CHAPTER-I

Introduction

1.1 General Background of the study

Nepal is the Birth place of Lord Buddha, the country famous of highest mountain in the world, Everest. The feature of least developed and most of the part is land located and agriculture based economy nevertheless the present trend of gauging national economic prosperity is not in the real scene the agriculture output alone. The country low industrial base and most preferred tourist destination in South Asia is an underdeveloped. Along with other things, the declining rate of agriculture productivity has forwarded new issues for the economic development.

It is a small country with unique physical setting surrounded by India in South, East & West and by China in North. It is land located country with 800 km, lengths and open border with India. The country is one of the least developed countries of the world. Approximate 38% of all Nepalese live in absolute poverty. World Development Report shows that, the per capita income is $210 which is very low as per the international standard. The economic development of the country, which is reflected by the annual GDP growth rate, is not very significant. Nepal's average GDP growth rate in recent year is around 3 to 5 percent the population growth rate is 2.3% and he population distribution is 160 people per square k.m have affected its economy to a large extent .World Development Report 2007 shows that the economic growth rate on per capita GNP is 5.3% .The report shows that the public expenditure on education &health are 2.8% & 1.2% GNP respectively. Currently 59% of all adult are literature.

The term development does not merely indicate a particular sector of the economic pattern; it is associated with the materialistic view of growth. In a broad context, it denoted sustainable and result oriented development .And the base of sustainable and result oriented development is optimum utilization of existing resources. It requires collection of funds and appropriate usage of fund and other resources as well .The concept had lead to the view of industrial and commercial existence of institution.

In today's modern era, different business organizations are struggling for the existence and to earn profit. In this context, finance has becomes key to their success. Today the business is depending not only on market and production as it was in late 1920-1950's development of financial sector is another strategic variable to uplift the economy. Financial institution transfers the resources from surplus units to deficits units. In this way financial institutions are catalyst in the process of economic growth of a country. A key factor in the development of an economy is the mobilization of domestic resources. Financial institution help the process of mobilization's financial sources are required in each and every steps of the organization's life. So management of funds, administration and optimum utilization of the funds is a must in smooth running of the institution.

The importance of financial institutions is the economy has late grown to an enormous extent. The government is required to regulate their activities, so that the financial policies are implemented as per the requirements of the country. Policies such as lending to priority sectors. Education sectors & industrial sectors are certain examples which the government in developing economies tries to implement with the help of financial institutions. Furthermore the selective credit controls imposed in most developing economies. And the proposed regulation of Bank credit distribution in some industrial countries is examples of the importance attached to the intermediary function of commercial banks and financial institution.

Financial institutions transfer the resources by mobilizing them from surplus units and in turn lend these funds to deficit units. In this way, the financial institutions provide savers, highly liquid, divisible assets at a lower risk while the investors receive a large pool of resources satisfaction of both lenders and borrows determines the success of intermediary function of economy. Economist and historians agree that the process of modern economic growth last has been closely associated in the expansion and increasing diversification of financial intermediation. Banking and financial sector play a vital role in the economic development of the country. Commercial banks are most important aspects of those sectors, which deals in the process of canalizing the available sources to the needy sector. It is the intermediary between the deficit and surplus of financial resources. People are keeping their surplus money as deposit in the banks and hence banks can provide such funds to finance the industrial activities, in the form of loans and advances. Scattered funds are collected in the economy by using deposit the account holder's account and mobilizing them in the productive sector. A large amount of depositors' money is at stake. The bankers have the responsibility of safe guarding the interest of the depositors; the shareholders and the society are serving. That's why a sound, financially healthy, competitive and reliable banking system is essential for economic development for every country. Banking is a very important organ to regulate of national economy and a vehicle for the mobilization of financial resources and extension of credit to the business and service organization.

The development of financial system in Nepal dates bank to a rudiment economy dealing in the commodity money. As it would have else where in the world, such as gold & silver coins age. The silver coin age which came in to existence in Nepal in the 12th century is said to have marked anew epoch in the economic history. Since then, the financial system underwent through various stages will the evolution of modern banking in 1937.which was the first bank of the country. Established with an objective to render services to the people and contribute the nation's development.

Nepalese economy was characterized by the prevalence of dual currency system because of the border and excess concentration of trade with India. Indian currency was more common in use then the Nepalese currency. In that situation need for the central bank for the development of banking and finance, promoting trade and industry managing circulation of national currency. Managing exchange rate stability was realized .In this back ground, Nepal Rastra Bank was established on April 26, 1956. While establishment of Nepal Rastra Bank (NRB) a number of financial institution were established. Among these, establishment of Nepal Industrial development corporation in 1959, Rastriya Banijya Bank in 1966, Agricultural development Bank in 1968, and Securities Exchange Center in 1977 were the one of the development of financial market. The government introduce the financial liberalization policy in mid-eighties. After that liberalization many financial institution are established in this time 20 commercial Banks, 38 development Banks 12 rural development Banks,74 finance companies,17 co-operative institution and 47 non-government organization are licensed by NRB in July 2007.Bank of Kathmandu Limited. established in 1995 Kamaladi Kathmandu (Kamal Pokhari).It was established with an authorized capital of Rs100 million and issued capital is Rs 50 million and paid up capital is Rs 463580900. It is a well known commercial Bank of Nepal with maximum share holding by the Nepalese private sectors. 58 % of share is subscription of public sector and 42 % share held by owners. In present situation the bank has 4 branches in Katmandu Valley. Besides it has 22 branches outsides the Kathmandu valley. The Bank has a very aggressive plan of establishing more branches in different parts of the country in near future. The banking services and products offered by the bank includes fixed deposit, saving and current, credit by term loans as well as working capital, letter of credit, bank guarantee, retail finance remittances, swift transfer facility, tale banking, automatic Teller machine cards.

1.2 Focus of the study

Finance composed three functions investing, financing and dividend. Financial performance analysis is a process of identifying the financial strengths and weakness of the firm. Financial performance directly linked to balance sheet and income statement of the firm. Ratio analysis is a powerful tool of financial analysis. The study aims to analyze the financial performance of Bank of Kathmandu (BOK) in the frame work of ratio analysis by using descriptive and analytical research design. That's why, whole energy and efforts concentrate to analysis of financial performance of the bank. More especially the study focused on the Liquidity ratio ratio; Profitability ratio, Asset management ratio. Current Ratio, Trend of return on equity. Return on asset, net interest margin, Cash and bank balance to deposit ratio. Non performing loan to total loan and advances ratio. Operating profit margin to interest earned ratio, return on asset, return on equity ratio, return on capital employed ratio, net profit margin ratio, net interest margin ratio, fixed asset turn over ratio, total asset turnover ratio, net interest margin ratio, earning per share, loan and advances to total deposit ratio, risk and return analysis, cash flow analysis, capital adequacy ratio, interest income to total income ratio, interest expenses to interest income ratio, employ expenses to total income ratio, office expenses to total income ratio, trend percentage of investment and net profit,

1.3 Statement of the Problem.

A bank financial health is measure on the basis of ratio analysis. Almost all the private sectors bank is earning profit rather than government bank. It appears that bank do not have proper system in managing the market risks. The people have been raising question over the correction or credit classification and provision of sum banks. Should be doubt come true? It is very costly to the all customers & national economy. It would be pursuits advise Nepal Rastra Bank to strictly implement its directives so that banks avert the fate of public sector banks.

The fundamental problem of this study is to investigate the financial health of BOK in the framework of ratio analysis. So the study attempts to solve the following research questions.

1- What is the trend of liquidity position made by the bank?

2- What is the trend of earning performance made by the bank?

3- What is the trend of earning?

4- Is the financial position of the bank is good?

5- Is there any shortcoming or potentiality of improvements?

6- What is the earning power and overall profitability of the bank?

7- How far the bank managing their expenses with respect to income.

8- How the bank is managing the capital.

1.4 Objectives of the study

The basic objectives of the study are to analyze the financial performance of Bank of Kathmandu L.td in terms of overall ratio analysis.

The specific objectives of the study are as follows.

1- to evaluate the financial performance of the bank in terms of liquidity profitability and asset management.

2- to determine risk and return pattern of the bank.

3- to identify the trend of earning of the bank.

4- to analyze cash flow stream of the bank.

5- to asses the capital adequacy.

6- to analyze non- performing loan.

7-to recommend appropriate suggestion.

1.5 Significance of the study

Research itself has its own importance because it aims to gain knowledge and to add the new literature to the existing field. This study is expected to be helpful to shareholders, management policy maker and other related outsider.

Significance to shareholders

The study will be helpful to shareholders to get important information about the financial states and performance of each bank. And the comparison will help them to identify productivity of their funds in each their bank.

Significant to management

This study aims to give new information to a management. Managements review their individual sector wise performance and to make a right decision to related field.

Significance to policy maker

Generally in Nepal government and Nepal Rastra Bank top level management is the policy maker.

It helpful suggests to the policy maker to make necessary policies to attract private sector investment in the productive sector and reforms in policies relating to performance. Therefore the study will also be helpful to them while formulating policies regarding NEPSE & banking sector. It will help them to find out the problems and prospects in near future.

Significance to outsider

Among outsiders, customers, stake holder's investor, traders can identify to which sector they should go the study will be helpful for them to find out the relative worth of different sector. The significance of this study lies mainly in filling a research gap on the study of financial performance analysis of bank of Kathmandu L.td.

Significance to researcher

The study is important for the researcher to know about this field. This analysis helps to researcher which was known about this subject mater.

1.6 Limitation of the study

Every research mutually has some limitation so this study is not exceptional case this study is carried out as an academic requirement for degree of Master of Business Study (MBS). So this study may not be able to reveal the reliability and validity in every field. Basically the major limitations to the study are as under.

1) The study is only linked to financial performance analysis of Bank of Kathmandu L.td. Therefore all the activities are intended to analyze the financial performance.
2) Last five year data are taken to consideration for the study purpose, which are collected from the secondary sources.
3) Data published by different authorities differ figure published by NRB and banks annual report.
4) Time and finance constraints are also the major limitation of the study .The report has to submit in a limited time period.
5) Major portion of analysis and interpretation will be done on the basis of available secondary data and information.
6) Analysis is based on the tools developed.
7) The study is to fulfill the requirements of MBS. So the study cannot cover all the dimensions of the subject matter.

1.7 Hypothesis

It is said that hypothesis is the most powerful tool man has invested to achieve a dependable knowledge. A hypothesis is an educated guess about a problems solution. Hypothesis is a conjectural statement of the relationship between two or more variables. In other words, a hypothesis shows what kinds of relationship exist among the variables operating in the problem situation. The thesis paper, hence, is an investigation of hypothesis. The following hypothesis has been formulated for testing.

I. There is no significant difference between interest earned and interest paid.

II. There is no significant difference between the liquidity & profitability.

1. 8 Organization of the study

This study is organized into five chapters which are as follows.

Chapter 1 Introduction

Introduction chapter includes background of the study, focus of the study statement of the problem, objectives of the study significance of the study, limitation of the study. Hypothesis is also setup in this chapter.

Chapter 2 Review of Literature

It includes review of literature. Conceptual review and review of related studies, review from books, Journals.

Chapter 3 Research Methodology

It includes the research design, data collection procedure, tools for analysis and method of analysis and presentation.

Chapter 4 data presentation and analysis

. It is the main body of the research. It includes data presentation, interpretation and analysis and financial tools to measure financial performance.

Chapter 5 includes the summary, conclusion & recommendation.

Chapter II

Review of Literature

Review of literature is an essential part of all studies. A research work is considered incomplete if it does not contain review of related materials in it. Almost all types of research work involve the use of reference materials. Research is a continuous process, it never ends. The process and the finding may change but research will be continuous work. So far analyzing the data and to find something new. A researcher must review and know if there are any studies ahead or not. The purpose of reviewing the literature is to develop some expertise in one area, to see what new contributions he can make and to receive some ideas for developing a research design. Thus, the previous studies cannot be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies. This chapter is related with the review of past research works, conceptual framework. The researcher has reviewed books, articles and annual reports of sampled study.

In this chapter relevant and recent literature, which are related to the topic financial performance of commercial banks. So this chapter highlights upon the literatures that are available in the area of financial performance of commercial banking sectors. Topic from basis academic course books and different studies published in magazines, thesis of seniors and Journals related to the study are review. This chapter is divided into two parts: conceptual framework and review of related studies.

2.1 Conceptual Framework

This sub chapter represents the theoretical aspect of the study. It includes the concept of commercial banks, functions of commercial banks, historical development of commercial bank in Nepal, concept of financial performance analysis.

2.1.1 Concept of Commercial Bank

Commercial Banks are the most important source of institutional credit in the money market. A commercial Bank is a profit seeking Business firm. They are dealing in money or rather dealing in claims to money. It is a financial institution that creates demand deposits that is deposit account which is subject to withdrawal by the owner on demand as subject to transfer to a third party by means of a cheque. In that respect if differs from all other financial institutions. Moreover deposits in a commercial bank. Circulate as money, while deposits in other financial institution do not. In fact the greater part of money supply is the direct consequence of the profit seeking or money creating activities of commercial banks. A commercial bank is not a philanthropic institution. On other hand it is an institution that operates for profits. Like other industrial or commercial enterprise, a bank too seeks to earn maximum income through the suitable employment of its resources. It is a financial intermediary a sort of a middleman between people with surplus fund and people in need of funds. It accepts deposit for the purpose of lending or investment and thereby hopes to make a profit, Profit which are adequate enough to the bank to pay interest at the prescribed rates to its depositors. Commercial banks are meeting to establishment expenses, make reserves & fund. Pay dividend to the shareholders. Generally commercial banks are those financial institutions which play the role of financial intermediary in collection and disbursement of funds from surplus unit to deficit unit.

DR.HL. Hart A bank is one who in the ordinary course of his business, receives money which he pays by honoring cheque of persons from whom or whose account receives. Banks are providing loan and credit creation of its customers. Thus banks are a factory of credit & money maker.

Upadhya and Tiware (1998) stress that the commercial bank is established with a view to provide short term to necessary for trade and commerce of the country. Along with other ordinary banking business such as collecting the surplus in the form of deposits, acting as an agent of the client. In the same way Abrol & Gupta (2002) explain that principally commercial banks accepts deposit and provide loans too primarily to business firm. On the other hand, the broad concept of commercial bank holds that the commercial bank is a banking institution other than central bank. The commercial bank is the only institution other than central bank permitted to accept demand and time deposits.

2.1.2 Origin of Bank

In the world gold, cash & ornaments other assets are keep on security system is established in 2000 B.C. In that time Babylon & Bharat Barsa in merchant bankers are accept deposit, Providing loan & Issue of Hundi. In these banking activities are generated.

Two aspects are ahead in origin of Banks.

I) Italian word 'bancs'- In ancient time merchant & goldsmith are done marketing in the Italy bazaar. In that market they are sitting on a bench and to provide loan and accept deposit of a business person. In Italian Language they are said to banks. In this way Bench changed into bancs and being to Bank.

II) Combined fund 'Monte'

In 1171 Italy suffered economic crisis because of battle in the Kingdom of Vanish. In that time government funds is empty. But that lack of funds government received a loan from public by 5% interest charged. That combined fund known as 'monte'. Germans people are said that fund name is bank. After that, Italian are also said to banco and in England says bank.

2.1.3 Historical Development of commercial Bank

The evolution of commercial banking system has started a long time before, during in ancient time. There was reference to the activities of money changers in the temple of Jerusalem in the new testament. In ancient Greece the famous temple of Delphi and Olympia served as great depositors of peoples surplus fund and these were the centers of money lending transaction Indeed the traces of 'rudimentary banking" were found in the chaldean, Egyptian and Phoenician history. The development of banking in ancient Rome roughly followed the Greek pattern. Banking suffered avoid after the fall of the Roman Empire after the death of Emperor Justinian in 565 A.D. And it was not unit the revival of trade and commerce in the middle ages that the lesions of finance were ages that the lesions of finance were learnt a new from the begging money leading in the middle ages was however largely confined to the Jews since the Christian were forbidden by the canon law to indulge in the sinful act of lending money to others on interest. However as the hold of the church loosened with the development of trade and commerce about the thirteen century. Christians also took of the lucrative business of money lending, thereby entering into keen competition with the Jews, who had hitherto monopolized the business.

The origin of the Banking system is traceable to the ancient Assyrians, Babylonians and Arthurian, but the forerunners of modern banks are considered to the Bank of Venice (1171A.D). The Banks of Genoa (1320 A.D), Bank of Barcelona (1401A.D), and the Bank of Amsterdam (1609A.D). The Bank of Venice and Bank of Genoa continued to operate until the end of eighteenth century. When the expansion of commercial activities in Northern Europe there spring up a number of private Banking house in Europe and slowly it spread throughout the world. Almost all countries the logical & historical order of the development of financial structure has gone through different stages. In Nepal the first stage starts from rudimentary economy in which the commodity money such as gold and silver coins generally accepted as a means of payment. Involvement of landlords, rich merchants, shopkeepers, and other individual money lender have acted as finance to institutional credit in presence of unorganized money lender. Though establishment of banking industry was very recent, some crude bank operations were in practice even in the ancient time. The new era known as Nepali sambat was introduced by shankadhar, a sudra merchant of kantipur in 879 to 880 A.D, after having paid all the outstanding debts in the country. This shows the Basic of money lending parties in ancient Nepal. At the end of eight century, Gunakam dev borrowed money to rebuilt the Kathmandu Valley. In 11th centaury during regime there was an evidence of professional money lender and bankers. Further believed that money lending business, particularly for financing foreign with Tibet become popular during regime of malla's.

At the end of 14th century we further came across the term " Tanka Dhari", meaning money dealer, which is one of the sixty four caste classified basis of occupation. In historical order of development of the market is seen onely in the stage. The establishment of the "Tejarath Adda" during the year 1877A.D was fully subscribed by the government of Kathmandu valley, which played a vital role in banking system. The tejarath adda distributed credit facilities to the public especially on the collateral of gold and silver. Hence the establishment of tejarath adda could be regarded as pioneer foundation of banking in Nepal.

The history of the modern banking began only after the establishment of Nepal bank limited in 1973A.D. as a semi-government organization, without existence of a central bank. It was established under special banking act 1936 having elementary functions of a commercial bank. It laid the foundation of modern banking system in Nepal. Because of the non-existence of a central bank in the country, the commercial bank had to act its own central bank, and keep enough sources in hand for meeting emergencies. At that time, Nepalese economy was characterized by the prevalence of dual currency system. There were great fluctuations in the open market rate of exchange of the Nepalese rupees against the India currency which provided a great hindrance to the economic stability as well as development of the country. Thus, there was an immediate need of central bank. As a result, Nepal Rastra Bank came into existence as the central bank on April 26th 1956, under the Nepal Rastra Bank act 1955 with the objectives of supervising, protecting and directing the functions of commercial banking activities. It had authorized capital of R.s. 10 million fully subscribed by the government. It was empowered by act to have direct control over financial institutions with in the country. It started issuing currency in 1959A.D. Another commercial bank fully owned by the government, named as the "Rastriya Banijaya Bank" got established in 1966A.D (NRB 2001). With a view of providing financial assistance for agriculture, Agriculture Development Bank of Nepal (ADB/N) was established in the government sector in 1967A.D.

In 1980A.D.government introduced "financial sector Reforms" which facilitated the establishment of different private sector financial institution in Nepal. Besides Nepal Bank Limited and Rastriya Banijya Bank, other commercial banks did not come in to existence until 1984A.D. the commercial banking act 1974 was amend in 1984A.D to increase the competition between commercial banks. As per the provision made in this act, private sector (including foreign investment) was given freedom in opening commercial bank. The entry barriers placed on commercial bank were eliminated. However, foreign participation in the financial sector is only allowed with the joint collaboration with domestic partners. The establishment of joint banks gave a new horizon to the financial sector of the country.

After the restoration of democracy in 1990 A.D., NRB adopted a more liberal policy in establishing the commercial banks. As a result a number of commercial banks increased dramatically viz. Himalayan Bank Ltd, Nepal SBI Bank Ltd. Everest Bank Ltd, and Bank of Kathmandu Ltd etc. At present time 20 commercial banks are operating all over the country.

2.1.4 Functions of Commercial Banks

Accepting Deposits: - This is the oldest function of a bank and the banker used to charge commission for keeping the money in its custody when banking was development as an institution. Now a day a bank accepts three kinds of deposits from its customers. The first is the 'saving' deposits on which the bank pays interest relatively at low rate to the depositors who are usually small savers. Depositors are allowed to withdraw their money by cheque up to a limited amount during a week or a year. Businessmen keep their deposits in current accounts. They can withdraw any amount standing to their credit in current deposits by cheque without notice. The bank does not pay interest on such account but instead levies service charges to its customers. Current accounts are known as demand deposits. A bank charges accepts fixed or time deposits. Savers who do not need money for a stipulated period from 6 months to longer periods ranging up to 10 years or more are encouraged to keep it in fixed deposits. But there is always the maximum limit of the interest rate on fixed deposits.

Advanced and Loans: - One of the primary functions of a commercial bank is to advance loans to its customers. A bank lends a certain percentage of the cash lying in deposits at a higher interest rate than it pays on such deposits. This is how it earns profits and carries on its business. The bank advances loans in the following ways:

Cash credit: The bank advances loans to businessmen against certain specified securities. The amount of the loan is credited to the current account of the borrower. In case of a mew customer, a loan account for the sum is opened. The borrower can withdraw money through cheques according to his requirements but pays interest on the full amount.

Call Loans: There are very short-term loans advanced to the bill brokers for not more than fifteen days. They are advanced against first class bill or securities. Such loans can be recalled at a very short notice. In normal times, they can also be renewed.

Overdraft: A bank often permits a businessman to draw cheques for a sum greater than the balance lying in his current account. Bank provides the overdraft facility up to a specific amount to the businessman. But bank charges interest only on the overdraft amount.

Discounting Bill of Exchange: If a creditor holding a bill of exchange wants money immediately, the bank provides the money by discounting the bill of exchange. It deposits the amount of the bill in the current account of the bill holder after deducting its rate of interest for the period of loan, which is not more than 90 days. When the bill of exchange matures, the bank gets its payment from the banker of the debtor who accepted the bill.

Credit Creation: Credit creation is one of the most important functions of the commercial banks. Like other financial institutions, its aim at earning profits. For this purpose, it is accepts deposits and advanced loans by keeping small cash in reserve for day-to-day transactions. When a bank advances a loan, it opens an account in the name of the customer and dose not pay him in cash but allows him to draw the money by cheque according to his needs. By granting a loan, the bank creates deposit.

Financing Foreign Trade: A commercial bank finances foreign trade of its customers by accepting foreign bills of exchanges and collecting them from foreign banks. It also transacts other foreign exchange business-buying and selling of foreign currency.

Agency Services: A banks acts as an agent of its customers in colleting and paying cheque, bills of exchange, drafts, dividends etc. It also buys and sells shares, securities, debentures etc. for customers. Further, it pays subscriptions, insurance premium, rent, electricity and water bills and other similar charges on behalf of its clients. It also acts as a trustee and executer of the property and will of its customers. Moreover, the bank acts as consulting to its clients. For some of these services, the bank charges a normal fee while it renders others free of charge.

