

# CHAPTER- I

## INTRODUCTION

### 1.1 Background of the Study

Financial institution plays vital role in the economic growth of the country. Financial infrastructure of an economy consists of financial intermediation, financial institution and financial markets. Financial institutions mainly facilitate the development of Nepalese trade, industry and commerce.

Nepal has adopted mixed economy system, which is known to be combination of good aspects of socialistic and capitalistic economic system, in this economic system both government and private sector are active for the industries since 1990, Nepal has adopted more liberal and open economic system with high emphasis on private sector led growth in the early years of development the government had taken the leadership for industrial development by establishing industries under its ownership.

Bank is one of the financial institutional which provides to public borrowing and lending. Now a day the banking sector has reached to the most remote areas of the country and has gain a good experienced in the growth of the economy. The present structure of the financial institution is based on commercial banks. The banking sector is largely responsible for collecting household saving in terms of different types of deposits and regulating them in the society by lending in different sectors of economy.

Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account. Quality governance is impossible without effective analysis and evaluation of financial information. In financial analysis a ratio is used as an index for evaluation the financial position and performance of a firm. Analysis and interpretation of various ratios should given an experience and skilled analyst a better understanding of financial condition and performance of a firm than he/she would obtain from analysis of

the financial data alone. So, financial analysis depends to a very large extent on the use of ratio through other equally important tools of such analysis.

In developing country commercial banks are very important of the financial approach. They always concern about how to make funds and how they lending and investing to their borrowers. Financial institutions provide capital to the entrepreneurs for the development of industry, trade and business by investing saving collected as deposits. They also providing good services to their customers, facilitating their economic activities, thus, integrated and speedy development of the country is only possible. When competitive and reliable banking services are developed and carried to every hook and corner of the country.

One of the basic objectives of establishing a commercial bank is to earn optimal profit by proper utilization of fund. By mobilizing public money and channeling the same to various business and production activities. Commercial banks contribute to the development of the country. In a developing country like Nepal, saving is low and scatters in small amounts which individuals residing in different corners of the country. Mobilization of such savings is made by commercial banks through their branches established in different parts of the country.

### **1.1.1. History of Banking System in Nepal**

The history of organized banking system in Nepal is very short. Late former Prime Minister Judda Samsar Jung Bahadur Rana established first bank, Nepal Bank Limited in 1994 B.S. the bank was established to remove the inconveniences caused to the people. When the concept of planning was formulated, there are needed for established a central bank. From the view point of planning, it is necessary that the banking activities specially the loans should be regulated as per priority, thus, Nepal Rastra Bank as the central bank was established in 2013 B.S. for the developing of the financial sector under Nepal Rastra Bank Act 2012. In a developing country like Nepal, the central bank is

supposed to help in developing banking system for mobilization of financial resources and using them into the priority areas as fixed in the development plans.

In the year 2022, another commercial bank Rastriya Banijya Bank was established under the "Rastriya Banijya Bank Act 2021". It was specially established in the response to need for forming a government owned commercial bank to look after the convenience and economic interest of general public. After a long period of establishment of these two banks, NABIL Bank is the first commercial bank from the private sector. This is the first joint venture bank of Nepal also. There after many other joint venture and non joint venture banks were set up under the Commercial Bank Act, 2031 and Company Act, 2053. Now, twenty-six Commercial banks are operating in the country.

The 19th century comes with the vast scope of development of commercial banking. It witnessed not only the phenomenal development of modern problem enabling banks to turn their attention away from old money. In 1980's to meet the need of healthy competition in financial sector, Nepal allowed to entry of foreign bank as a joint venture with up to 51% of equity participation. Recently Nepal has allowed to entry to foreign bank as a joint ventures with up to maximum of 75% of equity participation. The 20th century observed the development of various banking institutions highly specialized and sophisticated particularly in advances countries like USA, UK & others. In 2005, Nepal has entered as a member of world trade organization. After 17 entering world trade organization, Nepal has committed to open its financial sector for foreign bank to establish branches of their bank by 2010 A.D.

The history of banking system in Nepal can be summarized in four stages.

- Historical Age
- Commencement of banking system in co-operation with the government
- Introduce of Liberalization in the banking system
- Universal Banking Development

### **1.1.2 Commercial Banks in Nepal**

Bank undertaking businesses with the objective of earning profits are commercial banks. In absence of commercial banks, it would have been impossible to meet the financial needs of the country.

According to A. C. Hart, "A banker or bank is a person or company carrying on the business of receiving money and collecting drafts for customers subject to the obligation of honoring cheque drawn upon them from time by the customers to the extent of the amounts available in their current accounts."

Commercial Bank Act 1974 defines "A commercial bank means bank which deals in exchanging currency, accepting deposit, giving loans and doing commercial transactions".

### **1.1.3 Functions of Commercial Banks**

1. Accepting deposits in various types of accounts
2. Remit funds.
3. Provide credit in the form of various loans, overdraft, and co-financing to industry, commerce, agriculture, export and import service.
4. Function of foreign exchange,
5. Invest in government securities, treasury bills etc.
6. Purchase or sale of securities.
7. Provide agency functions i.e. collection of cheques, bills, promissory notes etc.
8. Execute standing instructions such as payment of rent, insurance premium, income tax etc. on behalf of their customers.
9. Help in foreign trade
10. Underwrite shares floated by government bodies and public bodies.

There are 28 commercial banks in Nepal which are listed below:

S.N.	Name of Bank	Established Date	Head Office
1.	Nepal Bank Ltd.	1994/07/30	Kathmandu
2.	Rastriya Banijaya Bank Ltd	2022/10/10	Kathmandu
3.	NABIL Bank Ltd	2041/03/29	Kathmandu
4.	Nepal Investment Bank Ltd.	2042/11/16	Kathmandu
5.	Standard Chartered Bank Nepal Ltd	2043/10/16	Kathmandu
6.	Himilayan Bank Limited	2049/10/05	Kathmandu
7.	Nepal Bangladesh Bank Ltd.	2050/02/23	Kathmandu
8.	Nepal SBI Bank Ltd.	2050/03/23	Kathmandu
9.	Everest Bank Ltd.	2051/07/01	Kathmandu
10.	Bank of Kathmandu Ltd.	2051/11/28	Kathmandu
11.	Nepal Credit and Commerce Bank Ltd.	2053/06/28	Kathmandu
12.	Lumbini Bank Ltd	2055/04/01	Narayangadh
13.	Nepal Industrial and Commercial Bank Ltd.	2055/04/05	Biratnagar
14.	Kumari Bank Ltd.	2056/08/24	Kathmandu
15.	Machhapuchhre Bank Ltd	2057/06/17	Pokhara
16.	Laxmi Bank Ltd	2058/06/11	Birjunj
17.	Siddhartha Bank Ltd	2058/06/12	Kathmandu
18.	Agriculture Development Bank	2062/03/30	Kathmandu
19.	Global Bank Ltd.	2063/09/18	Birjunj
20.	Citizens Bank International Ltd.	2064/01/07	Kathmandu
21.	Prime Commercial Bank Ltd.	2064/06/07	Kathmandu
22.	Bank of Asia Nepal Ltd.	2064/06/25	Kathmandu
23.	Sunrise Bank Ltd.	2064/06/25	Kathmandu
24.	Development Credit Bank Ltd.	2065/02/12	Kathmandu
25.	NMB Bank Ltd.	2065/02/20	Kathmandu
26.	Kist Bank Limited	2066/01/24	Kathmandu
27.	Janata Bank	2067	Kathmandu
28.	Mega Bank	2067	Kathmandu

*Sources: Banking & Financial Statistics Mid January 2010, Nepal Rastra Bank*

*(Banking & Operation Department), No.53*

#### **1.1.4 Introduction to Nepal Bangladesh Bank Ltd.**

Competition with the global market outside the country the government was also well aware to the fact of the joint venture in the country which leads to the establishment of a many new bank with different branches all over the country.

The establishment of Nepal Bangladesh Bank is also a part of that impact in June 1994 with a joint venture of IFIC (International Finance Investment and Commerce Bank Ltd). Which is a pre- premier commercial bank of Bangladesh with its 58 branches and also have a joint venture exchange company in Oman and a joint Venture Bank in Pakistan? The Bank is managed by very expert team of professionals. Its head office is situated at Bijuli Bazar Kathmandu.

The Share subscription of Nepal Bangladesh Bank has been as under:

IFIS Bank Ltd	50%
Local Promoters	20%
General Public	30%
Total	100%

The capital structure of Nepal Bangladesh Bank has been as under:

Authorized Capital	240 Million
Issued Capital	120 Million
Paid Up Capital	60 Million

*Source: www. Bangladeshbank.com*

### **1.1.5 Objectives of Nepal Bangladesh Bank**

The main objectives of Nepal Bangladesh Bank can be highlighted as below:

1. Its objectives are to provide full- fledged commercial banking services to its clients.
2. Another main objective of this bank is to render banking services to the different sectors like Industries, trade, Business person, priority sector, small entrepreneur and many more as well.
3. Its objectives are to accommodate large number of client and provide appropriate service to the client.

4. Objectives are to provide meaning support to development banking in Nepal by Joint effort with IFIC.
5. The objectives is to facilitate the reliable, prompt and high standard of banking services adopting the latest version banking technology incompliance with the need and demand of market.

### **1.1.6 Services offered by Nepal Bangladesh Bank**

There are many services offered by Nepal Bangladesh Bank among which some are as follows:

Trade Finance, Term Loan, Hire Purchase, Demand Loan, Trade Finance, Letter of Credit, Bank Guarantee, Bills Purchase, remittance services all over the world, Locker Facility. Tele Banking and many more it has also introduced free accidental insurance scheme up to Rs. 5 lakhs and medical insurance benefits up to Rs. 10 thousand to the individual saving account holders.

### **1.1.7 Introduction to Kumari Bank Limited**

KBL came into existence as the fifteenth commercial bank of Nepal by starting its banking operations from April 03, 2001 with an objective of providing competitive and modern banking services in Nepalese financial market. The bank has paid up capital was 750 million in which 70% share contributed from Nepalese promoters and remaining 30% from general public. They shall be the preferred of provider of financial services to their target embracing good governance, service excellence and professional culture in order to achieve sound business growth.

The Share Subscription of Kumari Bank Limited has been as under:

Private Sector Promoters	69.88%
Institutional Promoters	0.12%
General Public	30%
Total	100%

Its share capital distribution is as follows:

Capital Structure	Rupees in Million
Authorized Capital	Rs.1,60 Million
Issued Capital	Rs.118.6 Million
Paid up Capital	Rs.118.6 Million

*Source: www.kumaribank.com*

Currently KBL has succeeded in centralizing operations, establishing procedures, policies and system. It is also to maintain manageable and sustainable growth in the business. All the branches outlets are completely connected and networked via satellite. Major business focus KBL is on the middle class people. The bank is well aware about policy and ground realities of the country and knowledge and the capability of Nepalese promoters are reason for the success of the bank. Decision-making is an integral part of Bank Management and occurs in every function and at all levels of the bank although there are markedly different characteristics at each level. The different departments are independent to take decisions on the matter concerning their respective.

#### **1.1.8 Objectives of Kumari Bank Limited**

1. To provide world class service to the customers at a higher satisfaction level.
2. To practice total quality management and embrace good governance.
3. To optimize assets to achieve sound business growth.
4. To customer satisfaction is the 1st priority of bank
5. To employees have direct input and control over work processes.
6. To employees are treated equitably, with respect and good faith.
7. To transparent in dealings and conduct.

#### **1.1.9 Service offered by Kumari Bank Limited**

- a. It provides wide range of modern banking service that located in various urban and semi urban part of the country.
- b. It provides E- Banking & SMS banking services in Nepal



- c. It provides the utility bill payment services.
- d. Inward and outward remittance services.
- e. Online remittance services.
- f. Visa Electron debit card services.

## **1.2 Focus of the Study**

This study focuses our attention to overall the struggle & success achieved there from by joint venture banks, namely Kumari Bank and Nepal Bangladesh Bank.

The main objective of this research is to analyze the financial performance through the use of appropriate financial tools.

Joint venture commercial banks plays a tremendous role in a developed or developing nation, also helps to improve the economic sector of the country.

The banks have managed to perform better than other local commercial banks within short span of time; they have been facing a neck- to- neck competition against one another so the focus is to reveal the competition among this company.

To highlight the financial portion of the banks, to research is based on the certain financial tools, i.e. Ratio Analysis

## **1.3 Statement of the Problem**

After the identification of liberal and market- oriented economic policy by Nepal Government, the joint venture bank has been gradually established, although they are facing a great deal of competition among themselves. In this aspects the joint venture have been able to perform a great deal than other commercial bank within the country in a short span of time they have been facing a neck- to neck competition within themselves. Therefore it's very necessary to compare the profitability ratio and other financial aspects of Kumari Bank as compared to Nepal Bangladesh Bank. The profitability rate, operating expenses and dividend distribution rate among the shareholders has been found different

in the financial performance of the two joint venture banks in different periods of time in the context of Nepalese banking industries. So here the study will emphasize on the reason about difference in financial performance this study will be highly beneficial to point out the strength and weaknesses.

Similarly, financial companies have been emerging rapidly and the bank has to compete with them since finance companies are making investment in the same sectors where the commercial banks invest in this aspect the question here arise as follows.

1. Whose performance is better among the joint venture banks?
2. How to identify the best opportunity possible among the banks?
3. Although the banks are considered efficient how far are they efficient?

These questions arise in banking sector. Among the many other joint venture banks the study here mainly emphasizes on Kumari Bank & Nepal Bangladesh Bank Limited and trying to solve following questions:

- Are they maintaining sufficient Liquidity?
- How and why do cash and bank balances change each other?
- Whose performance is better?
- What are the sources and application of income?
- Does these banks management utilize this resource satisfactorily?

The study tries to solve this question and these issues

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

The main and the foremost objectives of this study is to find out the strength and weakness of both the banks undertaken by regrouping and analysis of figures contained in the financial statement by making comparison of various components and by examining their contents.

The objectives can also be highlighted as under:

1. To analyze the financial performance through the use of appropriate financial tools.

2. To highlight various aspects relating to financial performance of Kumari Bank & Nepal Bangladesh Bank Ltd. For the period of 5 Year.
3. To solve the cause of changes in cash position of the two banks at two balances data.
4. To suggest and recommend both the banks to improve their financial Performance.

### **1.5 Need of the Study**

Financial study is new dimension of financial analysis of financial institutions. The world economic recession of financial sector has affected all international institutions in the context of world in year 2008. The escape forms the recession Nepalese financial institution have to manage the proper financial procedure. The World Bank suggested Nepal Rastriya Bank to control the Banking sectors. To find out the entire financial position this study is helpful those who are interest in the same. This study is focused on the financial performance between two banks. In comparison between two banks Nepal Bangladesh Bank which is now running under the Nepal Rastra Bank , Kumari Bank who is running well. This study can suggest the proper idea to them who are failure to management.

