as BOK has the lowest S.D. of 4.3452 point. It implies that Nabil Bank has high fluctuation (lowest homogeneity) in utilizing the depositor's fund in loan and advances where as BOK bank with lowest S.D. of 4.3452 point indicates in has low fluctuation (more homogeneity) in using outsider fund in loan and advances over the study period.

From C.V. point of view, NABIL Bank has the highest C.V. of 7.05% where as BOK Bank has the lowest C.V. of 6.10%. It implies that NABIL Bank is inconsistent or has not been able to utilize the outsider's (depositor's) fund properly in loan and advances, where as BOK Bank with lowest C.V. of 6.10% is consistent or has been successful in using outsider's fund properly in loan and advances.

## B. Loan and Advances to Total Assets Ratio

Loan and advances is the major component in the total working fund (total assets), which indicates the ability of commercial bank are successful in mobilizing their loan and advances on total assets ratio for the purpose of income generation. This ratio is computed by dividing loan and advances by total assets.

**Table 4.9**

### **Loan and Advances to Current Assets Ratio**

(In times)

Name of Banks	Fiscal Year					Average		C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOK	60.30	63.51	81.39	76.64	88.20	74.01	10.5514	14.26
NABIL	57.50	70.71	93.25	86.26	100.05	81.55	15.4741	18.97

(Source: See Annex 9)

In the table 4.9, loan and advances to total assets ratio has been derived by dividing loan and advances amount by total assets amount. This ratio helps to analyze whether the banks have utilized the total working fund properly or not. The above table shows that, over the study period on an average basis, NABIL bank has the highest ratio of 81.55 times. BOK bank has the lowest ratio of 74.01 times. It implies that NABIL bank has been successful in mobilizing loan and advance on total working fund over the study period.

From S.D point of view, Nabil Bank has highest S.D of 15.4741 point. Whereas BOK Bank has the lowest S.D. of 10.5514 point. It implies that Nabil Bank has high fluctuation (lowest homogeneity ) in utility the total working fund in loan and advances where as BOK Bank with lowest S.D. of 10.5514 point indicates it has low fluctuation (more homogeneity) in using the total working fund properly in loan and advances over the study period.

From C.V. point of view, NABIL has the highest C.V. of 18.97% where as BOK has the lowest C.V. of 14.26%. It implies that NABIL is inconsistent or has not been able to utilize the total working fund properly in loan and advances; whereas BOK lowest C.V.

of 14.26% is consistent or has been successful to mobilizing the total working fund properly in loan and advances.

### C. Total Investment to Total Deposits Ratio

Banks invest money in different forms. They are loans, overdraft, cash credit, discounting bills of exchange, investment in government securities, investment in share of well – established industrial concerns and money at call and short notice. In this analysis investment in government securities, shares and also investment in foreign banks is included to calculate the ratio. Total deposits include saving, current, fixed and call deposit of the respective banks. The ratio of total investment to total deposit has been presented below.

**Table 4.10**  
**Total Investment to Total Deposits Ratio**

(In times)

Name of Banks	Fiscal Year					Average		C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOK	32.00	29.05	32.22	24.15	20.24	27.53	4.6660	16.95
NABIL	41.33	29.25	31.43	39.32	31.14	34.49	4.8612	14.09

(Sources: See Annex 10)

In the table 4.10, shows that on an average basis over the study period, NABIL has the highest times of investment in non- risky project i.e. 34.49, whereas BOK has the lowest times of investing in non-risky project i.e. 27.53. It implies that NABIL prefers in investing its depositors fund in non-risky project like government bonds, treasury bills, government securities, debentures of other organization etc rather than choosing the risky portfolio like loan and advances to its credit customers.

From S.D. point or view, Nabil Bank has the highest S.D. of 4.8612 point. Whereas BOK Bank has the lowest S.D. of 4.6660 point. It implies that Nabil Bank has high fluctuation

(less homogeneity) in using the depositors fund in non- risky portfolio and BOK has low fluctuation (more homogeneity) i using depositor fund in non- risky port folio.

From C.V. point of view, BOK has the highest C.V. of 16.95% where as NABIL has lowest C.V. of 14.09%. It implies that BOK bank is inconsistent in investing in non- risky portfolio and NABIL with lowest C.V is consistent in using its deposit in non- risky portfolio.

#### 4.1.4 Leverage Ratio

Financial leverage or capital structure ratio are calculated to judged the long – term financial position of the firm. These ratios indicate mix of funds provided by owners and lenders. Generally, there should be an appropriate mix of debt and owners equity in financing the firm’s assets. Administration of capital can smoothly by carried with the help of such ratios.

#### A. Total Debts (Liabilities) to Net worth Ratio

Debt–equity ratio examines the relative claims of creditors and owners against the bank’s assets. Alternatively, total debt to equity ratio indicates the contribution of debt capital and equity capital fund to the total investment. This ratio is presented as following table:

**Table 4.11**  
**Total Debts (Liabilities) to Net Worth Ratio**

(In times)

Name of Banks	Fiscal year					Average		C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOK	14.45	13.59	12.64	13.18	13.47	13.50	0.5922	4.39
NABIL	16.32	10.54	9.59	11.18	11.58	11.84	2.3378	19.74

(Source: See Annex 11)

The above ratio has been derived dividing total debts by net worth. The table 4.11 shows that commercial banks have highly leveraged based on equity capital. On an average, BOK has the highest ratio of 13.50. Nabil bank has the lowest ratio of 11.84. It indicates that BOK has highly leveraged 13.50 times means; debt capital financing is more than 13.50 times of its shareholder’s equity.

From S.D point of view, Nabil Bank has highest S.D. of 2.3378 point. BOK has lowest S.D. of 0.5922 point. It implies that Nabil Bank has high fluctuation (less homogeneity) with respect to total debt to net worth. Similarly, BOK Bank with lowest S.D of 0.5922 has low fluctuation (more homogeneity) with respect to total debt to net worth over the study period.

From C.V. point of view, NABIL Bank has the highest C.V. of 19.74%. BOK Bank has lowest C.V of 4.39%. It means, NABIL has high degree of variability or is inconsistent in maintaining total debt to total equity over the study period.

**B. Total Debts to Total Assets Ratio**

This ratio reflects that the portion of outsider’s fund financed in the total assets. It signifies the extent of debt financing on the total assets and measure the financial securities to the outsider. The following table shows that the relationship between total debt and total assets.

**Table 4.12**  
**Total Debt (Liabilities) to Total Assets Ratio**

(In times)

Name of Banks	Fiscal Year					Average		C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOK	92.22	100.60	92.40	90.22	90.79	93.25	3.7693	4.04
NABIL	94.22	91.34	90.55	91.60	92.45	92.03	1.2509	1.36

*(Source: See Annex 12)*

In the table 4.12 shows that on an average basis over the study period, BOK bank has highly debt financing. It means these banks borrowed outsider’s funds by 93.25 times.

From S.D. and C.V. point of view, BOK bank has highest S.D. of 3.7693 point and NABIL bank has lowest S.D. of 1.2509 point. It indicates BOK bank has high fluctuation and NABIL bank has low fluctuation. BOK bank has highest C.V. of 4.04% and NABIL bank has lowest C.V. of 1.36%. It means, BOK bank has high degree of variability is inconsistent to utilizing debt to assets ratio where as NABIL has consistent debt financing.

#### 4.1.5 Earning Per Share

Earning per share is one of the most widely quoted statistics when there is a discussion of company's performance or share value, it is profit after tax (NPAT) figure that is divided by the number of common share to calculate the value of earning per share. This figure tells what profit the common shareholder for every share hold has earned. A company can decide whether to increase or reduce the number of share on issue. This decision will automatically affect earning per share.

**Table 4.13**  
**Earning Per Share**

(In Rs.)

Name of Banks	Fiscal Year					Average		C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOK	17.72	27.50	29.99	41.80	37.28	30.86	8.3139	26.95
NABIL	84.66	92.61	105.49	129.21	137.08	109.81	20.3324	18.52

(Source: See Annex 13)

From the table 4.13 we can see that on an average, NABIL has the highest amount of EPS Rs. 109.81. Among two selected JVBs. BOK Bank has the lowest amount of EPS i.e. Rs. 30.86 over the study period. It means that Nabil Bank has been able to provide maximum profit to equity holder on a per share basis.

From the S.D. point of view, Nabil Bank has highest S.D. of 20.3324 point. BOK bank has the lowest S.D. of 8.3139 point. It implies that Nabil Bank has high fluctuate (less homogeneity) in EPS over the study period. Whereas BOK with lowest S.D. of 8.3139 point, indicates that low fluctuation (more homogeneity) in EPS over the study period.

From C.V. point of view, BOK has the highest C.V. of 26.95% and NABIL with C.V. of 18.52%. It implies that BOK Bank has high degree of variability or is inconsistent in EPS amount over the study period. NABIL has lowest C.V. of 18.52%, which indicates it has

low degree of variability, or is consistent in providing EPS amount to the equity holders on a per share basis over the study period.

#### 4.1.6 Dividend Payout Ratio

Dividend payout ratio measures what percentage/portion of the net profit after tax and preference dividend is paid out to the equity shareholders as dividend and how much it is retained in the firm for the purpose of expansion and growth in the future. This ratio has been presented by following table.

**Table 4.14**  
**Dividend Payout Ratio**

(In times)

Name of Banks	Fiscal Year					Average		C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
<b>BOK</b>	65.92	59.08	65.94	71.72	70.37	66.61	4.4244	6.64
<b>NABIL</b>	66.36	65.78	102.13	92.33	79.62	81.24	14.2999	17.60

(Source: See Annex 14)

From the table 4.14 we can see that on an average basis NABIL has the highest times of payment ratio with 81.24. BOK bank has the lowest ratio with 66.61 times.

From S.D. point of view, Nabil Bank has the highest S.D. of 14.2999 point. And BOK Bank has the lowest S.D. of 4.4244 point. It implies that Nabil Bank has high fluctuation in providing dividend throughout the study period. BOK Bank with lowest S.D indicates low fluctuation in providing dividend to its shareholders throughout the study period.

From the C.V. point of view, NABIL has the highest C.V. of 17.60%. BOK Bank has the lowest C.V. of 6.64%. It indicates that Nabil Bank has high degree of variability and BOK Bank has low degree of variability is consistent in providing a regular amount as dividend.

#### 4.1.7 Price Earning Ratio

This ratio shows the price currently paid by the market for each rupees of currently reported earning per share. This ratio has been presented by following table.

**Table 4.15**  
**Price Earning Ratio**

(In Times)

Name of Banks	Fiscal Year					Average		C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOK	11.17	10.73	14.29	19.46	31.49	17.43	7.6908	44.12
NABIL	8.74	10.80	14.27	17.34	36.84	17.60	10.0606	57.16

*(Source: See Annex 15)*

From the table 4.15 shows that, on an average basis NABIL has the highest P/E ratio with 17.60 times. Likewise BOK Bank has the lowest P/E ratio with 17.43 times.

From S.D. point of view, Nabil Bank has the highest S.D. of 10.0606 point. BOK bank has the lowest S.D. of 7.6908 point. It implies that Nabil Bank has high fluctuation in market price per share than BOK. From C.V. point of view, Nabil Bank has high P/E ratio of 57.16%. And BOK Bank has lowest C.V. with 44.12%, indicates that low degree of variability is consistent in market price per share as earning per share.

#### 4.1.8 Income Analysis

The cost have been occurred in increasing revenue are called income. This analysis shows the proportionate income under different heading. Under this analysis, net interest income, exchange gain and commission income should be taken.

##### A. Net Interest Income to Total Income

This ratio has been derived dividing net interest income by total income. It indicates that, how much percentage of net interest income obtained from total income. The following table shows that the net interest income to total income of selected joint venture banks.



**Table 4.16**  
**Net Interest Income to Total Income**

(In times)

Name of Banks	Fiscal Year					Average		C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOK	19.12	13.48	11.01	9.75	4.94	11.66	4.6517	39.89
NABIL	63.10	62.85	62.12	68.73	69.73	65.31	3.2356	4.95

(Source: See annex 16)

From the table 4.16 on an average basis, NABIL has the highest times of net interest income on total income i.e. 65.31 times. BOK bank has the lowest ratio of 11.66 times. It indicates that, NABIL has successful to earn net interest income over the study period.