Miscellaneous Services: Besides the above noted services, the commercial bank performs a number of other services. It acts as the custodian of the valuables of its customers by providing those lockers where they can keep their jewelry and valuable documents. it issue various forms of credit instruments, such as cheque, drafts and travelers' cheque etc., which facilitate transactions. The bank also issue letters of credit and acts as a referee to clients. it underwrites shares and debentures of companies and helps in the collection of fund from the public. Moreover, it provides Statistics on money market and business trends of the economy.

2.1.5 Supervisory and monitoring system of the Nepal Rastra Bank

Principally, the central bank has the liability and obligation fair and healthy environment of the economic activities of the nation. For it, the necessary acts, rules and regulations are enacted and developed. Thus the act of checking whether the related officials and banks have honestly complied with the policy, regulation and provision enacted by the controlled financial system, itself is called inspection. As a central bank, the Nepal Rastra Bank has been discharging such serious and sensitive task.

Before the establishment of the Nepal Rastra Bank the function of the inspection and supervision used to be carried out by the officials by Majesty of Government or Auditor General. This practiced was continued until the enactment of the commercial Bank Act 2020 B.S After the introduction of this Act, the function of inspection and supervision for the commercial bank was given to the Nepal Rastra Bank and this right was more strengthened by the Nepal Rastra Bank Act and the introduction of the commercial bank Act 1974 . The Nepal Rastra Bank has been discharging of the task of inspection from the fiscal years 2025/26 B.S But in the fiscal years 2042/43 B.S , a separate department of inspection and supervision, was established to regular and carry out an on site inspection of the banks and the financial institutions .

2.1.6 Financial performance Analysis

Today's banks are gone to great pressure to achieve the objectives their stockholders, employee's depositors & borrowing customers. Banks are stay in government regulations & satisfied that the bank policies & strategic loans and investment are fully sound. Banking organizations have grown in recent year, more and more of them have been forced to turn to the money and capital markets to raise funds by selling stocks, bonds, and short term investment. This development has changed management under greater pressure to set and meet to bank performance goals. Bankers have been continually re-evaluating their loan and deposit policies, change their plans for expansion and growth. New strategies are applied in the banking sectors, which assured their returns and risk are minimize in new competitive environment. If banks did not formulate the strategic plan, the banks failure. These failures have been related with management mistakes. Outright fraud and more volatile and uncertain economy that demands new standards for bank management. The most performance dimensions for any bank is profitability and risk. Commercial banks are business corporation organization for the objectives of maximize the value of shareholders wealth invested in the acceptable level of risk. Objectives are not easy to fulfill with a level of acceptable risk. Aggressive policy of such an objective is seeking continually for new opportunities for further revenue growth, great efficiency, and mere effective planning and control. Bank performance must be directed toward specific objectives. Evaluation of any bank's performance should start by evaluating whether it has been able to achieve the objectives its management and stockholders have chosen. Certainly many banks are formulated their own unique objectives. These objectives are growing faster and achieve long-term range to perform minimizing the risk and assured the imaged of a sound banking system.

Financial performance analysis includes income statement, balance sheet and cash flow statement, and retained earnings reflect the overall position of an organization. Financial statement provides valuable information to outsiders and insiders. Ratio analysis is an important tool of scanning the financial statements for the purpose of management performance evaluation & covers entire operational areas of the firm. Management performance should be evaluated from the perspective of productivity, profitability, activity, stability and possibility. Management itself can use these parameters to improve the organizations performance in future. It aims how to know the strengths and weakness for exploiting maximum benefits and to repair the weakness to meet challenges. That’s why the analysis of financial statement is essential to better insights into a firm’s position & performance.

Ratio is the expression of one figure in terms of another. It also expression the relationship between mutually independent figures. It is a simple mathematical explain of the relationship one item with another. Accounting ratios are shown the inter-relationship among various accounting data. Wixom, Kell and Bedford are stress that ratio is an expression of the quantitative relationship between two numerical or quantities relationship between two variables. While determining ratio analysis process it interpreting numerical relationship which was based on financial statements. These relationships are expressed as numerical value. The relationship of one item to another expressed in a simple mathematical form is known as the ratio.

Analysis of financial statements is an interest to lenders, investors, security analysis managers & others. It generally begins with the calculation of a set of financial ratios designed to revealed the relative strengths and weakness of a company as compared to other companies in the same industry, and to show whether the firms position has been improving or deteriorating over time(western &Copland 1991).

Financial analysis is a process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the items of balance sheet, and the profit and loss account (Pandey, 1992).

2.1.7 Financial performance analysis in the framework of Ratio

1- Ratio analysis

The organized summary of detailed information about financial performance and position of a concern is known as financial statement. The financial statements are prepared at the end of accounting period. The purpose of preparing financial statement is for organization and review of the activities of the organization. It includes profit & loss account or income statement & Balance sheet. An income statement shows the net result of the firm operation during an accounting period. It may include manufacturing and trading a/c, profit & loss a/c and profit & loss appropriation a/c. The income statement represents the summary of revenues, expenses and net income or net loss of a firm. It serves as a measure of the firm's profitability.

The amount received in the ordinary course of a business is known as revenue income.

Balance sheet is not an account but it is a statement of assets and liabilities of business format as a given time period. It is a statement summarizing the financial position of a firm. The balance sheet is prepared at the end of accounting period and after completing the preparation of income statement. The balance sheet contains assets & liabilities refer to the financial obligation of an enterprise and assets refer to tangible objects or intangible rights owned by an enterprise and carrying probable future benefits. Assets also are termed as economic resources owned by an enterprise.

A common method for evaluating the soundness of banks is to understand ratio analysis system. This system was designed by regulatory authorities to qualify the performance and the financial condition of the banks which it regulates. Ratio stands for Liquidity, Capital structure or leverage, Activity, Profitability asset management and CAMEL rating.

2- Cash Flow analysis

Cash flow analysis is done through the statement of cash flow. The cash flow statement of company's ability to generate cash from various activities such as operating, investing, & financing and their need of cash. It shows the inflow and outflow of cash and cash equivalent during the years. Cash is the life blood of a business enterprise. So, business enterprise must have an adequate amount of cash to operate it continuously and smoothly. Enterprise needs cash to conduct their operation, to pay their obligation and to provide returns to their investors. I.M pandey concludes that financial analysis is the process of identifying the financial strengths & weakness of a firm by properly establishing relationship between the items of balance sheet and profit and loss account. Management should be particularly interested in knowing the financial strengths of the firm to make their best use and to be able to spot out the financial weakness of the firm to take suitable corrective actions. The future plans of the firm should be laid down in view of the firm's financial strengths and weakness. Therefore, financial analysis is the starting for making plans before using any sophisticated forecasting and budgeting procedures. Users of financial statements can get better insights about the financial strengths and weakness of the firm. If they properly analyze the information reported in these statements. The information contained in these statements is used by management, creditors, investors, and others to Judge about the operating performance and financial position of the firm.

John.J.Hampton says in his book named “financial Decision Making" expresses the financial performance analysis is the process of determining the significant operating and financial characteristics of a firm from accounting data and financial statements. The goal of such analysis is to determine the efficiency and performance of the firm’s management, as reflected in the financial records and reports. The analysis is attempting to measure the firm's liquidity, Profitability and other indicators that business is conducted in rational and orderly way. If a firm does not achieve financial norms and values for its industry or relationship among data that seen reasonable, the analyst note explaining the apparent problems may then be placed upon management.

2.2 Research Review

2.2.1 Review of Articles, Journals and Newspapers:

This is an important part of review literature. While preceding the present study, some articles, newspapers etc. were also reviewed written by different personnel's, academicians. This part shows the indication of performance of related financial institutions to the public and concerned persons. In other words, it tells about how different persons have experienced those financial institutions in their field.

Therefore, it helps to know about those institutions had add knowledge regarding the present study. Considering the fact, the searcher had reviewed some articles, papers which are as follows:-

An article by D.B. Dahal entitled, "Agriculture Development Bank Today and tomorrow" concluded that ADB/N is only such type of financial institution reach is working in remote places of the country. But, other financial institutions have not been able to provide their services in remote areas and enlarge their services. The bank has been continuously using its efforts for providing service in rural sectors. It is familiar as bank which is doing lot efforts by modernizing agriculture sector. It has extended its services in different fields such as viniculture, Horticulture, sugarcane, special crops though it has been assisting in crop cultivation. It has been also playing an important role in production, processing, storage, marketing, management and so on. The bank has been helping to establish rural agro-based and cottage industry by providing loan facility, technical suggestions etc. As a result, the bank contributes to provide employment to many people indirectly in different sectors. It has also been providing a lot of supports to modernize agro-tools i.e. tractor, irrigation machine etc. It has also been engaged to give a lot of supports to the people of terai, hilly region families by providing capital and technical assistance to establish bio-gas plant. It had also started group-based work from 2032 B.S. to increase the capability of technical and management skill for poverty alleviation. So, it is the first bank which has started such a group concept to enhance managerial and technical capacity by grouping deprived section of the society.

Similarly, in their article entitled, "Review of Macro Economic Environment for Agriculture Growth" Dr. Shiva Sharma and Mr. R. K. Sharma concluded that the high and sustainable overall economic growth of a country is the key factor for creating a congenial environment for production, employment generation and poverty alleviation. It should be given emphasis to the agriculture for a country like Nepal where almost 80 percent people are totally lived upon agriculture. Considering the fact, the Agriculture Dev. Bank was established in 1968 to cater to the credit demand of farmers. The Nepal Rastra Bank has also been assisting the ADB/N for the development of agriculture by providing refinance facility. The ADB/N has also engaged itself to mobilize funds and extend resources to the rural sector. With a view to facilitate this process, some ADB/N branches are permitted to conduct banking services in urban and semi-urban centers. And, a large amount of funds thus collected from these urban and semi-urban centers is transferred to the rural areas. In addition to it, ADB/N is also operation Small farmers development project (SFDP) since 1975 to improve the living standard of small farmers living in rural areas through different programs, creating, and awareness regarding the improved techniques and utilizing the resources in the society. The government used to provide subsidized inputs to the farmers in the past relating to chemical fertilizer, irrigation, bio-gas, and solar energy, and small hydro-power, food transport to hills and interest subsidy to micro-farm loan. The rationale of providing subsidies was to encourage farmers, to use modern agriculture inputs and thereby increase agriculture production and productivity. But, due to the liberalization policy, subsidies have been utilized to enhance market competitiveness. As a result, farmers were notable to get benefit from subsidy provided by the government. Rural poor farmers are obtaining from modernizing their farm as they lack liquidity and incentives. Production has not been accelerated due to the lack of adoption of appropriate technology. It has affected the Nepalese agriculture vis-à-vis Indian agriculture. Indian still continues the practice of fixing minimum support and procurement prices whereas Nepal has withdrawn from its. [2003]

In the same way, an article written by D.P. Shah entitled, "for the Continuity of Reform Program" has explained that due to the conflict situation of the country, it has become very difficult to conduct banking activities. The staffs working in their related field have been threatened and sometimes they area being looted by the Maoist. Due to the security problem, not only SFDP but also big branches area being shifted in the center. Many new offices haven't opened due to Nepal banda and other incident happened in the country, many sectors are badly affected and ADB/N can not remain isolated by the situation. To increase the disbursement and to boost up the production according to the climate, market feasibility, entrepreneurship etc. is essential. And, it should be given emphasis to the special type of crops. Though the ADB/N has been performing through SFDP, staffs are reluctant to stay in the village and Maoists are trying to remove SFDP from village. Because of these reasons, donor agencies have been discouraged. [2000]

In his article entitled, "Agriculture Development Bank: Yesterday, Today and Tomorrow" Arjun Bist has revealed that the ADB has contributed a lot to maintain the economic status of people by providing capital and loan to them. For these purpose, it has devoted four decades for the overall agriculture development of the country. Furthermore, it has been making preparations to establish itself as a financial institution to make efficient, competent, and broad and to provide professional service focusing on banking services to the rural areas all over the country as ADB/N. Along with this, Asian Development Bank (ADB) has also planned to establish the bank as financially trustable and efficient in three years. So, the ADB is providing technical assistance to the bank. The ADB is also processing to reconstruct the financial and functional structure considering the welfare of rural people for poverty elimination. The ADB has formed a work-team of experts to act in six technical areas such plan formulation, loan analysis, risk management, bank training management, management information system, test of record and internal record.

The bank has been regarded as the first development bank in the country providing three separate functions such as- development banking, commercial banking and small farmer development program. The main service areas of the bank are as follows:-

To provide resources and necessary facilities for agriculture production.

To provide necessary means for protection, processing and setting of products.

To provide loan for the establishment and operation of agro-based industries.

To project, process and sale the products relating to birds, fish, bees.

The bank has started the commercial banking transaction from 2041B.S. to provide long-term loan in agriculture sector initiating the collection of deposit. Now, there are 47 banking offices all over the country operating their transaction. [2062]

In his article, "Role of ADB/N in Agriculture Development of Tenth Year Plan" written by Ghuran Thakur has stated that the main aim of tenth plan is to reduce poverty from 42 percent to 30percent, increase the literacy up to 70 percent. Along with this, the plan has expected the annual growth rate to be 6.2 percent, to provide drinking water facility to 85percent, make average age to 62 year and provide electricity facility to 55percent of the population. Furthermore, the plan has prioritized the agriculture sector for agriculture development, sustainability management of natural resources and bio-diversity, poverty elimination and for relating research work with agriculture development. For this purpose, it has been declared to celebrate the tenth and eleventh plan as "Agriculture Decade".

The ADB/N has been providing institutional loans through individual institutions to increase the production and productivity of agriculture sector from its establishment for the purpose of improving the living standard of rural farmers and entrepreneurs. It has been assisting as main financial agency in the fields-professionalization of agriculture livestock, fish culture, tea, and coffee, cardamom business, construction of cold storage houses, agriculture mechanization and irrigation. Along with these, the bank has been able to invest more than it was estimated by the agriculture planning for agriculture development i.e. 75 percent of institutional loan. It has helped to increase agriculture production and create the additional employment opportunities for poverty reduction by giving emphasis on chemical fertilizer, high value commodities, irrigation, production, cottage and small industry and agriculture mechanization. [2062]

In his article, "Financial Statement Analysis", N.P. Poudel has explained that balance sheet, profit and loss account and the accompanying notes are the most useful aspect of the bank. The bank's balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Fixed asset accounts from a small portion of the total assets. Financial innovations which are generally contingent in nature are considered as off-balance sheet items. Interest received on loan/advances and investment and paid on deposit liabilities are the major components of profit and loss account. The other sources of income are fee, commission, discount and service charges. According to him, the principle objectives of analyzing financial statements are to identify:-

Financial adaptability (Liquidity)

Financial performance (Profitability) and,

Financial position of the bank (Solvency).

However, the purpose of analysis of the financial statements depends on the needs of the user. The users of the financial statement of a bank need relevant, reliable and comparable information which assists then in evaluating the financial position and performance of the bank and it is also useful them in making economic decisions. Most of the user of financial statement are interested in assessing the bank's overall performance i.e. profitability which is affected by the following factors-

Operating efficiency and internal management system.

Management decisions taken by the top management regarding interest rate, exchange rate, lending policies e.t.c.

Environmental changes [technology, Govt., Competition, economic environment] furthermore, he has pointed the other factors to be considered in analyzing the financial statement of bank i.e, asses the capital adequacy ratio and liquidity position In the line of the norms set by the bank for international settlement (BIS), capital adequacy of a bank is assessed on the basis of risk-weighted assets. It indicates a bank's financial strength and solvency. Banks facing with capital adequacy problem may increase capital or reduce assets or reallocate the existing assets structure in order to maintain the desired level of capital base. [2053]

"Commercial Banks Comparative Performance Evaluation" an article by Dr. M.K. Shrestha stressed on a proper risk management. He believes in the appropriate classification of loans under performing and non-performing category. Again, he writes that adequate provisioning is the surest way to get relief from sinking loan after careful consideration of portfolio risk. A clear-out criteria is necessary to treat interest suspense account and it is advisable that all interested unpaid for more than six months need to be the bank, he has suggested following points-

- ❖ Any Customer having overdue loan of two years or more in his account should not be given other loan facilities.
- ❖ Strong provisioning or reservations are required in restructuring portfolio relating to overdue loan.
- ❖ All credits including overdrafts should be given a maturity date and should be subjected to revision at that date and consequently categorize as good standard or doubtful loans
- ❖ Financial credit-worthiness of the borrower must be evaluated properly before granting the loans.

Furthermore, he clarifies that joint venture banks [J.V.B.] in Nepal are new and comparatively more efficient in operation and having superior performance among local banks. Due to there sophisticate technology, modern banking and skill, JVB are performing better in comparison to local banks. Their better Performance is also due to the burden local banks which are facing the burden of government's branching policy in rural areas and financing public enterprises. Local banks are efficient and expertise in rural sector. But, having number of deficiencies, they have to face growing constraints of socioeconomic political system on one hand spectrum that of issue and challenges JVBs commanding significant banking in other hand spectrum. Similarly, another article, "Monetary policy and Deposit Mobilization in Nepal" written by Mr. B.B. Bajracharya concluded that the mobilization of domestic saving is one of the prime objectives of the monetary policy in Nepal and for this purpose, commercial banks are the vital active financial intermediary for generating resources in the form of deposit of the private sector and providing credit to the investors in different sectors of the economy. [2047]

In the same way, an article on "problems Encountered by the Nepalese Financial System" written by B.R. Dhungana has highlighted the major weakness of the banking sector, mainly of RBB and NBL, and has suggested the reform which these banks need to improve their health. He states that our financial sector is dominated by banking sector and overall banking sector is still dominated by two-fold government-owned banks The two banks constitute the largest components of total deposits and loading of banking system. But, these banks are suffering from various problems which ultimately result towards the unsound financial health of the banking industry of Nepal. He has pointed some major weaknesses of these banks which are as follows:-

- Concentration of loan to limited borrowers.
- Over valuation of goods pledged and land building mortgaged.
- Poor supervision and follow-up after credit disburse men.
- Absence of systematic recording of credit information of borrowers.
- Large number of branches with limited transaction and heavy overheads.
- Negligence in recovery of overdue loans.
- Insufficient recording and book-keeping.
- Insufficient staffs and absence of manpower development and planning.
- Lack of knowledge in examining industrial project viability.
- Less familiarity with the new instrument and innovations.
- Little or no application of modern banking equipments in bank branches.[2053]

Substantial literature exists that develops bank failure-prediction models. Crucial to any such analysis is the identification of those variables that reliably predict future bank failure. Studies adopt a number of different methods, including multiple discriminate analysis, factor analysis, proportional hazard models, and logistic analysis. The studies use variables that reflect asset quality, liquidity, capital adequacy, and management quality. Most studies find that capital adequacy, earning ability, and asset quality, measured by the concentration of certain loan types, help to predict bank failure (Sinkey 1975, Pant alone and platt 1987, Barr and Siems 1993, and Barker and Holdsworth 1993). Barker and Holdsworth (1993) reported that, on average, capital and income slowly deteriorate while past-due loans and charge offs increase as failure approaches. On the other hand, Heyliger and Holdren (1991) discover that asset quality, measured by the ratios of loan loss provisions and net charge offs to total loans, do not provide reliable indicators of bank failure.

Sinkey (1975) notes that bank examiners identify a "substandard" loan component of the net capital ratios as critical to identification of problem banks. In later research, Sinkey (1978) recognized the usefulness of loan default information in utilization of a ratio of provision for loan losses to operating expenses, although he did not find the "substandard" loan component to be significant.

Jackson (1975) conducted a study on commercial bank regulation structure and performance. The study was carried out to identify the determinants of commercial banks allocation efficiency. Both theoretical and empirical microeconomic analysis has applied to examine the examined, showing that banks are essentially financial intermediaries that are engaged in greater competition than is commonly believed. Many theories of the firm as a bank are presented emphasizing efficiency-distorting forces such as liquidity provisions. Almarin Phillip's model of complex interaction between banking firms and other influences on observed performance was used to summarize banking theories.

For the empirical analysis purpose, data were collected by covering 1644 banks over the periods 1969-1971. Regression analysis was used to measure the relationship among variables. As a conclusion, the study showed that, the relatively "desirable" banking performance is associated with several traits including bank asset size, nonblank competition, low cash holdings, low labor cost state non member basic status, multi-bank company legislation, national bank status, low time deposits and low equity capitalization. Demand levels and temporal variations also significantly affect the banking performance. Furthermore, the study showed that the commercial bank regulation, structure and performance are interrelated with each other.

Martin's (1977) study set the standard for discrete-response models of bank failure prediction. Whereas most other research focused on a small sample of banks over two or three years, Martin used all Fed-supervised institutions during a seven year period in the 1970s, yielding over 33,000 observations. In what would become a standard approach, he confronted the data agnostically with 25 financial ratios and ran several different specifications in search of the best fit. He found that capital ratios, liquidity measures, and profitability were the most significant determinants of failure over his sample period. Although Martin did not employ direct measures of asset quality, his indirect measures-provision expenses and loan concentration – also turned out to be significant.

West (1985) development a model to predict bank failure, which differed from the majority of research by utilizing FDIC generated information, rather than data from the financial statements. Some evidence resulted to support the contention that a loan quality factor (i.e; non-performing loans) had predictive value in this context for monitoring problem banks through its choice in a stepwise logic analysis.

Cole and Gunther (1995) provide an examination of several measures to predict bank failure and survival time. Included in their independent variables was one measure of trouble assets. This was defined as a ratio of loans past due by 90 days or more plus non-accrual loans plus other real estate owned assets to gross assets, which is similar to an overall measure of the category of non-performing loans as used in some capital markets research. Cole and Gunther provide evidence that this measure was significant in explaining bank failure and survival time; however, they do not note the classification accuracy of the model developed, nor use the model for prediction. Cole and Gunther (1998) found that new (less than 6 months old) CAMEL rating more accurately predict bank financial distress than financial ratios can, but that financial ratios are better predictors than older (more than 6 months old) CAMEL ratings.

Berger, Davies, and Flannery (1998) apply Granger causality analysis to the leading and lagging relationships between exam rating and the actions of bank stakeholders in financial markets for 184 bank holding companies between 1989 and 1992. They find that lagged movements in BOPEC ratings (the safety and soundness ratings for bank holding companies) explain 1.6 percent of the additional variation in shareholder market variables (i.e., stock returns, changes in insider and institutional shareholding), but explain 4.1 percent of the additional variation in bond ratings. This is not surprising, since the objectives of bank supervisors are more closely aligned with those of bank creditors.

Kolari et al. (2000) developed models and predicted bank failure, where the models initially included three measures of loan default disclosure along with 25 other financial measures. The loan default measures included allowance for loan losses to total assets, net loan charge-offs to total assets and provision for loan losses to total assets. In the final analysis, the allowance for loan losses to total assets was significant in two of the six predictions. As with many other studies, there was a lack of theory for the choice of variables, as stepwise logic was utilized for the decision of inclusion or elimination.