This study is also beneficiary for all those who want to know the financial position between tow banks. Especially it helps:

1. Stakeholders and shareholders of related Bank.
2. For Nepal Rastra Bank.
3. For Government of Nepal.
4. Customer of these Banks.
5. Management of two Banks.
6. Researcher, student, executive and professionals who want to research as same area.

### **1.6 Limitations of the Study**

The study no doubt has certain limitation of the following kinds:

- This study covers only last five years trends and data.
- The study here focuses only on the financial performance of these two banks.

- Time constraints may limit the areas covered by the study.
- The entire study will be based upon secondary data.
- This study deals with certain financial tools such as Ratio Analysis, EPS, and DPS analysis.
- The study mainly concentrates on the financial performance of Kumari Bank and Nepal Bangladesh Bank.

## **1.8 Organization of the Study**

The study will be designed into five main chapters. They are:

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

It is an initial phase of the thesis that includes general introduction, a brief review of Kumari Bank Limited and Nepal Bangladesh Bank Limited, focus of the study, statement of the problem, significance, objectives and limitations of the study.

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

Earlier to this study, the researcher has found various studies regarding the financial performance of the financial institution and banks. So in this study the researcher is trying to review the importance and relevant aspect of banking, which have been conducted by previous researchers,

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

This chapter reveals the methodology adopted in carrying out the research work. It includes introduction, research design, sources and nature of data, period covered, research variables, research tools used and research questions for the study.

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

It will be concerned with the presentation and analysis of data that has been collected through various sources. It will mainly consist of interpretation and analysis of data with the help of various analytical tools and techniques and major findings regarding the study will also be included.

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

This chapter includes summary and conclusions of the study and also recommends some suggestions. The researcher have divided the study in 3 main chapters; among which, first chapter includes introduction portion. The second chapter includes the calculation of the necessary data and major findings. The third chapter includes the conclusions of the study and some package of recommendation based on the major findings.

Besides these, bibliography, appendices and other related items or figures will also be included at the end of the study report.

## **CHAPTER - II**

### **REVIEW OF LITERATURE**

#### **2.1 Introduction**

This chapter focuses with literature in the selected field and research related to the present studies. Review of literature is a way to discover what other research in the area of our problem has uncovered. Scientific research must be based on the past knowledge. The previous studies cannot be ignored because they provide the foundation to the present study (*Wolf and Pant; 1999:3*). Review of literature means reviewing research studies of other relevant propositions in the related area of the study so that all the past studies, their conclusions and deficiencies maybe known and further research can be conducted. This part of the study highlights available literature related to this research which makes base of knowledge for the study. Review of literature is stock thinking of available literature in one's field of research. It comprises conceptual review, review of related studies and concept of financial analysis.

#### **2.2 Conceptual Framework**

##### **2.2.1 Concept of Banking**

The writers on the banking are divided regarding the origin of the word "Bank". Some authors feel that the word bank is derived from the words "Banco". Bancus" or "Banque" which all mean a bench.

A bank is a business organization that receives and holds deposits of funds from others, makes loans or extends credit and transfer funds by written order of depositors (*The Encyclopedia America; 1984:234, Vol. 3*).

Bank is an institution, which deals with money & credit. It accepts deposits from public, makes fund available to those who need them and helps in remittance of fund from one place to another. "A bank seeks optimum combination of earning liquidity and safety. While formulating investment policy" (*Chandler; 1973:138*).

The more developed financial system of the world characteristically falls into three parts, the central bank, the commercial bank and other financial institutions (*Sayer; 1976:16*).

### **2.2.2 Function of Commercial Bank**

“Banks accept the deposits from unproductive sectors and utilize them in the productive sectors. This is the basic function of banks. By this they earn profit as interest by advancing the funds as loan at the interest rate higher than its cost. At the same time, bank generates capital for economic development of a country. In the past, banks used to be just an intermediary between the savers and users of fund. They used to collect deposits from savers and provider loans to the businessmen and others. Now, the services provide by bank have been expanded to many areas as human wants and development of technology” (*Singh; 2005: 15*).

General commercial banks offer the following services to customers.

#### **A) Accepting Deposit**

“The primary function of bank is to accept deposits from savers. Banks accepts deposits from those who can save money, but cannot utilize them in profitable sectors. People consider it more rational to deposit their savings in a bank because, by doing so, they earn interest. At the same time, they avoid the danger of theft, because of bank guarantees the safe custody of deposits. To attract saving the banks provide different types of account facilities. Among them the major accounts are as follows” (*Bhandari; 2003: 22*).

##### **a. Current Account**

Especially businessmen open the current account, which have to make a number of payments every day. Money from these accounts can be withdrawn, as many times as desired by the depositors, there is no limit on the amount of cheque in this account. Generally, no interest is paid on this account. Rather, the depositors have to pay certain incidental charges such as interest on bank overdraft, guarantee charge etc (*Bhandari; 2003: 23*).

**b. Fixed Account**

When account holders want to deposit their fund for certain time period, they have to open fixed account in banks. Money in these accounts is deposited for fixed period of time. It may range from one month, three months and six months, one year and up to five years. The money deposited into fixed account cannot be withdrawn before the expiry of that period. So the rate of interest on this account is higher than that on other types of accounts (*Bhandari; 2003: 23*).

**c. Saving Account**

Saving account facility is provided especially for general public, who have saving out of their income and expenditure. The main objective of this account is to encourage and mobilize small savings of the public. Certain restrictions are imposed on the account holders regarding the number of withdrawals and the amount to be withdrawn in a given period. Rate of interest paid on this account is low as compared to that on fixed account (*Bhandari; 2003: 24*).

**d. Home Saving Account**

Account holders are provided the facility to deposit their saving in their own homes in this account. For this purpose, safe boxes lacked by banks, are supplied to all account holders to keep them at homes and to put their small savings in them. Periodically, the boxes are taken to the bank where the amount of safe box taken out and created to their account. Especially children and housewives are targeted under this account. Banks provide some interest as well as safe custody on this deposit (*Bhandari; 2003: 24*).

**e. Recurring Deposit Account**

Account holders have to pay in the installment deposit regularly in recurring deposit account. Generally, money in these accounts is deposited in monthly installments for a fixed period and is repaid to the depository along with interest on maturity (*Bhandari; 2003: 24*).



## **B) Advancing of Loan**

Commercial bank is a profit oriented business organization. So banks have to advance loans to public and generate interest from them as profit. After keeping certain cash reserves, bank provide short, medium and long-term loan to needy borrowers. For security, banks generally provide loan on mortgage. General loans for individual are provided on the mortgage of gold, silver, fixed deposit receipts, treasury bills, development bonds etc whereas business loan are advanced on the mortgage of negotiable instrument such as land, buildings, store room etc. According to the needs of the borrowers, banks provide different types of loan for different time period as given below (*Dahal; 2004: 386*).

### **a. Term Loans**

Banks provides medium-term and long-term loans on the basis of loan proposal. The maturity period of such loan is more than one year. Generally, the amount sanctioned is created to the account of the borrowers. However, banks pay the amount in cash to the borrowers in some case (*Dahal; 2004: 386*)

### **b. Cash Credit**

Banks advance loan as cash credit to businessmen against certain pacified securities. The amount of the loan is created to the current account of the borrowers. The borrowers can withdraw money through cheque according to his requirement. Interest is charged only on the amount actually withdrawn from the account (*Dahal; 2004: 386*).

### **c. Overdraft**

Generally, businessman and organization open current account in bank. They deposit all receipts in the account and pay all dues through cheque. Bank provides overdraft faculties to such account holder. Overdraft facility allows the customer to withdraw more than their deposits. The account holders have to go in a special contract with bank to get such facility (*Dahal; 2004: 387*)

#### **d. Money at Call**

It is a very short-term loan provided by bank at a very short notice. Generally, loan under money at call has time duration of only one day to fourteen days. After that period, the money should be refunded. Such loan is useful especially for other financial institutions and traders (*Dahal; 2004: 387*).

#### **C) Discounting of Bills of Exchange**

Bills of exchanges are a negotiable instrument, which is accepted by the debtor, drawn upon him/her by the creditor (drawer) and agrees to pay the amount mentioned on maturity. Discounting bill of exchange is another important function of modern banks. Under this function, banks purchase bill of exchange. Bank purchases it from holders in discount after making some managerial deduction in the form of commission. The banks pay the deducted value to the holder when traders discount it into bank. The percentage of discount is determined by mutual agreement between bank and traders, which is affected by duration of expiry and goodwill of drawer of bill of exchange (*Natarajan; 2001: 87*).

#### **D) Payment of Cheque**

Banks provide cheque pads to the account holders. Account holders can draw cheque upon bank to pay money. Banks pay for cheque of customers after formal verification and official procedures. Providing the cheque payment functions, a bank renders a very useful medium of exchange in the form of cheque (*Natarajan; 2001: 88*).

#### **E) Collection and Payment of Credit Instruments**

These days business uses different types of credit instruments such as bill of exchange, promissory notes, cheque etc. Banks deal with such instruments. Banks collect and pay various credit instruments as the representatives of the customers. The remittance service of banks has benefited both the business and personal customers (*Mishra; 2003: 31*).

#### **F) Remittance**

It is a system through which cash fund is transferred from one place to another. Banks provide the facilities of remittance to the customers and earn some service charge. Generally, a bank provides such facilities through cheque, bank drafts, letters of credit etc. Remittance plays an important role in national and international trade (*Mishra; 2003: 32*).

### **G) Exchange Foreign Currencies**

As the requirement of customers, banks exchange foreign currencies with local currencies, which is essential to settle down the dues in the international trade (*Mishra; 2003: 32*).

### **H) Consultancy**

Banks expand their function to consultancy business too. They hire financial, legal and market experts, who provide advices to customers in regarding investment, industry, trade etc (*Mishra; 2003: 33*).

### **I) Bank Guarantee**

Customers are provided the facility of bank guarantee by modern commercial banks. When customers have to deposit certain fund in government offices or courts for specific purpose such as legal case, bank can present itself as the guarantee for the customers, instead of depositing fund by customers. Bank provides such facility only when the customers have sufficient fund in their account (*Ivamy; 1993: 213*).

### **J) Agency Functions**

“As an agent banks perform different types of functions such as:

#### **a. Period Collection**

On behalf of customers, bank collects income of customers such as dividends of share, interest on debenture and fixed deposit etc.

#### **b. Period Payment**

Banks can execute the standing order or instruction of customers for making periodic payment on behalf of their customers. Under this function, banks pay subscription, income tax, rents, etc. for their respective customers and earn appropriate service charge.

**c. Purchase and Sale of Securities**

Banks undertake purchase and sale of various securities like share, stocks, bonds, debentures etc. They perform the function of a broker only to purchase and sell the securities.

**d. Representative**

Banks can act as representative of their customers. They can proceed for passports, travelers' tickets, book, vehicles, plots of lands etc for their customers.

**e. Trustee or Executor**

When customers want to transfer their property to specific person after demise, they can make a legal document about them and handover it to the banks or trustee or executor. Banks preserve such documents of customers' will and execute their will after demise" (*Ivamy; 1993: 217-221*).

**K) Others**

Besides these main functions, the banks perform several other functions such as providing security to valuable goods and property, issuing travelers' cheque, issuing credit card, underwriting securities and many more.

**2.3 Financial Statement Analysis**

Financial statement analysis is helpful to the decision maker for finding out favorable or unfavorable condition of a business concern, there fore, financial analysis reflects the financial position of a firm which is the process of determining the operational and financial characteristics of a firm.

Financial statements analysis is largely a study of relationship among the various financial factors in a business as disclosed by the statement and a study of the trend of these factors as shown in a series of statement (*Moyer;1961:4*).

Local commercial banks have been found relatively higher leveraged compared to other joint venture banks. Loans and advances has been the main form of the investment. Two third of the assts have been used for earning purpose (*Joshi;1989:56*).

Financial analysis is to analyze the achieved statement to see if the results meet the objectives of the firms to identify problems, if any in the past or present and/or likely to be in the future and to provide recommendation to solve the problems (*Pradhan; 2000:120*).

Financial analysis is the pinpointing of the strengths and weakness of a business undertaking by regrouping and analysis of figures contained in financial statement by making comparison of various components and by examining. Their context, this can be used by financial managers as the basis to plan future financial requirements by means of forecasting and budgeting procedures (*Manmohan and Goel; 1997:356*).

It is both the analytical and judgmental process that helps answer and question that have been posed. Therefore, it is means to end. A part from the specific analytical answer, the solutions to financial problems and issues depend significantly. On the view of the issue and on the nature and reliability of the information available.

### **2.3.1 Objective of Financial Analysis**

The main objectives of financial analysis is explain various facts related to the past performance of business and predict the potentials for achieving desired results. Some of the main objective of financial analysis can be pointed out as follows:

- To understand the solvency of short term and long term of a firms.
- To know the present and future profitability of the firm.
- To compare with different firms.

- Fore cast the future & preparing budgets.
- The financial stability of business firm.
- The long term liquidity of its fund.( *Brealey, &Myers; 1984:78*)

### **2.3.2 Need of Financial Analysis**

The analysis of financial statement is mainly focus with the some questions.

What is the present performance of the firm? Which are the problem existing areas?

1. What is the present performance of the firm?
2. What will be the position of the firm in future? What are the projections? Is there any likely problems are the way in the future?
3. What are the recommendations? (*Charles; 1994:103*)

The main source of financial statements is the basis of analysis, which includes Income Statement, Balance Sheet and additional inertia. This contains summary of the firm's financial affairs the top management undertakes the financial statements. The investors and financial analysts are the major interested party to ensure the firm's performance through the statement. This analysis is significant in making investment decisions. These statements are published in company's annual report. The annual report is specially prepared for the shareholders, which includes the chairman's speech, the director's report and auditor's report with accounting policies. Though the financial statements are prepared for the external reporting the speech, report and policies are useful in internal management. The present study focus the financial statements of the annual report which is the combination of Balance Sheet (or statement of financial position) Profit and Loss account (or income statement).

## **2.4 Review of Articles, Thesis and Journals**

### **2.4.1 Review of Articles**

**Shrestha** (1990), in his article "*Commercial Banks' comparative Performance Evaluation*" published in Nepal Bank Patrika stresses on a proper risk management with appropriate classification of loans under performing and non performing category. He further clarifies 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 interest unpaid for more than six months need to be treated as unearned income.

Regarding the risk management of the bank Shrestha suggests that:

- 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 related to overdue loans.
- All credits including overdrafts should be given a maturity date and should be subjected to revision at that date and consequently categorize as good, substandard or doubtful loans.
- Financial credit worthiness of the borrower must be evaluated properly before granting the loans.