From S.D. point of view, BOK Bank has the highest S.D. of 4.6517 point and NABIL has the lowest C.V. of 3.2356 point. It indicates that BOK Bank has high fluctuation in net interest income and NABIL has low fluctuation in net interest income over the study period.

From C.V. point of view, BOK Bank has the highest C.V. of 39.89% and NABIL has the lowest C.V. of 4.95%. It implies that, BOK Bank has high degree of variability or is inconsistent to earn net interest income over the study period. NABIL has low degree of variability or is consistent to earn net interest income than other sampled bank.

### **B. Commission and Discount Received to Total Income**

Commission and discount include income received as commission and discount from letter of credit, drafts, bank transfers, and guarantee, selling share, remittance charges other charges and commission are other prominent items of commission and discount. The following table shows that the relationship between commission and discount received to total income.

**Table 4.17**  
**Commission and Discount Received to Total Income**

(In times)

Name of Banks	Fiscal year					Average		C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOK	9.82	10.93	9.57	8.00	9.59	9.58	0.9356	9.77
NABIL	12.98	13.78	14.59	13.38	14.18	13.78	0.5685	4.13

(Source: See Annex 17)

From the table 4.17 on an average basis, NABIL has the highest ratio of 13.78 times. BOK Bank has lowest ratio of 9.58 times it implies that NABIL has highest commission and discount income out of total income over the study period.

From the S.D. point of view, BOK Bank has the highest S.D. of 0.9356 point and NABIL has the lowest S.D. with 0.5685 point. It means, BOK Bank has high fluctuation (less homogeneity) in receiving commission and discount income over the study period, NABIL has lowest fluctuation (more homogeneity) in receiving commission and discount income over the study period. From C.V. point of view, BOK Bank has highest C.V. of 9.77% and NABIL has lowest C.V. of 4.13%. It implies that, NABIL is consistent to generate its commission and discount income over the study period.

#### **4.1.9 Expenditure Analysis**

The cost have been occurred in reducing revenue are called expanses. This analysis shows the proportionate expenses under the different headings.

##### **A. Interest Expenses**

Interest expenses of all the selected banks are presented as following table:

**Table 4.18**  
**Interest Expenses**

(Rs. in million)

Name of Banks	Fiscal Year					Average		C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOK	276.87	286.01	241.90	308.84	39.91	290.71	32.6968	11.25
NABIL	317.35	282.95	243.55	357.16	555.71	351.34	108.8597	30.98

(Source: See Annex 18)

In this study, interest expenses denote the interest paid on deposits borrowing fees, loan and advances and commission. From the above table, interest expenses are all in the fluctuating trend. On an average basis, NABIL has the highest amount of Rs. 351.34 million. BOK bank has the lowest interest expenses with Rs.290.71 million. From the S.D. and C.V. point of view, NABIL has highest S.D. i.e. 108.8597 point and C.V. i.e. 30.98%. It means, NABIL has paid or expenses higher amount of interest than other selected banks. BOK bank has lowest S.D. i.e. 32.6968 point and C.V. i.e. 11.25% which implies that the bank has paid lower amount of interest over the study period.

**B. Staff Expenses**

Staff expenses refer salary and allowance provided and gratuity fund, staff training expenses and other expenses related with staff. Staff expenses are presented as following table:

**Table 4.19**  
**Staff Expenses**

(Rs. In million)

Name of Banks	Fiscal Year					Average		C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOK	51.49	47.84	53.90	59.48	5669.91	56.52	7.6885	13.60
NABIL	210.58	180.84	199.52	240.16	219.78	210.18	19.8272	9.43

(Source: See Annex 19)

From the table 4.19, staff expenses are all in the fluctuating trend. On an average basis, Nabil Bank has the highest amount of Rs. 210.18 million. BOK bank has the lowest

amount of staff expenses with Rs. 56.52 million. From S.D. and C.V. point of view, NABIL has the highest S.D. and C.V. is lowest i.e. 19.8272 point 9.43% respectively. It indicates that NABIL has the highest flotation and inconsistent to its. Staff expenses over the study period.

## 4.2 Statistical Tools

In this study, statistical tools have been grouped into coefficient of correlation, probable error and coefficient of determination.

### 4.2.1 Karl Person's Coefficient of Correlation

It is most widely used statistical tools, which measures the significance of the relationship between two variables during the study period. Correlation coefficient is calculates to measure the relationship between Net profit and total deposit of selected joint venture banks. The value of coefficient of correlation shall always be between  $\pm 1$ . Where,  $r = 1$  means perfect positive correlation between variables. Where  $r = -1$ , it means perfect negative correlation between variables. Where  $r = 0$ , there is no relationship between two variables. The formula for computing Karl person's coefficient of correlation is as follows.

$$r = \frac{n \sum xy - \sum x \sum y}{\sqrt{n \sum x^2 - (\sum x)^2} \sqrt{n \sum y^2 - (\sum y)^2}}$$

Here,

N = No. of pairs where x and y absorbed.

X = Value of net profit (after tax)

Y = Value of total deposits

r =Karl Pearson's Coefficient of Correlation

$\sum xy$  = Sum of product of variable x and y

**Table 4.20**  
**Coefficient of Correlation between Net Profit (Dependent) and Total Deposit**  
**(Independent) of BOK**

(Rs. In Million)

Fiscal Year	X	Y	X <sup>2</sup>	Y <sup>2</sup>	XY
2004/05	127.48	7741.65	16251.15	59933144.72	98690554
2005/06	139.52	8942.75	19465.83	79972777.56	1247692.48
2006/07	202.44	10485.36	40981.95	109942774.30	2122656.28
2007/08	262.39	12388.93	68848.51	153485586.50	3250731.34
2008/09	361.50	15833.74	130682.25	250707322.30	5723897.01
Total	1093.33	55392.43	235247.74	654041605.40	13331882.65

(Source: Annual report)

$$\begin{aligned}
 N &= 5 \text{ years} & x^2 &= 235247.74 \\
 x &= 1093.33 & Y^2 &= 654041605.40 \\
 Y &= 55392.43 & XY &= 13331882.65
 \end{aligned}$$

We have

$$\begin{aligned}
 r &= \frac{n \sum xy - \sum x \sum y}{\sqrt{n \sum x^2 - (\sum x)^2} \sqrt{n \sum y^2 - (\sum y)^2}} \\
 &= \frac{5 | 13331882.65 - 1093.33 | 55392.43}{\sqrt{5 | 276229.69 - (1093.33)^2} \sqrt{5 | 654041605.40 - (55392.43)^2}} \\
 &= \frac{6097207.76}{431.02 | 14208.68}
 \end{aligned}$$

$$\dots r = 0.996$$

Above calculation of coefficient of correlation between net profit and total deposit of BOK 0.996. This analysis indicates that, there is a positive correlation between net profit and total deposit. Therefore, net profit (dependent variable) is affected by total deposit (independent variable).

**Table 4.21**  
**Coefficient of Correlation between Net profit (Dependent) and Total Deposit**  
**(Independent) of NABIL**

(Rs. In Million)

Fiscal Year	X	Y	X <sup>2</sup>	Y <sup>2</sup>	XY
2004/05	416.24	13447.66	173255.74	180839559.5	5597454
2005/06	455.31	14119.03	207307.20	199347008.1	6438535.55
2006/07	518.64	14586.61	268987.45	212769191.3	7565199.41
2007/08	635.26	19347.40	403555.27	374321886.8	12290629.32
2008/09	673.96	23342.29	454222.08	544862502.4	15731769.77
Total	2699.41	84842.99	1507327.74	1512140148.1	47613588.05

(Source: Annual report)

$$\begin{aligned}
 N &= 5 \text{ years} & x^2 &= 1507327.74 \\
 x &= 2699.41 & Y^2 &= 151240148.1 \\
 Y &= 84842.99 & XY &= 47613588.05
 \end{aligned}$$

We have

$$\begin{aligned}
 r &= \frac{n \sum xy - \sum x \sum y}{\sqrt{n \sum x^2 - (\sum x)^2} \sqrt{n \sum y^2 - (\sum y)^2}} \\
 &= \frac{5 | 47613588.05 - 2699.41 | 84842.99}{\sqrt{5 | 1507327.74 - (2699.41)^2} \sqrt{5 | 151240148.1 - (84842.99)^2}} \\
 &= \frac{9041924.61}{\sqrt{499.82} \sqrt{80262.90}}
 \end{aligned}$$

$$\therefore r = -0.255$$

Above calculation of coefficient of correlation between net profit and total deposit of Nabil Bank Ltd. is -0.225. This analysis indicates that there is a negative correlation between net profit and total deposit. Therefore, net profit is not affected by total deposit and no relation.

#### 4.2.2 Computation of Probable Error

If the value of 'r' is less than six times of probable error, there is no evidence of correlation i.e. value of 'r' is not significant. Thus, if the value of 'r' is more than six times of probable error, the coefficient of correlation is practically, i.e. the value of 'r' is significant.

Formula:

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

#### Probable Error of BOK Bank Ltd.

Here,  $r = 0.996$                        $N = 5$  years

We have,

$$\begin{aligned} P.E._r &= 0.6754 \frac{1 Z r^2}{\sqrt{N}} \\ &= 0.6754 \frac{1 Z 0.996^2}{\sqrt{5}} \\ &= \frac{0.0054}{2.2361} = 0.0024 \end{aligned}$$

Since, the value of 'r' is more than six times of probable error (i.e.  $6 \times 0.0024 < 0.996$ ). The value of 'r' is significant. It implies that management should prepare a promoting planning of increasing the net worth to increase the return.

#### Probable Error of Nabil Bank Ltd.

Here,  $r = - 0.225$                        $N = 5$  years

We have,

$$\begin{aligned} P.E._r &= 0.6754 \frac{1 Z r^2}{\sqrt{N}} \\ &= 0.6754 \frac{1 Z 0.225^2}{\sqrt{5}} \\ &= \frac{0.6412}{2.2361} = 0.2867 \end{aligned}$$

Since, the value of 'r' is less than six times of probable error (i.e.  $6 \times 0.2867 > -0.225$ ). The value of 'r' is insignificant. It reveals that developing more worth in the capital structure seems not to be benefited in term of probability of Nabil Bank Ltd.

### 4.2.3 Correlation between Net Profit and Total Deposit

Net profit refers to profit after deducting interest and taxes: The total deposit of the bank comprises of fixed deposit, saving deposit, current deposit and margin deposit etc. In this study, correlation analysis between two variables, net profit and total deposit are calculated to measure the closeness of relationship between them to what extent dependent variable i.e. net profit will be changed when there is a change in independent variable i.e. total deposit. The summary of various values are presented in following table.

**Table 4.22**  
**Correlation between Net Profit and Total Deposit**

<b>Evaluation criteria</b>	<b>BOK</b>	<b>NABIL</b>
Coefficient of correlation (r)	0.996	(0.225)
Coefficient of determination ( $r^2$ )	0.9920	0.0506
Probable error (P.E <sub>r</sub> )	0.0024	0.2867
6 P.E <sub>r</sub>	0.0144	1.7202

From the table 4.22 we see that the correlation coefficient between net profit and total deposit of BOK Bank and Nabil Bank are 0.996 and (0.225) respectively. Which shows the higher positive relationship between net profit and total deposit of BOK bank except correlation of Nabil Bank which has negative (0.225) value of r. It means there is negative relationship between net profit and total deposit in the case of Nabil Bank. In order to measure the degree of change on dependent variable net profit due to the change in independent variable total deposit, value of coefficient of determination ( $r^2$ ) is calculated. On the basis of coefficient of determination, it can be concluded that when there is change in total deposit it bring 99.20% change in net profit of BOK Bank, and 5.06% of NABIL Bank over the study period. Considering the probable error (P.E.), the value of 'r' ( $0.996 > 0.0144$ ) of BOK is greater than six times of the P.E. (6 P.E<sub>r</sub>). Therefore, we can say that the value of 'r' is significant i.e. there is significant relationship between net profit and total deposit of BOK Bank. However, in case of Nabil



Bank the value of 'r' (-0.225<1.7202) is less than six times of P.E. (6 P.Er). It means that the value of 'r' is not significant i.e. there is not significant relationship between net profit and total deposit of Nabil Bank.