Dziobek, Hobbs, and Marston (2000) analyze the determinants of bank liquidity defined as the degree to which a financial institution is able to meet its obligations under normal business conditions. Volatility in the depositor (and creditor) base depends on the type of depositor, insurance coverage, and maturity. Bank that rely on a narrow or highly volatile funding base are more prone to liquidity squeezes. Household deposits are typically more stable than, for instance, the deposits of institutional investors or corporate entities. Deposit concentration (i.e, fewer larger-size deposits) can also be indicative of volatility. Deposit insurance increases the stability of the deposits it covers, with the important caveat that insurance schemes that are not credible may not have this effect. On the external front, foreign financing for instance through commercial credit lines, and deposits of nonresidents 9either in foreign or domestic currency) can become highly volatile in situations of distress and make the financial system vulnerable to external shocks or adverse developments in the domestic economy. As regards instrument maturity, the longer the time before the liability matures (in terms of remaining maturity), the more stable is the funding, however, in countries where bank are required to meet early withdrawal requests with only minor penalties maturity may be less relevant to determining funding stability.

2.2.2 Review of books

It is another part of review of literature. It is important to review books written by various scholars and writers in their books related to the topic. Some of the books reviewed by the researcher are as follows:-

In the book," Modern Banking ", R.S. Sayers stresses in the economic importance of commercial banks and highlights in the function of 'Creation of money' by bank. According to him, the special interest of economists in the activities of bank is due to the monetary nature of deposit liabilities of the bank. There lies in the community's interest in banks because by their operations, they can affect the monetary situation, in sense of the availability of the purchasing power. This can most readily be understood by reference to the ordinary lending business of the bank. When a bank makes an advance, by allowing a customer to overdraw his account, the bank in effect, exchanges its own promise to pay immediately against the customer's promise to pay- off the advance later on. The economic importance of this exchange is that the bank's promise to pay immediately is absolutely effective purchasing power, which plays an instrumental role in increasing the total demand of the goods and services.

In the same way "Elements of Agricultural Finance" written by G. Kotharia and K. Chandrasekhar an have studied the problems of agricultural finance and have come to the conclusion that in a country like Nepal where very few farmers are hardly educated in using the improved from technology, it is possible that credit may not utilized entirely for the purpose for which it has been granted.

They have also suggested that farm visit is an important part of becoming acquainted with the farmers. It helps the banker to know more fully the difficulty of farmers and will also enable him to analyze the financial position with greater understanding. These visits also help to develop a friendly relationship and create a sense of confidence in the farmer. [1975]

The book named, "Success in Elements of Banking" written by David Cox stresses in three major functions to be performed by the commercial banks which are shown as below.

- To accept and safeguard deposits of money from customers.
- To permit money to be withdraw or transferred from one account to another.
- To lend the surplus of deposited money to suitable customers who wish to borrow.

He believes that the word money is common to all the basic function of the bank. Money according to him can be defined as anything which is generally accepted in the settlement of the department and passes freely from hand to hand.

"Agriculture Development in Nepal" a book written by Y.P. Pant and S.C. Jain has explained that the major problem of agriculture sector is a heavy indebtedness due to the domination of village money lenders who charger very high rate of interest while providing loans, the institutional financing practice in rural areas of Nepal has been quite inadequate and the lending procedure is also suffering from many weaknesses in spite of the fact that agriculture is the main occupation in economic life of Nepal, most of the agricultural producers are still poor and illiterate.[1979]

In addition to above books, another book written by M.P. Aryal named 'Nepalese Banking System" highlights the following characteristics of the commercial banks operating in Nepal.

- Commercial banks, having limited liability are established under the company act 2021 with the approval of the NRB.

- Commercial banks are established with the objective of profit maximization and are managed by its shareholders.
- Commercial banks, except performing primary function of accepting deposits and lending, also deal in foreign exchange and trade finance activities.
- Commercial banks in Nepal are established in government semi-government private and Joint-venture sectors.
- NRB recommends, directs and controls the establishment, operation and dissolutions of all the commercial banks in Nepal.

In his book, "Agricultural Finance in Nepal", K.K. Jha has stated that consumption of loan, high cost of credit, indebtedness, low saving, low productivity, excessive dependence on money lenders and the inadequate provision of institutional credit are the main problems of small farmers. Furthermore, he writes that there is no doubt to say that the farmers borrow loan for agriculture purpose but it has been found that a large part of the borrowed loan is used for family expenditure and only the remaining very little part of it is used of agricultural purpose to improve the productivity resources.[1978]

The book, 'Evaluation of Banking Supervision in Nepal Rastra Bonk" Published by M.K. shrestha has studied certain useful journals on domestic market, banking financial statement analysis and monetary credit situation of Nepal. There has been substantial growth in the number of JVB in Nepal since 1990. The basic reason behind this is the government's deliberate policies of allowing foreign JVB to operate in Nepal. Government's liberalization policy also encourages the traditionally run domestic commercial banks to enhance their efficiency and competitiveness through modernization, mechanization via computerization and prompt computer services by setting them to the exposure of the JVB.[1998]

Similarly, the book, "Financial management: the Theory and Practice" written by Dr. M.K Shrestha had concluded that the bank has sufficient liquidity to meet the claim of depositors (excluding fixed deposits). The bank has a highly geared capital structure and is more depending on borrower funds. The bank has been able to meet the interest on deposits out of its profits. The rate of return on ownership capital is favorable. He further suggests that operational efficiency should be enhanced to achieve its higher profit goal for better performance. [1980]

The author in his book "The Economics of Agriculture", Cohen has identified the need of more capital to the farmers to inner expenditure in producing goods which should be made available to the farmers like all other entrepreneurs. [1968]

"Agriculture development in Nepal" written by P.R Mathema has given much emphasis on need of agricultural credit. He has expressed that the traditional credits system should be replaced by institutional credits system for agricultural improvement in the initial stage of development.[1969]

In his book, "Contemporary Reading in Agriculture Economics", Prof. J.D Black has stated that there should be an adequate provision of credits to farmers which is the there should be an adequate provision of credits to farmers which is the first and foremost requirement to increase the productivity of agriculture sectors. [1995]

Review of Thesis related to the study:

Thesis reviews have also been taken as an internal part for this study. Before this, various researchers regarding the various aspects of commercial banks, such as financial performance, Investment policy Interest rate structure, resources mobilization and capital structure have conducted in the thesis works. Some available previous thesis related to the topic of the study as they contribute to add more information.

M.K. Shrestha in his thesis entitled" Performance Evaluation of ADB/N as a source of Agriculture Credit in Nepal" states that the main problem in agriculture finance but also with other non-monetary factors such as input, lack of technical knowledge and landlessness. The major findings of the study were as follows:-

1. ADB/N had been devised as an instrument for easy accessibility of credit for poor farmers. But, in its operation mainly large and medium farmers have been benefited by its credit. Small and very small farmer have still to depend on traditional sources.
2. Thus, majority numbers of farmers have preferred to approach cooperatives, village moneylenders and friends and relatives for credit. They have given least preference to ADB/N in comparison to these agencies.
3. Outstaying ADB/N Credit is mounting because of weaker recovery situation due to misuse of loan in non-productive use.
4. Non-borrowers both have complained about high interest rates, stringent security rules and difficulties in securing loan in time of need.

Another study was conducted by Kishor Hakuduwal entitled, "Performance analysis of NIDC and ADB ". The main objective of the study was to evaluate the financial performance of the NIDC and ADB/N. Besides, the following were the additional objectives of the study:-

1. To analyze the trend of financial performance of NIDC and ADB/N.
2. To examine, analyze and compare the financial performance of NIDC and ADB/N.
3. To identify the financial strength and weakness of NIDC and ADB/N.
4. To recommend the appropriate suggestion for future improvements. After analyzing the financial performance in NIDC and ADB/N, the following conclusions had been written by him:-
   I. Current Ratios of both development banks are not satisfactory and it is less then conventional rule 2:1. ADB/N has more current ratio than NIDC. ADB/N has more ability to meet its short term obligation than NIDC.
   II. NIDC has not collected deposit from people but ADB/N has. The cash and bank balance to total deposit of ADB/N is in fluctuating trend.
   III. Return on investment ratio of NIDC is in negatively declining trend. It is great challenge to NIDC for improving current trend. But ADB/N has slightly satisfactory investment on profitable assets and it has been able to invest its fund in profitable assets than NIDC.
   IV. Net profit to total asset ratio shows that ADB/N has been efficient in utilization of its overall assets and to achieve better position to earn profit from total asset whereas NIDC has suffered from inefficient utilization of total assets.
   V. NIDC has more than 3.83 times average debt capital financing than shareholders equity in its capital structure. But the average

debt capital financing of ADB/N is more than 3.19 times than SHE.

VI. The ratio of total assets of NIDC is higher than ADB/N. it shows that NIDC had successfully using debt to more profitable assets than ADB/N.

VII. The ADB/N has been to get positive return on SHE but NIDC has negative trend. It indicates that ADB/N has been able to earn satisfactory from its owner but NIDC has great challenges to improve it.

VIII. The major source of revenue of NIDC and ADB/N is interest income. The contribution of interest to total income for NIDC has exceeded 70 percent and ADB/N has exceeded 90 percent.

IX. NIDC has dividend income for ABD/n are bank commission, commitment charge, income from auction and misc. income, The contribution of other income source of ADB/N is less than 5 percent to total income.

X. The major head of expenditure is interest expenses. NIDC has made more expenses on interest than ADB/N.

XI. Other source of expenses of both development banks are staff, office operation and other expenses, ADB/N has more staff expenses than that of NIDC but NIDC has more office operation and other expenses than that of ADB/N.

XII. Regression analysis between cost and revenue of ABD/N shows that every rupee earns Rs. 1.0654 as revenue. So revenue is greater than the cost by Re. 0.654. But revenue of NIDC is less than cost by Re. 0.033, it indicates revenue of ADB/N is strong and NIDC is weak.

XIII. The co-relation between cost and revenue of ADB/N is 0.998. It indicates that the cost and revenue are positively correlated which means when cost increases, revenue also increase and vice-verse. ABD/N has "calculated t-value for the test of significant of correlation coefficient" is more than "tabulated value" it indicates that the cost and revenue are significantly correlated and means that movement of cost affects revenue significantly.

XIV. The NIFC has negative correlation Coefficient between cost and revenue that is 0.0697. It indicates that there is opposite relation between cost and revenue. It means that when cost increase, revenue will be decreased and vice-verse. The "calculated t-value for the test of significance of correlation coefficient" of NIDC is less than "tabulated t-value". So, the cost and revenue are not significantly correlated and means that movement of cost does not affect revenue significantly.

On the basis of study, he had recommended following suggestions to be considered for better financial performance of the organization:

I. Liquidity position of both NIDC and ADB/N is less than theoretical terms. Lower current ratio represents that the liquidity position of both development banks isn't good. The current ratios of both banks are not satisfactory as it is below the standard level i.e. 2:1, so, both banks are suggested to improve the current ratio.

II. The cash and bank balance to total deposit ratio of ADB/N is not satisfactory. So, it is suggested that it should undertake the step to increase their cash and cash balance to total deposit for ensuring the liquidity position.

III. NIDC has negative return on investment. So, it is suggested to invest in profitable assets to improve current situation.

IV. Return on SHE of NIDC is also negative. So, it is suggested to improve current situation by efficient operation.

V. The major head of expenses of ADB/N and NIDC is interest expenses. So they are suggested to invest the deposit and borrowings in profitable sectors to pay interest.
VI. The staff expenses of ADB/N is high. So it is suggested to reduce staff expenses or to utilize available human resources properly to increase revenue.
VII. The revenue of NIDC is less than cost by 0.033 in this situation, it can't make profit. Therefore, it is suggested to improve the current situation by controlling cost.
VIII. NIDC has negative correlation coefficient between cost and revenue. It indicates that when cost increases, revenue will be decreased. So, it is suggested to reduce cost to get more revenue.
IX. NIDC has been suffering loss from fiscal year 2054/055. So it is suggested to improve current loss situation by controlling cost and effective utilization of collection procedure of loan and interest on loan.
X. Both development banks have suffered government and political intervention. Most of temporary are appointed on the basis of political ideology. They do not work efficiently as the goals and objectives of the bank. So, they do not work efficiently as the goals and objectives of the bank. So, they are suggested to controlling such type of appointment of staffs.
XI. Monitoring, evaluating and controlling mechanism of the both banks are not good. So, they are suggested to manage good leadership and participative management for effective monitoring, evaluating and controlling.
XII. Both development banks are suggested to pay attention to reduce their operating expenses to maximize their operating profit.

XIII. Both development banks are suggested to invest in profitable sectors as well as agricultural and industrial with priority.

In the same way, Mr. D. K. Shrestha in his thesis entitled "Analysis of financial performance of ADB\N” tried to examine the revenue and expenditure position, deposit collection and mobilization of ADB\N. He concluded that the major source of revenue is interest on loan and major head of expenditure is interest on deposit. The bank has over staffing and it increases in doubtful debt account problem. The loan procedure requires that customers have to go through lengthy and complex process to get loan. So, he recommended to the ADB\N to remove unnecessary legal formalities for getting opportunities by managing over staffing and take steps to reduce its interest receivable immediately.

CHAPTER-III

RESEARCH METHODOLOGY

Research Methodology is an important chapter of the study. Generally, the word's "Research" is made from two word "re" and "search". The word' refers to do something again and 'search' means to look for something. Hence, research means to look for something again.

"Research means to research the problems again and again to find out something more about the problems."78 (kothari 1996)

According to Karlinger, "Research methodology means how the research objectives will be reached and how the problems encountered in the research will be tackled."

"Research methodology refers the various steps that are adopted by a researcher in studying the research problem along with the logic behind it. Thus, the research methodology is a way to systematically analyze so that we can solve the research problems."79 (Wolf Howarkk&premR.pant1999)

Research methodology refers the systematic and organized procedures and process applied to investigate the problem in entire study. It includes various sequential steps of gathering, recording, analyzing and interpreting the data that should be considered by a researcher in studying the problems for specified objective. Therefore, research is conducted not only to solve the existing problem but also to add or contribute to the general body of knowledge in a particular area of interest to the researcher.

The present study includes the methodology utilized for research work to achieve the desired objectives. The prime objective of the study is to analyze and evaluate the financial strength and weakness of bank of Kathmandu L.t.d. providing suggestive guidelines for improvement. Methodologies in the research work are used to test the hypothesis, analysis and interpretation of data acquired from the bank. Tables and figures are used with a view for systematic data collection and data interpretation. The statistical tools and financial tools have been used as well. Hence, it represents basically the descriptive and analytical analysis of the relevant information and data. This chapter includes research design, Justification for the selection study unit, nature and sources of data. Methods of data collection, data analysis tools and limitation of study.

3.1 Research Design

Research design refers the overall framework or plan for conducting the research work. It is a blueprint for the collection, measurement and analysis of data.

Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance. In other words, research design is the conceptual framework created by the researcher within which the researcher will make conclusion and will obtain the answer to the research questions. It is a plan for the collection of variables for research purpose. At the same time, research design can be used as a structure, more specific than plan that explains how the research objectives will be achieved and how the problems encountered in the research will be tackled. In reality, research design is the strategy of conducting research work in an organized approach.80 (Karlinger, F.N1986)

"A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure."81(Selltiz Claire & others1962)

Research design is the most important aspect of any research work. Basically, research design has two purposes. The first purpose is to answer the research questions or test the research hypothesis. The second purpose of a research design is to control variance. The research design followed in this study is descriptive as well as analytical. It will describe the
Financial situation of Bank of kathmandu for the period of five years from 2060-2064.The present study tries to explore the true financial performance of sampled institution i.e. Bank of Kathmandu L.T.D.

Generally, research design refers the definite procedures and techniques that provide way for doing research. It includes nature of data, specification of the method of the proposed study and detailed plan for carrying out the study for the analysis of problem.

Research Variables

Research variables of the study are as follows:-

1. Capital employed.
2. Capacity utilization of profit and loss.
3. Total assets.
4. Size of current assets and current liabilities.

5. Total debt.
6. Volume of deposit and loan disbursement of customers.
7. Operating expenses.
8. Interest expenses.
9. Cash flow of short-term and long-term analysis.
10. Working and economic environment of the bank.

3.2 Population and Samples:

The word population refers to the entire group of people, events or things that have been chosen for the purpose of study. It can be also said universe that includes any well-defined class of people, events or objects.

On the other hand, a sample is only a portion or subset of the universe or population. In other hands, a sample includes some observations selected from the population. It is a representative of the total population.

The present study is related to the financial performance of BOK Limited operating in Nepal. At present, there are twenty commercial banks licensed by Nepal Rastra Bank conducting transactions in the country.

a) Non-random sampling/Non-Profitability sampling:-

In this type of sampling design, all items or elements in the universe do not have equal chance of being selected. This sampling technique is applied when the number of elements in the population is either unknown or can not be usually identified. In this sampling design, the subjects includes in the sample are collected from the sampling frame without their probability of occurrence. The limitation of this sampling technique is that the decision is followed by personal convenience or judgments of the researcher. Therefore, there is probability of bias in this technique.

b) Random Sampling/Probability Sampling:-

If each item or element in the universe has equal chance of being selection, then, random sampling design is applied. In this sampling technique, the probability of selecting an item is known. At the same time, the subjects includes in the sample are selected from the sampling frame with their known probability of occurrences.

Population and Sample size

S.n.	Name of Bank
1.	Nepal Bank Limited
2.	Rastriya Banijya Bank
3.	NABIL Bank Limited
4.	Nepal Investment Bank Limited
5.	Standard Chartered Bank Nepal Limited
6.	Himalayan Bank Limited
7.	Nepal SBI Bank Limited
8.	Nepal Bangladesh Bank Limited
9.	Everest Bank Limited
10.	Bank of Kathmandu Limited
11.	Nepal credit and commerce Bank Limited
12.	Limbuni Bank Limited
13.	Nepal Industrial &commercial Bank Limited
14.	Machhapuchhre Bank Limited
15.	Kumari Bank Limited
16.	Laxmi Bank Limited
17.	Siiddhartha Bank Limited
18.	Agriculture Development Bank Limited
19.	Global Bank Limited
20.	Citizen Bank Limited

The sample institution for the study is taken to BOK L.td. The researcher had used convenience sampling method for the study.

3.3 Sources of Data

There are two types of data. They are:-

1. Primary Data
2. Secondary Data

The data which are collected by the researcher himself or herself in the original form is known as primary data. But, if the data are collected in the form of published or unpublished sources complied by other parties is known as secondary data.

The data collected from primary sources may not be adequate or needed material may not be available. In some cases, information requirements cannot be satisfied from secondary sources. Therefore, it may be time consuming and insufficient too. Considering this fact, data are acquired from secondary sources. Primary data have not been previously collected or assembled for any other known project and they are in unorganized form. But, secondary data are acquired from unpublished source such as reports, records or statistics and published source refers the studies carried out by governmental and non-governmental agencies in different titles.

In the course of the study, basically secondary data have been used i.e. financial statement and annual reports and others official records of Bank of Kathmandu L.t.d. Besides these, some well-known magazines and other available empirical studies have been reviewed in this study. In addition to it, the study also incorporates the views, opinions and clarification received from the officials of the bank wherever necessary.

3.4 Data processing Procedure:

The data collected by the researcher may be in raw form. Therefore, those data are converted / transformed into the form that gives some meaning and can be understood to fulfill the research objectives. Hence, data processing procedure indicates the process of changing the assembled or acquired data so as to get information for further analysis. The information obtained from secondary data will be presented in an appropriate tabular form and will be analyzed.

3.4 Data Analysis Tools:-

The next step after converting the unprocessed data into meaningful form is to analyze the data by using different statistical and financial tools. In other words, method of analysis is applied as simple as possible. The main purpose of the analysis is to obtain answers to research questions to exhibit the true financial performance of the Bank of Kathmandu. For this purpose, data obtained from financial account, the records and interviews, balance sheet, profit and loss account and income statement of the bank have been used. The methods of analysis employed in the present study consist of following types of analytical methods.

Ratio Analysis

Ratio analysis is one of the widely-used techniques of financial analysis. A ratio indicates the relationship between two interrelated accounting figures of financial statements. It shows the numerical or arithmetical relationship between the two figures. A ratio is a statistical yardstick that provides a measure of the relationship between variable and figures. Ratio analysis is the process of determining and interpreting numerical relationship based on financial statements. It is one of the key financial ratios where the financial ratios are used for assessing the financial performance and position of the company. A ratio helps the analyst to make quantitative judgment about the firm's position and performance. In other words, ratio analysis is defined as the systematic use of ratio to interpret the financial statements so that strength and weakness of firm can be determined. The financial statements like balance sheet, profit and loss account and income statement are used to calculate ratio analysis. In addition to this, ratio analysis also reflects the operating and financial characteristics of a firm from accounting data and financial statements. Ratio analysis helps to evaluate or compare the performance of a firm within itself, with another firm and within the industry by comparing ratios. The present ratios of a firm cam compare its ratios with other firms at the same point of time. Another way to evaluate the performance of a firm is to compare ratios within the industry of which the firm is a member.

Different authors have classified financial ratios under various categories. The classified major financial ratios are as following:-

1. Liquidity ratio
2. Asset management or efficiency ratio
3. Debt management or Leverage ratio
4. Profitability ratio

1. Liquidity Ratio:

The word "liquidity" refers the ability of a firm to meet current obligations. And, liquidity ratio measures the ability of a firm to meet its short-time obligations and reflects the short-term financial strength/solvency of a firm. In fact, liquidity is a pre-equity for the survival of a firm. The consequence of inadequate liquidity will result in bad credit rating, loss of creditor's confidence, or even in law suits resulting in the closure of company. On the other hand, a very high degree of liquidity is also bad; idle assets earn nothing. The firm may be unnecessarily tied up in current assets. Therefore, it is important to measure liquidity position of a firm for long-term survival and growth of firm. Some of the popular liquidity ratios are as follows:

a. **Current Ratio**:-

It is one of frequently used liquidity ratio. It indicates the extent to which current assets are sufficient to pay current liabilities. It is calculated by dividing the current assets by current liabilities. It shows the rupees of current assets available for each rupee of current liabilities. By formula-

$$CR = \frac{CA}{CL}$$

Where, CR= Current ratio

CA= Current assets i.e. cash and bank balance, marketable securities, inventory, prepaid expenses, bills receivable, debtors, outstanding incomes.

CL= Current liabilities i.e. Creditors, bills payable, bank credit, outstanding expenses, accrued expenses, income tax liability.

The standard for current ratio is regarded as 2:1. Higher current ratio indicates that the firm is in liquid and has ability to pay its current obligation in time as and when they become due as well as the greater safety of funds of short-term creditors. On other hand, lower current ratio represents that the liquidity position of the firm is not sound and the firm will face difficulty in paying its short-term obligations in time. The current ratio represents a margin of safety i.e. a "cushion" of protection for creditors. However, an arbitrary standard of 2:1 current ratio should not be blindly followed. It is because the current ratio is a 'test of quantity' not quality. It does not measure the quality of assets. Therefore, it should not be taken decision considering the current ratio only. However, the current ratio is a 'crude and quick' measure of the firm's liquidity.

b. **Quick Ratio**:-

A modified version of current ratio known as second measure of firm's liquidity is the acid test or quick ratio. It is often referred to as quick ratio because it is a measurement of a firm's ability to convert its current assets quickly into cash in order to meet its current liabilities. So, it is a measure of quick or acid liquidity. The quick ratio is found out by dividing the total of the quick assets by total current liabilities. Quick ratio is also known as "Liquidity Ratio."

$$\text{By formula, QR} = \frac{QA}{CL}$$

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

$$= \frac{\text{Current Assets – Inventory – prepaid expenses}}{\text{Current Liabilities}}$$

Where, Quick Assets = All current assets except inventory and prepaid expenses.