He found JVBs are new, operationally more efficient, have better performance in comparison to NBL and RBB. Better performance of JVBs is due to their sophisticated technology, modern banking methods and skills.

State owned banks are efficient at rural sector however they are facing growing constraints from social, economical, political system as well as the issues and challenges from JVBs.

**Bajaracharya** (1991), entitled "*Monetary and Deposit Mobilization in Nepal*" concluded that, mobilization of the domestic saving is one of the prime objectives of the monetary policy in Nepal. And commercial banks are the most active financial mediator for generating resource in the form of deposit of private sector and providing credit to the investor in different sectors of the economy.

**Shrestha** (1995), made a study "*Portfolio Behavior of Commercial Banks in Nepal*" in Economic Review analyzed the financial performance of the commercial banks through

ratios and management achievement index. She also analyzed the investment and lending operations of commercial banks and their contribution to the national economy. She used data from 1975 to 1990 and analyzed the portfolio composition of the commercial banks and their behavior by testing the relationship with economic and fiscal variables of the country.

Some of her conclusions relevant to this thesis are:

- Per capita deposits as well as per capita credit in commercial banks have increased tremendously. The contribution of deposit in GDP has also been increasing.
- Structural ratios show 75% of their total deposits invested in the government securities and the shares.
- Reserve position shows quite high percentage of deposit as cash reserve.
- The commercial banks are highly leverage and highly risky.
- By risk and return JBVs are aggressive.
- BY comparative total management achievement index JBVs are better.
- Among the commercial banks, Standard Chartered Bank seems to have highest growth rate of EPS.

**Shrestha** (1997), in his article “*Nepalma Banijya Bank Haruko Bhumika: Ek Paridrist*” published in Banking Samachar pointed out some important activities, seen in the banking sector, that deserve reviews:

- Possibility of capital flight: The unstable political situations caused the possibility of capital flight soaring high. Joint venture banks can become the main source of capital flight. It should be seriously considered and analyzed and corrective actions to be taken in time.
- Minimum deposit amount: Commercial banks and financial institutions have increased the minimum deposit amounts (threshold). This policy harasses depositors. Therefore this policy deserves review.
- Debt recovery and its effectiveness: Debt recovery has become a problem to the banks. Therefore, effective evaluation of collateral and monitoring of loans use should be done effectively.



**Poudel** (2000), entitled “*Financial Statement Analysis: An Approach to Evaluate Banks Performance*” has indicated that balance sheet, profit and loss account and the accompanying notes are the most useful aspects of the banks. It needs to understand the major characteristics of bank's balance sheet and P/L account. 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 assets account forms a small portion of the total assets. Financial innovations which are generally contingent in nature are considered as off balance sheet item.

Interest received on loans and advances and investment and paid on deposit liabilities are the major components of profit and loss account. The other resources of income are fee, commission, discount and service charges. The users of the financial statements of a bank need relevant, reliable and comparable information which assist them in evaluating the financial position and performance of the bank and which is useful to them in making economic decision. The requirements of bank's financial statement have been expressly laid down in the concerned act. The Commercial Banking Act 1974 requires the audited balance sheet and profit and loss account to be published in the leading newspaper for the information of general public.

The principle objectives of analyzing financial statement are to identify: liquidity, profitability and solvency. Most of users of the financial statements are interested in assessing the bank's overall performances which are affected by the following factors:

- The structure of balance sheet and profit and loss account.
- Operating efficiency and internal management system
- Managerial decision taken by top management regarding rate, exchange rate, lending policies etc.
- Environmental changes (technology, government, competition and economy)
- The other factors to be considered in analyzing the financial statements of a bank are to assess the capital adequacy ratio and liquidity position. In the line of adequacy, a bank is assessed on the basis of risk weighted assets. It indicates a

bank's strength and solvency. Bank 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.

Liquidity is measured by the speed with which a bank's assets can be converted into cash to meet deposit withdrawals and other current obligations. It is also important in view of survival and growth of a bank.

**Pandey** (2003), made “*A Study on a Topic of a Study of Financial Analysis on HBL*”, the study was conducted to analyze and evaluate the financial position of HBL in order to benefit the management, shareholders, stock traders, customers, depositors and debtors by his findings. He used financial tools like ratio analysis and some statistical tools like average, CV, trend analysis, coefficient of correlation, probable error in his study. And he found that overall liquidity and capital structure position of the bank is not satisfactory. Overall profitability condition was highly appreciable profit generating capability through loans and advances appeared satisfactory. Trend of deposit collection showed that the bank was in a higher risk with respect to saving deposit as against the fixed deposit.

**Rana** (2003), in his interview to “*Business Age*” monthly said that though JVBs have short term threats they are operating efficiently and earning and paying handsome dividends. Hence the share prices have gone up. If the law and order situations do not improve in the country, in two three years time top ranked banks are expected to survive somehow but others may find harder time.

**Dhungana** (2005), in his article "*Non Performing Loan and Commercial Banks*" published in The Kathmandu Post said that the banking sector is severely affected by the non-performing loan. It is estimated that non-performing loan of the Nepalese banking system is around 16%. Due to the non-performing loan, two old commercial banks, RBB and NBL, are in the worst position today. JVBs are also facing non-performing loan problem. It has a serious implication on economic performance of the country. Hopefully the Debt Recovery Act 2058 will tackle this problem.

**Roy** (2006), in his article, “*Micro Finance in Nepal*” published in **Business Age** said that the micro-credit programmers, which began in Nepal in 1975, have become a powerful tool for poverty alleviation. Micro finance has enabled the poor to utilize opportunities, generate self-employment and be enterprising. It enhanced self-confidence and self-esteem and purchasing power. It empowered the poor people economically and socially. It contributes at overall economic growth.

**Gronlund and Ponni** (2007), in their article, “*Financial Performance of Commercial Radio in Sweden*”, published in *Stockholm City Business Journals* have stated despite slowing median growth of turnover, the profitability of Swedish commercial radio companies improved slightly in 2005. Both operating margin and net result have improved and are now positive. After the recession in 2001 the profitability of Swedish radio companies sank fairly badly, with the net result being almost -11 percent in 2002. Since then profitability has improved steadily. Median growth of turnover was only 0.1 percent in 2005, down from 5.1 percent in 2004. The total advertising investments in different Swedish media increased around 7 percent in 2005 and advertising investments in Swedish commercial radio grew by 4.5 percent, being now SEK 513 million. Despite the overall growth, slowing median growth of turnover suggests that growth in advertising investments has not been distributed evenly. Clearly it has been concentrated in the bigger companies in radio business.

The solidity of the Swedish commercial radio companies has improved slightly. Equity ratio was 36.4 percent in 2005 (35.8% in 2004) and relative indebtedness was 31.5 percent (32.7% in 2004). Both of these key figures are on fairly good levels for the radio business. Current ratio (1,4) remained on the same level in 2005 as it was in the previous year, at the moderate level. It is quite obvious that an industry that has created losses for many years, must be financed from outside. In Sweden most of the commercial radio companies are owned by large media houses that are paying the losses as a price for participating in the marketplace. The productivity of the Swedish commercial radio companies has improved steadily during the past three years. Value added per personnel

was 290,400 SEK compared to 286,000 SEK in 2004. This is, of course, a good development, but when compared to commercial radio companies in Finland, Swedes are still clearly behind. In other key figures Swedish commercial radio companies are slightly ahead of Finnish counterparts. Although the economic performance of Swedish commercial radio companies has improved in 2005, it is still not at a good level. The radio business is still fighting with profitability and the industry losses are seen as a cost for establishment and thus an investment into a future (hopefully more profitable) presence on the radio market. The consolidation and forming of radio networks, cost-cutting and synergy seeking are all a part of the attempts to improve the profitability of companies.

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

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

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

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

#### **2.4.2 Review of Thesis**

Prior to this study several research works have been done by the students on the performance of commercial banks of Nepal. For review purpose relevant studies have been gone through. Some of the conclusion drawn by them are cited below:

**Singh** (1995), entitled “*A Comprehensive Evaluation of Financial Performance of Nepal Arab Bank Ltd and Nepal Grindlays Bank Ltd.*” Reveals that the liquidity position in terms of current ratio of both the banks is below the normal standards. The researcher’s main objective was to analyze how these banks use their sources. According to the analysis of turnover of active ratios NABIL invest 57% of deposits whereas Nepal Grindlays Bank Invest 41% of the total deposits on the loans as advances. In this portfolio NABIL is performing better and has the better liquidity position. Profitability ratio of both the banks reveals positive reform during the study period but the progress is higher in Nepal Grindlays Bank whereas NABIL seems more efficient in utilizing its capital employed in generating interest income. As NABIL has acquired more funds, it has also raised more capital by issuing shares, bonus shares and retaining earnings.

The main objectives of this thesis are:

- To find out liquidity position of these commercial banks.
- To analyze the resource position of both banks.
- To show the profitability ratio of these banks.

The major findings of this research are:

- The portfolio NABIL is performing better and has the better liquidity position.
- Profitability ratio of both bank are reveals positive reform during the study period.
- NBAIL has acquired more funds; it has also raised more capital by issuing share, bonus shares and retaining earnings.

**Lamsal** (1999), made “*A Comparative Financial Statements Analysis of HBL and NGBL*”. His main objective to make comparative study of financial performance of the above mentioned banks. He used financial tools like ratio analysis and statistical tools like average, CV, SD, trend analysis, hypothesis tests in his study. He found that liquidity position of HBL is better than NGBL. HBL has sufficient cash and bank balance

to meet its current and fixed deposits. HBL has better turnover than NGBL in terms of loan and advances to total deposits ratio. Investment to total deposit ratio of NGBL is better than HBL. NGBL pays higher dividend per share than HBL.

The main objectives of this research are:

- To make comparative study of financial performance of the above maintained banks.
- To analyze the strong and weakness of these two selected banks.
- To analyze the liquidity position and cash reserve of selected banks.

The major findings of this research are:

- The liquidity position of HBL is better than NGBL.
- HBL has sufficient cash and bank balance to meet its current and fixed deposits.
- HBL has better turnover than NGBL in terms of loan and advance to total deposits ratio.
- NGBL pays higher dividend per share than HBL.

**Maharjan** (2000), made “*A Comparative Analysis of Financial Performance of Nepal Bangladesh Bank Ltd and Nepal Grindlays Bank Ltd.*” His main objective was to analyze and evaluate the financial position of Nepal Bangladesh Bank Ltd and Nepal Grindlays Bank Ltd in order to benefit the management, shareholders, stock traders, customers, depositors and debtors by his findings. He used financial tools like ratio analysis and some statistical tools like average, CV, trend analysis, Hypothesis tests. He used the data of five years till the year 2000. At liquidity position NGBL don’t meet the required standard but it is consistent. At fund utilization NBBL is better. NBBL is more aggressive at fund mobilization bearing higher risk. At profitability NBBL has increasing trend till 1997. NGBL has higher fluctuation at profitability. Overall capital position is better at NGBL.

**Gurung** (2001), entitled “*A Financial Study of Joint Venture Banks in Nepal A Comparative Study of Nepal Grindleys Bank Ltd. And Nepal Indosuez Bank Ltd.*”

concludes that both Joint Ventures banks includes unsatisfactory in liquidity position and interest coverage ratio. The capital structure of the banks is extremely leveraged but they have been maintaining sound capital adequacy ratio as directed by Nepal Rastra Bank. Both the joint Venture banks have registered an increasing trend during the first half but the study period has been decreased thereafter. The researcher has recommended maintaining improved capital structure by increasing equity base. Both the banks should pay due attention in liquidity and coverage position. The researcher further suggests extending their banking facilities even in rural areas by opening up branch office.

Major finding of these thesis are:

- The both bank are not use their capital properly.
- Both joint venture banks have registered an increasing trend during the first half but the study period it has decreased thereafter.
- The researcher suggests that extending their banking facilities even in rural areas.

**Oli** (2003), made “*A Comparative Study on Financial Performance of HBL, NSBIBL, and NBBL*”. His main objective was to make comparative study of financial performance of the above mentioned banks. He used financial tools like ratio analysis and statistical tools like average, CV, SD, trend analysis, hypothesis tests in his study. And he observed that NSBIBL and NBBL are always above the normal standard, HBL always below the normal at liquidity position. Liquidity position of NBBL is better than NSBIBL and NSBIBL is better than HBL. And they are suggested to utilize the excess of resources for income generation. Total debt to equity and total assets is higher for HBL than both. NBBL has been able to mobilize total deposits in loan and advances than HBL and NSBIBL. NSBIBL is better than HBL at this. HBL has better utilization of fixed deposits in earning. NSBIBL has better used of saving deposits than other two net profit to total assets of HBL is better. The profit level is lower in all.

**Lamsal** (2004), made “*A Comparative Financial Statements Analysis of HBL and NGBL*”. His main objective to make comparative study of financial performance of the above mentioned banks. He used financial tools like ratio analysis and statistical tools



like average, CV, SD, trend analysis, hypothesis tests in his study. He found that liquidity position of HBL is better than NGBL. HBL has sufficient cash and bank balance to meet its current and fixed deposits. HBL has better turnover than NGBL in terms of loan and advances to total deposits ratio. Investment to total deposit ratio of NGBL is better than HBL. NGBL pays higher dividend per share than HBL.

The main objectives of the study are:

- To make comparative study on financial performance of the selected banks.
- To evaluate the liquidity position of these selected banks.
- To analysis the resource position of these banks.

The major finding of the study is

1. The liquidity position of the HBL is better than NGBL.
2. HBL has sufficient cash and bank balance to meet its current and fixed deposits.
3. HBL has better turnover than NGBL in terms of loan and advances to total deposits ratios.
4. Investment to total deposit ratio of NGBL is better than HBL.

**Parajuli** (2005), entitled “*A Comparative Study of the Financial Performance of Joint Venture Banks in Nepal*” has set the main objective to evaluate effectiveness of monitoring and collecting policies of banks. The researcher has specialized study on Nepal Grindleys bank Ltd. and Nepal Arab Bank Ltd. The analysis of liquidity ratio reveals that the liquidity position is relatively higher in case of NABIL. As indicated by the activity ratio, NABIL has better performance than Nepal Grindleys Ltd, which might be the consequences of better lending policy of NABIL. Regarding the profitability ratio, almost of the profitability ratios of NGBL is higher than those of NABIL in percentage, which reveals that NGBL is relatively great efficiency in mobilization it resources. Profitability ratio, which measures the bank’s capacity to earn the means of substance, is different in those two banks. During the study time frame, NGBL has better result in respect of Net profit to total assets ratio, net profit to total deposit, return on network, return on assets and ROCE than NABIL. EPS of NABIL is better than NGBL. Thus, it

may be concluded that NGBL may have bright future than that of NABIL because it is quiet efficient in generating the means of subsistence.