### **4.3 Trend Analysis Least Square Method**

Trend analysis is a statistical tool, which will highlight the previous trend of the financial performance and helps in forecasting the future financial results of selected joint venture banks. Trend analysis shows the trend of loan and advances of selected banks for eight years. Loan and advance shows a bank's efficiency in performance of efficient utilization of the same indicates its success and profitability. The trend analysis on loan and advances for coming year is following. The value of Y (Loan and advance). When financial year is 6th year (2008/09), 7th year (2009/10) and 8th year (2010/11).

#### **Calculation of Straight Line Trend Analysis of Loan and Advance of BOK**

Now, Regression equation  $Y = a + bX$

Loan and advances of 6th year (2008/09)

$$\begin{aligned} Y &= 3000.48 + 1711.86 \times 6 \\ &= 3000.48 + 10271.16 \\ &= 13271.64 \text{ million} \end{aligned}$$

Loan and advances of 7th year (2009/10)

$$\begin{aligned} Y &= 3000.48 + 1711.86 \times 7 \\ &= 3000.48 + 11983.02 \\ &= 14983.50 \text{ million} \end{aligned}$$

Loan and advances of 8th year (2010/11)

$$\begin{aligned} Y &= 3000.48 + 1711.86 \times 8 \\ &= 3000.48 + 13694.88 \\ &= 16695.36 \text{ million} \end{aligned}$$

**Table 4.23**  
**Bank of Kathmandu Limited**

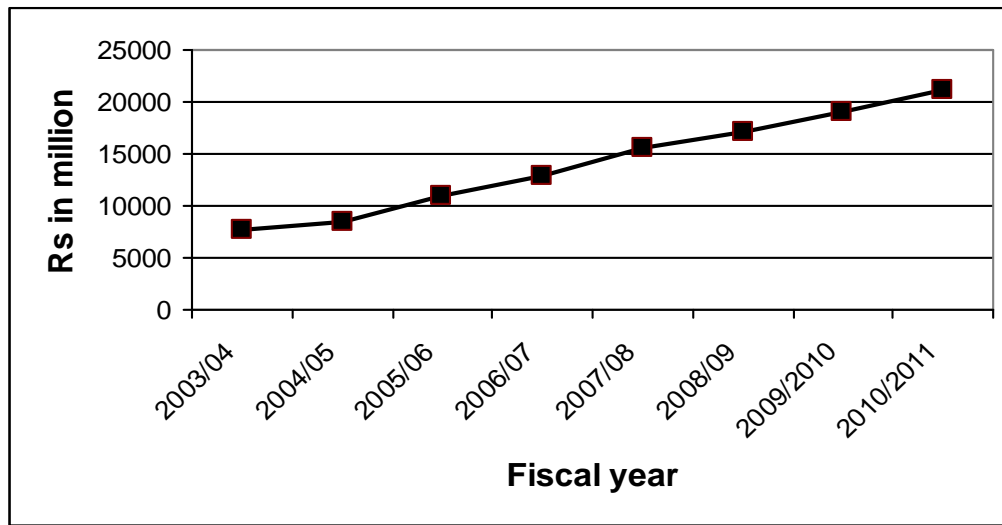
(Rs. In million)

<b>Fiscal Year</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>
Loan & Advances	5646.69	5912.58	7259.08	9399.33	12462.64	13271.64	14983.50	16695.36

(Source: See Annex 20)

The table 4.23 concludes that loan and advance has been increasing 809 million on 2008/09, and 1711.86 million on 2009/10 and 2010/11 respectively. It refers that success for aggressive lending policies in terms of loan and advances. It is successful increased for the next coming year form above table.

**Figure 4.1**  
**Loan and Advance Trend Line of BOK**



(Source: Table 4.23)

Figure 4.1, future trend line has increased for next three year 2008/09, 2009/10 and 2010/11 increased loan and advances by Rs. 13271.64 million, Rs. 14983.50 million and Rs. 16695.36 million respectively

**Calculation of Straight Line Trend Analysis of Loan and Advance of Nabil Bank Ltd.**

Now, Regression equation  $Y = a + bX$

Loan and advances on 6th year (2008/09)

$$Y = 5157.88 + 1995.35 \times 6$$

$$= 5157.88 + 11972.10$$

$$= 17129.98 \text{ million}$$

Loan and advances on 7th year (2009/ 10)

$$Y = 5157.88 + 1995.35 \times 7$$

$$= 5157.88 + 13967.45$$

$$= 19125.33 \text{ Million}$$

Loan and advances on 8th year 2010/11)

$$Y = 5157.88 + 1995.35 \times 8$$

$$= 5157.88 + 15962.80$$

$$= 21120.68 \text{ million}$$

**Table 4.24**  
**Nabil Bank Ltd**

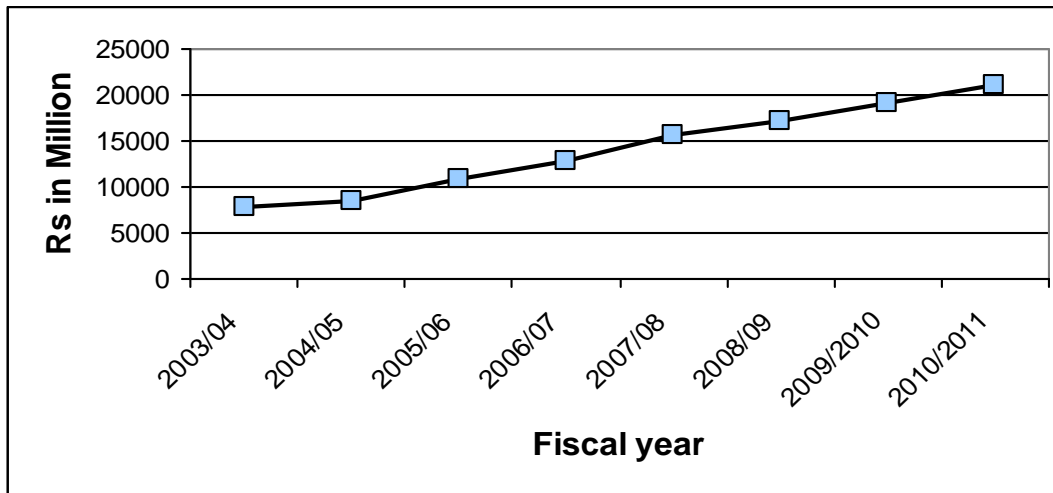
(Rs. In Million)

<b>Fiscal year</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>
Loan & Advances	7755.95	8548.66	10946.74	12922.54	15545.78	17129.98	19125.33	21120.68

(Source: See Annex 21)

Based on analysis presented table that concludes loan and advance has been increasing by 1584.20 million and 1995.35 million on financial years 2008/09, 2009/10 and 2010/11. The expected loan and advances is 17129.98 million on 2008/09, 19125.33 million on 2009/10 and 21120.68 million on 2010/11. It refers that success for aggressive lending policies in terms of loan and advances.

**Figure 4.2**  
**Loan and Advance Trend Line of Nabil Bank Ltd.**



(Source: Table 4.24)

Figure 4.2, future trend line has increased for next three year 2008/09, 2009/10 and 2010/11 increased loan and advances by Rs. 17129.98 million, Rs. 19125.33 million and Rs. 21120.68 million respectively

**Table 4.25**  
**Summary of Trend Analysis Result**

(In Million)

Name of Banks	Loan and Advances		
	2008/09	2009/10	2010/11
BOK Bank Ltd	13271.64	14983.50	16695.36
Nabil Bank Ltd	17129.28	19125.33	21120.68

(Source: Table 4.23 & 4.24)

According to the above table, loan and advances of each bank have increased trend at the end of fiscal year 2008/09, 2009/10 and 2010/11. On the other hand, average growth rate of Nabil bank is higher (i.e. 15545.78m to 17129.28m) than other selected joint venture banks. Nabil Bank in regards to loan and advances on view of outsider must be able to attract, so that it can increase the deposit volume.

#### **4.4 Major Findings of the Study**

The major findings of the study are derived on the basis analysis of selected JVBs, which are given below.

##### **4.4.1 Liquidity Ratio**

The liquidity position of selected JVBs reveals that:

- a. The average current ratio of all sample banks i.e. BOK Bank and Nabil Bank is 1.13 and 1.20 respectively. It shows that the current ratio of all the sample banks is below the standard ratio 2:1. It is clear that Nabil bank has slightly more liquid than other banks. But it can't be concluded that all the Banks are in poor condition with low current ratio.
- b. The average ratio of cash and bank balance to total deposit of all the sampled banks is 9.01 and 5.66 respectively. It reveals that on an average basis BOK Bank has more liquid to serve its depositors in times with enough case in hand. Other remaining banks are found to be holding less cash in hand than its deposits
- c. The average ratio of cash and bank balance to current assets of BOK Bank and Nabil Bank is 9.08 and 7.00 respectively. It indicates that the ratio of BOK Bank has the highest ratio among the sample Banks. Nabil Bank has the lowest ratio with 7.00 than other sampled banks. It implies that all the sample banks do not have enough cash balance with respect to current assets. However, BOK Bank seems to be in better position than other sample banks.

##### **4.4.2 Profitability Ratio**

The profitability ratio of selected commercial banks reveals that:

- a. The average ratio of net profit to total assets of BOK Bank and Nabil Bank is 8.37 and 2.83 respectively. It implies that, on an average basis, BOK Bank has earned highest times (i.e. 8.37) of net profit by utilizing its total assets among the sampled banks. Similarly, on an average basis, NABIL has earned 2.83 times of net profit against the use of total assets over the entire study period. The above ratio shows

how efficiently the sample banks have utilized their available assets over the study period. Among all the samples banks, NABIL has the lowest ratio i.e. 2.83 times. It means that NABIL has not mobilized its assets into profit generating projects than other sampled banks.

- b. The average ratio of net profit to total deposit of BOK Bank and Nabil Bank is 9.67 and 3.37 times respectively. It implies that, on an average basis, BOK Bank has earned the highest times (i.e. 9.67) of net profit by utilizing its total deposit than other sampled banks. Likewise, NABIL has earned the lowest times (i.e. 3.37) of net profit by utilizing its total deposit over the entire study period. The above ratio shows low efficiently the sample banks have utilized their available deposit into profit generating project. On the other hand, BOK Bank with highest ratio has been successful in the earning more net profit by the proper use of its available deposits than others.
- c. The average ratio of return on shareholder's equity (net worth) of BOK Bank and Nabil Bank is 17.02% and 34.43% respectively. It implies that, on an average basis, NABIL has provided the highest percentage (i.e. 34.43%) of return to its shareholder by utilizing the shareholders fund among the sample banks. The above ratio shows how much profitability the sample banks have utilized the available fund of shareholders into profit generation over the study period. Among the samples bank BOK Bank has the lowest ratio. It means that BOK has not mobilized the fund of shareholder effectively into profit generating project.
- d. The average ratio of net interest earned to total assets of BOK Bank and Nabil Bank is 6.15 and 4.24 times respectively. It implies that, on an average basis BOK Bank has earned the highest percentage (i.e. 6.15) of net interest by utilizing its total assets into interest generating projects. Among all the sample banks, NABIL has the lowest ratio. It means that NABIL has not mobilized its assets into interest generating projects.