A rupee of cash is considered equivalent to a rupee of inventory or receivable. But, it is not always so, a rupee of cash is more readily available (i.e. more liquid) to meet current obligations than a rupee of, say, inventory.

The standard for quick ratio is considered to be 1.1 as satisfactory level. It is very useful to measure the liquidity position of a firm. The standard level for quick ratio may not represent sound liquidity position or satisfactory financial condition. It is because a low ratio doesn't necessarily emply bad liquidity position. Similarly, a company with a high value of quick ratio can flounder if it has slow-paying, doubtful and stretched out in age receivables (book debts). Along with this, a company with a low value of quick ratio may really be prospering and paying its current obligations in time, if it has been managing its inventories very efficiently with a continuous salability.

c. Asset Management Ratio:-

Asset management ratio measure the efficiency of a firm in utilizing its assets. In other words, it shows how effectively the firm is managing/utilizing its assets. It indicates the relationship between interest and earned and various assets of a firm. The asset management ratio is also called "Turnover Ratio" as indicates the speed with assets are being converted or turned over into sales. A very efficient firm is one that utilizes its investment asset to generate the largest possible level of interest revenue. Some of the important types of asset management ratios are as follows:-

a) Inventory Turnover Ratio:-

The inventory turnover ratio indicates the efficiency of managing the firm's inventory. It measures how quickly the inventory is sold. This ratio explains the number of times inventory or stock is replaced during the year. Here, by formula,

$$\text{Inventory Turnover Ratio} = \frac{\text{Sales}}{\text{Closing/Ending Inventory}}$$

This ratio measures the velocity of conversion of stock into interest revenue. A high stock turnover ratio reflects the efficient management of inventory because more frequently the stocks are sold; the less amount of capital is required to finance the inventory.

b) Receivable Turnover Ratio

General measure of the productivity of the receivable investment is calculated by this ratio. It shows the number of times the firm collects its account receivable per year. This ratio indicates how quickly another current asset i.e. receivable or debtors is converted into cash. In other words, this ratio is a test of the liquidity of the debtors of a firm.

By Formula,

$$\text{Debtors Turnover Ratio} = \frac{\text{Total Interest Revenue}}{\text{Debtors (Ending/Closing)}}$$

Where, Total Interest Revenue = Total Interest Earned from loan and advances.

The higher the value of its turnover, the more efficient is the management of debtors or more liquid the debtors.

c) **Days Sales Outstanding**:-

It is also called "Average Collection Period" that is used to appraise account receivables. It shows the number of days that sales are tied up in receivables. This ratio is interrelated with receivable turnover ratio. The formula for computing day's sales outstanding is as below:-

$$\text{Days Sales Outstanding} = \frac{\text{Days/Months in a year}}{\text{Debtors Turnover Ratio}}$$

$$\text{Or, DSO} = \frac{360}{\text{Debtors Turnover Ratio}}$$

A long collecting period reflects an inefficient credit and collection performance. On other hand, low collection period a restrictive credit and collection policy. Therefore, the average collection period should be compared against the firm's credit terms and policy to judge its credit and collection efficiency. Generally, shorter ratio is considered to be better.

One of the important method of measuring the quality of debtors is 'Aging Schedule'. The aging schedule breaks down debtors according to the length of time for which they have been outstanding. The usefulness of the aging schedule is that it enables the analyst to identify the slow-paying debtors in respect of whom the firm may have to encounter a serious collection problem. Aging schedule gives more information than the collection period.

d) Fixed Assets Turnover Ratio:-

It measures the efficiency with which the firm is utilizing its investment in fixed assets such as land and building, plant and machinery, furniture etc. It also indicates the adequacy of sales in relation to the investment in fixed assets.
The fixed assets turnover ratio is sales divided by net fixed assets i.e. depreciated value of fixed assets which can be shown as below:-

$$\text{Fixed Assets Turnover Ratio} = \frac{\text{Total Interest Income}}{\text{Fixed Assets (Net)}}$$

Where, Net Fixed Assets = Fixed Assets – Depreciation
= Depreciated value of fixed asset.
A higher ratio indicates efficient utilization of fixed asset in generating sales and better business performance whereas lower ratio inefficient management and utilization of fixed assets.

e) Total Asset Turnover Ratio:-

It measures the efficiency of a firm to manage its total assets efficiently to generate maximum sales through their proper utilization. It indicates the sales generated per rupee of investment in total assets. The total asset turnover ratio is calculated dividing sales by total assets of the firm. By Formula,

$$\text{Total Assets Turnover Ratio} = \frac{\text{Total Interest Income}}{\text{Total Assets}}$$

Where, Total Assets = current assets, long-term and fixed assets, intangible assets.

The amount of total assets can be determined as below:-

Total amount of assets side of balance sheet = xxx
Less: Total amount of fictitious assets = xxx
Total assets: = xxx

Here, fictitious assets refer the assets like deferred expenditure, debit balance of profit and loss account etc.

Higher assets turnover ratio indicates the proper utilization of assets of the firm and vice-versa. One considerable matter is that older assets with a lower book value may create a misleading impression of higher turnover.

3) Debt Management Ratio:-

It is also known as "Leverage Ratio", "Solvency Ratio" or "Capital structure Ratio." The long-term solvency of a firm can be examined by using leverage or capital structure ratio. There should be an appropriate mix of debt and owner's equity in financing the firm's assets. The ratios calculate the extent to which a bank relies on debt. Other things being equal, a high leverage ratio indicates a riskier bank because the interest payment on debt is fixed even if the earnings of the bank fluctuate. Debt management has following implications:-

- By raising funds through debt, the owners can maintain control of the firm with a limited investment.
- Creditors look to the equity or owner's supplied funds to provide a margin of safety.
- Return on owner's equity is magnified.

Higher debt ratio indicates the more claim of outsiders on a firm's assets which arises risk to shareholders. It is because shareholders' claim on assets declines due to the use of higher proportion of debt. In case of any disability to pay the debt, debt holder can liquidate the firm.

On the other hand, higher debt helps to increase profit due to the lower cost of financing as well as tax-shield on interest expenses.
Debt management ratios have been classified as below:-

a) Debt to Equity Ratio:-

It is an important tool of financial analysis to appraise the financial structure of a firm. It reflects the relative claims of creditors and shareholders against the asset of the firm. In other words, it shows the relative contribution of creditors and owner's of business in its financing. It has important implications from the view point of the creditors, owners and the firm itself. The debt to equity ratio can be computed in the following way:-

$$\text{Debt to Equity Ratio} = \frac{\text{Long-term Debt}}{\text{Shareholders Equity}}$$

$$\text{Or D/E ratio} = \frac{\text{Ltd}}{\text{SHE}}$$

Where, Ltd = Long-term debentures
SHE = Shareholders Equity or Net Worth

= (Equity + Preference Share Capital + Share Premium + Reserve and Surplus)
= Total Assets – Total liabilities

This ratio is also called "Debt to Net Worth" ratio. A higher ratio shows that the claims of creditors are greater than those of owners. The higher ratio is unfavorable from the firm's point of view. It would lead to inflexibility in the operation of the firm, firm would have to face a heavy burden of interest payment and encounter serious difficulties in raising funds in future. It would be riskier to the creditors.

b) Total Debt to Total Assets Ratio:-

It is another measuring tool of capital structure ratio. It measures the shares of the total assets financed by outside funds. The total debt of the firm comprises long-term debt plus current liabilities. Similarly, total assets consist of permanent by dividing total debt by total assets. By Formula,

$$\text{Total Debt to Total Assets Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

$$\text{Or, TD/TA Ratio} = \frac{\text{TD}}{\text{TA}}$$

Where, Total Debt = Long-term debt + Current liabilities
Total Asset = permanent capital +current + Liabilities

A low ratio of debt to total asset is desirable from the point of the creditors as there is sufficient margin of safety available to them. A low ratio represents security to creditors. On the other hand, a firm with a very high ratio would expose the creditors and also the shareholders to higher risk. In conclusion, a firm should have neither a very high ratio nor a very low ratio.

c) **Interest Coverage Ratio or Times – Interest Earned Ratio**:-

It measures the debt-servicing capacity of a firm. It shows how many times the interest-charge is covered by EBIT or funds that are ordinarily available to pay the interest charges. In other words, it shows the proportion of interest to the operating profit (EBIT). It is calculated by dividing operating profit or earning before interest the fixed interest charges on loans.

Interest Coverage Ratio/Times Interest Earned Ratio

$$= \frac{\text{Net Profit before Interest \& Taxes}}{\text{Interest}}$$

$$= \frac{EBIT}{I}$$

Generally, higher interest-coverage ratio is favorable. A high ratio indicates the ability of the firm to handle fixed charge liabilities. On the other hand, a low ratio is a danger signal. It states that the firm should make effort to improve the operating efficiency or to retire debt. For example, the interest coverage ratio of 5 times indicates that the firm can still pay its interest in case of any decline in profit from one hundred percent to twenty percent (i.e.1/5).

4) Profitability Ratio:-

These types of ratios are used as an overall measure of the operating efficiency of the firm's investment management. In other words, the profitability of a firm can be measured by its profitability ratios. Unlike creditors, owners and management or the company it self are also interested in the financial soundness of a firm. At one hand, shareholders or owners except reasonable return on their investment and on the other hand, management desires to operate the company providing adequate return to its shareholders. Similarly, creditors want to get interest regularly and return of principal at maturity. Therefore, financial manager should continuously evaluate the efficiency of its company in terms of profits. The profitability of the company should also be evaluated in terms of the firm's investment in assets and in terms of capital contributed by creditors and owners. Profitability is the net result of a large number of policies and decisions. In fact, sufficient profit must be earned to sustain the operation of the business, to be able obtain funds from investor for expansion and to contribute toward the social overheads for the welfare of the society. A contribute toward the social overheads for the welfare of the society. A company should earn profits to survive and grow over a long period of time. Some important profitability ratios are as follows:-

a) Gross Profit Margin:-

One of the most commonly used ratio in operational analysis is the calculation of gross profit as a percentage of sales i.e. interest earned in the present study. A firm should have a reasonable gross margin to ensure adequate coverage for operating expenses of the firm and sufficient return to the owners of the business. It is also known as "Gross Margin". It expresses the relationship between gross profit and sales. The ratio can be computed in the following way:-

$$\text{Gross profit Margin} = \frac{\text{Gross profit}}{\text{Total Interest Income}} \times 100$$

Where, Gross profit = (sales- Cost of good sold)

A high ratio of gross profit to sales is a sign of good management as it implies that the cost of production of the firm is relatively low. On the other hand, a relatively low gross margin is a danger signal for firm. It needs a careful and detailed analysis of the factors responsible for it. The causes of low ratio are as follows:-

- High cost of production
- Inefficient utilization of current as well as fixed assets,
- A low selling price resulting from severe competition, inferior quality of the product, lack of demand etc.
- Over-investment in assets.

For these reasons, the financial manager must be able to detect the causes of failing gross margin in and initiate action to improve the situation.

d) Net Profit Margin:-

It measures the overall profitability of the firm by establishing the relationship between net profit and sales of a firm. The relation between net profit and sales indicates management's ability to operate the business with sufficient success not only to recover the cost of production, operating expenses of business and cost of borrowed funds, but also to leave a margin of reasonable compensation to the owners for providing their capital risk.

The ratio is an overall measure of the firm's ability to turn each rupee of sales into net profits. It also indicates the firm's capacity to withstand adverse economic conditions. It is calculated by dividing net profit after tax and interest by sales.

$$\text{Net Profit Margin} = \frac{\text{Net profit after tax}}{\text{Total Interest Income}} \times 100$$

It indicates the margin of compensation left to the owner for providing their capital after all expenses have been met. A firm with a high net margin ratio would be in an advantageous position to survive in the situation of rising cost of production, failing sales prices or declining demand for the product. In other words, the firm can make better use of favorable condition such as rising sales price, failing cost of production or increasing demand for the product.

C) Return on assets:-

It is another useful measure of the profitability of the assets. This ratio shows the relationship between net profit and assets. So, this ratio can also be called "profit to Assets Ratio". It is computed as dividing the net profit after tax by total assets.

$$\text{Return on Assets} = \frac{\text{Net profit after tax}}{\text{Total assets}}$$

Or, ROA = …………%

Where, TA = (FA+ CA)

This ratio judges the effectiveness in using total fund supplied by the owners and creditors. Higher ratio indicates higher return on the assets used in the business and effective use of the resources available and vice – versa.

e) Return on Equity:-

It is an important ratio to judge whether a firm has earned a satisfactory return for its equity holders/owners or not. In other words, a return on all shareholders equity is calculated to see the profitableness of the owners' investment. As the shareholders are the residual and real owners of the company, the performance of its operation is judged on the basis of return earned on common equity. The return on shareholders' equity is net profit after tax and after preference dividend divided by the common shareholders' equity. By formula,

$$\text{Return on Equity} = \frac{(\text{Net profit after tax - Preference dividend})}{\text{Shareholder's equity}}$$

Or, ROE = $\frac{\text{NPAT-PD}}{\text{SHE}}$

Where, SHE = shareholder's equity or Net worth

= Common share capital + pref. share capital + share premium + Reserve and Surplus – Accumulated losses,

PD = Dividend paid to preference shareholders.

This ratio indicates how well the firm has used the resources of the owners. The earning of a satisfactory return is the most desirable objective of a business. This ratio has great importance to present as well as prospective shareholders and also of great concern to management.

a. Return on capital Employed:-

The return on capital employed indicates how well the management has used the funds supplied by creditors and owners. It shows the relationship between capitals employed and net profit after tax.

Return on capital employed = $\frac{\text{Net Profit after Tax}}{\text{Capital Employed}}$

Or

ROCE = $\frac{\text{NPAT}}{\text{CE}}$

Where, CE = Capital Employed

= Permanent Capital - Non-current liabilities + Shareholder equity

= Working capital + Non-current assets

= CA-CL + Net FA

= Equity + Preference share capital + Reserve + R/E + Profit and Loss a/c (CR) + share premium + other undistributed Profit + debenture + Bond + Ltd. + P/L appropriation a/c – Investment on government securities, fictitious assets i.e., preliminary expenses – profit and Loss a/c (Dr) discount.

The higher the ratio, the more efficient the firm is in using funds and vice-versa. It shows how efficiently the management has used the available resources supplied by owners and creditors.

f) Market value Ratio:-

These ratios relate to firm's stock price to its earning and book value per share. These ratios gives management and indication of what investor think of the company's past performance and future prospects.

I) Earning per share:-

It measures the profit available to the equity holder on a per share basis i.e. the amount that they can get on every share held. It is computed by dividing the profit after preference dividend available to the shareholders by the member of the outstanding shares. By formula-

$$\text{Earning per share} = \frac{\text{Net profit after tax – pref. dividend}}{\text{No. of share outstanding}}$$

$$\text{Or, EPS} = \frac{\text{NPAT-PD}}{\text{N}}$$

The EPS shows the profitability of the firm on a per share basis; it doesn't reflect how much is paid as dividend and how much is retained in the business. But as a profitability index, it is a valuable and widely-used ratio. In general, higher the figure is considered as best. While calculating the EPS, retained earnings shouldn't be considered i.e. only the earnings of the year should be included.

II) Dividend per share:-

The net profit after interest, tax and preference dividend belongs to ordinary shareholders. The EPS represents what the owners are theoretically entitled to receive from the firm. Apart from the net profits belonging to them, is retained in the business and the balance is paid to them as dividend. The dividend paid to the shareholders on a per share basis is the DPS. The amount of earning distributed and paid as cash dividend is considered for calculating the dividend per share. It is not necessary that dividend per share should be equal with earning per share. It is computed by dividing the amount of dividend distributed to shareholders by the number of common shares outstanding. By formula,

$$\text{Dividend Per share} = \frac{\text{Earning Paid to shareholders}}{\text{No. of common shares outstanding}}$$

$$\text{Or, DPS} = \frac{\text{Net Profit after Interest, Preference Dividend and Tax}}{\text{No. of common Shares outstanding}}$$

Generally, the higher figure is considered to be better from the view point of common shareholders. The DPS would be a better indicator than EPS. It is because a large number of present and potential investors are more interested in the dividend per share than the earning per share.

g) DU PONT IDENTITY

The Du pont chart was developed by the "Du pont company" of the USA. This chart shows the combined effect of net profit margin and the asset turnover. The company developed a famous way of decomposing ROE into its component parts. As above explained, the two measure of profitability, ROA and ROE are the reflection of the use of debt financing or financing leverage. The Du pont Identity states that ROE is affected by three things:-

- Operating efficiency as measured by profit margin.
- Asset-use efficiency as measured by total assets turnover ratio.
- Financial leverage as measured by equity multiplier.

Return on Asset (ROA) = Profit Margin x Total Assets Turnover Ratio………(i)
Again,
Return on Equity (ROE) = Return on Assets x Equity Multiplier……….(ii)

Users of Ratio Analysis:-

Ratio analysis has been regarded as an important and widely-used tool of financial analysis. Different parties are benefited by the use of ratio analysis as it serves to them from different point of view i.e. liquidity, profitability, solvency, operating efficiency e.t.c. In addition to it, ratio analysis helps to determine a particular characteristics of the firm in which they are interested. The ratio analysis is performed from the following concerned parties of firm:-

- Owners or shareholders
- Investors or creditors
- Management committee
- Employees
- Consumers
- Government

Limitation:-

All of these ratios are meaningful only in conjunctions with a bank's past performance or in comparison with other banks. Also, none of these measures has a "correct" value. For example, it might seem that a higher debt to asset ratio is always better. After all, the higher the ratio, the greater the return on equity of the bank, according to Du Pont Equation. However, managing a firm to ensure a high debt to asset ratio may lead to an increased risk of default. Similarly, any bank's liquidity can be improved by taking out a long term loan right before the end of the fiscal year and repay it at beginning of the next one. If the funds from the loan are kept in the form of vault case, then the bank will appear to be very liquid. So, the ratios should be viewed as part of a whole not just in isolation.

Trend Analysis:-

Trend analysis is significant tool of horizontal financial analysis. It indicates the direction of change or movement i.e. whether the movement is favorable or unfavorable. It enables a firm to make the time dimension into account. It is one of the useful tools in making a comparative study of the financial statements of the number of years. It helps to identify the change in an item or in a group of items over a period of time and to draw conclusion regarding the changes thereon. Furthermore, it helps to identify the controllable items of the given period and make forecast for future to an ongoing concern.

Trend analysis states the favorable or unfavorable situation of a business by analyzing the different items of given period. As a result, it can be known that whether the financial position of a firm is improving or deteriorating over the years. Therefore, trend analysis provides guideline regarding the operation of a firm in different years.

Cash Flow Analysis

Cash is regarded as an economic fuel for the successful operation of any business firm. No business activities can be forwarded in the absence of cash. Hence, cash is the life-blood of any business firms or institutions.

Cash flow statement is prepared through the statement of cash flow. A cash flow statement is a statement of firm's ability to generate cash from various activities such as operating, investing and financing. In addition to it, it shows the cash inflows and outflows of firm during a period. Information about cash flow is useful in assessing its liquidity, financing flexibility, profitability and risk. Cash flow information is widely used by investors, analysts, creditors, managers and others.

Cash flow statement provides those types of information which are not covered by income statement and balance sheet. It measures the changes that have been taken place in the financial position of firm.

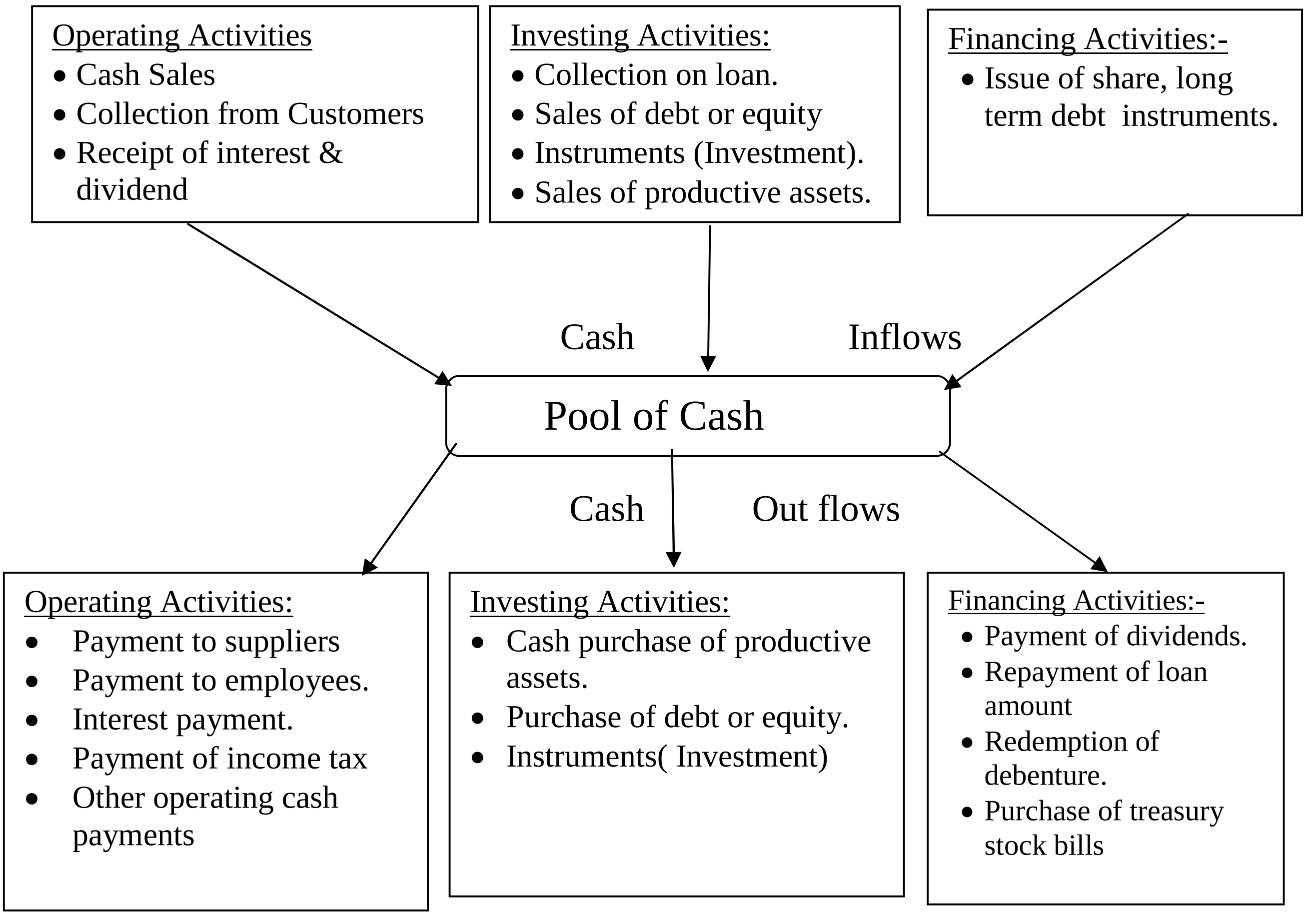
The analysis of the events and transactions that affect the cash position of the firm is known as cash flow analysis. Therefore, decision-maker must pay attention to these events and transaction that cause position to change.