**Pyakurel** (2005), has conducted a study on, “*A Comparative Appraisal on Financial Performance of Nepal Bangladesh Bank and Bank of Kathmandu.*” The main objective of the study is to show the causes of changes in cash position of the two banks. The other objectives are;

- a. To evaluate the liquidity position of NBB and BOK.
- b. To analyze the profitability ratios of NBB and BOK.
- c. To examine the marketability position of NBB and BOK.

His major findings are;

- a. NBB is more efficient than BOK in all respect and the study found the current ratio of NBBL was high.
- b. NBBL is utilizing its deposits more effectively than BOK, all the profitability rates were found to be higher in case of NBBL than BOK.
- c. Since BOK is suffering losses in three fiscal years, thus showing its operational deficiencies in mobilizing the resources in production sectors. On the other hand, NBBL has always been increasing its profit from the outset.
- d. On average, BOK was generating more cash from financial activity than NBBL. However, the contribution of financial activity in the final cash and bank balance of the bank was not as significant that of operating activities.

**K.C.** (2006), has conducted a study on, “*Comparative Study of Financial Performance Between Everest Bank Limited and Bank of Kathmandu Limited.*” The main objective of the study is to make a comparative financial analysis between EBL and BOK. The other specific objectives are;

- a. To compare the liquidity position of EBL and BOK.
- b. To examine the efficiency of EBL and BOK.
- c. To analyze the solvency of EBL and BOK.
- d. To trace out the financial strength and weakness.

His major findings are;

- a. The current ratios of both banks are not satisfactory. Cash and bank balance to total deposits of EBL and BOK do not go outward equally. EBL has more secured credit position than BOK.
- b. Loans and advances to total deposit ratio of BOK is better than EBL. But the ratio implies that EBL is utilizing its fixed deposit in loans and advance more efficiently.
- c. Net profit to working found ratios on both banks is in poor condition but in latest years, it seems in positive way. Both banks have been improving or overcoming from the weak condition.
- d. Average earning per share of EBL is seen well rather than BOK but both of them are not running in favor of investors. Market value per share of EBL is increasing slowly while in case of BOK, it has zero value in initial three years.
- e. To sum up, it can be said that EBL has performed better than BOK during the study period. It seems that EBL will perform better than BOK in future too.

**Joshi** (2007), entitled "*A Comparative Study on Financial Performance of NABIL Bank Ltd. and Nepal Bangladesh Bank Ltd.*" The main objective of the study is to know the financial condition, financial performance and financial growth of NABIL and NBL. The other specific objectives are;

- a. To examine the EPS and DPS of NABIL and NBL.
- b. To analyze the efficiency of NABIL and NBL in utilizing the assets.
- c. To evaluate the trend of net profit of the concerned banks.

His major findings are;

- a. The overall liquidity position of NBBL was stronger than that of NABIL. Analyzing the activity or turnover of both banks, NBBL mobilized its deposits more on loan and advances whereas NABIL mobilized its deposits more prudently and efficiently in generating income.
- b. Similarly, capital adequacy position of NABIL was found to be better than that of NBBL. Regarding the capital structure of the banks, NBBL was found to have

adopted high risk; high return strategy as suggested by its highly leveraged i.e. debt dominated.

- c. According to profitability analysis, NABIL was found sound profitability due to its higher ratio. Also, other indicators as EPS, DPS, and TPS were found sharply higher in NABIL which implies positive attitude of stakeholders toward NABIL.
- d. NABIL should keep only the reasonable amount of liquidity, which will save the bank from creating low return; NABIL should improve its capital adequacy by investing the assets and deposits in highly returnable sector; NABIL should invest its deposit in profit generating sectors.

**Dangi** (2008), made “*A Comparative Study of Financial Performance of SCBNL, NABIL and HBL*”. His main objective to make comparative study of financial performance of the above mentioned banks. He had an intention to benefit the management, shareholders, stock traders, customers, depositors and debtors by his findings. He used financial tools excessively but did not use any statistical tools in his study. And he concludes all have unsatisfactory liquidity position, all are highly leveraged, all have low coverage ratio due to excessive use of debts, and SCBNL is better at mobilizing assets, SCBNL is better at EPS suggesting effective utilization of owners' equity. DPR higher with SCBNL, HBL is better at lending and SCBL better at service giving, SCBNL has higher expenditure at staff, HBL at interest payment, NABIL at general expenditure, all borrowed but SCBNL is continuously borrowing throughout the period, suggests to improve quality of current assets structure, to increase equity base, and EBT.

**Manandhar** (2008), has conducted a study on, “*A Comparative Study on Performance Analysis of Top Five Commercial Banks of Nepal.*” The main objective of the study is to analyze and compare liquidity, profitability, stability and market value position among the top five commercial banks. The other specific objectives are;

- a. To trace out the trend of loan and advances.
- b. To find out the relationship between deposits and loans & advances, and deposits and net profit.
- c. To analyze the trend of profit and dividend distribution.

His major findings are;

- a. EBL and NIBL have been getting lower net profit out of total income with comparison to all the banks.
- b. EBL comparatively fails to maintain operating ratio on total assets whereas NIBL did best. HBL, EBL and NIBL have been suffering from ineffectively using the total fund. So, they are getting lower return than SCBNL and NABIL.
- c. All top five commercial banks have been earning sufficient interest income on loan and advances. It means they have been high utilizing the loan and advances.
- d. NABIL has been providing comparatively greater cash dividend on share capital in a consistency manner too. SCBNL and NIBL have been providing lower cash dividend in inconsistency manner. SCBNL has been providing dividend on share capital comparatively greater than other banks in a consistency manner.
- e. NABIL has also been providing better dividend in a consistency manner to some extent too. As a lower average, NIBL has not provided dividend on share capital. NABIL shows greater inconsistency too.

**Rai** (2009), has made a study on, "*A Comparative Study on Financial Performance between the Commercial Banks*". The main objective of the study is to examine the financial performance of SBI bank and NBBL bank. The other objective are;

- a. To study the liquidity position of both the banks.
- b. To analyze the lending position of both the banks.
- c. To examine marketability position and the efficiency ratio of SBI and NBBL.

His major findings are;

- a. The analysis of liquidity position of these commercial banks shows different position. The current ratio measures only total rupees worth of current assets and total rupees worth of current liabilities, i.e. it indicates the availability of current assets in rupees for every one rupee of current assets than current liabilities. The average current ratio of SBI (1.05) is greater than that of NBBL (0.98) Therefore, the liquidity position of SBI bank is in normal standard and NBBL is also trying to gain that position.

- b. From the analysis of turnover of these two banks, NBBL has better turnover than SBI bank in terms of loans and advances to total deposit ratio. Thus, NBB has better utilization of resources in income generating activities, than SBI bank.
- c. The analysis of profitability of these two commercial banks is also different. The overall calculation seems to be better for NBBL. Though certain ratio like dividend per share, dividend payout ratio etc better for SBI Bank. The writer has also conducted that earning per share of NBBL is better than that of SBI bank.

**Pokharel** (2010), entitled made “*A Comparative Study of Financial Performance of NABIL and SCBNL*”. The main objective was to make comparative study of financial performance of the above mentioned banks. He had an intention to benefit the management, shareholders, stock traders, customers, depositors from his findings. He used financial tools like ratio analysis and statistical tools like average, CV, SD, trend analysis, coefficient correlation, probable error, hypothesis tests in his study. He used the data from 2003 to 2008 and used most of the ratios and extensively used statistical tools. And he concluded that both have lower liquidity position, both are highly leveraged, performing assets to total assets ratio satisfactory in both ,unsatisfactory profitability in both, threat of solvency being high, recommends to increase equity base, improve operational profit ,and to decrease operating expenses, expand services to rural areas.

The main objectives of this study are:

- To find out the comparative study of financial performance of the selected banks.
- To find out how the liquidity are mobilize in every sector.
- To evaluate the deposits, fixed assets, shareholders and management system of the bank.

Major finding of this study are:

- The researcher has found out the lower liquidity position.
- The performing assets to total assets ratio satisfactory in both banks.
- The threat of solvency being high.

**Dangol** (2010), entitled “*Financial Performance Analysis of NCC Bank Ltd. On Published Dissertation*”, conducted this study to evaluate financial performance of NCCB Ltd.

1. To assess the financial performance of NCCB.
2. To measure liquidity position and investment portfolio.
3. To study the relationship between deposit, credit on financial strength and net profit.

On the basis of various analyses the researcher came out with the following conclusion. The financial position of the NCCB from the year 2004 to year 2009 the collection of deposits and loan investment are increasing satisfactory and there be also improvement in the operating profit but there is heavy fluctuation in the financial position of the bank. It is due to the provision of the various rules of Nepal Rastra Bank and due to change in the management in the short period for the many times. From the overall analysis the liquidity position of the NCCB in the five year period is satisfactory, collection of deposit, investment in loan and advance is also satisfactory. Due to systematic credit policy interest earned from loan and advance is good but bank is not able to invest in profitable sector other than loan and advance. Financial resource investment of the bank assets is not satisfactory and net profit of the bank is not satisfactory though there is improvement in the profit earning than year 2006 in which the profit is negative of Rs. (397.1) million the negative profit shows that the bank has just done the job of paying interest and has not mobilized the deposit.

## **2.5 Research Gap**

After reviewing the researches done through out the past, the present researcher has found that comparative study of the financial performances of the banks has not been long analyzed especially between the Nepal Bangladesh Bank Ltd and Kumari Bank Ltd. The past studies have recommended some of the remedial references like to reduce the debt, increase the liquidity, to limit the operating cost. It’s been time to check how far the differences have occurred in the banks. The present study explores the comparative and

financial performances of the banks: Kumari Bank and Nepal Bangladesh Bank as sample banks.

The purpose of this research is to develop some expertise in one's area, to see what new contribution can be made and to receive some ideas, knowledge and suggestions in relation to comparative financial performance of commercial banks. Thus, the previous studies can 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. Here, it is clear that the new research cannot be found on that exact topic, i.e. financial performance, therefore to fulfill this gap, this research is selected. To complete this research work: many books, journals, articles and various published and unpublished dissertations are followed as guidelines to make the research easier and smooth. In this regard, here we are going to analyze the different procedure of financial performance. Our main research problem is to analyze whether the sample bank has right level of profitability and liquidity as well as is able to utilize resources effectively or not. To achieve this main objective, various financial and statistical tools are used. Therefore, this study is expected to be useful to the concerned banks as well as different persons; such as shareholders, investors, policy makers, stockbrokers, state of government etc.



## **CHAPTER - III**

# **RESEARCH METHODOLOGY**

Research Methodology is the process of arriving at the solution of a problem through a planned and systematic dealing with the collection, analysis and interpretation of the facts and figures. It presents research methodology adopted in achieving the objective stated in the earlier chapter. It contains research design, sources of data, data gathering procedure and data analysis tools.

The main objective of this report is to analyze, examine, highlight and complete the financial performance of Kumari Bank Limited and Nepal Bangladesh Bank Limited. And recommend and suggest for better performance. So the propose of this study is to analyze and fulfill the stated objectives. Project methodology refers to the various sequential steps to be adopted by a reporter in studying a problem with certain objectives in view. It's the way to solve the research problem systematically. Here, focus is made on research design, sample size, source and type of data, data gathering instruments and procedures, data tabulation and processing study limitation and methods of analysis.

### **3.1 Research Design**

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 (*Kothari; 1990: 39*).

Research design is plan, structure and strategy of investigation conceived. So as to obtain answer to research question and to control variances to achieve of the study, descriptive and analytical research design have been used.

It is the task of defining the research problem. It is the main part of any research work. The present study consists of analytical as well as descriptive design. Here, the study aim

at portraying accurately upon the financial performance and other aspects related to finance of the two Joint venture banks, namely Kumari Bank Limited and Nepal Bangladesh Bank Ltd.

### **3.2 Population and Sample**

All the commercial bank operating in the country is the population of the country among them two joint venture commercial bank Kumari Bank Limited and Nepal Bangladesh Bank are selected for the study. The sampling technique used in this study is the judgmental.

### **3.3 Sources and Collection of Data**

For the purpose of study only the secondary data are used. The required data and information for analysis are directly collected from the annual reports of the respective banks. The supplementary data are collected from number of institution like Shanker Dev Campus Library and documentation section of T.U. Library, company office etc. Similarly related books magazine Journals articles reports bulletins and data from security board Nepal. Further the secondary data have been collected from reports and financial statement of the company, published and unpublished officials reword, books, articles magazine, annual report etc.

### **3.4 Method of Data Analysis**

For the purpose of analysis, financial, statements, profit and loss account and Balance Sheet of the concerned banks has taken financial as well as statistical tools have been used. Financial performance is analyzed through the use of two important tools.

#### **3.4.1 Financial Tools**

##### **a) Ratio Analysis**

Ratio Analysis is the powerful tools of financial analysis, which helps in identifying the strength and weaknesses of an organization or business concern about the financial performance. The term ratio refers to an arithmetical relationship between two items/figures, to make rational decision of financial variability of the company. This

relationship can be expressed in terms of percentage, fractions or proportions. To achieve an effective result, ratio must be analyzed in comparative basis “the techniques of ratio analysis are the art of the whole process of the analysis of financial statements of the whole business or the industrial concern, especially to take output and credit\_decision. Ratio analysis is a widely used tool of financial analysis it is defined as the systematic use of ratio to interpret the financial analysis statements so that the strengths and weakness of a firm as well as its historical performance and current financial condition can be determined (*Khan and Jain; 2003: 4.1*).

“In financial analysis, a ratio is used as a benchmark for the evaluation of the financial position and performance of the firm”.

The following are the ratios that are going to be analyzed under the financial performance of Kumari Bank Limited and Nepal Bangladesh Bank Limited.

### **1. Liquidity Ratio**

Liquidity Ratio is a rigorous measure of a firm’s ability to service its short-term obligation. It reflects the short term financial solvency of a firm as a whole or it is employed as a measurement of a company’s liquidity position. The firm should maintain as appropriate liquidity neither excess nor less to meet its short term obligation when they become due. Inadequate liquidity can lead to unexpected cash short falls. A very high degree of liquidity is also not good, as ideal assets earn nothing, leading to fewer assets yields and contributing to poor earning performance. It can be divided into two parts. They are current and quick ratio for the study, only current ratio is taken into consideration.