#### **4.4.3 Activity Ratio**

The activity ratio of selected JVBs reveals that:

- a. The average ratio of loan and advances to total deposit of BOK Bank and Nabil Bank is 72.45 and 66.18 times respectively. It implies that BOK Bank has used highest times (i.e. 72.45) of total deposit into loan and advances than other sampled banks over the study period. Similarly, NABIL has used lowest times (i.e. 66.18) of total deposit into loan and advances over the study period.
- b. The average ratio of loan and advances to total current assets of BOK Bank and Nabil Bank is 74.01 and 81.55 times respectively. It indicates that NABIL has used highest times (i.e. 81.55) of total assets in loan and advances than other sampled banks over the study period. Likewise, BOK Bank has used lowest times (i.e. 74.01) of total assets into loan and advances.
- c. The average ratio of total investment to total deposit of BOK Bank and Nabil Bank is 27.53 and 34.49 times respectively. It implies that on an average BOK Bank has used 27.53 times of total deposit into investment in other projects than regular loans. Similarly, on an average NABIL has used 34.49 times of total deposit into investment. In term of investment against total deposit, NABIL has used highest times (i.e. 34.49) of its total deposit into non-risky ventures and is ahead of the sample banks.

#### **4.4.4 Leverage Ratio**

The leverage ratio of sampled JVBs reveals that:

- a. The average ratio of total debt to net worth of BOK Bank and Nabil Bank is 13.50 and 11.84 times respectively. It implies that BOK Bank has highly leverage 13.50 times means, debt capital financing is more than 13.50 times of its shareholder equity over the study period where as Nabil Bank has lowest ratio (i.e. 11.84 times) of total debts of net worth.
- b. The among ratio of total debt to total assets of BOK Bank and Nabil Bank is 93.25 and 92.03 times respectively. It indicates that BOK Bank has highest ratio (i.e. 93.25 times) of total debt into total assets. over the study period, on an average basis BOK Bank has highly debt financing means, these bank, borrowed outsider's funds by 93.25 times .

#### **4.4.5 Earning Per Share**

The average earning per share of BOK Bank and Nabil Bank is Rs. 30.86 and Rs. 109.81 respectively. On an average basis, NABIL has the highest earning per share (i.e. Rs. 109.81) than other selected joint venture banks over the study period. Similarly, BOK bank has comparatively lower EPS.

#### **4.4.6 Dividend Payout Ratio**

The average dividend payout ratio of BOK Bank and Nabil Bank 66.61 and 81.24 times respectively. NABIL has highest dividend payout ratio (81.24 times) with provides maximum amount of dividend to its shareholder over the entire study period.

#### **4.4.7 Price Earning Ratio**

The average price-earning ratio of BOK Bank and Nabil Bank is 17.43 and 17.60 times respectively. It implies that NABIL has highest price earning ratio (i.e. 17.60 times) than other sampled banks. It also means that NABIL's market price per share is 17.60 times greater than its earning per share.

#### **4.4.8 Income Analysis**

The income analysis is selected JVBs reveal that:

- a. The average net interest income to total income of BOK Bank and Nabil Bank is 11.66% and 65.31% respectively. Over the study period, NABIL has highest and BOK Bank has lowest net interest income on total income.
- b. The average ratio of commission and discount received to total income of BOK Bank and Nabil Bank is 9.58% and 13.78% respectively. It indicates that NABIL has highest commission and discount income out of total income than other banks over the study period.



#### **4.4.9 Expenditure Analysis**

From the analysis of expenditure of concerned banks, reveal that:

- a. Higher mean of interest expenses is on NABIL. Similarly, BOK Bank has lower mean. It shows that NABIL has been growing interest expenses against two JVBs.
- b. The average staff expenses of Nabil Bank have highest than other samples banks. It means that Nabil Bank has been paying highest amount of staff expenses (i.e. salary, allowance and gratuity funds etc.) than other bank over the entire study period.

#### **4.4.10 Correlation and Regression Analysis**

Bok bank has positive coefficient of correlation i.e. 0.996. It refers that these bank net profit (dependent variable) is affected by total deposit (independent variable).Whereas Nabil Bank has negative coefficient of correlation indicates that net profit is not affected by total deposit and no relation. BOK Bank has positive correlation i.e. 0.996. These correlations are more than six times than that of probable error. Thus, these banks have significant value of coefficient of correlation.

#### **4.4.11 Trend Analysis**

Loan and advances of each bank have increased trend at the end of fiscal year 2008/09, 2009/10 and 2010/11. On the other hand, average growth of Nabil Bank is higher than other selected joint venture banks.

## **CHAPTER - V**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

This chapter is the important for the research because this chapter is the extract of all the previously discussed chapters. This chapter consists of mainly three parts: summary, conclusions and recommendations. In summary part, revision or summary of all four chapters is made. In conclusion part, the result from the research is summed up and in recommendation is made for improving the presence situation to the concerned parties as well as further research.

#### **5.1 Summary**

The economic development of a country cannot be imagined without the development of commerce and industry. The role of commercial banks in the economic growth of nation can be estimated to be prominent. The very challenging job of commercial banks is to collect the scattered idle resources from the small savers. Actually, commercial banks pool the fund in the sizable volume in order to feed the fund requirement of productive sector promote trade and industrialization in the country there by raising the employment opportunity and earned to the labors and materials suppliers to such industries and traders.

Commercial banks of course contribute a lot to the development of the economy of the country. Thus, to remain in the front line of the great contributor of the economy, the banks have sustainable existence and growth themselves. For the sustainable existence and growth of a bank, it must reasonable profitability.

Under this study, the researcher has tried to cover the various aspects of selected joint venture banks covering the period of five years from 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09. In the first introductory chapter, the study report has tried to give history and introduction of banking and its relation to the economy, brief profile of the concerned

banks, general concepts of financial statement and the statement of problem, objectives of the study and its limitation. During the research work, extensive review of various literature books, past thesis, journals have been studied and consulted. And as per requirement, internet materials from relevant websites are also visited. These works are compiled in the second chapter titled “Review of Literature” of this report.

For this study, the researcher has gathered the required data basically from annual reports published by the concerned joint venture banks for the last five years. And also internet website of Nepal Stock Exchange is used for necessary data analyze the financial performance of selected banks (1) Financial ratios to calculate various ratios (2 ) Statistical tools such as mean, standard deviation, coefficient of variation, correlation coefficient, coefficient of determination and probable error etc are followed for this research work in third chapter titled “Research Methodology”.

Data relating to activities of the banks have been collected and presented in figures and tabular as far as possible are tried to be interpreted in the study report in logical ways. Data are then analyzed applying various financial and statistical tools and findings of the study have been listed in a systematic manner. All these works are compiled in the fourth chapter titled “Data Presentation and Analysis” of the study.

Finally, the summary, conclusion and the recommendation made by the research are presented in the current chapter titled “Summary, Conclusion and recommendations.”

## **5.2 Conclusions**

This study reveals that the current ratio of all samples banks i.e. BOK bank and Nabil Bank is greater than 1 but Nabil Bank has the highest current ratio. It means Nabil Bank’s solvency position is better than BOK bank. The cash and bank balance of Bok bank with respect to total deposit is more liquidity than other banks. It indicates that BOK bank is able to make immediate payments to its depositor.

Among all the sample banks, NABIL has the lowest ratio of net profit to total assets. It means NABIL has not mobilized its assets into profit generating projects. BOK bank has been successful in earning more net profit by the proper use of its available assets. NABIL has not mobilized its deposit into profit generating project and BOK bank with the highest ratio has been successful in the earning more net profit by the proper use of its available deposit than others. But in case of mobilized the funds of shareholders efficiently into profit generating projects, BOK Bank does not mobilized and NABIL has been successful in providing more rate of return to its shareholders by the proper use of their available funds than others. From the sample banks, NABIL has not mobilized its assets into interest generating projects (i.e. income from loans, advances, cash credit and overdrafts, government securities, inter commercial banks other investment). BOK Bank with the highest ratio has been successful in generating more interest income by the proper use of its available assets.

In term of loan and advances against total deposits, BOK bank has used more percentage of its total deposits into loan and advances than other banks. From the sample banks, NABIL has mobilized highest percentage of its total deposit into total investment (i.e. investment into government securities, debentures and bonds, shares in subsidiary commercial bank, companies and other investments). From leverage ratio, BOK Bank has high debt to total assets ratio represents a greater risk to creditor and shareholders than other sample banks.

Earning per share of NABIL has the highest than other selected joint venture banks. Similarly, with the highest dividend payout ratio of NABIL refers that the bank provides maximum amount of dividend to its shareholders. NABIL has highest price earning ratio than BOK Bank. From income analysis, NABIL has highest net interest income than other banks. Likewise, commission and discount income of NABIL is higher than other sample banks. From expenditure analysis, an interest expense is highest on NABIL. Nabil Bank has been paying highest amount of staff expenses as salary, allowance and gratuity funds to its staff. From correlation and regression analysis, BOK Bank has positive

coefficient of correlation between net profit and total deposit but Nabil Bank has negative coefficient of correlation. From trend analysis, loan and advances of each bank have increased trend but average growth of Nabil Bank is higher than BOK Bank.

### **5.3 Recommendations**

Based on the analysis, interpretation & conclusions, some of the major recommendations are mentioned as below:

1. Based on liquidity ratio analysis it is found that selected joint venture banks so not have the standard current ratio (2:1). However, from aggressive working capital point of view it is not considered so bad. BOK Bank seems to have held more cash and bank balance rather than Nabil Bank. To maintain liquidity in perfect, all commercial banks have to follow the mid way i.e. they should invest the idle deposit in productive sector and on the other hand they have enough cash balance to meet current requirement.
2. The profitability ratio in case of NABIL has lowest with the result of lower profit before tax. So, this bank should reduce operating costs to achieve the operational efficiency. Since by decreasing costs, profit of any bank can grow considerably, they must search for loopholes in their operations where unnecessary costs are being incurred and should eliminate them.
3. Based on activity ratio analysis it is found that the selected joint venture banks except NABIL have emphasized in issuing loan and advances. However, as we know that the increasing bottleneck competition and worsening economic condition has attributing this area to be very sensitive and risky. Therefore, it is suggested them to investments non-risky assets to increase the level of profit.
4. In case of two JBVs, debt financing has always almost exceeded 90% of the total assets over the review period, which indicates the excessively use of debt finance to total assets. Never the less, extensive use of debts capital with the failure in advancing good loans can jeopardize the solvency position of these banks. Therefore, it is suggested to the JBVs to assess the risk assets portfolio cautiously before accepting higher volumes of deposits.

5. Expenses are the vital determinations to increase or increase or decrease the profitability of the banks. Interest expenses on deposits also affect the profitability of the banks. Thus, it is recommended that banks should try to reduce the amount of high interest bearing deposits like fixed deposits, saving deposit and others. Instead they should concentrate of non-interest bearing deposit like current deposit, margin deposit etc. At the same time, bank should try to reduce the operating expenses to increase the profitability.
6. Shareholders are the real owners of the organization. But they do not seem to be happy with the rate of return on equity provided by the banks. To some extent, NABIL has been successful in providing a better return on equity than others. Thus, it is recommended that the management team should put emphasis on the maximizing the wealth of the shareholders. Low market price of share and less earning per share of commercial banks indicated the poor performance in the market. Similarly low dividend payout ratio also discourages the shareholders. Reviewing the study, Nabil Bank has higher MPS, EPS and dividend payout ratio than BOK Bank. Therefore, it is suggested to the management team of BOK Bank to improve their performance.