Cash flow statement is prepared by taking the opening balance of cash adding all the inflows of cash and deducting all the inflow of cash from total. While calculating operating profits for cash flow statement, adjustments for prepaid and outstanding expenses and income are made to convert the data from accrual basis to cash basis.

The starting of cash flow statement was begun in United States from 1988. Later on, British Companies also made necessary to publish cash flow information in the beginning of 1992. Afterwards, many other countries such as New Zealand, Australia and South Africa also started to prepare statement. In 1992, the International Accounting Standard Committee issued an accounting standard on cash flow statement. Nepal Company Act 2053 B.S. also made mandatory to present cash flows statement along with balance sheet and income statement. So, every enterprise should prepare a cash flow statement as an integral part of its financial statements for each period for which financial statements are prepared.

It also helps to prepare cash budget for the specific period and make plans and policies for taking decisions.

Cash flow from different activities can be presented as below:-



Arithmetic Mean

Arithmetic mean is the most popular and widely-used measure of central tendency. It is also called simply "the mean." Arithmetic mean of a given set of observations is calculated by dividing the sum of the observations by the total number of observations. It is denoted by $\bar{X}$ "(x-bar). If $x_1 + x_2 +$ …………….x_n are the given n observations, then their arithmetic mean is computed as below:-

$$\text{Arithmetic Mean } (\bar{X}) = \frac{x_1 + x_2 + \ldots\ldots x_n}{N}$$

$$= \frac{\sum fx}{N}$$

Where, x = variables

n = Number of observations

$\sum X$ = the sum of observations.

Arithmetic mean may either be:-

1. Simple arithmetic mean or,

2. Weighted arithmetic mean.

Standard Deviation:
The standard deviation is defined as the positive square root of the arithmetic mean of the squared deviation from the given arithmetic mean of a set of values. It is also known as "Root Mean – Square Deviation." It is usually denoted by the Greek letter "± " (sigma). It is used to measure the risk of two variables of a company. It measures the absolute dispersion or validity of the distribution. It is also useful in judging the representative ness of the mean. It is calculated by using formula:-

Standard Deviation (±) = $\sqrt{\frac{\sum\left(X-\overline{X}\right)^2}{N}}$ (For Individual series)

Or,

(±) = $\sqrt{\frac{\sum FX^2}{N}}$ (For Discrete and Continuous Series)

Where, S.D or ± = standard deviation
X = Variables
$\overline{X}$ = Mean value of X series
N = Total frequency.
F = Frequency.

It is a measure of dispersion or spread of possible values. It is an estimate of the likely divergence of an actual return from an expected return. It is a statistical measure of the variables of a distribution of return around its mean. It is also the square root of variance.

Coefficient of Variation:

The relative measure of dispersion (risk) comparable across distribution is known as coefficient of variation. In other words, it is the ratio of the standard deviation to the mean expressed in percent.
Coefficient of variation being a pure number is independent of the units of measurement. It is also used to compare the variability, homogeneity conformity of two or more distribution. It is useful in comparing the risk of assets with differing expected returns.

It is calculated by using following formula:-

Coefficient of Variation (C.V) = $\frac{\pm}{\overline{X}}$ X 100

= ………..%

Where, ± = Standard deviation of return.
$\overline{X}$ = Mean value of given variables.

Generally a distribution having less C.V. is said to be less variable or more homogenous or more consistent or more uniform or more stable or more stationary or more equitable than other and vice-versa.

Student's t- Test:

If the sample size is less than or equal to 30 (i.e. n <30) then, the sampling distribution of the sample mean is called "Student's t- distribution." It is also known as "t-distribution."

It was first used by Irish Brewery employee William S.Gosset in the beginning of 20^{th} century. Later on, it was extended by R.A. Fisher.

The researcher had formulate some hypothesizes (Ho and H_1). Those hypothesizes are tested in the form whether the difference mean values of each selected ratio of Bank of KAthmandu Ltd are statistically significant or not. Therefore, those hypothesizes are tested by using student's t- test. By formula:-

$$t = \frac{\overline{X} - \overline{X_2}}{\sqrt{S^2\left(\frac{1}{n_1} + \frac{1}{n_2}\right)}}$$

Where, $\overline{X}_1$, $\overline{X_2}$ = Mean value of Bank.
S^2 = an unbiased estimate of common population variance of both samples.

Here,

$$s^2 = \sqrt{\frac{\sum(x_1 - \overline{x_1})^2 + \sum(x_2 - \overline{x_2})^{-2}}{n_1 + n_2 - 2}}$$

The computed value of "t" is compared with the tabulated value of t for (n_1 + n_2 – 2) degree of freedom at desired level of significance. Then, the decision is made regarding the acceptance or rejection of null hypothesis (H_o).

CHAPTER: IV
DATA PRESENTATION AND ANALYSIS

Data presentation and analysis is another important chapter of the present study. Almost all research study includes this chapter. The analysis of data consists of organizing, tabulating, performing statistical analysis and drawing inferences. The main purpose of analyzing the data is to change it from an unprocessed form to an understandable presentation. In other words, data analysis and presentation refers arranging the raw data collected by the researcher in different ways such as in tables, graphs, charts etc. In order to get some senses to the reader regarding the study. The presentation of data is the basic organization and classification of data for analysis. Organization and processing of data require knowledge of some technical methods. Classification refers to dividing of the data in to different categories, classes, group or heads. After the classification of data, those data are analyzed and interpreted to draw conclusion by examining them systematically.

This chapter related with the analysis of the financial performance of Bank of Kathmandu Ltd, with the help of different and statistical tools.

Introduction of Bank of Kathmandu LT.D

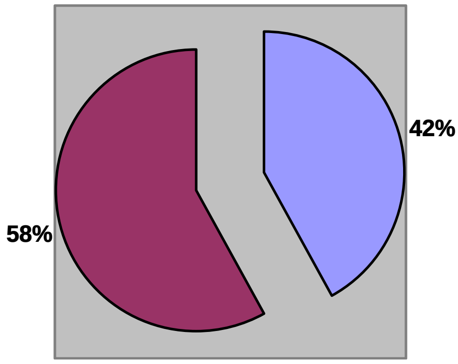
Bank of Kathmandu is private commercial bank established under company act of Nepal. The Bank was incorporated in 1995 AD (2050 B.S) and was listed in the NEPSE in 1998 (2054/04/02 BS). It is authorized capital is R.s 1000000000.00, Issued capital is R.s 606173300 and paid –up capital is also R.s 603141300. Total numbers of share are 6031413. Both the par value and paid – up value per share is R.s 100. It is a first private commercial Bank with totally Nepalese share holders. The central office is at Kamladi Kathmandu and has 22 branches all over the country. The main theme of the bank is "We make your life easier"

Branching Network of BOK

Headoffice: Kamal Pokhari (Kamladi) 4414541 info@ bok.com.np
Branches: Thamel 4430640 thamel@ bok.com.np

New road	4231556
Gongabu	4385712
Jawalakhal	5537866
Biratnagar	536904
Hetauda	521331
Pokhara	539150
Butwal	541692
Nepalgunj	523185
Dhangadi	523386
Birgunj	534026
Amlekhgunj	570033
Janakpur	527372
Itahari	586710
Kohalpur	5541343
Surkhet	523664
Ghorahi	561951
Tulsipur	522691
Jumla	520298
Balaju	
Attriya	

Internally BOK money transfer is related to internet platform. By internet servive is providing to 250 places where customer transfer funds one place to other safetly. BOK provides ATM services to the customers and to operate Visa debit card and providing internet banking services. BOK distributes shares 42% held owners and 58% held public offering.



BOK used internal control system which helps to well operation of institution and guided by employee. BOK highlights to keep the corporate culture in modern time.

4.1 Analysis of liquidity position

Generally, liquidity refers the ability of a firm to meet short-term obligations. In other words, liquidity represents the solvency power of the firm to meet short-term obligations. It also reflects the financial strength or solvency of a firm. Generally, a high liquidity ratio shows the efficiency of firm to pay debt immediately. Some liquidity ratios that explain the liquidity position are as follows.

4.1.1 Current Ratio:-

It is most widely and frequently useful ratio. This ratio is used to calculate the short-term solvency because of its merits of showing whether the claims made by short-term creditors can be covered with short-term creditors, with short-term assets that are expected to be converted into cash with in a year. In other words, it shows the relationship between current assets and current liabilities to measure the current liabilities. The standard for current ratio is 2:1 which indicates two rupees of current assets should be available for each rupee of current liabilities. However, the current ratio is not a conclusive index of the liquidity of the firm, as a conventional rule. A current ratio of 2:1 or more is considered satisfactory which may differ as per the nature of the business. The current ratio of Bank of Kathmandu Ltd has taken been presented in the table no.4.1 which is as below.

$$\text{Current Ratio} = \frac{\text{Current Asset}}{\text{Current Liabilities}} \quad \text{or,} = \frac{CA}{CL}$$

Table 4.1

Financial year	Current Asset (Rs)	Current Liabilities (Rs)	Ratio (CA/CL)
2060	6935310038	7933449442	0.87
2061	7163646112	8982496452	0.79
2062	8785516004	10586703901	0.82
2063	11067350940	12496768119	0.88
2064	14130130338	15995470950	0.83

Source: Annual report of B O K L.td

Table 4.1 shows the current ratio, position of current asset and current liabilities of the Bank of Katmandu Limited to meet its short time obligations. The current ratio of the bank has been calculated form the five financial years. Generally, the current ratio of 2:1 id considered ideal for a concern. The current ratio of the bank from the financial year 2060 to 2064 has been seemed below the 2:1. It can be said that there is insolvency raised in the bank. The bank should not meet its short-term obligation. In the year 2060 to 2061, the ratio has been seen 0.87:1 and 0.79:1. The current ratio of bank from 2062 to 2064 is 0.82, 0.88, 0.83:1 has been above table. According to financing aspect of bank respect with the current ratio, the bank position is going to unhealthy. In this situation bank should not pay short-term liabilities.

4.1.2 **Cash and bank Balance to Deposit Ratio**

It is another ratio to measure the liquidity position of the Bank. It refers the ability of the bank to meet their current margin calls and saving deposits. The higher the ratio reflects the greater capability vice versa. However, too high ratio is not beneficial as capital is tied up in the unproductive sector i.e., cash and bank balance. This ratio can be computed by using the following formula.

$$\text{Cash and Bank Balance to deposit ratio} = \frac{\text{cash and bank balance deposit}}{\text{Deposit (excluding fixed deposit)}}$$

Where,

Cash and Bank Balance = Cash in hand + Bank Balance

Deposit = Saving deposit and daily deposit

This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositors.

The condition of cash & Bank Balance to deposit ratio can be shown in table no 4.2

Which is below.

Table 4.2

Cash & Bank Balance to Deposit Ratio

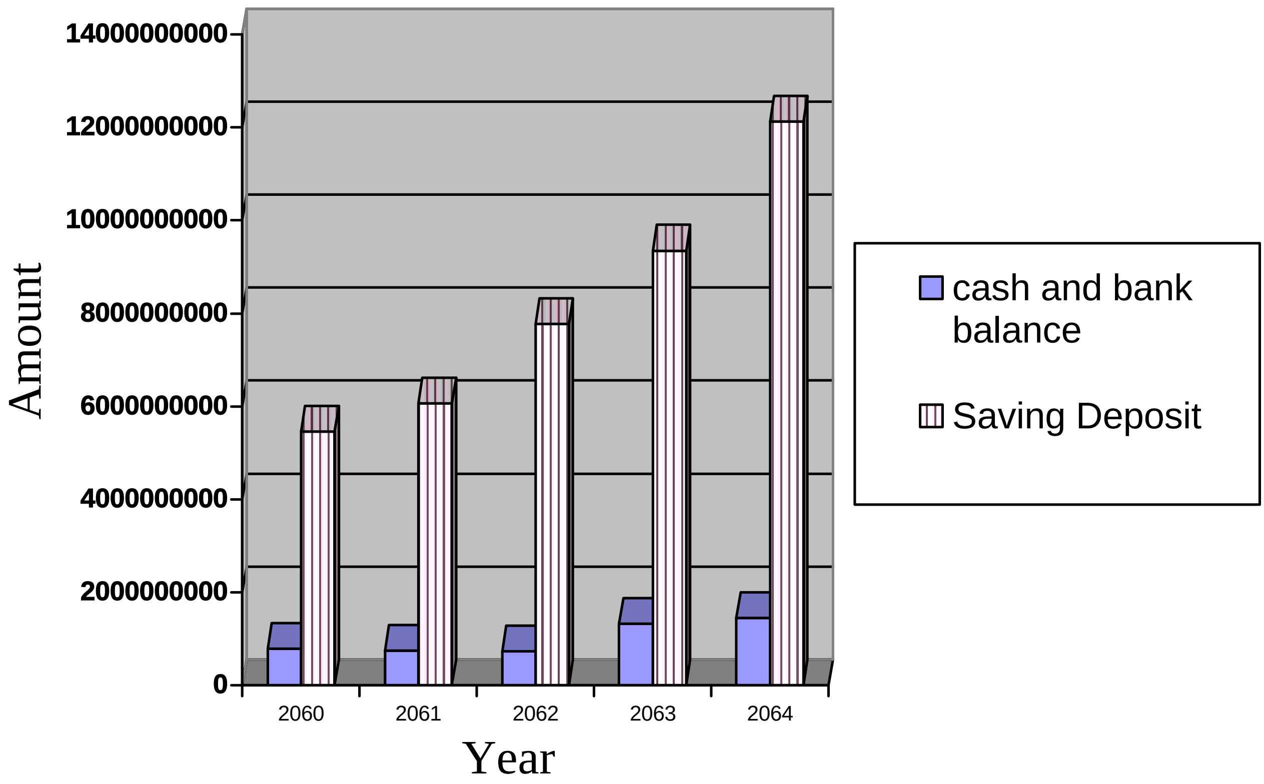
Financial Year	Cash & Bank Balance (Rs)	Saving Deposit (Rs)	Ratio (%)
2060	782882941	5461932165	14.33%
2061	740520482	6063880889	12.21%
2062	728697092	7775605465	9.37%
2063	1315903941	9351756729	14.07%
2064	1440466943	12130562267	11.87%

Source: Annual report of BoK

The above table reflects the position of cash & bank balance to deposit of the bank. It has been seen that the ratio of the bank from the financial year 2059/60 to 2063/64 is 14.33, 12.21, 9.37, 14.07 & 11.87 respectively. The table indicates that the ratio had been decreased from 14.33 to 12.21 from financial year 2060/2061. In other words, the ratio has decreased in the year

2060 to 2061. On other hand, the ratio also decreased from the financial year 2061/2062. The ratio also increases in the year 2063. And end of financial year 2064 the ratio is decreased.

Figure 4.1
Cash & Bank Balance to Deposit



In the basis of above analysis, it can be summarized that there would be the possibility of refunding deposits to overcome the problem that arise in future as the cash and bank balance to deposit ratio has been decreased from the financial year 2065 to 2062 and also increased respect to the 2062 to 2063 and it also decreased in the year 2064. But it can be raise that overall liquidity position is better to some expert. It is suggested that is to invest in more production sector like government securities, bond, treasury bill for further advancement in its profitability position.

4.2 Analysis of profitability

Every business organization is established to achieve profit. The bank also can not be segregated from it. As the bank is a banking institution, it has determined to earn profit to some extent from the banking transaction by providing qualitative service to customers. Profit is essential for survival and growth of any organization. An organization should earn sufficient profit to sustain the operation smoothly and continuously. The profitability ratios are calculated to measure the operating efficiency of the organization. Therefore, financial manager should continuously evaluate the efficiency of the institution in terms of profits irrespective of social consequences. Every investor invests their money for the return. Besides management of the organization, creditors, and owners are also interested in the profitability of the institution or business organization. For these reasons, the institution should try to earn sufficient surplus irrespective of social motive for its expansion, growth and long term profitability in the present competitive business environment.

The profitability is another measure to evaluate the financial performance of an organization. The ratio measures the organization effectiveness in terms of managing funds to generate profit. Hence, the management of the organization is interested in the profitability. It is regarded as the most crucial element for the survival and growth of the organization. Some of the commonly used profitability ratios are below.

4.2.1 Operating profit Margin to Interest earned ratio: -

It is one of the important profitability ratios which was measures the efficiency and operation of the organization. Operating profit is calculated by deducting the amount of operating expenses from total income. And operating expenses is a sum of interest expenses, management expenses, employee expenses, deprecation, exchange fluctuation loss and other related expenses to the operation of the bank. Likewise, total income includes interest income, commission & discount income, exchange fluctuation income, loans and advance, dividend from investment and other related income. Therefore, operating profit margin is not the actual realized profit of the bank as it comprises only operating expenses but not the non-operating expenses. The ratio of operating profit margin to interest earned is calculated by dividing the operating profit by the interest earned. It can be shown as below.

$$\text{Operating profit margin to interest earned ratio} = \frac{\text{Operating profit}}{\text{Interest earned}}$$

Where,

Opt. profit = (Total Income – operating expenses)

Interest earned = Interest earned from loans and advances

Total Income= Interest earned from loans and advances (Dividend from investment on share) + commission & Discount, + other miscellaneous receipt

Operating expenses = Interest expenses + Depreciation + Management expenses + other operating expenses + Employee expenses

Generally, a high operating profit margin is a sign of good management as it reflects that the relatively lower operating expenses have been incurred during the period and vice versa. The financial manager should try to detect the cause of lower margin ratio and initiate action to improve the situation.

The portion of operating profit to interest earned can be presented as in table no 4.3 which is below.

Table 4.3

Operating profit margin to interest earned ratio

Financial Year	Operating Profit (Rs)	Interest earned (Rs)	Ratio %
2060	189701746	567096226	33.45
2061	226942675	607035662	37.38
2062	321573073	718121378	44.77
2063	387017669	819003947	47.25
2064	563441461	1034157874	54.48

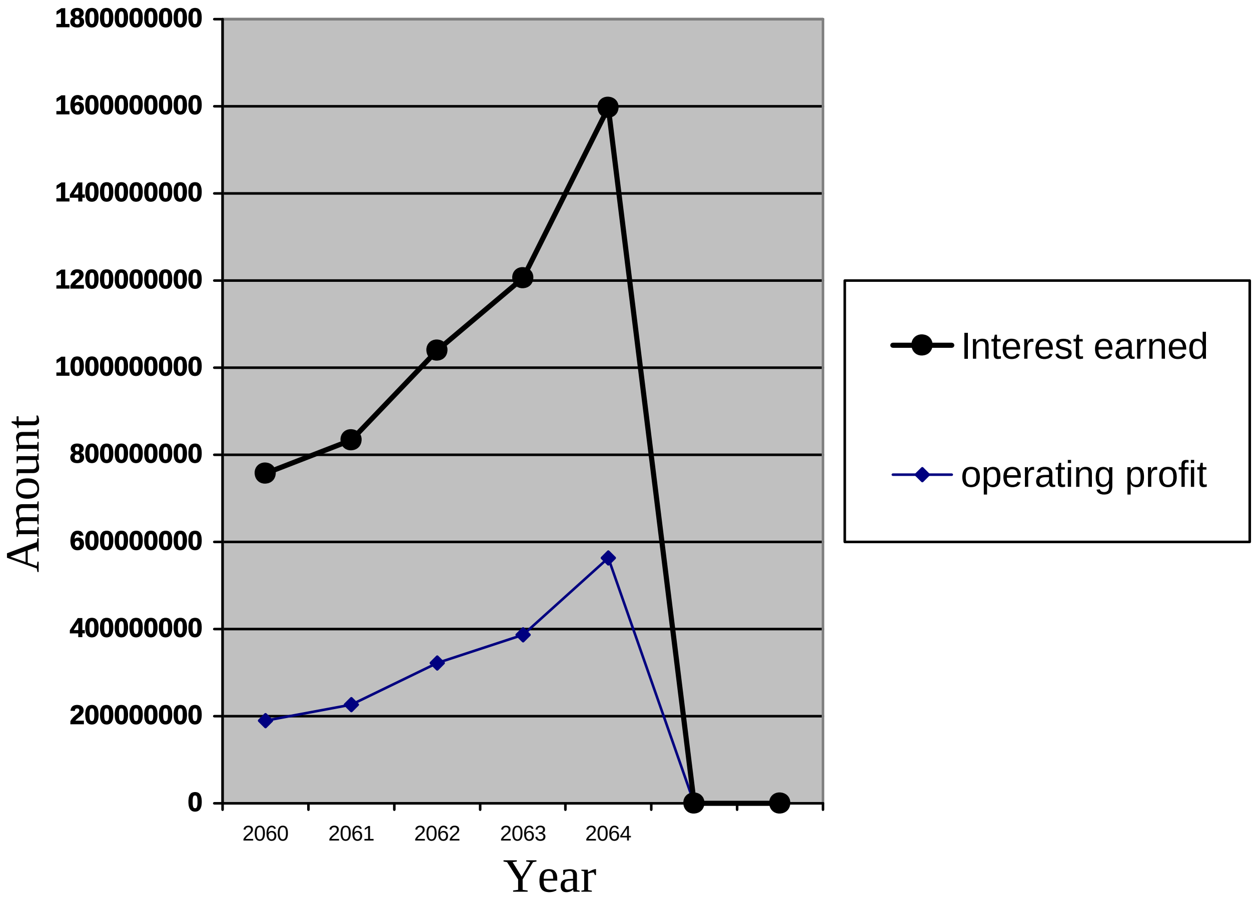
Source: Annual report of Bok

The operating profit margin to interest earned has been shown in the above table no 4.3 for five different financial year, from 2060 is 33.45 percent where as it has been increased to 37.38 percent in the year 2061. It has been also increase in further year 2062, 44.77 percent, 47.25 percent in year 2063 & 54.48% in year 2064. The course of the increase in ratio is the increase in operating expenses of the bank. While increase the operating expenses it also increased the interest income. The average ratio is 43.46 % it is suggested that the management should concentrate toward increasing the profitability by reducing the operating expenses.

This trend has been shown in figure 4.2 as below

Figure 4.2

Operating profit & interest earned



4.2.2 Return on Assets (ROA)

It is another significant profitability ratio to measure the profitability of all financial resources invested and utilized by the organization. It showed the relationship between net profit and total assets to determine the overall operating efficiency of an organization. It is important for all the organization, because maximum profitability is the first objective. ROA is primarily an indicator of managerial efficiency it indicates how capacity the management of the bank has been converting the institutions assets in to net earnings (Rase, 1999)

A firm has to earn satisfactory return on assets for its survival. Generally, the return on assets ratio should be 1 percent and higher is desired to the banking industry (World Bank 1996).
Higher ratio indicates satisfactory position, utilization of fund invested and vice versa. The ratio can be calculated by dividing the net profit after tax by the total assets. The ratio has been shown by the following formula.

Return on Assets = $\frac{\text{Net profit after tax}}{\text{Total Assets}}$

Or, ROA = $\frac{NPAT}{TA}$

NPAT = Net profit – Tax

TA = Current Assets + Net fixed assets.