#### **i) Cash and Bank to Total Deposit Ratio**

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

#### **ii) Current Ratio**

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

**iii) Fixed Deposit to Total Deposit Ratio**

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

**iv) Saving Deposit to Total Deposit Ratio**

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

**v) Cash and Bank Balance to Current Liabilities (CL) Ratio**

$$\text{Cash \& Bank Balance to Current Liabilities Ratio} = \frac{\text{Total Cash \& Bank Balance}}{\text{Current Liabilities}}$$

**vi) NRB Balance to Total Deposit Ratio**

$$\text{NRB Balance to Total Deposit Ratio} = \frac{\text{NRB Balance}}{\text{Total Deposit}}$$

## **2. Utilization /Activity/ Turn Over Ratio**

Turn over Ratio is concerned with measuring the efficiency in its assets management. This ratio measures the degree of effectiveness and use of resources of a firm. It indicated how quickly certain current assets are converted into cash. Higher the rate means more efficient in management on the utilization of its resources and vice versa.

Following ratios are used under utilization ratio:

**i. Investment to Total Deposit Ratio**

This ratio is calculated investment dividing by total deposit. This ratio presets how efficiently the resources the banks have been mobilized high ratio shows managerial efficiency regarding the utilization of deposit and vice- versa.

$$\frac{\text{Investment}}{\text{Total Deposit}}$$

**ii. Loan and Advance to Saving Deposit Ratio**

This ratio shows to the extent of saving has been turnover to loans and advance. This ratio is calculated by following formula.

$$\frac{\text{Loan and Advance}}{\text{Saving Deposits}}$$

### iii. Loan and Advance to Total Deposits

This ratio measures the Bank's ability to utilize the deposits viz. Fixed, Current, Saving, Call and Margin deposits to earn profit by providing loans and advances. Higher ratio indicates higher and proper utilization of funds, and lower ratio is the signal of balance remained unutilized or remaining idle. The ratio can be calculated as under

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

### iv. Loan and Advance to Total Assets Ratio

This ratio shows that, what a part of total assets has been used in focus and advance. This ratio is calculated by.

$$\frac{\text{Loan \& Advances}}{\text{Total Assets}}$$

## 3. Capital Adequacy Ratio

Capital adequacy ratio is used especially in case of bank to assess the strength of the capital adequacy of the capital. It is evaluated by compliance with the requirement stipulated by NRB. The capital adequacy ratio of banks is regularly monitored through their returns to submit to NRB. A very high or very low ratio is undesirable in terms of lowered return or lowered solvency respectively.

### i) Net Worth to Total Assets Ratio

Net worth to total assets ratio is calculated by following formula.

$$\frac{\text{Net Worth}}{\text{Total Assets}}$$

### ii) Net worth to Total Deposit Ratio

This ratio is computed by net worth by total deposits. This ratio shows the percentage of net worth in relation of the total deposit collected in the bank.

$$\frac{\text{Net Worth}}{\text{Total Deposit}}$$

#### **4. Profitability Ratio**

Profitability ratio rated is designed to provide answer to questions such as: Does the firm adequate earn the profit? What rate of return does it represent? What is firm? What is the rate? Return to equity holders?

The profitability of the bank should also be evaluated in term of its investment in assets and in term of capital contributed by creditors.

##### **i. Return on Total Assets Ratio**

It is shows that the relationship of company is net profit and assets. This ratio indicated that of the bank RTAR is higher bank could well manage their operations.

$$\frac{\text{Net Profit After Tax}}{\text{Total Assets}}$$

##### **ii. Return on Net Worth Ratio**

This ratio also represents the relationship of net profit and assets, and this ratio shows to the investment in the banks are favourable or unfavourable. The ratio can be calculated in this way

$$\frac{\text{NPAT}}{\text{Net Worth}}$$

##### **iii. Return on Total Deposit Ratio**

This ratio is computed by net profit after tax dividing by total deposits. This ratio indicated the relation & net profit earned by bank with the total deposits accumulated.

##### **iv. Staff Expenses to Total Ratio**

Staff expenses refer to staff salary, allowance, personnel expenses, medical expense, and staff training expenses are involved. This ratio is calculated by staff expresses dividing by total income.

$$\frac{\text{Staff Expenses}}{\text{Total Interest Income}}$$

Total interest expenses consists of loan & advance, deposit and total interest paid and total interest income of government securities retain from loans and advances etc.

## **5. Invisibility Ratio**

### **i) Earning Per Share (EPS)**

It measures the profit available to the common shareholders as per share basis i.e. the amount they get from every share company can decide whether to increase or reduce the number of share issued. This decision will automatically alter the earning per share. The earning per share can be calculated by dividing the profit available after tax to the shareholders by the number of outstanding shares.

$$\text{Earning Per share} = \frac{\text{Net Profit Available to Equity Shareholders}}{\text{Number of Share Outstanding}}$$

### **ii) Dividend Per Share (DPS)**

Dividend implies that portion of Net Profit, which is allocated to the shareholders as return on their investments on cash. The net profit after taxes belongs to shareholders. But the income, which they really receive, is the amount of earning distributed as cash dividends. The earning per share implies what the owner are theoretically entitled to get from the company while dividend per share is that portion of earning which is allocated to shareholders divided by total number of share outstanding. Thus, DPS is computed by dividing the total amount of dividend paid by the number of share outstanding.

$$\text{Dividend per Share} = \frac{\text{Earning Paid to the Shareholders}}{\text{Number of Common Shares}}$$

### **iii) Dividend Payout Ratio (D/P Ratio)**

Dividend payout ratio indicates the percentage amount of dividend paid to the shareholders out of earning per share i.e. this reflects of what percentage is to be retained

in company as retained earning. This earning is needed for business to grow and to expand. From the Shareholders point of view, the dividends are more desirable to significant internal sources of financing for the growth of the firm. This ratio is calculated by dividing the dividend per share by earning per share. Therefore if there is no dividend paid than there is no D/P Ratio. The Shareholders always expect a higher D/P Ratio.

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

### 3.4.2 Statistical Tools

For supporting the study, statistical tool such as Mean, Standard deviation, Coefficient of Variation, Correlation, Trend Analysis have been used under it.

#### a. Arithmetic Mean (Average)

Average is statistical constants which enables us to comprehend in a single effort the significance of the whole. It represents the entire data by a single value. It provides the gist and gives the bird's eye view of the huge mass of unwieldy numerical data. It is calculated as:

$$\text{Mean } (\bar{X}) = \frac{\sum x}{N}$$

Where,

$\bar{x}$ = Arithmetic Mean

N = Number of Observations

$\sum X$ = Sum of Observations

#### b. Standard Deviation (S.D.)

The standard deviation is the square root of man squared deviations form the Arithmetic mean and denoted by S.D. or  $\sigma$ . It is used as absolute measure of Dispersion or variability. It is calculated:

$$\text{S.D. } (\sigma) = \sqrt{\frac{\sum x^2}{N} - \left(\frac{\sum x}{N}\right)^2}$$

Where,



$\sigma$  = Standard Deviation

$\frac{\sum x^2}{N}$  = Sum of Squares of Observation

$\left(\frac{\sum X}{N}\right)^2$  = Sum of Square of Mean

**c. Coefficient of Variation (CV)**

Co-efficient of variance is the relative measure of dispersion comparable across distribution, which is defined as the ratio of the standard deviation to the mean express in percent (*Levin and Rubin; 1994: 144*).

Co-efficient of variance denotes by C.V. is given by:

$$\text{C.V.} = \frac{\text{S.D.}}{\text{Mean}} \times 100 = \frac{\sigma}{\bar{X}} \times 100$$

**d. Correlation Coefficient (r)**

Correlation analysis in the statistical tools generally used to describe the degree which our variable is related to another. This tools is used for measuring the intensity or the magnitude of linear relationship between two variable X and Y is usually denoted by 'r' can be obtained as:

$$r = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

Where,

N = no of observation in series X and Y

$\sum X$  = Sum of observation in series X

$\sum Y$  = Sum of observation in series Y

$\sum X^2$  = Sum of square observation in series X

$\sum Y^2$  = Sum of square observation in series Y

$\sum XY$  = Sum of the product of observation in series X and Y

**e. Coefficient of Determination ( $r^2$ )**

It explains the variation percent derived in dependent variable due to the any one specified variable; it denotes the fact that the independent variable is good predictor of the behaviour of the dependent variable. It is square of correlation coefficient.

#### **f. Probable Error of Correlation**

The probable error of the co-efficient of correlation helps in interpreting its value; it is obtained the following formula.

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

It is used in interpretation whether calculated value of 'r' is significant or not.

1. If  $r < P.E.$ , it is insignificant. So, perhaps there is no evidence of correlation.
2. If  $r > P.E.$ , it is significant.
3. In other cases nothing can be concluded.

#### **g. Trend Analysis**

Trend analysis is very useful and commonly applied tool to forecast future event in quantitative term on the basis of tendencies in the dependent variable in the past period. The linear trend values from a series in arithmetic progression.

Mathematically,

$$Y = a + bX$$

Where,

Y = Value of dependent variable

a = Y- intercept

b = slope of trend line

X = value of the dependent variable i. e. time

Normal equation of the above are

$$\sum Y = Na + \sum X$$

$$\sum XY = a \sum X + \sum X^2$$

## **CHAPTER - IV**

### **DATA PRESENTATION AND ANALYSIS**

This chapter deals with the presentation and analysis and interpretation of statistics, evidence and facts to clearing the research works. The collection of data and its analysis tools are used as specified in chapter three. In this study, financial as well as statistical tools are used to achieve the pre-determined objectives. The analyzed data and results are presented clearly and simultaneously by using tables and graphs.

#### **4.1 Financial Tools**

Financial ratios are calculated to ascertain the liquidity position of the firm. It is the relationship between financial variables contained in the financial statement (i.e., balance sheet, profit and loss account and income statements). It helps the related parties to spot out the financial strength and weakness of the firm. There are several financial tools, which can be applied in order to analyze the liquidity position of commercial banks. The financial tools used in this study are as follows: Liquidity ratio, Activity Ratio and Profitability Ratio. Likewise, composition of working capital in terms of cash and bank balance percentage, loan and advances percentage and government securities percentage.

##### **4.1.1 Liquidity Ratio**

Liquidity ratio measures the firm's ability to fulfill its short-term commitments. These ratios focus on current assets and current liabilities and use to ascertain the short-term solvency position of a firm.

###### **4.1.1.1 Cash and Bank Balance to Total Deposit Ratio**

Cash and bank balance to total deposit ratio is calculated by dividing cash and bank balance by total deposits. Total deposits consist of current deposit, saving deposit, fixed deposit, money at call and short notice and other liabilities. This ratio shows the proportion of total deposits held as compared to the most liquid assets. High ratio shows

the strong liquidity position of the bank but very high ratio is not favorable for the bank because it does not produce appropriate profit to bear the high interest.

**Table 4.1**  
**Cash and Bank Balance to Total Deposit Ratio**

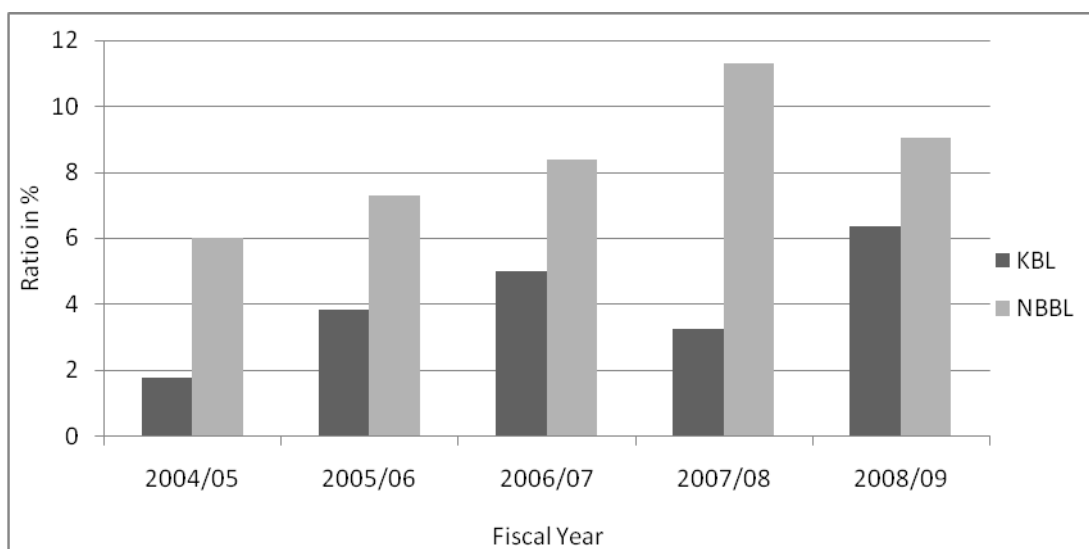
(Rs. In million)

F.Y.	Cash & Bank Balance		Total Deposit		Ratio (%)	
	KBL	NBBL	KBL	NBBL	KBL	NBBL
2004/05	111	559.00	6269.00	14587.00	1.77	3.83
2005/06	389	630.00	7769.00	19347.00	5.00	3.25
2006/07	672	1400.00	10557.00	23342.00	6.37	6.00
2007/08	933	2671.00	12774.00	31915.00	7.30	8.37
2008/09	1776	3372.00	15711.00	37348.00	11.30	9.03
Mean					6.35	6.09
Standard Deviation					3.47	2.6
Coefficient of Variation					54.65	42.69

*Source: Annual Reports of KBL & NBBL from FY 2004/05 to 2008/09*

During the study period, the maximum cash and bank balance to deposit in the FY 2008/09 for the both banks KBL & NBBL i.e.11.30% & 9.03% respectively. Above table shows the cash and bank balance to total deposit ratios 1.77%, 5%, 6.37%, 7.30%, & 11.30% in KBL & 3.83%, 3.25%, 6.00%, 8.37%, and 9.03% in NBBL in the respective year of study period. The mean, standard deviation and CV of the cash and bank balance to total deposit in KBL i.e. 6.35, 3.47 & 54.65% and 6.09, 2.6 & 42.69% in NBBL. The mean ratio of KBL is greater than that of NBBL. KBL has maintained high Cash and Bank Balance in relation to Total Deposit. The Standard Deviation of KBL is high which is also shown by line diagram fluctuating from year to year. The ratio of KBL is increasing trend. The ratio of NBBL is slightly decreased in the FY 2005/06 and increased in next following year. NBBL is more consistent or less variable than KBL. CV of KBL is higher than NBBL which reveal the inconsistency to its average ratio. It is clear in following diagram.

**Figure 4.1**  
**Cash and Bank Balance to Total Deposit Ratio**



*Source: Table 4.1*

#### **4.1.1.2 Current Ratio**

Current ratio reflects the strength of current assets available with the company over its current liabilities into cash in one accounting year. This ratio indicated the current short-term solvency position of the bank. The current ratios are the ratios of total current assets to current liabilities. Higher current ratio indicates better liquidity position. In other words, current ratio represents a margin of safety.