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## ANNEXURE

### ANNEX – 1

#### Calculation Mean, S. D. and C. V. of Current Ratio (X)

Fiscal Year	BOK		NABIL	
	X	$f_x \sum \bar{X} \hat{A}$	X	$f_x \sum \bar{X} \hat{A}$
2004/05	1.06	0.0049	0.94	0.0676
2005/06	1.02	0.0121	0.97	0.0529
2006/07	1.21	0.0064	2.08	0.7744
2007/08	1.20	0.0049	0.93	0.0729
2008/09	1.14	0.0001	1.04	0.0256
<b>Total</b>	5.63	0.0284	5.96	0.9934

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

$$\begin{aligned} X (2004/05) &= \frac{6940875314}{4376512719} \\ &= 1.60 \end{aligned}$$

$$\begin{aligned}
 X(2005/06) &= \frac{9238428380}{9057282725} \\
 &= 1.02 \text{ \& So on}
 \end{aligned}$$

Where,

N = 5 years

$$\bar{X} = \frac{X}{n} \qquad = \sqrt{\frac{1}{n} \sum X^2 - \frac{(\sum X)^2}{n}} \qquad \text{C.V.} = \frac{\sigma}{\bar{X}} | 100$$

$$\begin{aligned}
 \text{BOK} &= \frac{5.63}{5} & = \sqrt{\frac{1}{5} | 0.0284} & = \frac{0.0753}{1.13} | 100 \\
 &= 1.13 & = 0.0753 & = 6.66
 \end{aligned}$$

$$\begin{aligned}
 \text{NABIL} &= \frac{5.96}{5} & = \sqrt{\frac{1}{5} | 0.9934} & = \frac{0.4457}{1.20} | 100 \\
 &= 1.20 & = 0.4457 & = 37.14
 \end{aligned}$$

**ANNEX – 2**

**Cash & Bank Balance to Total Deposits Ratio (X)**

Fiscal Year	BOK		NABIL	
	X	$\sqrt{\frac{1}{n} \sum X^2}$	X	$\sqrt{\frac{1}{n} \sum X^2}$
2004/05	10.11	1.2100	6.87	<b>1.4641</b>
2005/06	8.28	0.5329	3.83	<b>3.3489</b>
2006/07	6.95	4.2436	3.26	<b>5.7600</b>
2007/08	10.62	2.5921	5.99	<b>0.1089</b>
2008/09	9.02	0.0064	8.37	<b>7.3441</b>
Total	45.05	8.5850	28.32	<b>18.0260</b>

$$\text{Cash and Bank Balance to Total Deposits Ratio} = \frac{\text{Cash And Bank Balance}}{\text{Total Deposits}}$$

$$X (2004/05) = \frac{782882941}{77436492}$$

$$= 10.11$$

$$X (2004/05) = \frac{672112950}{97833034}$$

$$= 6.87 \text{ \& So on}$$

Where,

N = 5 Years

$$\bar{X} = \frac{\sum X}{n} \qquad = \sqrt{\frac{1}{n} \sum X^2} \qquad \text{C.V.} = \frac{s}{\bar{X}} | 100$$

$$\begin{aligned} \text{BOK} &= \frac{45.05}{5} & = \sqrt{\frac{1}{5} | 8.5850} & = \frac{1.3103}{9.01} | 100 \\ & = 9.01 & = 1.1303 & = 14.54 \end{aligned}$$

$$\begin{aligned} \text{NABIL} &= \frac{28.32}{5} & = \sqrt{\frac{1}{5} | 18.0260} & = \frac{1.8987}{5.66} | 100 \\ & = 5.66 & = 1.8987 & = 33.54 \end{aligned}$$



**ANNEX – 3**

**Cash & Bank Balance to Current Asset Ratio (X)**

Fiscal Year	BOK		NABIL	
	X	$\sqrt[n]{\sum X}$	X	$\sqrt[n]{\sum X}$
2004/05	8.36	0.5184	6.81	0.0361
2005/06	7.95	1.2769	3.74	10.6276
2006/07	8.17	0.8281	4.55	6.0025
2007/08	10.72	2.6896	7.77	0.5929
2008/09	10.19	1.2321	12.15	26.5225
Total	45.39	6.5451	35.02	43.7816

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

$$\begin{aligned} X (2005/06) &= \frac{740520482}{93147230} \\ &= 7.95 \end{aligned}$$

$$\begin{aligned} X (2005/06) &= \frac{389629745}{104179076} \\ &= 3.74 \text{ \& So on} \end{aligned}$$

Where,

N = 5 years

$$\bar{X} = \frac{\sum X}{n} \qquad = \sqrt[n]{\sum X} \qquad \text{C.V.} = \frac{\sigma}{\bar{X}} | 100$$

$$\begin{aligned} \text{BOK} &= \frac{45.39}{5} & = \sqrt[5]{6.5451} & = \frac{1.1441}{9.08} | 100 \\ & = 9.08 & = 1.1441 & = 12.60 \end{aligned}$$

$$\begin{aligned} \text{NABIL} &= \frac{35.02}{5} & = \sqrt[5]{43.7816} & = \frac{2.9591}{7} | 100 \\ & = 7.00 & = 2.9591 & = 42.27 \end{aligned}$$

**ANNEX – 4**

**Net Profit to Total Assets Ratio (X)**

<b>Fiscal Year</b>	<b>BOK</b>		<b>NABIL</b>	
	$X$	$fX Z \bar{X} \hat{A}$	$X$	$fX Z \bar{X} \hat{A}$
2004/05	7.78	0.3481	2.43	0.1600
2005/06	7.40	0.9409	2.73	0.100
2006/07	7.60	0.5929	3.06	0.0529
2007/08	9.83	2.1316	3.23	0.1600
2008/09	9.23	0.7396	2.72	0.0121
<b>Total</b>	<b>41.84</b>	<b>4.7531</b>	<b>14.17</b>	<b>0.395</b>

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

$$X (2004/05) = \frac{579133236}{74438719}$$

$$= 7.78$$

$$X (2004/05) = \frac{520114085}{214038718}$$

$$= 2.43 \text{ \& So on}$$

Where,

N = 5 years

$$\bar{X} = \frac{X}{n} \qquad = \sqrt{\frac{1}{n} \mid fX Z \bar{X} \hat{A}} \qquad \text{C.V.} = \frac{\dagger}{\bar{X}} \mid 100$$

$$\text{BOK} = \frac{41.84}{5} \qquad = \sqrt{\frac{1}{5} \mid 4.7531} \qquad = \frac{0.9750}{8.37} \mid 100$$

$$= 8.37 \qquad = 0.9750 \qquad = 11.65$$

$$\text{NABIL} = \frac{14.17}{5} \qquad = \sqrt{\frac{1}{5} \mid 0.395} \qquad = \frac{0.2811}{2.83} \mid 100$$

=2.83

=0.2811

=9.93



**ANNEX – 5**

**Net Profit to Total Deposit Ratio (X)**

Fiscal Year	BOK		NABIL	
	X	$\frac{\sum X}{n}$	X	$\frac{\sum X}{n}$
2004/05	9.39	0.0784	3.10	0.0729
2005/06	8.41	1.5876	3.22	0.0225
2006/07	8.40	1.6129	3.56	0.0361
2007/08	11.29	2.6244	3.28	0.0081
2008/09	10.88	1.4641	3.68	0.0961
Total	48.37	7.3674	16.84	0.2357

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

$$\begin{aligned} X (2005/06) &= \frac{650745230}{77373986} \\ &= 8.41 \end{aligned}$$

$$\begin{aligned} X (2005/06) &= \frac{635262349}{197286443} \\ &= 3.22 \text{ \& So on} \end{aligned}$$

Where,

N = 5 years

$$\bar{X} = \frac{\sum X}{n} \qquad = \sqrt{\frac{1}{n} \sum X^2} \qquad \text{C.V.} = \frac{s}{\bar{X}} | 100$$

$$\begin{aligned} \text{BOK} &= \frac{48.37}{5} & = \sqrt{\frac{1}{5} | 7.3674} & = \frac{1.2139}{9.67} | 100 \\ & = 9.67 & = 1.2139 & = 12.55 \end{aligned}$$

$$\begin{aligned} \text{NABIL} &= \frac{16.84}{5} & = \sqrt{\frac{1}{5} | 0.2357} & = \frac{0.2171}{3.37} | 100 \\ & = 3.37 & = 0.2171 & = 6.44 \end{aligned}$$



**ANNEX - 6**

**Return on Shareholder's Equity or Net Worth Ratio (x)**

Fiscal Year	BOK		NABIL	
	X	$\sqrt{\frac{1}{n} \sum X^2}$	X	$\sqrt{\frac{1}{n} \sum X^2}$
2004/05	14.18	8.0656	43.52	82.6281
2005/06	19.59	6.6049	30.73	13.6900
2006/07	18.57	2.4025	31.29	9.8596
2007/08	16.06	0.9216	33.88	0.3025
2008/09	16.72	0.0900	32.72	2.9241
Total	85.12	18.0846	172.14	109.4043

$$\text{Return on Shareholder's Equity or Net worth Ratio} = \frac{\text{Net Profit}}{\text{Net Worth}} \times 100\%$$

$$\begin{aligned} X (2005/06) &= \frac{650745230}{3321823532} \times 100\% \\ &= 19.59\% \end{aligned}$$

$$\begin{aligned} X (2005/06) &= \frac{635262349}{2067238363} \times 100\% \\ &= 30.73\% \text{ \& So on} \end{aligned}$$

Where,

N = 5 years

$$\bar{X} = \frac{\sum X}{n} \qquad = \sqrt{\frac{1}{n} \sum X^2} \qquad \text{C.V.} = \frac{s}{\bar{X}} \times 100$$

$$\begin{aligned} \text{BOK} &= \frac{85.12}{5} & = \sqrt{\frac{1}{5} \times 18.0846} & = \frac{1.9018}{17.02} \times 100 \\ &= 17.02 & = 1.9018 & = 11.17 \end{aligned}$$

$$\begin{aligned} \text{NABIL} &= \frac{172.14}{5} & = \sqrt{\frac{1}{5} \times 109.4043} & = \frac{4.6777}{34.43} \times 100 \\ &= 34.43 & = 4.6777 & = 13.59 \end{aligned}$$

**ANNEX -7**

**Net Interest Earned to Total Assets Ratio (x)**

Fiscal Year	BOK		NABIL	
	X	$\frac{\sum X}{n}$	X	$\frac{\sum X}{n}$
2004/05	6.67	0.2704	4.23	0.0001
2005/06	6.45	0.0900	4.20	0.0016
2006/07	6.16	0.0001	4.70	0.2116
2007/08	5.85	0.0900	4.27	0.0009
2008/09	5.62	0.2809	3.79	0.2025
Total	30.75	0.7314	21.19	0.4167

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

$$\begin{aligned} X (2006/07) &= \frac{607095662}{98554490} \\ &= 6.16 \end{aligned}$$

$$\begin{aligned} X (2006/07) &= \frac{1032048605}{219584809} \\ &= 4.70 \text{ \& So on} \end{aligned}$$

Where,

N = 5 years

$$\bar{X} = \frac{\sum X}{n} \qquad = \sqrt{\frac{1}{n} \sum X^2} \qquad \text{C.V.} = \frac{s}{\bar{X}} | 100$$

$$\begin{aligned} \text{BOK} &= \frac{30.75}{5} & = \sqrt{\frac{1}{5} | 0.7314} & = \frac{0.3825}{6.15} | 100 \\ &= 6.15 & = 0.3825 & = 6.22 \end{aligned}$$

$$\begin{aligned} \text{NABIL} &= \frac{21.19}{5} & = \sqrt{\frac{1}{5} | 0.4167} & = \frac{0.4167}{4.24} | 100 \\ &= 4.24 & = 0.2887 & = 9.83 \end{aligned}$$

## ANNEX – 8

### Loan and Advances to Total Deposit Ratio (X)

Fiscal Year	BOK		NABIL	
	X	$\frac{\sum X}{n}$	X	$\frac{\sum X}{n}$
2004/05	72.94	0.2401	58.01	66.7489
2005/06	66.12	40.0689	72.57	40.8321
2006/07	69.23	10.3684	66.60	0.3721
2007/08	75.87	11.6964	66.94	0.1764
2008/09	78.11	32.0356	66.18	0.5776
Total	362.27	94.4094	330.91	108.7071

$$\text{Loan and Advances to Total Deposit Ratio} = \frac{\text{Loan And Advances}}{\text{Total Deposits}}$$

$$\begin{aligned} X (2004/05) &= \frac{5648217726}{77436492} \\ &= 72.94 \end{aligned}$$

$$\begin{aligned} X (2004/05) &= \frac{5675294302}{97833034} \\ &= 58.01 \text{ \& So on} \end{aligned}$$