The position of net profit after tax and total assets of the bank can be shown as below in the table 4.4

Table 4.4

Return on Assets Ratio

Financial year	Net profit after tax(Rs)	Total Assets (Rs)	Ratio %
2060	127473188	9496344672	1.34
2061	139529721	9888533138	1.41
2062	202440627	12278329302	1.64
2063	262386980	14581394916	1.79
2064	361496879	17721925187	2.03

Source: Annual report of BOK

In the above table 4.4 returns on assets ratio of the bank has been shown. It has been shown that the bank has positive ratio of all financial year. The bank has been able to earn profit continuously by increasing trend. In above table net profit has been increasing yearly 2060 to 2064 and also increasing total assets 2060 to 2064. In the year 2060 to 2064 the ratio has been seen 1.34, 1.41, 1.64, 1.79, and 2.03 respectively.

Higher ratio reflects the efficiency of the organization which was utilized assets resources & vice versa. The management of the institution should consider about the utilization of resources.

4.2.3 Return on Equity (ROE)

Return on equity is measures of the rate of return flowing to the banks shareholders. It approximates the net benefit that the stockholders have received from investing their capital in the bank. The return on equity is the most important return measure of banks because it influenced by how will the banks have performed on all other return categories and indicates whether a bank can complete for private sources of capital in the economy. Computed as the ratio of net income to the equity, it reflects the income earned from its internal sources. The return on equity measures the book return to the owners of the firm. It is "bottom link ratio" in that sense

(Weston & Copeland 1991). It measures the company's return towards how well the bank used the resources of owners. It is one of the important ratio to judge whether the bank has earned a satisfactory return for its equity shareholders or not the higher ratio represents the sound management and efficient mobilization of the owners equity and vice versa. Generally the return on equity on equity ratio is 15 percent and higher is desired for banking industry (World Bank, 1996). The return on shareholders equity calculated following formula.

$$ROE = \frac{\text{Net profit after tax – preference dividend}}{\text{Shareholders equity}}$$

$$ROE = \frac{NPAT- PD}{\mathbf{SHE}}$$

NPAT = Net profit – Tax
ROE = share holders equity = paid up capital+ reserve & funds + share premium+Other reserve + retained earning – accumulated losses
The rate of return on net worth has been presented in the following table.

Table no 4.5

Return on Net worth

Financial year	Net profit after tax	Net worth	Ratio
2060	127473188	650745230	19.58
2061	139529721	720737816	19.35
2062	202440627	839733881	24.10
2063	262386980	993274844	26.41
2064	361496879	1342073788	26.93

SOURCE- Annual report of BOK

In above table shows the return on net worth of bank for different financial years. In the year 2060 it has been seen that the ratio 19.58 %. After that it has slowly decreased in year 2061 is 19.35 percent. After that this ratio is slightly increasing, that is 24.10 percent in year 2062, 26.41 percent in year 2063 and 26.93 percent in year 2064. This table shown that all ratios are positive for every year. In the year 2061 the ratio has dropped to 19.35 percent from 19.58 percent the bank has not increase the profit. But the bank has been capable to improved the situation and earn more return in further year i.e. 2062, to 2064. It can reflect that the management has become efficient to mobilize the owner's equity.

This ratio helps to maximize shareholders wealth and affects the market value of the shares. The term net worth can be referred to the market value of the share. This ratio is helpful to assess the financial management of the organization.

4.2.4 Return on capital Employed:-

This ratio is the important to measure the profitability of an organization. It provides a test of profitability related to the sources of long term funds provides by the creditors and owners of the firm. This ratio indicates how well the management has used the funds to achieve operating efficiency the higher the ratio. The more efficient the firm in using funds or capital employed. The capital employed includes share capital, reserve funds, long term debt. Alternatively it is equivalent to net working capital plus fixed assets. Similarly, it is equal to non- current liabilities (long term liabilities) plus owner's equity. Return on capital employed can be computed with the help of following formula.

$$\text{Return on capital employed} = \frac{\text{Net profit after tax}}{\text{Capital employed}}$$

$$\text{ROE} = \frac{\text{NPAT}}{\text{CE}}$$

CE = Share capital + Reserve fund + long term debt

= Net working capital + Net fixed assets

= (CA- CL + Net FA)

The ratio of return capital employed can be presented as below in table 4.6

Table 4.6

Return on capital employed

Financial year	Net profit after tax	Capital employed	Ratio
2060	127473188	650745230	19.58
2061	139529721	720737816	19.35
2062	202440627	1039733881	19.47
2063	262386980	1203274844	21.80
2064	361496879	1542073788	23.44

Source: Annual report of BOK

The return on capital employed for the financial year 2060 has been shown 19.58%. The ratio dropped from 19.58 to 19.35 in year 2061. The ratio slightly increased in the year 2062 i.e. 19.47 percent. After that the ratio increasing in year 2063 to 2064 which was shown in above table. In the year

2063 the ratio increased 23.44 percent from 19.47 percent. Also ROE increased 23.44 percent from 21.8 Percent in the year 2064.
It indicates that the firm has been successful to use the capital employed in year 2064. In addition to it, it showed the efficiency of the management to mobilize. The capital employee properly in year 2061 and 2062.
Hence it is suggested that to consider about the mobilization of capital employed properly for the beneficial of the organization. Higher the capital employed ratio is preferable.

4.2.5 Net profit Margin Ratio: -

The ratio measures the overall productivity of the organization by establishing relationship between net profit and sales. The word 'sales' indicates 'interest earned' here for analysis purpose. This ratio exhibits the management's efficiency to operate the business successfully and firms capacity to withstand adverse economic condition. This ratio is an indicates of management ability to operate the business with sufficient success not only to recover the operating expenses of the firm and cost of borrowed funds but also to leave a margin of reasonable compensation to the owners for providing their capital at risk. The ratio can be computed by dividing net profit after tax by interest earned.

$$\text{Net profit margin} = \frac{\text{Net profit after tax}}{\text{Interest earned}}$$

Where, interest earned = Interest earned from loan & advances

This ratio is the overall measure of the firm's ability to turn each rupee of sales into net profit. If the net profit margin is in adequate. The firm will fail to achieve satisfactory return on owner's equity. Generally, a high margin ratio indicates the effective and efficient operating of the organization and advantages position. The net profit margin ratio of the organization has been shown as below:

Table 4.7

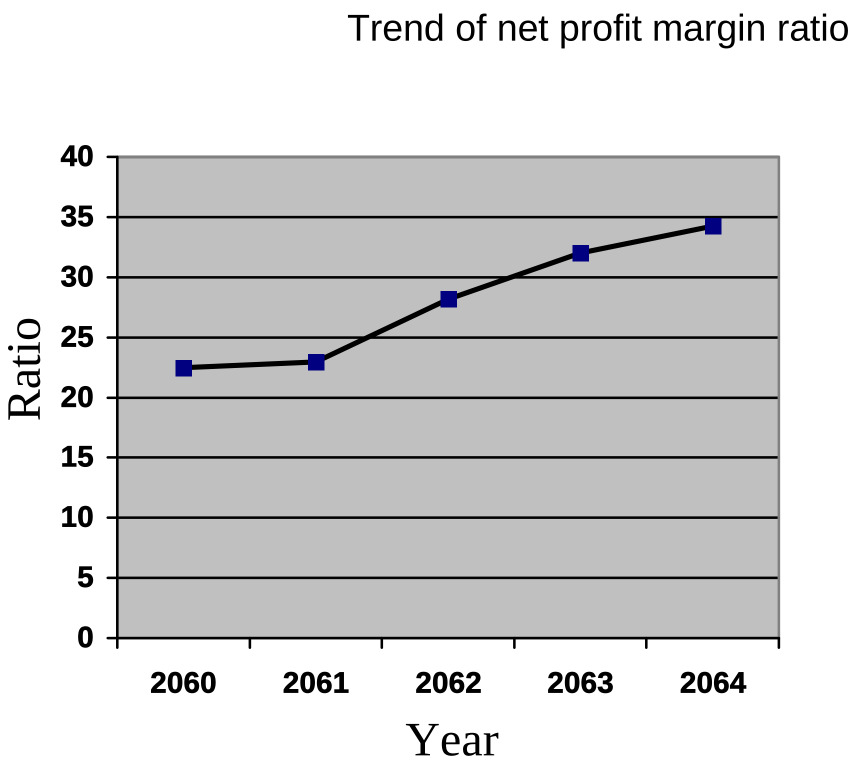
Net profit margin ratio

Financial year	Net profit after tax	Interest earned	ratio
2060	127473188	567096226	22.47
2061	139529721	607095662	22.98
2062	202440627	718121378	28.19
2063	262386980	819003947	32.03
2064	361496879	1034157874	34.25

Source - Annual report of BOK

Table 4.7 shown the net profit after tax and interest earned by the bank in five different financial years. In year 2060 net profit margin ratio is 22.47% in the year 2061 net profit margin ratio is 22.98. The profit margin ratio is slightly increasing trend 2060 to 2064. The higher profit margin ratio showed in year 2064. Therefore it is suggested to any organization must be keep higher ratio which indicates higher overall efficiency of the business and better utilization of total resources. BOK has better mobilization of total resources. It is shown that BOK has improving the net profit margin in rested of by gone year. It is clear that bank has earned more profit by utilization of fund.

Figure 4.3



4.3 Asset Management Ratio

Asset management ratio measures the efficiency of a firm in managing and utilizing its assets to generate sales revenue i.e. interest earned. The ratio shows the relationship between various assets i.e. current and fixed and sales of a firm. This ratio is also known as the "investment turnover ratio". The higher the turnover ratio, the more efficient the firm is in the management and utilization of the assets and vice versa. Furthermore, the better management of assets turnover is the better indication of its financial performance. Hence a very efficient firm is one, that utilization its investment assets to generate the largest level of revenue. Some turnover ratio are calculated to assets the efficiency of the institution in utilizing available resources. These turnover ratios are as follows.

4.3.1 Fixed asset turn over ratio

It is one of the important turnover ratios. This ratio measures the efficiency of a firm in utilizing its fixed assets to generate the total interest earned. It also indicates the adequate of sales i.e. interest earned in relation to the investment in fixed assets. In other words, this ratio shows the relationship between fixed assets and interest earned. Generally, a higher ratio indicates the efficient utilization of fixed assets and vice versa. The ratio is computed by dividing the interest earned by the net fixed assets.

$$\text{Fixed assets turnover ratio} = \frac{\text{Interest earned}}{\text{Fixed asset}}$$

Fixed assets = Net value of fixed assets

Fixed assets – Depreciation

The fixed asset turnover ratio of BOK can be shown as bellow in table no. 4.8

Table no. 4.8

Fixed asset turnover ratio

Financial year	Interest earned (Rs)	Fixed assets (Rs)	Ratio (times)
2060	567096226	83625007	6.78
2061	607095662	95230942	6.37
2062	718121378	110745198	6.48
2063	819003947	320846395	2.55
2064	1034157874	387274153	2.67

Source: Annual report of B.O.K L.td

Table 4.8 shows that the fixed asset turnover ratio of the bank in five different years. The table shows that the ratio has been decreasing in these five years. The ratio is 6.78 times in year 2060. The ratio is declining 6.37 times in year 2061. It has been increased in year 2062 in 6.48 times respected to the year 2061. Similarly, the ratio decreased 2.55 times in year 2063 and also slightly increased 2.67 times in year 2064 with respect to the year 2063. It states the management is not efficient managing and utilizing fixed assets to generate revenue. It is concluded that the organization do not successful in using fixed assets.

4.3.2 **Total assets turnover ratio**

It is a significant turnover ratio which shows the efficiency of a firm is generating revenue from the available resources to the firm. In other words, this ratio measures the turnover or utilization of all assets of firm in generating revenue. The ratio is calculated by dividing the interest earned by the total assets of a firm.

$$\text{Total asset turnover ratio} = \frac{\text{Interest earned}}{\text{Total asset}}$$

Total assets = Total amount of balance sheet

The higher ratio indicates the effective utilization of fixed assets and vice versa similar to fixed assets turnover ratio. The condition of total assets and interest earned shows as below in the table.

Table 4.9

Total asset turnover ratio

Financial year	Interest earned	Total assets (Rs)	Ratio (Rs)
2060	567096226	9496344672	0.059
2061	607095662	9888533138	0.061
2062	718121378	12278329302	0.058
2063	819003947	14521394916	0.056
2064	1034157874	17721925187	0.058

Source: Annual report of BOK

The total assets and interest earned has been shown in above table. It has been seen that the ratio of different year has fluctuated the ratio 0.059 times in the year 2060 and 0.061 times in year 2061. On other hand the ratio has decreased in year 2062 respected with the year 2061 in 0.058 times. It also decreases in the year 2063 i.e. 0.056 times. The ratio slightly increased 0.058 times in year 2064, with respected to the year 2063. It is indicated that the firm does not able to utilize total assets. It reflects inefficiency of the organization.

4.3.3 Net interest Margin

The net interest margin measures how large a spread between interest revenue and interest cost management has been able to achieve by cost control over the banks earning assets and the pursuit of the cheapest source of funding (peter, 1999). Net interest margin is calculated net interest income dividing by earning assets under earning assets loans and advances, bills purchased and discounted and investment included. In the composition of earning assets the loans and advances usually have higher yield which are more than the securities and its return. The net interest earned from than the loans and investment shows the percentage a bank earns as interest for each unit of investment made in loans and securities. It identifies and evaluates the core earning capacity of the bank. A negative or declining ratio is an important indicator of treasury management problem that require attention. Generally the net interest margin ratio should be 3 to 4 percent and higher is better in banking industry (World Bank 1996). Net interest margin ratio has been presented below the table:-

Table 4.10

Net interest Margin

Financial year	Net Interest Income (Rs)	Earning assets (Rs)	Ratio (%)
2060	280799176	8124108071	3.45
2061	365456498	8510832882	4.29
2062	409965730	10633794545	3.85
2063	479822936	12391761483	3.87
2064	616614442	15666705259	3.93

Source: Annual report of BOK

In the past five years, the net interest margin ratio of BOK has been distributed as a maximum ratio of 4.29 percent in year 2061 and minimum ratio 3.45 percent in year 2060. At first the ratio of bank increased from 2060 to 2061. After that this ratio decreased in the year 2062 i.e. 3.87 percent. In the year 2063 the ratio slightly increased to comparison of year 2062 i.e. 3.87percent. At the end of year 2064 the ratio rested in 3.93 percent on the basic of above analysis the net interest margin ratio are fluctuate in different year. On the basic of mean ratio of bank lies on 3 to 4 percent it indicates that bank maintain interest margin ratio.

4.3.4 Earning Per Share (EPS)

Earning per share provides a direct a measure of the returns following to the banks owners, its stockholders measured relative to the numbers of shares to the public (peter 1999). The earning per share of an organization gives the strength of the share in the market. The profitability of the firm from the point of view of the ordinary shareholders to the EPS. It measures the profit available to the equity holders in a per share basic i.e. the amount that they can get on every share hold. The higher the EPS is suitable for the bank. The earning per share of BOK is tabulated as below.

Table 4.11

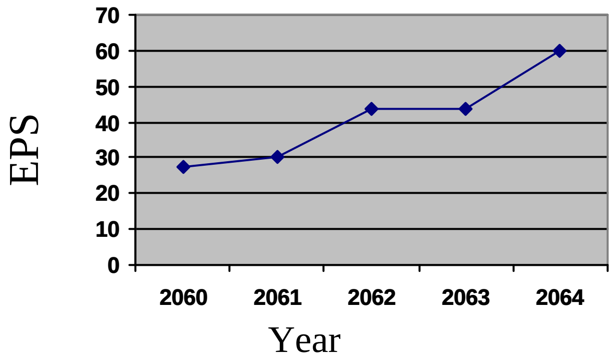
Earning per Share

Year	Net Profit (Rs)	No. of Share	EPS (Rs)
2060	127473186	4635809	27.50
2061	139529721	4635809	30.10
2062	202440627	4635809	43.67
2063	262386980	6031413	43.50
2064	361496879	6031413	59.94

Source: Annual report of BOK

Above table reveals that the e.p.s of the bank has fluctuated over the year of study period. The EPS of the bank has in year 2060 is Rs 27.50 and in year 2061 is Rs 30.10. In the year 2063 the EPS of bank is Rs 43.67. EPS of BOK is going to increasing trend in the year 2060 to 2062. After 2062 the bank has increased no of share in year 2063 which decline the EPS in year 2063. The e.p.s. of BOK in year 2064 has Rs 59.94 which is the maximum all over study period. The mean average of e.p.s. is Rs 40.94

Figure 4.4
Trend of earning per share



4.4 Risk & Return Analysis

Risk and return is the important aspects of financial management. Generally risk refers the change or variability in the return, the greater the variability in the return. The higher the risk comprises in the investment.

The return is the sum of regular income and capital gain from investment that the investor expects over his investments. Therefore risk and return are a considerable aspect which influences the individual's decision regarding investment on particular stock and assets. It is very complex to determine what extent stock or asset is risky. It depends upon the individual's attitude toward risk. As per the predetermined objectives, risk and return pattern of the organization has been studied. The return on equity (ROE) is calculated by dividing net profit after tax by paid up fund. Every investment involves uncertainties that make future investment risky. The uncertainties can be reduced to some extent if the investment environment can be predicted before investment. The risk and return pattern of the institution is presented in the table given below.

Table 4.12

Risk return pattern

Year	NPAT	Capital fund	ROE	$R-\overline{R}$	$(R-\overline{R})^2$
2060	127473186	463580900	0.2749	(0.1344)	0.01806
2061	139529721	463580900	0.3009	(0.1084)	0.01175
2062	202440627	463580900	0.4366	0.0273	0.00074
2063	262386980	603141300	0.4350	0.0257	0.00066
2064	361496879	603141300	0.5993	0.19	0.0361
N=5			$\sum$ ROE=2.0467		$\sum(R-\overline{R})^2$ = 0.06731

Source: Annual report of BOK

ROE = $\dfrac{\text{NPAT}}{\text{Capital fund}}$

Returen ($(\overline{R})$ = $\dfrac{\sum ROE}{N}$

= $\dfrac{2.0467}{5}$

= 0.4093

= 40.93%

Risk (±) $= \sqrt{\frac{\sum (R - \overline{R})^2}{N}}$

$= \sqrt{\frac{0.06731}{5}}$

= 0.116025

= 11.60%

Coefficient of variation (C.V.) = $\frac{\pm}{\overline{X}} \times 100$

$= \frac{0.116025}{0.4093} \times 100$

= 28.34%

Table 4.12 shows that the return on equity of the institution has been fluctuating during five year period. It has seen that that return on equity is 27.49 percent in the year 2060. So on, the return on equity is 30.09 percent & 43.66 percent in the year 2061 and 2063. After that the return on equity is slightly decreased in the year 2061 i.e. 43.50. In the year 2064 the ROE is rested 59.93 percent in study period. The slightly decreasing trend in year 2063 shows that the management has unable to utilize capital fund on generating more return on equity. The expected return on institution is 40.93 percent.

The standard deviation and coefficient of variation are the measures to assets the risk on investment. The standard deviations measure the risk of two variables of firm but coefficient of variation measures the relative risk return pattern of investment. In other words coefficient of variation shows the risk per unit return and provides a more meaningful base. The above table also reflects the risk of the institution. It is seen that the average return on each share is 40.93 percent where as the risk is calculated to be 11.60 percent. Along with these, the institution has to bear 28.34 percent to earn 100 percent return whish is shown by coefficient of variation.

4.5 **Cash flow pattern of BOK**

Cash Flow Statement of B.O.K. Ltd.					
Particular	2060	2061	2062	2063	2064
1 cash flow from operating	219150433	–78837414	3544767832	1196283528	131216696
cash receipt	726276599	733732511	839758005	957415138	1213828527
1.1 Interest income	567096226	589725336	682260740	771065694	976838292
1.2 Commission & discount income	77707811	72351675	70776158	97431129	129415582
1.3 Foreign exchange income	64046314	67188214	688887323	72774174	83738239
1.4 Recovery of written of loan	–	–	–	411150	6000
1.5 non operating income	15459800	–	–	–3269907	662690
1.6 Other income	1966448	4467286	16967545	19002897	23167724
Cash payment	474165560	455169919	570866447	664951336	829126260
2.1 Interest expenses	286297050	241639164	308155647	339181011	417543432
2.2 Employee expenses	47726373	53822309	59119564	69740384	90601920
2.3 office overhead expenses	82969935	99190178	117591235	138429941	170480908
2.4 Exchange loss	–	–	–	–	–
2.5 Income tax payment	–	6000000	86000000	117600000	150500000
2.6 Non operating expenses	–	518267		–	–
2.7 other expenses	57172203			–	–
Cash flow Before W/C Activities	252111039	278562593	268891558	292463802	384702267
Changes in current Assets	-1519726234	-485193627	-1772590684	-920919694	-2795185864
1. changes in money at call	-241970700	-56552875	-265173522	334768750	186598792
2. changes in other short term investment	–	-274495094	-2489443941	838219860	-203913475
3. changes in other advances	-1205261326	-265881028	-1346503107	-2140245038	-3063309924
4. changes in other assists.	35856046	111735352	88029886	46336734	285438743
5. changes in bank balance	-108350254	–	–	–	–
changes in current liabilities	1486765628	127793621	–	–	2541700293
1. changes in Deposit	1570933854	1201103174	1858466958	1824739421	3444810505
2. changes in certificate of deposit	–	–	1509578372	1903568055	–
3. changes in short term borrowing.	–	-912150000			-630000000
4. changes in other liabilities	-87733531	-161159553	547180000	176819999	-273110212
5. changes in A/C payable.	3565305		-198291414	-2556648633	–
Cash from investment activities	-651243995	159465198			-16680494
1. changes in Long term investment.	-661260769	153651311	-506944334	-617614646	–7720377
2. Changes in fixed assists.	10016774	-11605935	-527514615	-455941759	–66427757
3. interest income from long-term investment	–	17370326	-15514256	-210101197	57319582
4. Dividend income	–	49496	35860637	490058	148058
5. others	–	–	223900		–
Cash from financing	413914140	-127916898	–	–	–
1. outstanding loan	413914140	–	130284939	486130	–
2. changes in bond & debenture	–	–	200000000		–
3. changes in share capital	–	–	–	139560400	–
4. changes in other liabilities	–	-133916898	-69715061	-139074270	–
5. changes in subside/refinance from NRB.	–	6000000	–	–	–
Income/Exp from changes in exchange rate.	–	4926654	-10068172	8051839	10026800
1. current years cash flow	-18179423	-42362459	-11823391	587206851	124563002
2. opening cash flow	801062364	782882941	740520482	728697090	1315903941
3. closing balance.	782882941	740520482	728697091	1315903941	1440466943

In the above, cash inflow and outflow of BOK Ltd, for five financial years has been shown. Generally working capital is the excess amount of current assets over current liabilities. Decreasing in working capital in service organization is considered good because current assets provide less return than long-term fixed assets. Therefore, it would be better to have long term asset for regular generation of income. In the year 2060 cash receipt which shows the positive cash flow from operating activities. Similarly, the organization has utilized the fund to purchase in long term investment and outstanding loan has appeared in financing activities. The cash and bank balance of the year shows the liquidity position of the institution but more amounts indicates the idle position. The cash and bank balance shows some extent but much isn't appropriate for long term. And it has been increasing every year which shows the inefficiency in utilization of fund. In addition to it, the deposit amount has increased by Rs 1570933854 which is the main source of cash inflow. The institution has also made investment for long term amounting Rs 661260769

In the year 2061 the working capital has also decreased and it is indicated by negative cash flow from operating activities. The cash from operating activities shown in the year 2061 is negative i,e Rs (78837414). The negative cash from operating activities indicates the decrease in working capital.