The higher the current ratio, the greater the margin of safety, and the larger the amount of current assets in relation to current liabilities, the more the bank's ability to meet its current obligations, although there is no hard and fast rule, conventionally a current ratio of 2:1 (current assets twice of current liabilities) is considered satisfactory.

Current Assets are cash in hand, cash at bank, accrued income, prepaid expenses, bills receivable, debtors, stock etc. Current liabilities are bills payable, account payable, outstanding expenses, bank overdraft, short term loan etc.

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

**Table 4.2**  
**Current Ratio**

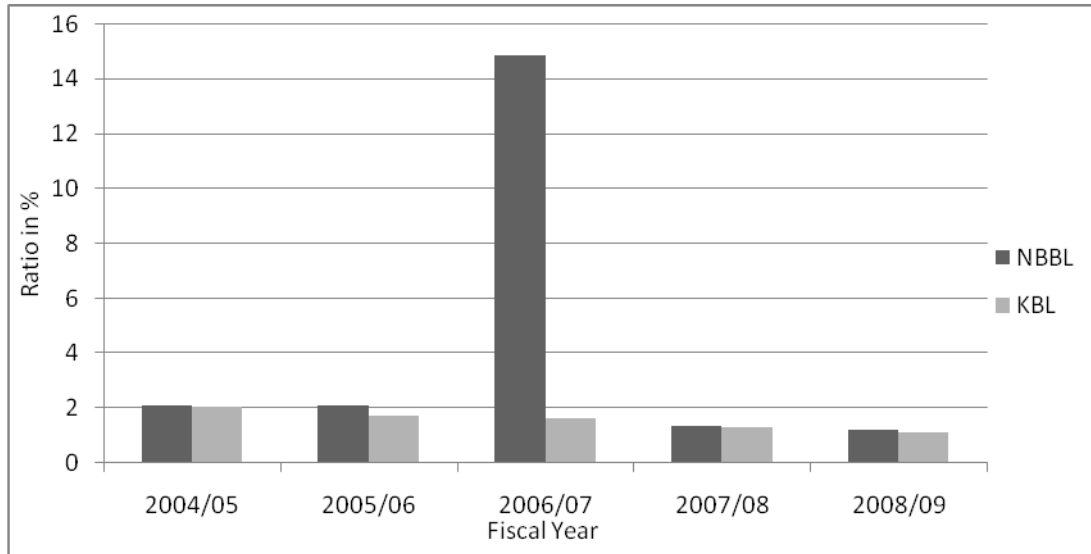
(Rs. In million)

F.Y.	Current Assets		Current Liabilities		Ratio (%)	
	KBL	NBBL	KBL	NBBL	KBL	NBBL
2004/05	7184	8819	3500	4246	2.05	2.08
2005/06	7426	13858	4320	6662	1.71	2.08
2006/07	11216	16955	6860	9259	1.63	1.83
2007/08	13518	20121	10200	14923	1.32	1.35
2008/09	17280	25303	15440	20444	1.12	1.23
Mean					1.57	1.71
Standard Deviation					0.40	0.36
Coefficient of Variation					23.42	22.93

*Source: Annual Reports of KBL & NBBL from FY 2004/05 to 2008/09*

From the table and figure 4.2 shows the current ratio of both banks are in decreasing trend. Above tables shows both of the banks nearly maintained the conventional standard of 2:1, which shows the banks have proper investment plan. Both banks could not maintain the conventional standard of 2:1. However the average ratio of NBBL greater than that of KBL, which signifies that NBBL is more capable of meeting immediate liabilities than KBL. Likewise CV of KBL is higher than NBBL, which reveal the inconsistency to its average ratio. KBL is low variable than NBBL. The above figure of current ratio of both banks is comparatively presented in the following line chart.

**Figure 4.2**  
**Current Ratio**



*Source: Table 4.2*

#### **4.1.1.3 Fixed Deposit to Total Deposit Ratio**

Fixed deposit is a long term and high interest charge bearing deposit. Although a high cost liability, increasing fixed deposit is subject to an additional advantage if utilized properly. Sufficient fixed deposits enable banks to grant long-term loan to their clients at higher interest rate. This ratio is calculated in order to find out the proportion of total deposit that has higher interest charge bearing. The higher the ratio, the more the interest bearing deposits as well as better liquidity and lower proportion of current or short-term deposit. It is computed by dividing the amount of fixed deposits by the total deposits amount, which is expressed as follows:

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



**Table 4.3**  
**Fixed Deposit to Total Deposit Ratio**

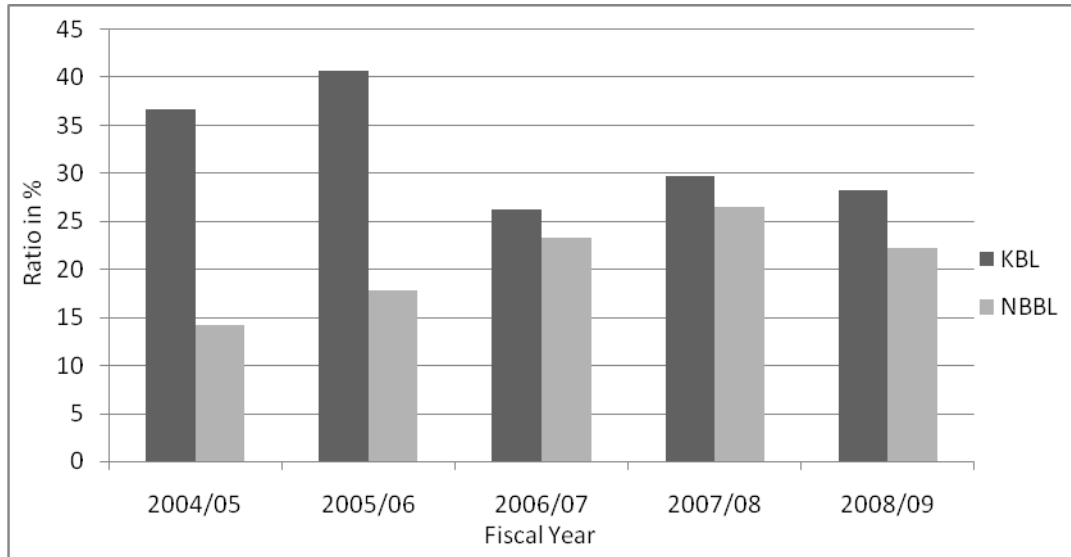
(Rs. In million)

F.Y.	Fixed Deposit		Total Deposit		Ratio (%)	
	KBL	NBBL	KBL	NBBL	KBL	NBBL
2004/05	2302	2078	6269	14587.00	36.72	14.24
2005/06	3163	3449	7769.00	19347.00	40.71	17.82
2006/07	2776	5435	10557.00	23342.00	26.29	23.28
2007/08	3799	8464	12774.00	31915.00	29.74	26.52
2008/09	4527	8310	15711.00	37348.00	28.21	22.25
Mean					32.33	20.82
Standard Deviation					6.13	4.82
Coefficient of Variation					18.96	23.15

*Source: Annual Reports of KBL & NBBL from FY 2004/05 to 2008/09*

Above tables shows the Fixed Deposit to Total Deposits ratios of KBL as 36.72%, 40.71%, 26.29%, 29.74%, and 28.21% respectively. Similarly the ratios of NBBL came to be 14.24%, 17.82%, 23.28%, 26.52%, and 22.25% respectively. Mean of fixed deposit to total deposit ratio of KBL is greater than NBBL i.e.  $32.33 > 20.82$ . Likewise CV of NBBL is greater than KBL i.e.  $23.15\% > 18.96\%$ , which means that NBBL reveal the inconsistency to its average ratio. The standard deviation of the same ratio of KBL is 6.13 and 4.82 for NBBL. Which indicates NBBL is low variability than KBL. The ratios of both banks revealed fluctuating trend over the period. The above figure can be presented in the following chart as:

**Figure 4.3**  
**Fixed Deposits to Total Deposits Ratio**



Source: Table 4.3

#### 4.1.1.4 Saving Deposit to Total Deposit Ratio

Saving deposit is an interest bearing short-term deposit. The ratio is developed in order to find out proportion of saving deposit, which is interest bearing and short term in nature. It is calculated by dividing the total amount of saving deposits by the amount of total deposits, which can be expressed as follows:

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

**Table 4.4**

#### Saving Deposits to Total Deposits Ratio

(Rs. In million)

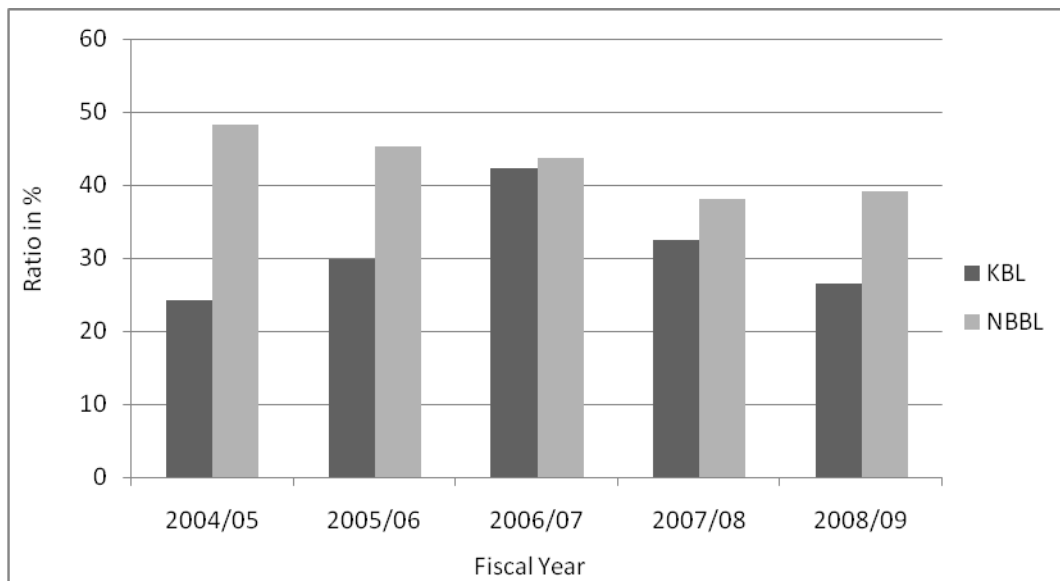
F.Y.	Saving Deposit		Total Deposit		Ratio (%)	
	KBL	NBBL	KBL	NBBL	KBL	NBBL
2004/05	1515	7026	6269	14587.00	24.17	48.17
2005/06	2318	8770	7769.00	19347.00	29.84	45.33
2006/07	4462	10187	10557.00	23342.00	42.24	43.64
2007/08	4139	12160	12774.00	31915.00	32.40	38.10
2008/09	4170	14620	15711.00	37348.00	26.54	39.14
Mean					31.04	42.88
Standard Deviation					7.02	4.22

Coefficient of Variation	22.62	9.84
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Source: Annual Reports of KBL & NBBL from FY 2004/05 to 2008/09

Above tables shows the Saving Deposit to Total Deposits ratios of KBL as 24.17%, 29.84%, 42.27%, 32.40%, and 26.54%, similarly the ratios of NBBL came to be 48.17%, 45.33%, 43.64%, 38.10%, and 39.14% in respective years of study period. Mean of saving Deposits to Total Deposit of NBBL is greater than that of KBL i.e. 42.88 > 31.04. Likewise CV of KBL is greater than that of NBBL i.e. 22.62 > 9.84%. Which reveals that KBL has inconsistency to its average ratio. The Standard Deviation of the ratio is 7.02 and 4.22 respectively of KBL and NBBL, where S.D. of KBL is greater than NBBL i.e. 7.02 > 4.22. It indicates that KBL has higher fluctuation than NBBL. The above table can be presented in the following chart as:

**Figure 4.4**  
**Saving Deposits to Total Deposits Ratio**



Source: Table 4.4

#### 4.1.1.5 Cash and Bank Balance to Current Liabilities (CL) Ratio

This ratio is obtained by dividing total cash and bank balance by total current liabilities. This ratio indicates how much cash is available to meet the current liabilities. Especially this ratio is useful to lenders.

$$\text{Cash \& Bank Balance to Current Liabilities Ratio} = \frac{\text{Total Cash \& Bank Balance}}{\text{Current Liabilities}}$$

**Table 4.5**

**Cash and Bank Balance to Current Liabilities Ratio**

(Rs. In million)

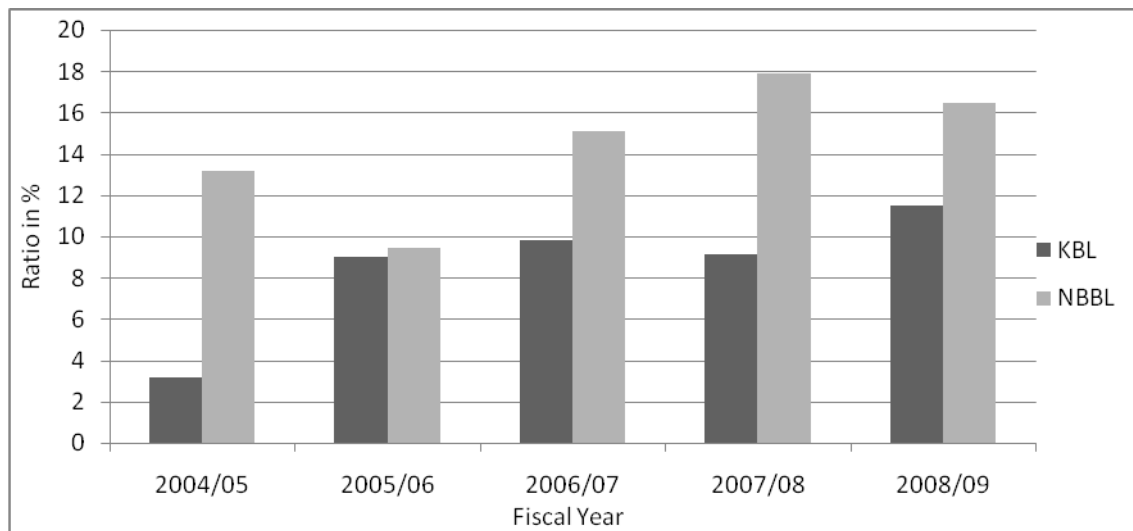
F.Y.	Cash & Bank Balance		Current Liabilities		Ratio (%)	
	KBL	NBBL	KBL	NBBL	KBL	NBBL
2004/05	111	559.00	3500	4246	3.17	13.17
2005/06	389	630.00	4320	6662	9.00	9.46
2006/07	672	1400.00	6860	9259	9.80	15.12
2007/08	933	2671.00	10200	14923	9.15	17.89
2008/09	1776	3372.00	15440	20444	11.50	16.49
Mean					8.50	14.43
Standard Deviation					2.91	3.28
Coefficient of Variation					34.24	22.73