Where, N = 5 years

$$\bar{X} = \frac{\sum X}{n} = \sqrt{\frac{1}{n} \sum X^2} \quad \text{C.V.} = \frac{s}{\bar{X}} | 100$$

$$\begin{aligned} \text{BOK} &= \frac{362.27}{5} = 72.45 &= \sqrt{\frac{1}{5} | 94.4094} = 4.3452 &= \frac{4.3452}{72.45} | 100 = 6.10 \\ &= 72.45 &= 4.3452 &= 6.10 \end{aligned}$$

$$\begin{aligned} \text{NABIL} &= \frac{330.91}{5} &= \sqrt{\frac{1}{5} | 108.7071} &= \frac{4.6628}{66.18} | 100 \\ &= 66.18 &= 4.6628 &= 7.05 \end{aligned}$$

### ANNEX - 9

#### Loan and Advances to Current Assets Ratio (x)

Fiscal Year	BOK		NABIL	
	X	$\frac{\sum X}{Z \bar{X} \bar{A}}$	X	$\frac{\sum X}{Z \bar{X} \bar{A}}$
2004/05	60.30	187.9641	57.50	578.4025
2005/06	63.51	1102500	70.71	117.5056
2006/07	81.39	54.4644	93.25	136.8900
2007/08	76.64	2.6300	86.26	22.1841
2008/09	88.20	201.3561	100.05	342.2500
Total	370.04	556.6646	407.77	1197.2322

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

$$\begin{aligned} X (2005/06) &= \frac{5915780577}{93147230} \\ &= 63.51 \end{aligned}$$

$$\begin{aligned} X (2005/06) &= \frac{7366502463}{104179076} \\ &= 70.71 \text{ \& So on} \end{aligned}$$

Where,

N = 5 years

$$\bar{X} = \frac{\sum X}{n} \quad = \sqrt{\frac{1}{n} \sum X^2} \quad \text{C.V.} = \frac{\sigma}{\bar{X}} | 100$$

$$\begin{aligned} \text{BOK} &= \frac{370.04}{5} &= \sqrt{\frac{1}{5} | 556.6646} &= \frac{10.5514}{74.01} | 100 \\ &= 74.01 &= 10.5514 &= 14.26 \end{aligned}$$

$$\begin{aligned} \text{NABIL} &= \frac{407.77}{5} &= \sqrt{\frac{1}{5} | 1197.2322} &= \frac{15.4741}{81.55} | 100 \\ &= 81.55 &= 15.4741 &= 18.97 \end{aligned}$$

### ANNEX – 10

#### Total Investment to Total Deposit Ratio (x)

Fiscal Year	BOK		NABIL	
	X	$\sqrt{\frac{1}{n} \sum X^2}$	X	$\sqrt{\frac{1}{n} \sum X^2}$
2004/05	32.00	19.9809	41.33	46.7856
2005/06	29.05	2.3104	29.25	27.4576
2006/07	32.22	21.9961	31.43	9.3636
2007/08	24.15	11.4244	39.32	23.3289
2008/09	20.24	55.1441	31.14	11.2225
Total	137.66	108.8559	172.47	118.1582

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

$$\begin{aligned} X (2006/07) &= \frac{2477409627}{76890429} \\ &= 32.22 \end{aligned}$$

$$\begin{aligned} X (2006/07) &= \frac{3378128165}{107481010} \\ &= 31.43 \text{ \& So on} \end{aligned}$$

Where,

N = 5 years

$$\bar{X} = \frac{\sum X}{n} \qquad = \sqrt{\frac{1}{n} \sum X^2} \qquad \text{C.V.} = \frac{\sigma}{\bar{X}} | 100$$

$$\begin{aligned} \text{BOK} &= \frac{137.66}{5} &= \sqrt{\frac{1}{5} | 108.8559} &= \frac{4.6660}{27.53} | 100 \\ &= 27.53 &= 4.6660 &= 16.95 \end{aligned}$$

$$\begin{aligned} \text{NABIL} &= \frac{172.47}{5} &= \sqrt{\frac{1}{5} | 118.1582} &= \frac{4.8612}{34.49} | 100 \\ &= 34.49 &= 4.8612 &= 14.09 \end{aligned}$$

### ANNEX – 11

#### Total Debts (Liabilities) to Net worth Ratio (x)

Fiscal Year	BOK		NABIL	
	X	$\frac{\sum X}{Z \bar{X} \bar{A}}$	X	$\frac{\sum X}{Z \bar{X} \bar{A}}$
2004/05	14.45	0.9025	16.32	20.0704
2005/06	13.59	0.0081	10.54	1.6900
2006/07	12.64	0.7396	9.59	5.0625
2007/08	13.18	0.1024	11.18	0.4356
2008/09	13.47	0.009	11.58	0.0676
Total	67.33	1.7535	59.21	27.3261

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

$$\begin{aligned} X (2004/05) &= \frac{6865683713}{475133820} \\ &= 14.45 \end{aligned}$$

$$\begin{aligned} X (2004/05) &= \frac{8845599442}{542009769} \\ &= 16.32 \text{ \& So on} \end{aligned}$$

Where,

N = 5 years



$$\bar{X} = \frac{\sum X}{n} \qquad = \sqrt{\frac{1}{n} \sum fX^2 - \frac{(\sum X)^2}{n}} \qquad \text{C.V.} = \frac{s}{\bar{X}} \times 100$$

$$\text{BOK} = \frac{67.33}{5} \qquad = \sqrt{\frac{1}{5} \times 1.7535} \qquad = \frac{0.5922}{13.50} \times 100$$

$$= 13.50 \qquad = 0.5922 \qquad = 4.39$$

$$\text{NABIL} = \frac{59.21}{5} \qquad = \sqrt{\frac{1}{5} \times 27.3261} \qquad = \frac{2.3378}{11.84} \times 100$$

$$= 11.84 \qquad = 2.3378 \qquad = 19.74$$

**ANNEX -12**

**Total Debts (Liabilities) to Total Assets Ratio(x)**

Fiscal Year	BOK		NABIL	
	X	$\sqrt{\frac{1}{n} \sum fX^2 - \frac{(\sum X)^2}{n}}$	X	$\sqrt{\frac{1}{n} \sum fX^2 - \frac{(\sum X)^2}{n}}$
2004/05	92.22	1.0609	94.22	4.7961
2005/06	100.60	54.0225	91.34	0.4761
2006/07	92.40	0.7225	90.55	2.1904
2007/08	90.22	9.1809	91.60	0.1849
2008/09	90.79	6.0516	92.45	0.1764
Total	466.23	71.0384	460.16	7.8239

$$\text{Total Debts (Liabilities) to Total Assets Ratio} = \frac{\text{Total Debts}}{\text{Total Assets}}$$

$$\text{X (2007/08)} = \frac{11072008236}{122722325}$$

$$= 90.22$$

$$\text{X (2008/09)} = \frac{12049337110}{131542981}$$

$$= 91.60 \text{ \& So on}$$

Where,

N = 5 years

$$\bar{X} = \frac{\sum X}{n} = \sqrt{\frac{1}{n} \sum fX^2} \quad \text{C.V.} = \frac{s}{\bar{X}} \times 100$$

$$\text{BOK} = \frac{466.23}{5} = \sqrt{\frac{1}{5} \times 71.0384} = \frac{3.7693}{93.25} \times 100$$

$$= 93.25 \quad = 3.7693 \quad = 4.04$$

$$\text{NABIL} = \frac{460.16}{5} = \sqrt{\frac{1}{5} \times 7.8239} = \frac{1.2509}{92.03} \times 100$$

$$= 92.03 \quad = 1.2509 \quad = 1.36$$

### ANNEX -13

#### Earning Per Share (x)

Fiscal Year	BOK		NABIL	
	X	$\sqrt{\frac{1}{n} \sum fX^2}$	X	$\sqrt{\frac{1}{n} \sum fX^2}$
2004/05	17.72	172.3969	84.66	632.5225
2005/06	27.50	11.2225	92.61	295.84
2006/07	29.99	0.7396	105.49	18.6624
2007/08	41.80	119.9025	129.21	376.36
2008/09	37.28	41.3449	137.08	743.6529
Total	154.29	345.6064	549.05	2067.0378

$$\text{Earning Per share} = \frac{\text{Net Profit After Tax}}{\text{No. Of Common Share}}$$

$$X (2004/05) = \frac{82127662}{4634743}$$

$$= 17.72$$

$$X (2004/05) = \frac{193764633}{2288738}$$

$$= 84.66 \text{ \& So on}$$

Where,

N = 5 years

$$\bar{X} = \frac{X}{n} \qquad = \sqrt{\frac{1}{n} \sum fX Z \bar{X}^2} \qquad \text{C.V.} = \frac{s}{\bar{X}} | 100$$

$$\text{BOK} = \frac{154.29}{5} \qquad = \sqrt{\frac{1}{5} | 345.6064} \qquad = \frac{8.3139}{30.86} | 100$$

$$= 30.86 \qquad = 8.3139 \qquad = 26.95$$

$$\text{NABIL} = \frac{549.05}{5} \qquad = \sqrt{\frac{1}{5} | 2067.0378} \qquad = \frac{20.3324}{109.81} | 100$$

$$= 109.81 \qquad = 20.3324 \qquad = 18.52$$

#### ANNEX – 14

##### Dividend Payout Ratio (x)

Fiscal Year	BOK		NABIL	
	X	$\sqrt{\frac{1}{n} \sum fX Z \bar{X}^2}$	X	$\sqrt{\frac{1}{n} \sum fX Z \bar{X}^2}$
2004/05	65.92	0.4761	66.36	221.4144
2005/06	59.08	56.7009	65.78	239.0116
2006/07	65.94	0.4489	102.13	436.3921
2007/08	71.72	26.1121	92.33	122.9881
2008/09	70.37	14.1376	79.62	2.6244
Total	333.03	97.8756	406.22	1022.4306

$$\text{Dividend Payout Ratio} = \frac{\text{Dividend Per Share}}{\text{Earning per share}}$$

$$X (2007/08) = \frac{45.05}{0.63}$$

$$= 71.72$$

$$X (2007/08) = \frac{55.02}{0.60}$$

$$= 92.33 \text{ \& So on}$$

Where,

N = 5 years

$$\bar{X} = \frac{\sum X}{n} \qquad = \sqrt{\frac{1}{n} \sum X^2 - \bar{X}^2} \qquad \text{C.V.} = \frac{s}{\bar{X}} \times 100$$

$$\text{BOK} = \frac{333.03}{5} \qquad = \sqrt{\frac{1}{5} | 97.8756} \qquad = \frac{4.4244}{66.61} \times 100$$

$$= 66.61 \qquad = 4.4244 \qquad = 6.64$$

$$\text{NABIL} = \frac{406.22}{5} \qquad = \sqrt{\frac{1}{5} | 1022.4306} \qquad = \frac{14.2999}{81.24} \times 100$$

$$= 81.24 \qquad = 14.2999 \qquad = 17.60$$

### ANNEX -15

#### Price Earning Ratio

Fiscal Year	BOK		NABIL	
	X	$\sqrt{\frac{1}{n} \sum X^2 - \bar{X}^2}$	X	$\sqrt{\frac{1}{n} \sum X^2 - \bar{X}^2}$
2004/05	11.17	39.1876	8.74	78.4996
2005/06	10.78	44.8900	10.80	46.2400
2006/07	14.09	9.8596	14.27	11.0889
2007/08	19.46	4.1209	17.34	0.0676
2008/09	31.49	197.6836	36.84	370.1776
Total	87.14	295.7417	87.99	506.0737

$$\text{Price Earning Ratio} = \frac{\text{Market Value Per Share}}{\text{Earning Per Share}}$$

$$\begin{aligned}
 X(2005/06) &= \frac{295}{27.37} \\
 &= 10.78 \\
 X(2005/06) &= \frac{369}{34.17} \\
 &= 10.80 \text{ \& So on}
 \end{aligned}$$