The deposit amount has increased by Rs 1201103174. Similarly, the amount of loan and advances has reached to Rs 265881028 from Rs 1205261326 and changes on short term investment by Rs 274495094. In this year the institution has invest in fixed asset Rs 11605935. And income received from changes in exchange rate is Rs 4926654.

The positive cash from operating activities indicates the increase in working capital, i.e. increase in current assets in the year 2062. The amount of long term investment and fixed asset purchased by Rs 527514615, and Rs 15514256 respectively and the institution has utilized the fund in investing activities is Rs 50694434. In financing activities the institution generated fund by issuing bond and debentures Rs 200000000. And total cash from financing activities of the institution is Rs 130284939, and the firm has also increased income from exchange rate is Rs 10068172.

In the year 2063 there is a positive cash flow from operating activities which denotes the increase in working capital of the institution, in the operating expenses cash payment has Rs 664951336 respectively. The investing activity of the institution shows the increase in long term investment and fixed asset by Rs 455941759 and Rs 21011197 respectively. If also show that interest on long term investment and income from dividend by Rs 47938252 and Rs 490058 respectively. The total cash flow from investing activities of the institution is Rs 617614646. The firm's financial activities shows increase the Share capital by Rs 139560400 and also increase in other liabilities by Rs 139074270. And total cash from financing activities show the Rs 486130. BOK has earned from exchange rate by Rs 8051839 in the year 2064 the institution has a positive cash flow from operating activities, and working capital also increased. In this year increase the deposits and loan and advances by Rs 3444810505 and 630000000 respectively. Total cash from operating activities is Rs 131216696. The institution invested fund in long term investment by Rs 7720377 and to invest in fixed asset by Rs 66427757. And interest received from long term investment is Rs 57319582 and dividend income is Rs 148058. Total cash from investing activities of institution has Rs 16680494. The firm has no any changes in financing activities in the year 2064. Income from exchange rate has bee seen in the year 2064 by Rs 10026800. In overall institutions cash flow has increasing trend in the study period.

4.6 Capital adequacy ratio

Capital adequacy is a measurement of a bank to determine if solvency can be maintained due to risks that have been incurred as a course of a business. Capital allows a financial institution to grow, establish and maintain public confidence, and provide a reserve to be able to absorb potential loan losses above and beyond identified problem. A bank must be able to generate capital internally through earnings retention, as a test of capital strength. Strong capital base is the pre-requisite for the safety and soundness of any bank, since any losses arising out of the unexpected risks have to be borne by the bank out of its own capital. It is for this reason, Basel capital accord, 1988 stress on the creation and maintenance of the strong capital base in proportion to the risk weighted assets of the bank (BASEL, 1998) capital adequacy and availability ultimately determine the robustness of financial institutions to withstand shocks to their balance sheets. Aggregate risk based capital ratios the ratio of regulatory capital to risk weighted assets are the most common indicators of capital adequacy, based on the methodology agreed to by the BCBS in 1998. In line with the Basel capital accord, capital is defined in two tires, collectively known as capital fund. Capital fund of the banks consists of permanent element called supplementary capital.

Capital adequacy ratio is the measure of financial strength of a commercial bank. In the specific term, the capital adequacy ratio measures the adequacy of a capital for smooth operation of a bank. Capital adequacy ratio above the Nepal Rastra bank (NRB) standard indicates the adequacy of capital and the ratio below the standard reveals the lack of adequate capital in a bank. Higher capital adequacy ratio above the standard signifies the higher is its internal sources and higher ability to cushion operational and abnormal losses. Furthermore, higher capital adequacy ratio indicates sound and strong financial position and higher security to depositors. On the other hand, the low value of capital adequacy ratio with regard to the minimum requirement of NRB shows that the lower is its internal sources, comparatively weak financial and lower security to its depositors. Total capital fund means the amount invested by share holders, creditors, and the amount collected from the various free reserves maintained in a bank. Capital fund includes the amount of core capital and supplementary capital.

NRB has fixed out the standard or minimum requirement of capital adequacy ratio (total capital fund to total risk adjusted assets or core capital plus supplementary capital to total risk adjusted assets.) the Nepalese commercial banks have to adopt the directives of NRB and have to maintain the capital adequacy ratio as per the requirement of concerned authority. On the other hand, they have to maintain the industry norms and to utilize their resources in efficient way, which is really a complex job for commercial banks.

Table 4.13 presents the observed values of capital adequacy ratio of BOK Ltd during the study period as below.

Table 4.13

Year	2060	2061	2062	2063	2064
Capital Fund	703914376	777449920	1100797467	1290124103	1635235217
Total risk weighted assets	6306133614	6926855856	7583653036	1022619376	13702369666
Capital adequacy ratio%	11.16	11.22	14.52	12.62	11.93
NRB%	11	11	11	11	11
Capital adequacy excess or short %	0.16	0.22	3.52	0.62	0.93

Source: Annual report of BOK Ltd

Above table 4.13 shown the capital adequacy ratio of BOK as a minimum ratio of 11.16 percent in financial year 2060 and maximum ratio 14.52 percent in financial year 2062. The ratio of Bank is fluctuating till the study period. In the financial year 2062 it is moving upward after following year the ratio has decreasing trend. Both capital fund and total risk weighted assets are increasing trend. The ratio is excess in study period. The following figure 4.6 shows the observed capital adequacy ratio of BOK with NRB standard with in the study period of last five years.

Figure 4.5

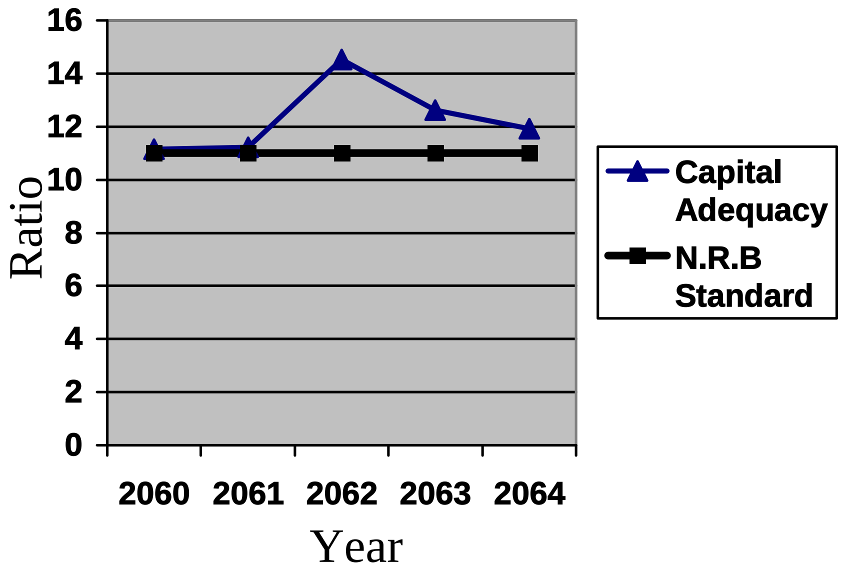


Figure 4.6 shows the NRB standard is 11percent for every year. The observed capital adequacy ratio of BOK is above the NRB Standard in each year. Generally, the Bank has maintained the ratio according with NRB standard. This shows the Bank strictly follow the NRB directives and sufficient in that particular year.

4.7 Non-Performing loan to total loan and advances ratio

Loans and advances usually represent the single largest asset of most banks. That's why monitoring the quality of the banks loan portfolio is of the utmost important aspects. When the borrowers fail to pay the interest or even principal with in the time period the performing loan begins to start in non-performing loan. As per the total loan classification as performing & non-performing. But total loan includes pass loan, restructured loan, substandard, doubtful loss. And Nonperforming loan includes substandard, and loan loss. Here the ratio of NPL to total loan and advances shows the percentage of NPL in total. The lower the ratio is the best management and utilization of loan and advances. The greater ratio represents the higher the credit risk to the bank is exposed. If NRB has directed the commercial banks to classify its loan and advances into the category of pass substandard, restricted loan, doubtful and loss. Non-performing loan reflected the quality of assets that a bank is holding. This ratio, measures the proportion of nonperforming loans on the total volume of loans and advances. Higher ratio reflects the bad performance of the bank in mobilizing loans and advances and bad recovery rate and vice-versa. As increasing trend in the ratio of nonperforming loans to total loans signals a deterioration in the quality of credit portfolios and consequently, in financial institutions cash flows, net income, and solvency. This ratio is computed by dividing the nonperforming loans by total loans and advances. If Banks did not manage the NPL, bank will be collapse in short time.

Table 4.14 represents the observed nonperforming loan ratio of BOK Ltd during the study period.

Table 4.14

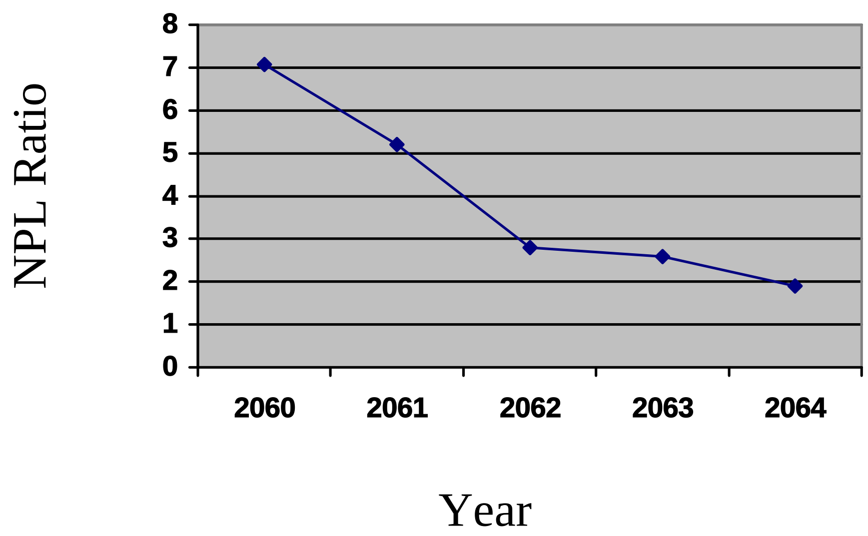
Nonperforming loan to total loan ratio

Year	Nonperforming loan	Total loan Rs	NPL Ratio
2060	3999377177	5646698444	7.08%
2061	308506039	5912579472	5.21
2062	203624470	7259082579	2.80
2063	243296250	9399327617	2.58
2064	236898850	12462637541	1.90

Source: Annual report of BOK

Table 4.14 shows that the ratio of nonperforming loan to total loan and advances ratio is decreasing trend in the study period. This decreasing trend of NPL indicates that BOK Ltd has best management and utilization of loan and advances.

Figure 4.6



In above figure of NPL shows that, the ratio of NPL has decreasing trend allover the financial year, it indicates that BOK Ltd has well managed the loan and advances. The Institution has decreases the credit risk. It means that, providing loan of BOK has very secured and earns more return.

4.8 Some other financial Indicators

4.8.1 Loan and advances to total deposit ratio

Loan and advances to total deposit ratio measures the capacity of utilizing deposits in the form of extending loans and advances. This ratio shows the percentage of deposit mobilized for providing loans and advances. Loan and advances refers the total loans and advances supplied to the outsiders i.e. customers and employees. Total deposit includes the amount collected from its deposits i.e. saving, fixed and daily. Generally higher ratio indicates the efficient mobilization of funds provided by the depositors and vice versa. The ratio is calculated by dividing loans and advances by the total deposits. It can be calculated by using following formula.

$$\text{Loan and advances to total deposit ratio} = \frac{\text{Loan and advance}}{\text{Total deposit}}$$

Total deposit = Saving deposit + fixed deposit + daily deposit

In other words the ratio shows the proportion of total deposit flowed loan and advances. The position of loan and advances to total deposit ratio can be presented as below in the table.

Table 4.15

Loan and advances to total deposit ratio

Year	Loan and advance(Rs)	Total Deposit (Rs)	Ratio
2060	5646698444	7741645424	72.94
2061	5912579472	8942748598	66.11
2062	7259082579	10485359239	69.23
2063	9399327617	12388927294	75.86
2064	12462637541	15833737799	78.70

Source: Annual report of BOK

Table 4.15 shows the ratio of loan and advances to total deposit ratio of the BOK for five years. It is seen that the ratio 72.94 percent in year 2060 and 66.11 percent in year 2061. The ratio decreased in year 2061 and also increased in year 2062 with respect to the year 2061 which is 69.23 percent. It is also increasing trend in the year 2063 i.e. 75.86 percent. The ratio 78.70 percent in year 2064. The average ratio of BOK is 72.53 percent. The BOK has been able to utilize its deposits at maximum level in year 2061. The course of fluctuation can be regarded as the internal conflict, strike, and lack of security.

4.8.2 Interest income to total income Ratio

This financial indicator assess to the financial position of an institution. This ratio examines the proportionate contribution of Interest income in generating total income. In other words, this ratio shows the portion of interest income in total income. The main source of income for the institution is interest earned from loan and advances as if is banking organization that provides loan and advances as well as aspects deposits. The other source of income for the institution is income from government securities, commission and discount. Exchange fluctuation income, non-operating income and other income. The ratio can be calculated by interest income divided by total income.

$$\text{Interest income to total income Ratio} = \frac{\text{Interest income}}{\text{Total income}}$$

Interest income = Income from loan and advances
Total income = Income from government securities + commission + exchange fluctuation income + Non- operating income + other income
The higher ratio indicates the efficiency of the institution to supply and manage loan. It also reflects the goodwill of the institution. The ratio is presented in the following table.

Table no.4.16

Interest income to total income Ratio

Year	Interest income(Rs)	Total income(Rs)	Ratio %
2060	567096226	159180373	356
2061	607095662	148983325	407
2062	718121378	167789337	427
2063	819003947	197260039	415
2064	1034157874	247159093	418

Source: Annual report of BOK

In the above table the ratio of interest income to total income has been shown for five financial years. It is seen that the contribution of interest income to total income from year 2060 to 2061 is 356 percent and 407 percent respectively. It means that the institution has been earning 3.56 times more interest income than total income. In other words, interest income is 356 percent greater than total income. Furthermore BOK has earned more interest income to comparison with total income. The ratio of 2062 to 2064 is 427,415 and 418 respectively. The institution has higher ratio of allover the study period. Interest income is main source of Bank. But BOK has a greater interest income. It means that the institution has providing loan in security base.

4.8.3 Interest Expenses to Interest Income ratio

The ratio measures the portion of interest expenses in the interest income. BOK is the Banking institutions, it accepts deposits from customers (i.e. depositors) and in turn it pays interest to them. So interest expenses refer the interest paid on deposit collected by the bank. In addition to it provides loan to demand groups (i.e. customers) from the amount deposited by the saver group. The income earned from providing loans helps to meet the operating expenses and also asset for the smooth operation and long run existence of the institution. The ratio is computed by dividing the interest expenses by the interest income.

$$\text{Interest expenses to total income ratio} = \frac{\text{Interest Expenses}}{\text{Interest Income}}$$

Interest expenses = Interest paid on deposit
Interest income = Income from loan providing

The ratio explains that what portion of interest income has been expended in the interest expenses. The ratio can be shown as below the table.

Table 4.17

Interest Expenses to Interest earning Ratio.

Year	Interest expenses(Rs)	Interest Income(Rs)	Ratio(%)
2060	286297050	567096226	50.48
2061	241639164	607095662	39.80
2062	308155647	718121378	42.91
2063	339181011	819003947	41.41
2064	417543432	1034157874	40.37

Source: Annual report of BOK

Table 4.17 shows the ratio of interest expenses and interest income. It has been seen that the ratio has fluctuation. The ratio decreased the financial year 2061 but after that slightly increasing in the year 2062 i.e. 42.91 percent. Again the ratio decreasing trend in the year 2063 to 2064 i.e. 41.41 percent and 40.37 percent respectively. The increasing ratio indicates the increase in interest expenses to deposit and the decreasing ratio refers the reduction in deposit collection.

4.8.4 Employee expenses to total income ratio

Employees are regarded as the essential element of an organization. The existence and operation of an organization depends upon employees. In addition to it, the success or failure of an organization also relies upon the employees. Employees refer the human resources employed in the organization. Therefore, the organization should appoint efficient, competent, honest and energetic employees to sustain in the competitive environment and to earn maximum profit providing services to its stakeholders. Employee expenses include salary and allowances, provident fund, bonus medical expenses, gratuity, overtime salary, dashian expenses etc. Hence it can be said that employees can not be segregated from an organization. Employee expenses to total income ratio indicates the portion of employee expenses spent out of total income. The ratio can be calculated as below.

$$\text{Employee expenses to total income ratio} = \frac{\text{Employee expenses}}{\text{Total Income}}$$

Employee expenses = Salary and allowance, provident fund, Dashian expenses, Bonus, Overtime salary, medical expenses, gratuity etc.
Total Income = Interest income, commission and discount, exchange fluctuating income, other operating income and non operating income.
The lower ratio is suitable for an organization. The ratio can be dropped by adopting computer network system which reduced the number of employees in the organization. The ratio has been presented in the following table.

Table 4.18

Employee expenses to total income ratio.

Year	Employee expenses(Rs)	Total Income(Rs)	Ratio(%)
2060	47726373	583014599	8.18
2061	53822309	756078987	7.11
2062	59119564	885910715	6.67
2063	69740384	1016263986	6.86
2064	90601920	1281316967	7.07

Source: Annual report of BOK

Table 4.18 shows the ratio of employee expenses to total income ratio has been shown for five years. It is seen that the ratio is fluctuating trend. The percentage of employee expenses to total income is ratio in 2060 and 2061 is 8.18 and 7.11 percent. The ratio also decreased in the year 2062 i.e. 6.67 percent. The ratio slightly increased during the year 2063 i.e. 6.86 percent.

In the year 2064 the ratio rested on 7.07 percent. It states that the ratio fluctuate because of the BOK Ltd established new branches in different places.

4.8.5 Offices expenses to total income ratio

The portion of total income spent on the office expenses is measured by this ratio. Office expenses refer the expenses made for regular operation of the organization. It helps to generate revenue / total income. Office expenses includes all types of office related expenses such as house rent, repair and maintenance, electricity and water, office equipment, advertisement and promotion, postage and telephone, auditing and legal expenses, transportation expenses, insurance expenses, supervision expenses etc. The ratio of office expenses to total income ratio calculated as below.

$$\text{Office expenses to total income ratio} = \frac{\text{office expenses}}{\text{Total Income}}$$

Office expenses = House rent, repair and maintenance, electricity and water, office equipment etc.

The ratio can be presented as below in the table.

Table 4.19

Office expenses to total income Ratio

Year	office expenses(Rs)	Total Income(Rs)	Ratio(%)
2060	85828545	583014599	14.72
2061	99190178	756078987	13.11
2062	117591235	885910715	13.27
2063	138429941	1016263986	13.62
2064	170480908	1281316967	13.30

Source: Annual report of BOK

Table 4.19 shows that the ratio of office expenses to total income has been fluctuating during these five years. In the financial year 2060 to 2062, the ratio is 14.72, 13.11 and 13.27 percent.

The ratio also increases in the year 2063 by 13.62 percent and in the year 2064 by 13.30 percent. The decreasing ratio reflects the increase in office expenses and vice – versa. Therefore, the bank should try to minimize the expenses. Because of the establishing of new branches to creation the increasing and decreasing ratio has been seen.

4.9 Testing Hypothesis

Hypothesis is another part of data analysis. While proceeding the study, some hypothesis had been formulated. It is also essential to test the hypothesis. A well established hypothesis provides the guidelines in investigation. Generally, hypothesis is defined as a logically conjectured statement relationship between two or more variables which need to be testes/ investigated. A hypothesis is a provisional formulation or possible solutions of tentative expiate or suggested answers to the problems facing by the scientists. A tested hypothesis helps to obtain some reliable information on what kind of relationship exist among the variable and finding solution to the problem.

Hypothesis is regarded as a milestone in organizing the collected data in systematic way. The refined hypothesis is more sufficient in research and the degree of significance depends on the level of abstraction underlying the hypothesis. Hence, hypothesis leads to economy of time and as well as significant conclusion for the advancement of knowledge. There are two types of hypothesis that have been tested in the course of study. They are as follows.

4.9.1 Hypothesis (1) between interest income and interest expenses

1) Null hypothesis (Ho):- This hypothesis assumes that there is no significant difference or relation between population parameter and sample parameter. It is denoted by " Ho" (Hypothesis Zero)
2) Alternative hypothesis (H_1):- It assumes that there is relationship between population parameter and sample parameter. It is represented by "H_1" (Hypothesis one)

Table 4.20

Interest Income

Year	$x_1(0000)$	$x_1 - \bar{x}_1$	$(x_1 - \overline{x_1})^2$
2060	5670	-1820.2	331312804
2061	6070	-1420.2	2016968.04
2062	7181	-309.2	95604.64
2063	8190	699.8	489720.04
2064	10341	2850.8	8127060.64
N = 5	$\sum x_1 = 37451$		$\sum(x_1 - \overline{x_1})^2$ = 14042481.4

Source: Annual report of BOK

$\overline{x_1} = 7490.2$ Interest expenses

Year	$x_2(0000)$	$x_2 - \bar{x}_2$	$\left(x_2 - \overline{x_2}\right)^2$
2060	2862	-323	104329
2061	2416	-769	591361
2062	3081	-104	10816
2063	3391	206	42436
2064	4175	990	980100
N = 5	$\sum x_1 = 15925$		$\sum\left(x_2 - \overline{x_2}\right)^2$ = 1729042

Source: Annual report of BOK

Ho: There is no significant difference or relation between interest income and interest expenses.
H_1: There is significant relation between interest income and interest expenses.
Now, calculation of expected mean and standard deviation.

Expected Mean

$$\overline{x1} = \frac{Ex1}{N} = \frac{37451}{5} = 7490.2$$

$$\overline{x2} = \frac{Ex2}{N} = \frac{15925}{5} = 3185$$

Calculation of standard deviation (s)

$$CombinedSD(S) = \sqrt{\frac{\sum (x_1 - \bar{x})^2 + \sum (x_2 - \overline{x_2})^2}{n1 + n2 - 2}}$$

$$= \sqrt{\frac{14042481.4 + 1729042}{5 + 5 - 2}}$$

$$= \sqrt{\frac{15771523.4}{8}}$$

$$= \sqrt{1971440.425}$$

=Rs 1404.07

standard error (s.e) = S × $\sqrt{\frac{1}{n_1}+\frac{1}{n_2}}$

$=1404.07x\sqrt{\frac{1}{5}+\frac{1}{5}}$

$=1404.07x\sqrt{0.2+0.2}$

$=1404.07x\sqrt{0.4}$

=Rs 888.01

$$t = \frac{\overline{x_1} - \overline{x_2}}{S.E.}$$

$=\frac{7490.2-3185}{888.01}$

= 4.84

Degree of freedom (D.F.) = $n_{1+}n_{2-2}$

= 5+5-2

=8

The tabulated value of 't' at 5 percent level of significance and 8 degree of freedom i.e. t tab(0.05,8) = 2.306
t tab (0.05,8) =2.306

Decision:-

Since the calculated value of 't' is greater than the tabulated value at 5 percent level of significance at 8 degree of freedom, the Alternative hypothesis is accepted. Hence, there is significant difference between interest income and interest expenses.