Source: Annual Reports of KBL & NBBL from FY 2004/05 to 2008/09

Above tables shows the Cash and Bank Balance to Current Liabilities ratio of KBL as 3.17%, 9.00%, 9.80%, 9.15%, and 11.50%, similarly the ratios of NBBL came to be 13.17%, 9.46%, 15.12%, 17.89%, and 16.49% in respective years of study period. Mean of Cash and Bank Balance to Current Liabilities ratio of NBBL is greater than that of KBL i.e. 14.43 > 8.50. Likewise CV of KBL is greater than that of NBBL i.e. 34.24 > 22.73% . The above table can be presented in the following chart as:

**Figure 4.5**

**Cash and Bank Balance to Current Liabilities Ratio**



Source: Table 4.5

#### 4.1.1.6 NRB Balance to Total Deposit Ratio

This ratio is obtained dividing NRB balance by total deposits. Bank has to hold a balance of certain percentage of total deposits. The amount should be deposited in Nepal Rastra Bank in order to satisfy legal requirements.

$$\text{NRB Balance to Total Deposit Ratio} = \frac{\text{NRB Balance}}{\text{Total Deposit}}$$

**Table 4.6**  
**NRB Balance to Total Deposit Ratio**

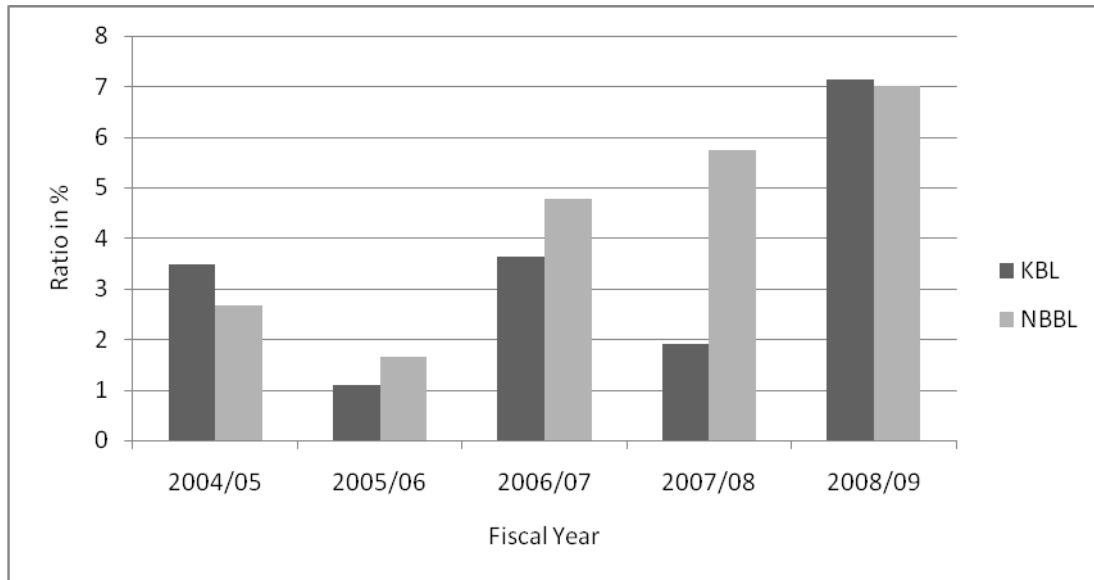
(Rs. In million)

F.Y.	NRB Balance		Total Deposit		Ratio (%)	
	KBL	NBBL	KBL	NBBL	KBL	NBBL
2004/05	219	390	6269	14587	3.49	2.67
2005/06	210	318	7769	19347	1.09	1.64
2006/07	384	1113	10557	23342	3.64	4.77
2007/08	244	1829	12774	31915	1.91	5.73
2008/09	1120	2648	15711	37348	7.13	7.01
Mean					3.45	4.36
Standard Deviation					2.32	2.20
Coefficient of Variation					67.25	50.46

Source: Annual Reports of KBL & NBBL from FY 2004/05 to 2008/09

Above table shows that the ratios of KBL as 3.49%, 1.09%, 3.64%, 1.91% and 7.13% respectively. Similarly the ratios of NBBL came to be 2.67%, 1.64%, 4.77%, 5.73% & 7.01% respectively. Mean, standard deviation and CV of NRB balance to total deposit ratio of KBL came 3.45, 2.32 & 67.25% & 4.36, 2.20 & 50.46% of NBBL, where Mean of NBL is greater than KBL i.e. 4.36 > 3.45, which indicates that NBBL has the higher mean ratio of balance at NRB to total deposit. It means that liquidity position of NBBL regarding with this ratio is better than that of KBL during the study period. Standard Deviation & CV of KBL is greater than NBBL i.e. 2.32 > 2.20 & 67.25 > 50.46 respectively, which means that KBL has more fluctuation in ratios compared with NBBL. The above table can be presented in the following chart

**Figure 4.6**  
**NRB Balance to Total Deposits**



*Source: Table 4.6*

#### **4.1.2 Utilization Ratio**

The fund of creditors and owners are invested in various assets to generate sales and profit. Activity ratios are used to evaluate the efficiency with which the firm manages and utilizes its assets. This ratio measures a firm's efficiency in utilization of its assets. These ratios look at the amount of various types of assets and attempt to determine if they are too high or too low with regard to current operating levels. This ratio indicates how quickly certain current assets are converted into cash. From this ratio it can be known whether or not the business activities are efficient. These ratios are also called turnover ratio because they indicate speed with which assets are converted or turnover into profit generating assets. These ratios, moreover, help in measuring the banks ability to utilize their available resources. Mostly utilization ratios are used to evaluate managerial efficiency and proper utilization of assets. Following ratio is used under the activity ratios.

Following ratios are used under utilization ratio:

#### 4.1.2.1 Investment to Total Deposit Ratio

This ratio is calculated investment dividing by total deposit. This ratio presets how efficiently the resources the banks have been mobilized high ratio shows managerial efficiency regarding the utilization of deposit and vice- versa.

$$\frac{\text{Investment}}{\text{Total Deposit}}$$

**Table 4.7**  
**Investment to Total Deposits Ratio**

(Rs. In million)

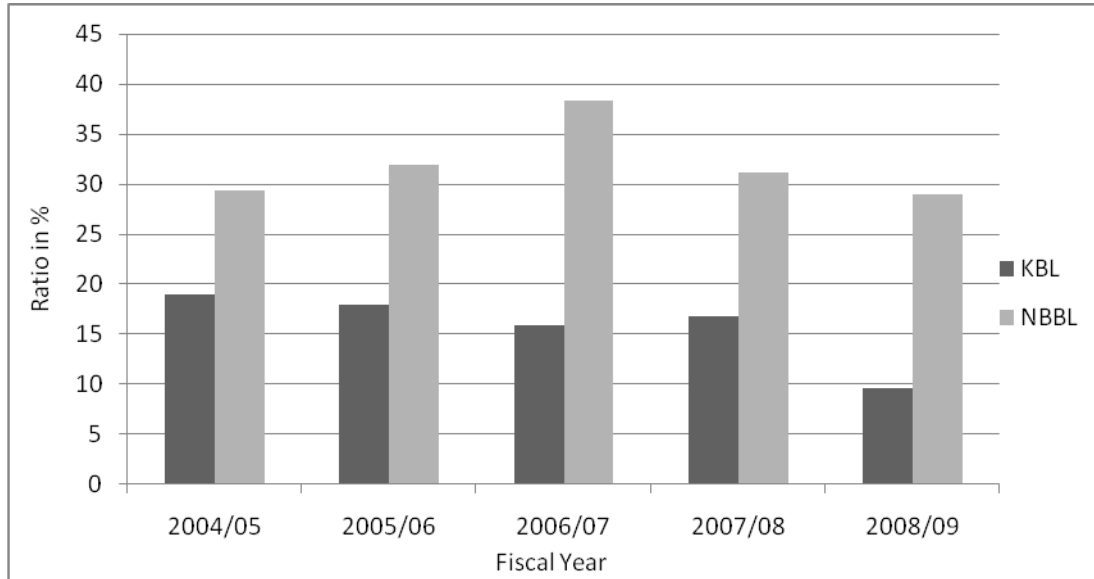
F.Y.	Total Investment		Total Deposit		Ratio (%)	
	KBL	NBBL	KBL	NBBL	KBL	NBBL
2004/05	1190	4276	6269	14587	18.98	29.31
2005/06	1394	6179	7769	19347	17.94	31.94
2006/07	1678	8945	10557	23342	15.89	38.32
2007/08	2138	9940	12774	31915	16.74	31.15
2008/09	1510	10826	15711	37348	9.61	28.98
Mean					15.83	31.94
Standard Deviation					3.67	3.78
Coefficient of Variation					23.18	11.83

*Source: Annual Reports of KBL & NBBL from FY 2004/05 to 2008/09*

Above table shows the investment to total deposit ratio of KBL and NBBL. The ratios for KBL came 18.98%, 17.94%, 15.89%, 16.74% and 9.61% in the study period. Similarly the ratios in NBBL came 29.31%, 31.94%, 38.32%, 31.15% and 29.98% for the respective years. The ratios are in fluctuating trend for KBL and NBBL. The ratio of NBBL is also fluctuating trend deviating 3.78% from the average ratio of 31.94%. Since its CV is 11.83% it is consistent to average ratio. Between these two banks NBBL is in strong position in investment to total deposit ratio. It has invested more than 38.32% in 2006/07. Its average investment ratio is 31.94%. The investment position of KBL is

lower than NBBL. NBBL is satisfactory level. The trends of ratio can be seen in Diagram clearly.

**Figure 4.7**  
**Investment to Total Deposits Ratio**



Source: Table 4.7

#### 4.1.2.2 Loan and Advances to Saving Deposit Ratio

This ratio shows to the extent of saving has been turnover to loans and advance. This ratio is calculated by following formula.

$$\frac{\text{Loan and Advance}}{\text{Saving Deposits}}$$

**Table 4.8**  
**Loans and Advances to Saving Deposits Ratio**

(Rs. In million)

F.Y.	Loan & Advances		Saving Deposit		Ratio (%)	
	KBL	NBBL	KBL	NBBL	KBL	NBBL
2004/05	5590	10586	1515	7026	368.97	150.67
2005/06	6892	12923	2318	8770	297.32	147.35
2006/07	8929	15546	4462	10187	200.11	152.61
2007/08	11335	21365	4139	12160	273.86	175.70
2008/09	14593	27589	4170	14620	350	188.70
Mean					298.05	163.01



Standard Deviation	66.91	18.21
Coefficient of Variation	22.45	11.17

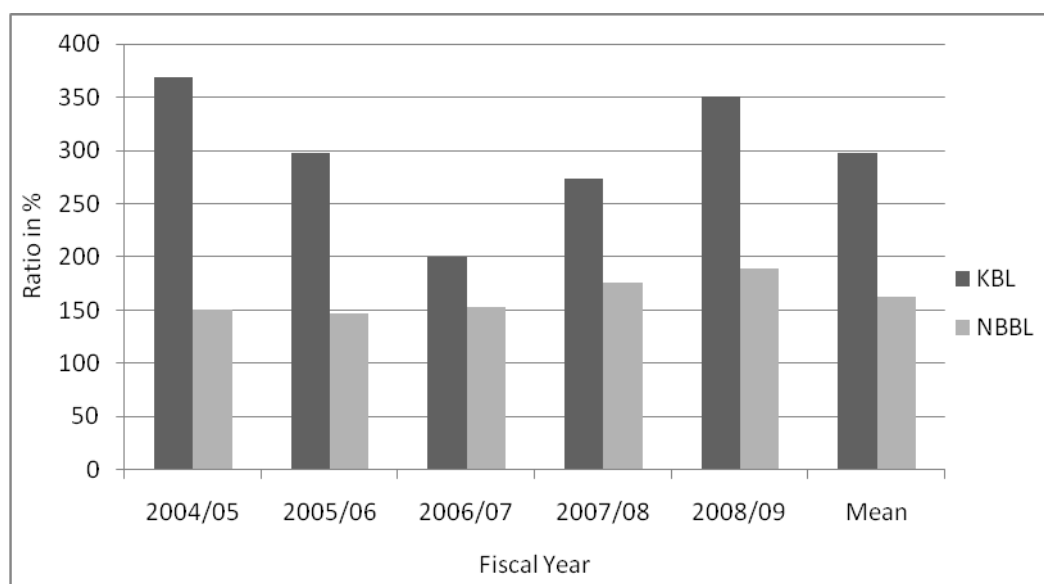
Source: Annual Reports of KBL & NBBL from FY 2004/05 to 2008/09

Above table shows loans and advances to saving deposit ratio in KBL as 368.97%, 297.32%, 200.11%, 273.86%, & 350% respectively for the study period. Similarly the ratios in NBBL were 150.67 %, 147.35%, 152.61%, 175.70%, & 188.67% respectively. Average ratio of KBL seemed to be greater than that of NBBL, which indicates that KBL has mobilized its saving deposits in term of loans and advances more successfully. But CV shows the ratios in NBBL were more consistent than that of KBL. Similarly, the standard deviation is higher in KBL which indicates that line diagram fluctuating from year to year.