Where,

N = 5 years

$$\begin{aligned}
 \bar{X} &= \frac{\sum X}{n} &= \sqrt{\frac{1}{n} \sum fX^2} & \text{C.V.} &= \frac{s}{\bar{X}} \times 100 \\
 \text{BOK} &= \frac{87.14}{5} &= \sqrt{\frac{1}{5} \times 295.7417} &= \frac{7.6908}{17.43} \times 100 \\
 &= 17.43 &= 7.6908 &= 44.12
 \end{aligned}$$

$$\begin{aligned}
 \text{NABIL} &= \frac{87.99}{5} &= \sqrt{\frac{1}{5} \times 506.0737} &= \frac{10.0606}{17.60} \times 100 \\
 &= 17.60 &= 10.0606 &= 57.16
 \end{aligned}$$

## ANNEX – 16

### Net Interest Income to Total Income (x)

Fiscal Year	BOK		NABIL	
	X	$\sqrt{\frac{1}{n} \sum fX^2}$	X	$\sqrt{\frac{1}{n} \sum fX^2}$
2004/05	19.12	55.6516	63.10	4.8841
2005/06	13.48	3.3124	62.85	6.0516
2006/07	11.01	0.4225	62.12	10.1761
2007/08	9.75	3.6481	68.73	11.6964
2008/09	4.94	45.1584	69.73	19.5364
Total	58.30	108.1930	326.53	52.3446

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

$$\begin{aligned} X(2004/05) &= \frac{9498984772}{496808827} \\ &= 19.12 \end{aligned}$$

$$\begin{aligned} X(2004/05) &= \frac{51679149050}{819003947} \\ &= 63.10 \text{ \& So on} \end{aligned}$$

Where,

$$N = 5 \text{ years}$$

$$\bar{X} = \frac{X}{n} \qquad = \sqrt{\frac{1}{n} \sum X^2} \qquad \text{C.V.} = \frac{s}{\bar{X}} \times 100$$

$$\begin{aligned} \text{BOK} &= \frac{58.30}{5} & = \sqrt{\frac{1}{5} | 108.1930} & = \frac{4.6517}{11.66} \times 100 \\ &= 11.66 & = 4.6517 & = 39.89 \end{aligned}$$

$$\begin{aligned} \text{NABIL} &= \frac{326.53}{5} & = \sqrt{\frac{1}{5} | 52.3446} & = \frac{3.2356}{65.31} \times 100 \\ &= 65.31 & = 3.2356 & = 4.95 \end{aligned}$$

**ANNEX – 17**

**Commission and Discount Received to Total Income (X)**

Fiscal Year	BOK		NABIL	
	X	$\sqrt{\frac{1}{n} \sum X^2}$	X	$\sqrt{\frac{1}{n} \sum X^2}$
2004/05	9.82	0.0576	12.98	0.6400
2005/06	10.93	1.8225	13.78	0.0000
2006/07	9.57	0.0001	14.59	0.6561
2007/08	8.00	2.4964	13.38	0.1600
2008/09	9.59	0.0001	14.18	0.1600
Total	47.91	4.3767	68.91	1.6161

Commission and Discount Received to Total Income Ratio =

$$\frac{\text{Commission And Discount Received}}{\text{Total Income}}$$

$$\begin{aligned} X (2004/05) &= \frac{4878662681}{496808827} \\ &= 9.82 \end{aligned}$$

$$\begin{aligned} X (2004/05) &= \frac{10630671230}{819003947} \\ &= 12.98 \text{ \& So on} \end{aligned}$$

Where,

$$N = 5 \text{ years}$$

$$\bar{X} = \frac{\sum X}{n} \qquad = \sqrt{\frac{1}{n} \sum X^2} \qquad \text{C.V.} = \frac{s}{\bar{X}} \times 100$$

$$\begin{aligned} \text{BOK} &= \frac{47.91}{5} & = \sqrt{\frac{1}{5} \times 4.3767} & = \frac{0.9356}{9.58} \times 100 \\ &= 9.58 & = 0.9356 & = 9.77 \end{aligned}$$

$$\begin{aligned} \text{NABIL} &= \frac{68.91}{5} & = \sqrt{\frac{1}{5} \times 1.6161} & = \frac{0.5685}{13.78} \times 100 \\ &= 13.78 & = 0.5685 & = 4.13 \end{aligned}$$





**ANNEX – 18**  
**Interest Expenses**

(In Million)

Fiscal Year	BOK		NABIL	
	X	$\sum X Z \bar{X} \hat{A}$	X	$\sum X Z \bar{X} \hat{A}$
2004/05	276.87	191.5456	317.35	1,155.3201
2005/06	286.01	22.0900	2.95	4,677.1921
2006/07	241.90	2,382.4161	243.55	11,618.6841
2007/08	308.84	328.6969	357.16	33.8724
2008/09	339.91	2,420.6400	555.71	41,767.0969
Total	1453.53	5,345.3886	1756.72	59,252.1656

N = 5 years

$$\bar{X} = \frac{\sum X}{n} \qquad = \sqrt{\frac{1}{n} \sum X Z \bar{X} \hat{A}} \qquad \text{C.V.} = \frac{\dagger}{\bar{X}} | 100$$

$$\begin{aligned} \text{BOK} &= \frac{1453.53}{5} & = \sqrt{\frac{1}{5} | 5,345.3886} & = \frac{32.6968}{290.71} | 100 \\ &= 290.71 & = 32.6968 & = 11.25 \end{aligned}$$

$$\begin{aligned} \text{NABIL} &= \frac{1756.72}{5} & = \sqrt{\frac{1}{5} | 59252.1656} & = \frac{108.8597}{351.34} | 100 \\ &= 351.34 & = 108.8597 & = 30.98 \end{aligned}$$



**ANNEX – 19**  
**Staff Expenses**

(In Million)

Fiscal Year	BOK		NABIL	
	X	$\sum X^2$	X	$\sum X^2$
2004/05	51.49	25.3009	210.58	0.1600
2005/06	47.84	75.3424	180.84	860.8356
2006/07	53.90	6.8644	199.52	113.6356
2007/08	59.48	8.7616	240.16	898.8004
2008/09	69.91	197.2921	219.78	92.1600
Total	282.62	295.5614	1050.88	1,965.5916

N = 5 years

$$\bar{X} = \frac{\sum X}{n} \qquad = \sqrt{\frac{1}{n} \sum X^2} \qquad \text{C.V.} = \frac{s}{\bar{X}} \times 100$$

$$\begin{aligned} \text{BOK} &= \frac{282.62}{5} & = \sqrt{\frac{1}{5} \times 295.5614} & = \frac{7.6885}{56.52} \times 100 \\ &= 56.52 & = 7.6885 & = 13.60 \end{aligned}$$

$$\begin{aligned} \text{NABIL} &= \frac{1050.88}{5} & = \sqrt{\frac{1}{5} \times 1965.5916} & = \frac{19.8272}{210.18} \times 100 \\ &= 210.18 & = 19.8272 & = 9.43 \end{aligned}$$

## ANNEX – 20

### Calculation of Loan and Advance Trend Line of BOK Bank Ltd.

X	Y	X <sup>2</sup>	Y <sup>2</sup>	XY
1	5646.69	1	31885107.95	5646.69
2	5912.58	4	34358602.25	11825.16
3	7259.08	9	52694242.44	21777.24
4	9399.33	16	88347404.44	37597.32
5	12462.64	25	155317395.7	62313.20
15	40680.32	55	363202752.70	139159.61

Where,

$$N = 5 \text{ years.} \quad X^2 = 55$$

$$X = 15 \quad Y^2 = 363202752.70$$

$$Y = 40680.32 \quad XY = 139159.61$$

Here,

$$b = \frac{N \sum xy - \sum x \sum y}{N \sum x^2 - (\sum x)^2} \quad \text{Here, } a = \frac{\sum y - b \sum x}{N}$$

$$= \frac{5 | 139159.61 - 15 | 40680.32}{5 | 55 - 15^2}$$

$$= \frac{695798.05 - 610204.80}{275 - 225}$$

$$= \frac{85593.25}{50}$$

∴ b = 1711.86

$$= \frac{40680.32 - 1711.86 | 15}{5}$$

$$= \frac{40680.32 - 25677.90}{5}$$

$$= \frac{15002.42}{5}$$

∴ a = 3000.48

**ANNEX – 21**

**Calculation of Loan and Advance Trend Line of Nabil Bank Ltd.**

(In million)

<b>X</b>	<b>Y</b>	<b>X<sup>2</sup></b>	<b>Y<sup>2</sup></b>	<b>XY</b>
1	7755.95	1	60154760.40	7755.95
2	8548.66	4	73079587.80	17097.32
3	10946.74	9	119831116.60	32840.22
4	12922.54	16	166992040.1	51690.16
5	15545.78	25	241671275.80	77728.90
15	55719.67	55	661728780.70	187112.55

Where,

N = 5 years.

$$X^2 = 55$$

X = 15

$$Y^2 = 661728780.70$$

Y = 55719.67

XY = 187112.55

Here,

$$b = \frac{N \sum xy - \sum x \sum y}{N \sum x^2 - (\sum x)^2}$$

$$= \frac{5 \times 187112.55 - 15 \times 55719.67}{5 \times 55 - 15^2}$$

$$= \frac{935562.75 - 835795.05}{275 - 225}$$

$$= \frac{99767.70}{50}$$

$$\therefore b = 1995.35$$

Here,

$$a = \frac{\sum y - b \sum x}{N}$$

$$= \frac{55719.67 - 1995.35 \times 15}{5}$$

$$= \frac{25789.42}{5}$$

$$\therefore a = 5157.88$$

**ANNEX - 22**  
**BANK OF KATHMANDU LIMITED**  
**Five years Financial Summary**  
**(Balance Sheet)**

<b>Fiscal Year</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
Cash & Bank Balance	161,469,654	184,019,718	219,042,572	536,747,143	565,065,889
Balance with Nepal Rastra Bank	579,050,828	349,295,702	883,495,841	606,049,072	1,324,108,341
Balance with Banks/Financial Institutions	-	195,381,672	213,365,528	297,670,728	292,937,606
Money at Call and Short Notice	328,873,857	594,047,379	259,278,628	72,679,836	243,351,500
Investment	2,598,253,410	3,374,711,966	2,992,433,866	3,204,067,718	2,783,598,566
Loans, Advances and Bills Purchase	5,912,579,472	7,259,082,579	9,399,327,617	12,462,637,541	14,647,296,987
Net Fixed Assets	95,230,942	110,745,198	320,846,395	387,274,153	417,040,587
Non Banking Assets	-	7,356,136	3,625,715	452,978	-
Other Assets	181,672,301	203,688,954	278,682,642	154,346,018	222,606,007
<b>Total Assets</b>	<b>9,857,130,464</b>	<b>12,278,329,302</b>	<b>14,570,098,804</b>	<b>17,721,925,187</b>	<b>20,496,005,483</b>
Share Capital	463,580,900	463,580,900	603,141,300	603,141,300	844,397,900
Reserves and Surplus	257,156,916	376,152,981	378,837,432	738,932,488	897,192,263
Debentures & Bonds	-	200,000,000	200,000,000	200,000,000	200,000,000
Borrowings	6,000,000	553,180,000	730,000,000	100,000,000	100,000,000
Deposits	8,942,748,598	10,485,359,239	12,388,927,294	15,833,737,799	18,083,980,266
Bills Payable	19,873,927	11,621,657	25,776,722	51,576,245	51,124,559
Proposed and Dividend Payable	-	98,711,520	135,575,231	32,804,204	77,333,212
Income Tax Liabilities	-	-	-	-	-

Other Liabilities	167,770,123	89,723,005	107,840,825	161,733,151	241,977,283
<b>Total Capital and Liabilities</b>	<b>9,857,130,464</b>	<b>12,278,329,302</b>	<b>14,570,098,804</b>	<b>17,721,925,187</b>	<b>20,496,005,483</b>