Hypothesis – 2 between liquidity and profitability

Ho: There is no significant difference between liquidity and profitability.
H1: There is significant difference between liquidity and profitability.

4.9.2 Hypothesis (2) between liquidity and profitability

Table no 4.21

year	liquidity (x_1)	$(x_1-\overline{x_1})$	$(x_1-\overline{x_1})^2$	profitability (x_2)	$(x_2-\overline{x_2})$	$(x_2-\overline{x_2})^2$
2060	0.87	0.032	0.001024	1.34	-0.302	0.091204
2061	0.79	-0.048	0.002304	1.41	-0.232	0.053824
2062	0.82	-0.018	0.001764	1.64	-0.002	0.00004
2063	0.88	0.042	0.000064	1.79	0.148	0.021904
2064	0.83	-0.008		2.03	0.388	0.150544
n=5	$\sum x_1 = 4.19$		$(x_1-\overline{x_1})^2 =$ 0.00548	$\sum x_2 = 8.21$		$\sum(x_2-\overline{x_2})^2 = 0.3174$

Source: Annual report of BOK

Calculation of expected mean and standard deviation expected mean

$$\overline{x_1} = \frac{\sum x_1}{n} = \frac{4.15}{5} = 0.838$$

$$\overline{x_2} = \frac{\sum x_2}{n} = \frac{8.21}{5} = 1.642$$

Standard deviation (6)

$$\text{Combined(6)} = \sqrt{\frac{\sum(x_1-\overline{x_1})^2 + \sum(x_{2-}\overline{x}_2)^2}{n_{1+}n_2-2}}$$

$$t = \frac{\overline{x_1}-\overline{x_2}}{6\sqrt{\frac{1}{n_1}+\frac{1}{n_2}}}$$

$$= \sqrt{\frac{0.00548+0.31748}{5+5-2}}$$

$$6 = 0.2009$$

Test statistic under HO that is (t) test

$$= \frac{0.838-1.642}{0.2009\sqrt{\frac{1}{5}+\frac{1}{5}}}$$

$$= \frac{-0.804}{0.127060}$$

$$= -6.327$$

$|t| = 6.327$

The tabulated value of 't' at 5 percent level of significance at 8 degree of freedom i.e. tab(0.05,8) = 6.327

Decision:

Since the calculated value of 't' is higher than tabulated value of at 5 percent level of significant and 8 degree of freedom. It means that alternative hypothesis is accepted. Hence there is significant difference between liquidity and profitability.

4.10 Trend analysis

Trend analysis indicates the direction of change. It helps to know the direction of movement i.e. whether the movement is favorable or unfavorable. Trend analysis helps to understand the change in an item or group of item of the financial statements over a given period. It enables firm to take the time dimension in to account. The trend percentage shows the relationship of each item in statements with its proceeding year's percentage. Under this study a base year is selected and percentage is calculated for Investment and net profit of BOK taking the figure of base year as 100. Therefore, trend percentage is shown in the table in form of Index number. The table no 4. Indicates the trend percentage from the year 2060 to 2064 which is as below.

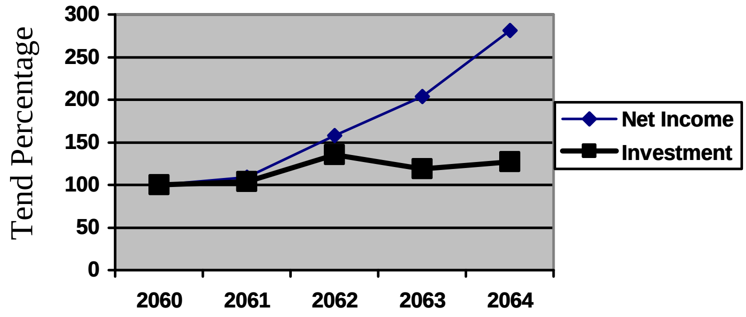
Table no 4.22

Trend percentage of investment and Net profit

Year	Investment (Rs)	Trend 100%	Net profit	Tend (%)
60	2477409627	100	12747388	100
61	2598253410	104	139529721	109
62	3374711966	135	202440627	158
63	2992433866	119	26238680	204
64	3204067718	127	361496879	281

Source: Annual report of BOK

Figure 4.7



Year

Figure 4.8 shows the trend of investment and net profit of BOK Ltd for five financial years. The trend percentage of investment is fluctuating trend from 2000 to 2064. In other hand, the trend percentage of BOK year 2060 is 100 and it has increased to 104 percent in year 2061. The trend also increasing in year 2062 and reached to 135 percent. It means that the bank purchase the investment. In the year 2063 Banks decreases the investment i.e. reached to 119 percent. The investment policy also increased in the year 2064 with respect to the year 263, i.e. 127 percent.

In other hand, the trend of net profit in the base year 2060 is 100 percent. Again the trend of net profit 2060 to 2064 has been increasing. The net profit is not affected by the Investment. It means that higher the investment to achieve higher the profit. Profit trend is positively related with comparison of investment.

CHAPTER: V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is the last part of the present study entitled, "Analysis of financial performance of BOK Ltd.". It includes various aspects which helps understand about the organization in essence. In other words, summary is the brief description of the activities completed and it is the main text of the report. Summary gives an overall view of the entire study. On the other hand, conclusion is the inference based on the analysis of data. Conclusion gives the answers to the research questions or the objectives set for the purpose of the study. In short, conclusion is the essence of the research work. Recommendation refers the suggestions based on the research work which includes facts and analysis contained in the main text. Generally, recommendation can be said as the final product of the research work. Therefore, on the basis of the previous analysis of this study, this part "Summary, Conclusion and Recommendation" express the main findings and recommendation for improving the financial performance of the sampled institution of BOK Ltd. This chapter is divided into the following three sub-chapters:-

5.1. Summary
5.2. Conclusion
5.3 Recommendations

5.1. Summary:

Nepal is one of the land- locked countries in the world situated bet India at southern, Western and eastern part and China at northern part. Nepal is mainly based upon agriculture. The basic necessities of the population are fulfilled by selling the agro-products in the market. Most countries of the world are stepping toward development but Nepal is rather going backward. Development also depends upon the initiation, sacrifice, and devotion etc, of the population of the country. But population has been increasing rapidly. Almost 31 percent of populations are still under the poverty. The cause of low development in south Asia can be lack of entrepreneurship, lack of proper mobilization of resources, geographical complexity, rural exodus etc. Therefore, there should be financial institutions, commercial banks, cooperative organizations, insurance companies, other NGO etc. to achieve the rate of economic growth in the country. Considering the fact, "Financial Company Act 2042" was formulated and the first financial institution was opened after seven years named "Nepal Residential Development Finance Company Ltd". Similarly, another institution was established in 2049 from private sector named "Nepal Finance and Saving Company Limited". These financial institutions have helped to collect and mobilize the scattered saving of the society in industrial and trade sector.

The word "Bank" has been derived from the Italian word "Banco". In Italian language, "Banco" refers the bench. Any group used to be engaged in the transaction of money at public place. Later on, this word came into use as "Bank" in English. Commercial banks are the first bank in the banking history of Nepal." Nepal Bank Limited" established in B.S 1994 is the first bank of Nepal. Similarly, another bank, "Rastriya Banijya Bank" was opened in 2022 B.S." Nepal Arab Bank" is the first joint-venture bank established in 2041 B.S. There are 20 commercial banks, 38 development banks including micro-credit development, 12 finance companies, 74 saving and credit co-operatives, 17 and 47 NGOs operating in Nepal.

For the purpose of analyzing the financial performance of sampled institution i.e. Bank of Kathmandu Ltd, necessary data and other related variables have been collected from secondary source and they are presented in tabular form. Later on, all the data analyzed by applying financial and statistical tools. Similarly, available literature concerning the financial performance analysis is reviewed and appropriate research methodology is also described. The study has highlighted on the liquidity position, Profitability, asset management, risk and return pattern and cash flow pattern, capital adequacy, Non-performing loss of the institution and some hypothesis have been formulated as well. Consequently, some other financial indicators are also utilized to analyze clearly. To obtain the objectives of the study, different financial variables and statistical tools like mean, standard deviation, coefficient of variation and student's "t" test have been used for the meaningful interpretation of the data to find out the true financial picture of the institution.

Major findings of the study are shown as below:-

Liquidity Position:

To assess the financial performance of the BOK Ltd, liquidity ratios have been calculated during the study period from 2060 B.S to 2064 B.S. "Current ratios" of the institution during the study are 0.87 times,o.79 times,0.82 times,0.88 times,0.83 times respectively from 2060 to 2064. The standard for current ratio is 2:1 but ratios are lower than standard during the study period.

"Cash and bank balance to deposit ratio excluding fixed deposits" are 14.33, 12.21, 9.37, 14.07 and 11.87 percent respectively during the study period. The ratio is fluctuating with respect to the past year. It shows the ability of the institution to meet their current margin calls and saving deposits.

Profitability Position:

The researcher has computed following profitability ratios to examine the profitability condition:-

"Operating profit margin to interest earned ratio" has been calculated to measure the efficiency and operation of the institution. The ratios are 33.45, 37.38, 44.77, 47.25 and 54.48 percent respectively during the study period i.e. ratios are increasing every year. In the year 2060 the ratio is 33.45 percent which is very low but it is 54.48 percent in the year 2064 which is considered more satisfactory the average ratio is 43.46 percent.

"Return on assets (i.e. total assets) is also increasing every year during the study. It was 1.34, 1.41, 1.64, 1.79 and 2.03 percent in the year 2062, 2063 and 2064 respectively. The ratio depends upon the organization's business nature and fixed assets which are major part of the assets. It indicates the efficiency of the institution to utilize resources.

"Return on Net worth Ratio" indicates how well the institution has used the resources of the owners to earn profit. The ratio is 19.58 and 19.53 percent 2060/61. The ratio is 24.10, 26.41 and 26.93 percent in the year 2062/2063 and 2064 respectively. Furthermore, it has decreased to 19.35 percent in the year 2061 and again, increasing trend. Increasing return on net worth means increasing shareholders wealth and vice versa.

"Return on capital Employed Ratio" explains how well the mgmt. has used the funds. The ratio during the study period from 2060 to 2064 is 19.58, 19.35, 19.47, 21.80 and 23.44 percent respectively. It indicates that the ratio is decreasing till the year 2062 but it has increasing trend in the year 2063 and 2064.

"Net Profit Margin Ratio" measures the overall the profitability of the institution. This ratio is also fluctuating during the study period. The ratio is high in the year 2064 and low in the year 2060. The ratio during the study period 2060 to 2064 is 22.47, 22.98, 28.19, 32.03, and 34.95 percent respectively.
The highest ratio is in the year 2064 i.e. 78.70 percent but the lowest is in the year 2061 i.e. 66.11 percent. Higher ratio exhibits the maximum utilization of deposits in that year as loan disbursement.

"Trend Analysis" helps to know the direction of movement/Change in an item or group of item of the financial statements over a given time period. It shows that whether the movement is favorable or unfavorable. Trend percentage of Net interest margin ratio of the institution in the study period

2060 to 2064 has been seen, 3.45, 4.29, 3.85, 3.87, 3.93 percent respectively. The minimum ratio 3.45 percent in the year 2060 and maximum is 4.29 percent in the year 2061. Earning per share (EPS) of the Bank has been in the study period 2060 to 2064 is 27.50, 30.10, 43.67, 43.50 and 59.94 rupees respectively. The Eps of the institution is increasing in the study period. Investment is 100,104,135,119 and 127 percent respectively from the year 2060 to 2064. But, trend percentages of Net profit are 100,109,158,204 and 281 percent respectively for 2060 to 2064 years. Trend percentage of Investment as well as trend percentages of Net Profit is increasing every year. It reflects the efficiency of the institution in Investment and profit.

"Risk and Return" are the two important aspects of the financial management Return refer the regular income and capital gain that the investor expects over his investment. Risk indicates the variability in the return from investment. The return on each share is 40.93 percent whereas risk is 11.60 percent. Furthermore, coefficient of variation states that each shareholder has bear 28.34 percent risk in order to earn 100 percentages returns.

"Cash Flow Analysis" Bank of Kathmandu has also been shown in the study. It is seen that the cash and bank balance has increased every year due to the increase in deposit amount which is the main source of cash generation. Similarly, the amount of loan and advances has also increased every year due to increase in deposit amount. Furthermore, the institution has increasing and decreasing investment in the year 2060-2064. The amount of share capital has increased in year 2063.

"Capital Adequacy Ratio" measures the strength of the capital structure of the institution. Capital Adequacy ratios for the study period 2060 to 2064 are 11.67, 11.22, 14.52, 12.62 and 11.93 percent respectively. It reflects that the ratio is fluctuating trend during the period. But it does not going to below the NRB standard. Non-performing loan to total loan and advances ratio shows the quality of assets that a bank is holding. Higher ratio reflects the bad performance of the bank in mobilizing loan and advances and lower ratio reflect the good performance that the bank has well managed the loan and advances. This ratio measures the proportion of non-performing loans on the total volume of loan and advances. The ratio 2060 to 2064 is 7.08, 5.21, 2.80, 2.58, and 1.90. The ratio has decreasing trend which means that the bank has manage good performance.
"Loan and advances to total deposit Ratio" had been seen in the year 2060 – 2064 is 72.94, 66.11, 69.23, 75.86 and 78.70 percent respectively. This percentage is fluctuating during the year.

"**Non – performing loan to total loan and advances Ratio"** refers the assets taken by the institution because of not paying the loan by the loaners. The ratio is 7.08, 5.28 and 2.80 percent for the year 2060, 2061, and 2062 respectively. Again, the ratio is 2.58 and 1.90 percent in the year 2063 and 2064 respectively. The ratio is appropriate for the institution as it saves from losses.

"Interest Income to Total Income Ratio" Shows the proportionate contribution of interest income in generating total income. As it is banking sector organization, prime source of income is interest earned from loan and advances. The ratio is 356,407,427,415 and 418 percent respectively during the study period 2060 to 2064. Interest income and total income both are shown in increasing trend.

"Interest Expenses to Interest income Ratio" is also analyzed for the purpose of the study. Interest expenses are paid on deposits collected by the institution and interest income collected by providing loan. The ratios during the study period are 50.48, 39.80, 42.91, 41.41 and 40.37 percent respectively from 2060 – 2064. It indicates that the ratio is in decreasing trend till the year 2061. Then, it again increases in 2062 but decreases in 2063 and also decreases in the year 2064.

"Employee Expenses to Total Income Ratio" are calculated to be 8.18, 7.11, 6.67, 6.86 and 7.07 percent respectively from 2060 to 2064. It explains that the institution has fluctuating its employee expenses.

"Office Expenses to Total Income Ratio" refers the expenses made for the successful and smooth operation of the institution. The ratios are 14.72, 13.11, 13.27, 13.62 and 13.30 percent respectively during the study period. It is a sign of efficient operation because Bank has been increased the Branches in different places.

"Testing of Hypothesis" is essential for the purpose of the study. Hypothesis shows the relationship between two or more variables and provides solutions to the problem. While testing the hypothesis between interests earned and interest paid, the calculated value of "t" for interest earned and interest paid is greater than the tabulated value. So, alternative hypothesis is accepted. Similarly, as calculated value of "t" for liquidity and profitability is also greater than the tabulated value, than alternative hypothesis is accepted.

5.2 Conclusion

AS Nepal is one of the developing countries in the world, the establishment of banks and financial institutions is essential for the economic development of the country. The scattered money of the society is utilized in productive sector by the banks and institutions. In addition to it, proper utilization of available funds is equally necessary to achieve the objectives of the organization. In Nepal, different types of banks, financial institution, insurance companies, co-operative organizations, foreign exchange market etc. have been providing their services to the people. Nepal is stepping toward development. Therefore, to achieve the rapid rate of economic growth, the banks and institutions should be extended in the country.

The conclusions of the present study can be written as below:-

1) The current ratio of the institution during the study period 2060 to 2064 is lower than the standard. Similarly, cash and bank balance to deposit ratio shows strength position in 2060 but weak position in 2062. But cash and bank balance has been seen increasing trend for every year.
2) Profitability ratios measure the effectiveness of the institution to generate profit. Profitability ratios are increasing every year except "Opt. Profit margin to Interest Earned Ratio". Therefore, from the analysis of the profitability ratios, it can be said that the management is sufficient to generate sufficient profit. Operating profit ratio is also shown increasing in the study period.
3) Asset Management Ratios measure the effectiveness of a firm in utilizing available assets to generate revenue. Fixed asset turnover ratio is in increasing and decreasing trend during the study period. Similarly, total assets turnover ratio is decreasing in the years 2063 with comparison to past year but it is maximum in the years 2061. In addition to it, loan and advances to total deposit ratio is also in increasing trend for the study period but it is higher in the year 2063. Hence, it can be said that work performance of overall asset management is better in the study period.

4) Trend percentages of investment are also increasing during till the year 2062 after that it is decrease in the year 2063 and increase in the year 2064. Which shows that the management has been able to well invest in the study period. Likewise, trend percentage of Net profit is also in increasing trend till the year 2060 – 2064. It reflects that the management is able to earn more profit during the study period.

5) From the risk – return analysis, it is seen that the return on each share is 40.93 percent whereas its risk is 11.60 percent and return is higher than risk. Furthermore, it is concluded that each shareholder has to bear 28.34 percent to earn 100 percent return. Again, cash flow analysis states that maximum amount has been kept as an idle. So, there is not proper utilization of available funds.

6) Other important financial indicators have been computed for the purpose of the study. "Capital Adequacy Ratio" is increasing trend during the study period with comparison to NRB standard. This Ratio is maintained properly by bank. The highest ratio of the "Interest Income to Total Income ratio" is 427percent and lower ratio is 356 percent. The "Interest Expenses to Total Income Ratio" is also fluctuating during the study period. But, "Employee Expenses to Total Income Ratio" and "Office Expenses to Total Income Ratio" are fluctuating. Furthermore, alternative hypothesis is accepted while testing the hypothesis between interests earned and interest paid as well as the hypothesis between liquidity and profitability. Loan and advances to total deposit ratio of BOK has fluctuating in the study period. But BOK has been able to utilize its deposit verry well.

7) Non-Performing loan to total loan and advances ratio has been seen decreasing trend during the year 2060 to 2064. It can be said that the bank has between utilization of loan and advances.

5.3 Recommendation

A clear financial picture of Bank of Kathmandu can be viewed from the above presentation. On the basis of the summary and conclusion, some suggestions can be recommended for better performance and to increase the efficiency of the institution. They are written as below:-

The Bank must be considerations.

a) To maintain the liquidity position, the institution should not manage its current assets and current liabilities. The position should meet the standard level i.e. it should neither be high nor low. But the institution has bad position on the liquidity.

b. The cash and bank balance of the institution is increasing every year. So, there is need to utilize the balance in productive sector so that it could earn profit for further expansion. It would be better to invest in government securities, bond, and treasury bills for secured return.

c. The amount of deposit is increasing every year. Therefore, it is necessary to open new branches in other areas to provide more services to move people and to mobilize the deposit collected from customers.

d. Profitability ratios of the institution are increasing trend during the study period. Hence, it should reduce its operating expenses, utilize the available resources property and mobilize the owner's equity effectively in productive sectors to improve the profitability position and for the existence and growth. But overall profitability ratio is fluctuating in the study period, and the bank has a good position.

f) The institution has been able to utilize its assets continuously during the study period. Furthermore, it should concentrate to use available assets in generating revenue. Similarly, it should make more efforts to mobilize collected deposits by extending loan and advances so that it can earn return for the institution.

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Website

1) www.nrb.org.np
2) www.bok.com.np

Appendix - 1

Comparative Profit & Loss A/c

Particular	2060	2061	2062	2063	2064
Interest Income Interest Expenses	567096226 286297050	607095662 241639164	718121378 308155647	819003947 339181011	1034157874 417543432
Net Interest Income	280799176	365456498	409965730	479822936	616614442
Total operating Income	424519749	514390327	576664929	677082975	862962787
Enployee Expenses	47726373	53822309	59119564	69740384	90601920
Office expenses	85828545	99190178	117591235	138429941	170480908
Non operating expenses	-	518267	-		
Provision for risk	101263085	133916898	-		
Operating profit before provision for possible losses	189701746	226942675	399954129	468912650	601879959
Provision for possible loss	-	-	78381056	81894981	38438498
Operating Profit	189701746	226942675	321573073	387017669	563441461
Non operating Income/Loss	15459800	49496	1090139	(2779849)	810748
Provision written Back	-	-	103871477	37103885	61832950
Profit from Regular Operation	2055161546	226992171	426534689	421341705	626085159
Profit/Loss from extra ordinary Items	-	-	(95205482)	411'1150	(45396284)
Net profit after considering all activities	205161546	22692171	331329207	421752856	580688875
Provision for staff Bonus	20516155	22699217	30120837	38341169	52789898
Provision for Income tax	57172203	64763233	98767743	121024706	166402098
Current years	-	-	93235553	115424706	162535369
Previous years	-	-	5532190	560000	3866729
Net Profit	127473188	139529721	202440627	262386980	361496879

Source – Annual report of BOK

Appendix- 2

Comparative Balance sheet of BOK

Capital & Liabilities	2060	2061	2062	2063	2064
Share Capital	463580900	463580900	463580900	603141300	603141300
Reserve Fund	187164330	257156916	376156916	390133544	738932488
Debenture & Bonds	-	-	200,000,000	200,000,000	200,000,000
Borrowing	-	6000000	553180,000	-	-
Deposits	7741645424	8942748598	10485359239	12388927294	15833737799
Bills Payable	38709420	19873927	11671657	-	-
Proposed & Dividend payable		81476650	98711520	135575231	32804204
Income tax liabilities	–	–	–	–	–
Other Liabilities	153094598	19873927	89723005	107840825	161733151
Loan Payable	912150000	6000000	-	7300,00,000	100000000
Total Liabilities	9496344672	9888533138	12278329302	14581394916	17721925187
Assets					
Cash Balance	139220903	161469654	184019718	219042572	536747143
Balance with Nepal Rastra Bank	643662038	579050828	349295702	883495841	606049072
Balance with financial Institution	-	-	195381672	213365528	297670728
Money at call and short notice	272321000	328873857	594047379	259278628	72679836
Investments	2477409627	2598253410	3374711966	2992433866	3204067718
Loan advances & Bills purchase	5646698444	591257472	7259082579	7259082579	12462637541

Fixed Assets	83625007	95230942	110745198	110745198	387274153
Non Banking Assets	-	-	7356136	3625715	452978
Other Assets	233407653	181672301	203688954	289978754	154346018
Total Assets	9496344672	9888533138	12278329302	14581394916	17721925187

Source – Annual report of BOK

Appendix -3

Performing loan & Non- performing loan.

Particular	2060	2061	2062	2063	2064
1. performing loan	5608374713	5873538981	7285076453	9450805704	12510822753
1.1 pass loan	5411596890	5723971845	7123200804	9346807209	12435224273
1.2 Restricted loan	196777824	149567136	161875649	103998495	75598480
2. Non-performing loan	39993717	308506039	203624470	243296250	236898850
2.1 Substandard	109099868	88423249	71610921	39863342	100176762
2.2 Doubtful	68530408	89806458	8804237	36576083	19246769
2.3 Loss	222306901	130276331	123209312	166856825	117475319

Source – Annual report of BOK