**ANNEX - 23**

**BANK OF KATHMANDU LIMITED**

**Five years Financial Summary**

**(Profit & Loss Account)**

<b>Fiscal Year</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
Interest Income	607,095,662	<b>718,121,378</b>	<b>8 19,003,947</b>	1,034,157,874	1,347,755,382
Interest Expenses	241,639,164	308,155,647	3 39,181,011	417,543,432	563,113,007
<b>Net Interest Income</b>	<b>365,456,498</b>	<b>409,965,730</b>	<b>4 79,822,936</b>	<b>616,614,442</b>	<b>784,642,375</b>
Commission and Discount	72,351,675	70,776,158	97,431,129	129,415,582	150,919,291
Non - Operating Income	49,496	-	-	-	-
Other Operating Income	4,467,286	16,967,545	19,002,897	23,167,724	43,222,093
Exchange Gain	72,114,868	78,955,495	80,826,013	93,765,039	136,036,316
<b>Total Operating Income.</b>	<b>756,078,988</b>	<b>576,664,929</b>	<b>6 77,082,975</b>	<b>862,962,787</b>	<b>1,114,820,075</b>
Staff Expenses	53,822,309	59,119,564	69,740,384	90,601,920	146,494,578
Other Overhead Expenses	99,190,178	117,591,235	1 38,429,941	170,480,908	233,667,863
Exchange Loss	-	-	-	-	-
<b>Operating Profit before provision for possible losses</b>	<b>-</b>	<b>399,954,129</b>	<b>4 68,912,650</b>	<b>601,879,959</b>	<b>734,657,634</b>
Provision for Possible Losses	-	78,381,056	81,894,981	38,438,498	33,745,192
<b>Operating Profit</b>		<b>321,573,073</b>	<b>3 87,017,669</b>	<b>563,441,461</b>	<b>700,912,442</b>
Non Operating Income /Loss	518,267	1,090,139	( 2,779,849)	810,748	(2,027,469)
provision for Risk	133,916,898.10				

Bearing Fund					
Provision Written Back	-	103,871,477	37,103,885	61,832,950	21,577,091
<b>Profit from Regular Operations</b>	-	<b>426,534,689</b>	<b>4 21,341,705</b>	<b>626,085,159</b>	<b>720,462,064</b>
Profit/Loss from extra-ordinary Activities		<b>(95,205,482)</b>	<b>411,150</b>	(45,396,284)	6,934,365
<b>Net profit after considering all activities</b>	139,529,721.20	<b>331,329,207</b>	<b>4 21,752,855</b>	<b>580,688,875</b>	<b>727,396,429</b>
Provision for Staff Bonus	22,699,217	<b>30,120,837</b>	<b>38,341,169</b>	52,789,898	66,126,948
Provision for Income Tax	64,763,232.81	<b>98,767,743</b>	<b>1 21,024,706</b>	166,402,098	<b>199,534,570</b>
Current Tax		93,235,553	1 15,424,706	162,535,369	200,304,605
Deferred Tax		-	-	3,866,729	(770,035)
Previous Year's		5,532,190	5,600,000	-	-
<b>Net Profit/Loss</b>		<b>202,440,627</b>	<b>2 62,386,980</b>	<b>361,496,879</b>	<b>461,734,911</b>

**ANNEX - 24**  
**NEPAL ARAB BANK LIMITED**  
**Five years Financial Summary**  
**(Balance Sheet)**

<b>Fiscal Year</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
Cash Balance	146,352,555	237,818,512	270,406,987	511,426,584	<b>674,395,434</b>
Balance with Nepal Rastra Bank	389,705,047	318,358,771	1,113,415,436	1,829,470,769	<b>2,648,596,348</b>
Balance with Banks/Financial Institutions	23,323,012	74,061,305	16,003,428	330,243,702	<b>49,520,689</b>
Money at Call and Short Notice	868,428,307	1,734,901,943	563,532,632	1,952,360,700	<b>552,888,297</b>



Investment	4,275,528,208	6,178,533,108	8,945,310,567	9,939,771,428	<b>10,826,379,001</b>
Loans, Advances and Bills Purchased	10,586,170,002	12,922,543,153	15,545,778,730	21,365,053,318	<b>27,589,933,041</b>
Fixed Assets	361,235,392	319,086,147	286,895,224	598,038,998	<b>660,988,986</b>
Non Banking Assets	-	-	-	-	-
Other Assets	413,339,570	544,668,139	512,050,004	606,393,650	<b>864,695,708</b>
<b>Total Assets</b>	<b>17,064,082,093</b>	<b>22,329,971,078</b>	<b>27,253,393,008</b>	<b>37,132,759,149</b>	<b>43,867,397,504</b>
Share Capital	491,654,400	491,654,400	491,654,400	689,216,000	<b>965,747,000</b>
Reserves and Surplus	1,165,983,908	1,383,340,017	1,565,395,315	1,747,982,989	<b>2,164,493,637</b>
Debentures & Bonds	-	-	-	240,000,000	<b>300,000,000</b>
Borrowings	17,062,680	173,201,710	882,572,500	1,360,000,000	<b>1,681,305,000</b>
Deposits	14,586,608,707	19,347,399,440	23,342,285,327	31,915,047,467	<b>37,348,255,840</b>
Bills Payable	85,419,747	92,536,853	83,514,820	238,421,890	<b>463,138,615</b>
Proposed & Unclaimed Dividends	361,221,024	435,084,062	509,417,925	437,373,004	<b>361,325,024</b>
Income Tax Liabilities	15,345,023	34,604,855	-	38,776,869	<b>80,232,454</b>
Other Liabilities	340,786,604	372,149,741	378,552,721	465,940,930	<b>502,899,934</b>
<b>Total Capital and Liabilities</b>	<b>17,064,082,093</b>	<b>22,329,971,078</b>	<b>27,253,393,008</b>	<b>37,132,759,149</b>	<b>43,867,397,504</b>

*NPR in Thousand*

<b>Fiscal Year</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
Cash and Bank Balance	1144767	970486	559381	630239	1399826
Money at call	670204	918733	868428	1734902	563532
Investment	6031176	5835949	4267233	6178533	8945310
Loan, advance and Bill Purchase	7755952	8189992	10586170	12922543	15545778
Fixed Assets	251915	338126	361235	319086	286895
Other Assets	708611	492199	413340	544668	512050
<b>Total Assets</b>	<b>16,562,625</b>	<b>16,745,485</b>	<b>17,055,787</b>	<b>22,329,971</b>	<b>27,253,391</b>
Share Capital	491654	491654	491654	491654	491654
Reserve and Surplus	435007	990027	1165983	1383340	1565395

Borrowings	961461	229660	17062	173202	882572
Deposit	13447661	14119032	14586608	19347399	23342285
Bills Payable	387526	119753	77128	92538	83517
Proposed and undistributed Dividends	-	-	361221	435084	50941
Income Tax Liabilities	-	-	15345	34605	-
Other liabilities	839316	795359	340786	372149	378551
<b>Total Capital and Liabilities</b>	<b>16,562,625</b>	<b>16,745,485</b>	<b>17,055,787</b>	<b>22,329,971</b>	<b>27,253,394</b>

**ANNEX - 25**

**NEPAL ARAB BANK LIMITED**

**Five years Financial Summary**

**(Profit & Loss Account)**

<b>Fiscal Year</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
Interest Income	1,068,746,769	1,309,998,500	1,587,758,714	1,978,696,727	<b>2,798,486,196</b>
Interest Expense	243,544,611	357,161,304	555,710,109	758,436,212	<b>1,153,280,052</b>
<b>Net Interest Income</b>	<b>825,202,158</b>	<b>952,837,196</b>	<b>1,032,048,605</b>	<b>1,220,260,515</b>	<b>1,645,206,144</b>
Commission and Discount	128,376,550	138,293,913	150,608,550	159,319,857	<b>179,693,027</b>
Other Operating Income	56,440,760	82,897,862	87,574,553	94,359,475	<b>144,164,143</b>
Exchange Income	184,878,868	185,483,662	209,926,167	196,487,415	<b>251,919,712</b>
<b>Total Operating Income</b>	<b>1,194,898,336</b>	<b>1,359,512,633</b>	<b>1,480,157,875</b>	<b>1,670,427,262</b>	<b>2,220,983,026</b>
Staff Expense	199,516,217	219,780,853	240,161,275	262,907,576	<b>339,897,913</b>
Other Operating Expense	190,299,470	182,696,413	188,183,330	220,750,570	<b>265,158,033</b>
Exchange Loss	-	-	-	-	-
<b>Operating Profit before Provision for Possible Losses</b>	<b>805,082,649</b>	<b>957,035,367</b>	<b>1,051,813,270</b>	<b>1,186,769,116</b>	<b>1,615,927,080</b>
Provision for Possible Losses	8,662,150	3,769,541	14,206,365	64,055,186	<b>45,722,434</b>

<b>Operating Profit</b>	<b>796,420,499</b>	<b>953,265,826</b>	<b>1,037,606,905</b>	<b>1,122,713,930</b>	<b>1,570,204,646</b>
Non Operating Income /(Expense)	(48,089)	735,324	5,280,641	24,083,737	<b>2,190,102</b>
Provision for Possible Losses Write Back	4,454,762	7,729,444	10,926,317	11,100,529	<b>10,617,867</b>
<b>Profit from Regular Activities</b>	<b>800,827,172</b>	<b>961,730,594</b>	<b>1,053,813,863</b>	<b>1,157,898,196</b>	<b>1,583,012,615</b>
Income/(Expense) from Extra-ordinary Activities	41,156,398	26,073,578	40,736,694	39,990,808	<b>43,521,866</b>
<b>Profit from All Activities</b>	<b>841,983,570</b>	<b>987,804,172</b>	<b>1,094,550,557</b>	<b>1,197,889,004</b>	<b>1,626,534,481</b>
Provision for Staff Bonus	84,198,357	89,800,379	99,504,596	108,899,000	<b>147,866,771</b>
Provision for Income Tax	237,671,128	262,741,444	321,086,263	342,521,610	<b>447,614,612</b>
Current Tax	<i>239,149,464</i>	262,562,561	314,526,570	340,625,244	<b>470,701,921</b>
Prior Period Tax	<i>(1,478,336)</i>	178,883	6,559,693	52,872	<b>918,745</b>
Deferred Tax	-	-	-	1,843,494	<b>(24,006,054)</b>
<b>Net Profit/(Loss)</b>	<b>520,114,085</b>	<b>635,262,349</b>	<b>673,959,698</b>	<b>746,468,394</b>	<b>1,031,053,098</b>

*NPR in Thousand*

<b>Fiscal Year</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
Interest Income	1017872	1002872	1068747	1309998	1587758
Interest Expenses	(317348)	(282948)	(243545)	(357161)	(555710)
<b>Net Interest Income</b>	<b>700,524</b>	<b>718,669</b>	<b>825,202</b>	<b>952,837</b>	<b>1,032,048</b>
Exchange Earnings	144075	157324	184879	185484	209926
Commission Earnings	144406	135958	128883	138294	150609
Other Operating Income	86946	38755	55934	82898	87574
Other Non Operating Income	34154	92781	72241	26808	56942
<b>Gross Income</b>	<b>1,110,102</b>	<b>1,143,487</b>	<b>1,267,139</b>	<b>1,386,321</b>	<b>1,537,099</b>

Staff Costs	(210583)	(180840)	(199516)	(219781)	(240161)
Provision for Staff Bonus	(66364)	(71941)	(84198)	(89800)	(99504)
Premises Costs	(166200)	(19259)	(22237)	(23381)	-
Other Operating Costs	-	(131500)	(168062)	(159315)	(188183)
Other Non Operating Costs	-	(51574)	-	-	-
<b>Total Costs</b>	<b>(494,721)</b>	<b>(403,540)</b>	<b>(474,013)</b>	<b>(492,277)</b>	<b>(568,584)</b>
Profit Before Tax	615381	739947	793126	894044	1009251
Income Tax	199146	201763	239149	262741	321086
Book write off Bad Loans	-	(82873)	(31133)	7729	10926
Provision for Loan Loss	-	-	(4207)	(3770)	(14206)
<b>Net Profit After Tax</b>	<b>416,235</b>	<b>455,311</b>	<b>518,637</b>	<b>635,262</b>	<b>673,959</b>