The above table can be presented in the following chart

**Figure 4.8**

**Loans and Advances to Saving Deposits Ratio**



Source: Table 4.8

**4.1.2.3 Loan and Advance to Total Deposits**

This ratio measures the Bank’s ability to utilize the deposits viz. Fixed, Current, Saving, Call and Margin deposits to earn profit by providing loans and advances. Higher ratio

indicates higher and proper utilization of funds, and lower ratio is the signal of balance remained unutilized or remaining idle. The ratio can be calculated as under:

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

**Table 4.9**  
**Loans and Advances to Total Deposits Ratio**

(Rs. In million)

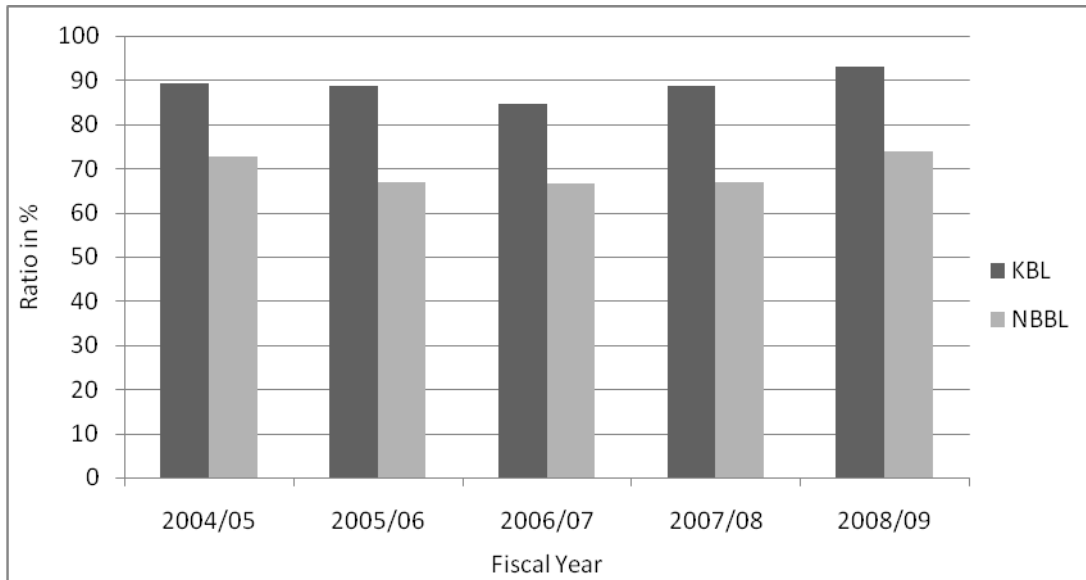
F.Y.	Loan & Advances		Total Deposit		Ratio (%)	
	KBL	NBBL	KBL	NBBL	KBL	NBBL
2004/05	5590	10586	6269	14587	89.17	72.57
2005/06	6892	12923	7769	19347	88.71	66.80
2006/07	8929	15546	10557	23342	84.58	66.60
2007/08	11335	21365	12774	31915	88.73	66.94
2008/09	14593	27589	15711	37348	92.88	73.87
Mean					88.81	69.36
Standard Deviation					2.94	3.56
Coefficient of Variation					3.31	5.13

*Source: Annual Reports of KBL & NBBL from FY 2004/05 to 2008/09*

From the above table the ratio in KBL came 89.17, .88.71, 84.58, 88.73, and 92.88% for the study period. Similarly the ratios in NBBL came 72.57, 66.80, 66.60, 66.94 and 73.87 % respectively in the study period. The ratios of KBL and NBBL are in fluctuating trend. Mean standard deviation and CV for loan and advances to total deposit ratio of KBL is 88.81, 2.94 and 3.31%. Similarly these ratios are 69.36, 3.56 and 5.13% respectively of NBBL. Mean ratio of KBL appeared considerably higher which signifies that KBL is more successful in utilizing the resources in profitable sectors than NBBL. S.D of KBL is lower than NBBL which indicates that KBL is less variable than NBBL. CV of NBBL is higher than KBL which reveals the inconsistency to its average ratio.

The above table can be presented in the following chart.

**Figure 4.9**  
**Loans and Advances to Total Deposits Ratio**



*Source: Table 4.9*

### 4.1.3 Capital Adequacy Ratio

Capital adequacy ratio is used especially in case of bank to assess the strength of the capital adequacy of the capital. It is evaluated by compliance with the requirement stipulated by NRB. The capital adequacy ratio of banks is regularly monitored through their returns to submit to NRB. A very high or very low ratio is undesirable in terms of lowered return or lowered solvency respectively.

#### 4.1.3.1 Net Worth to Total Assets Ratio

Net worth to total assets ratio is calculated by following formula.

$$\frac{\text{Net Worth}}{\text{Total Assets}}$$

**Table 4.10**  
**Net Worth to Total Assets Ratio**

(Rs. In Million)

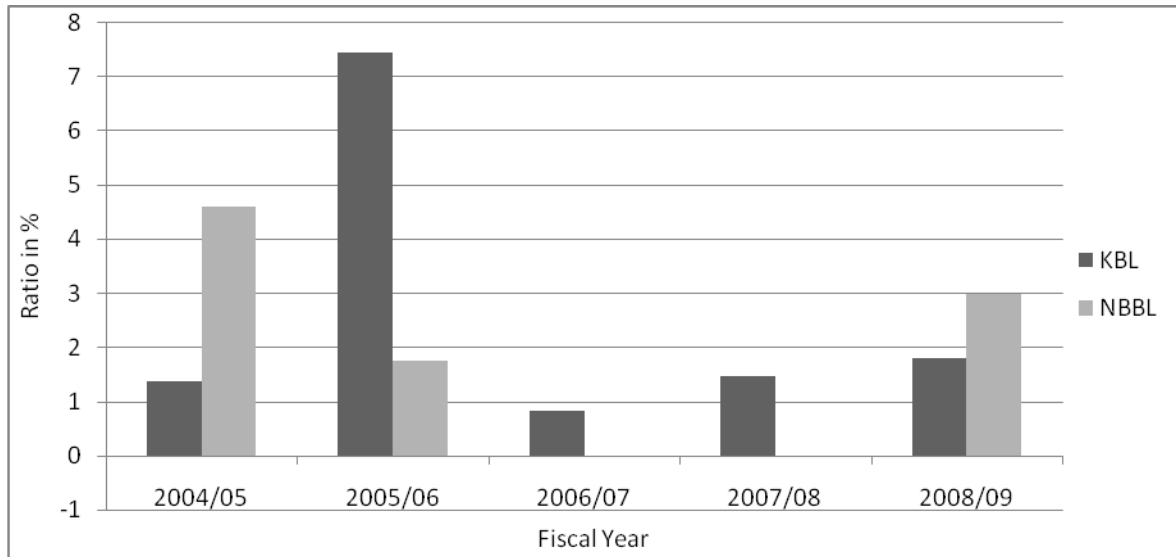
F.Y.	Net Worth		Total Assets		Ratio (%)	
	KBL	NBBL	KBL	NBBL	KBL	NBBL
2004/05	689	656	5008	1425	1.37	4.60
2005/06	971	234	1303	1327	7.45	1.76
2006/07	115	(125)	1390	1170	0.83	(0.007)
2007/08	252	(154)	1718	7254	1.47	(0.002)
2008/09	558	256	3091	8545	1.81	2.99
Mean					2.59	1.87
Standard Deviation					2.45	3.14
Coefficient of Variation					18.90	33.62

*Source: Annual Reports of KBL & NBBL from FY 2004/05 to 2008/09*

Table 4.10 shows net worth to total assets ratio of the selected banks over the selected period. The average ratio of NBBL is 1.87. This ratio is decreasing over the period which means the bank's profitability over the period is decreasing and the net worth in the year 2006/07 to 2007/08 has turned negative. Whereas the average ratio of the KBL 2.59 percent it is more consistent and not negative in any year. From the above calculation it is found that KBL is more successful to maintain capital adequacy ratio.

An analysis of five periods the average ratio of KBL is higher than NBBL, the higher average ratio indicates that KBL has strong and highly capital adequacy position to contribution to investor.

**Figure 4.10**  
**Net Worth to Total Assets Ratio**



Source: Table 4.10

#### 4.1.3.2 Net worth to Total Deposit Ratio

This ratio is computed by net worth by total deposits. This ratio shows the percentage of net worth in relation of the total deposit collected in the bank.

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

**Table 4.11**  
**Net Worth to Total Deposit Ratio**

(Rs. In Million)

F.Y.	Net Worth		Total Deposit		Ratio (%)	
	KBL	NBBL	KBL	NBBL	KBL	NBBL
2004/05	689	6565	6269	14587	109.05	45.00
2005/06	971	2345	7769	19347	125.10	12.12
2006/07	115	(1256)	10557	23342	10.92	-5.38
2007/08	252	(1548)	12774	31915	19.77	-4.85
2008/09	558	2563	15711	37348	35.57	6.86
Mean					60.08	10.75
Standard Deviation					47.50	18.40

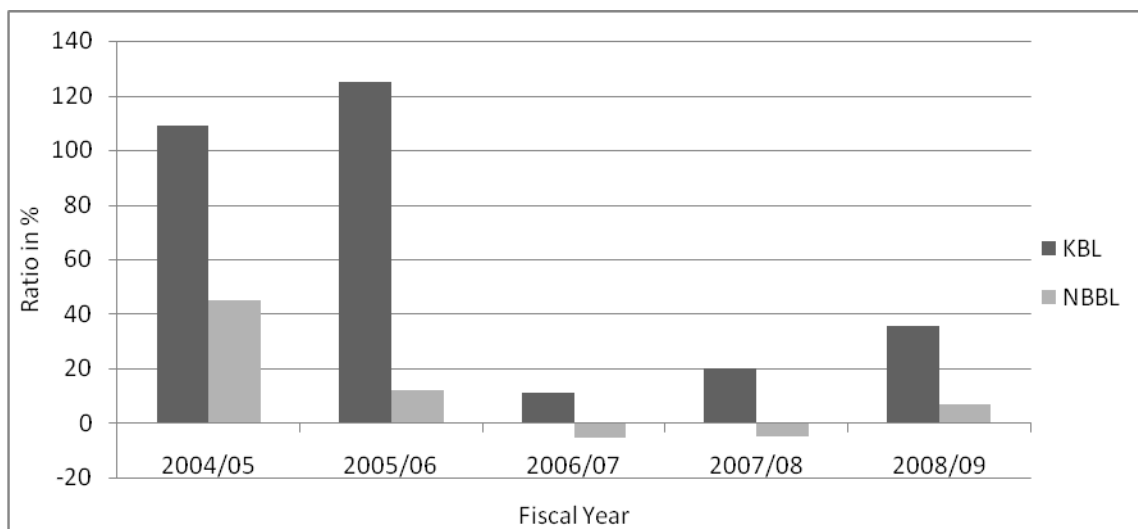
Coefficient of Variation	1.26	0.58
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Source: Annual Reports of KBL & NBBL from FY 2004/05 to 2008/09

Above table shows net worth to total deposit ratio of the selected banks over the selected period. The average ratio, S.D. and C.V. of KBL are 60.08, 47.50 and 1.26 on the other side the average ratio, S.D. and C.V. of NBBL are 10.75, 18.40 and 0.58 respectively. An analysis of five periods the average ratio of KBL is higher than NBBL, the higher average ratio indicates that KBL has strong position to contribution to investor.

**Figure 4.11**

**Net Worth to Total Deposit Ratio**



Source: Table 4.11

**4.1.4 Profitability Ratio**

Profitability ratio rated is designed to provide answer to questions such as: Does the firm adequate earn the profit? What rate of return does it represent? What is firm? What is the rate? Return to equity holders?

The profitability of the bank should also be evaluated in term of its investment in assets and in term of capital contributed by creditors.

**4.1.4.1 Return on Total Assets Ratio**

It is shows that the relationship of company is net profit and assets. This ratio indicated that of the bank RTAR is higher bank could well manage their operations.

Net Profit After Tax  
Total Assets

**Table 4.12**  
**Return on Total Assets Ratio**

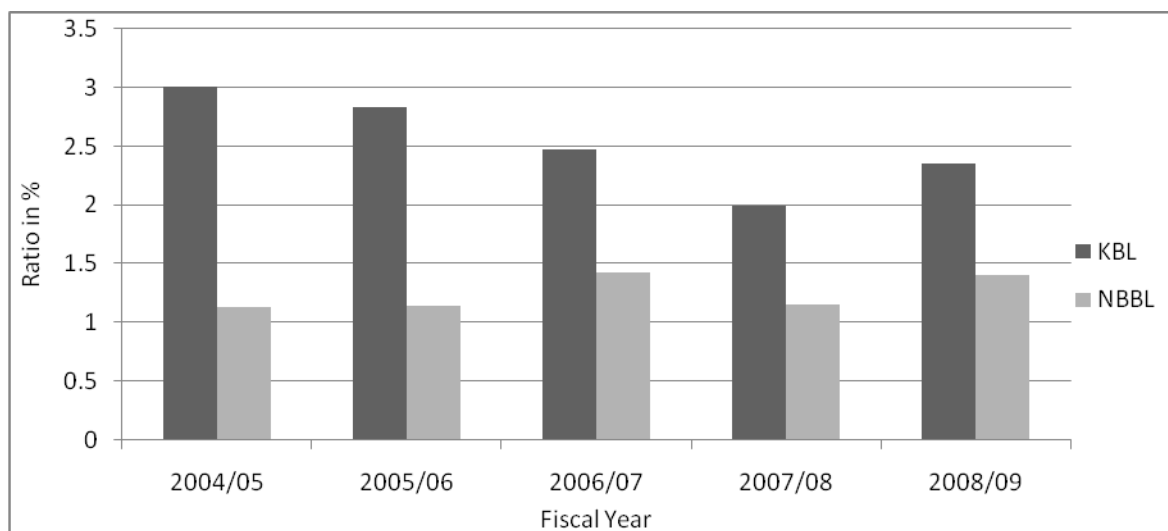
(Rs. In Million)

F.Y.	Net Profit		Total Assets		Ratio (%)	
	KBL	NBBL	KBL	NBBL	KBL	NBBL
2004/05	518	84	17186	7428	3.01	1.13
2005/06	635	104	22329	9010	2.84	1.15
2006/07	674	170	27253	11918	2.47	1.43
2007/08	746	175	37133	15027	2.00	1.16
2008/09	1031	261	43867	18539	2.35	1.41
Mean					2.53	1.26
Standard Deviation					0.40	0.14
Coefficient of Variation					15.81	11.11

*Source: Annual Reports of KBL & NBBL from FY 2004/05 to 2008/09*

Above table shows the return on total assets of KBL and NBBL. Above tables shows the ratios 1.17%, 1.15%, 1.43%, 1.16%, and 1.41% in NBBL for the study period. Similarly the ratios of KBL came 3.01%, 2.84%, 2.47%, 2.00%, and 2.35% for the study period. Above table shows the return on total assets of NBBL and KBL. The average ratio of KBL was higher than that of NBBL, which implies that KBL has more efficient operation of optimal utilization of the resources in comparison with same period of NBBL. Like wise CV of NBBL was less than that of KBL, which indicates that, the variability of the ratio of NBBL was more uniform than that of KBL. S.D of KBL is more than that of NBBL which indicates line diagram is more fluctuating from year to year than KBL. It can be clearly shown by the following chart.

**Figure 4.12**  
**Return on Total Assets Ratio**



Source: Table 4.12

#### 4.1.4.2 Net Profit to Total Deposit Ratio

This ratio measures the percentage of profit earned from the utilization of the total deposit. Deposits are mobilized for investment, loan and advances to the public in generating revenue. Higher ratio indicates the return from investment on loans and lower ratio indicates that the funds are not properly mobilized.

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

**Table 4.13**  
**Net Profit to Total Deposit Ratio**

(Rs. In Million)

F.Y.	Net Profit		Total Deposit		Ratio (%)	
	KBL	NBBL	KBL	NBBL	KBL	NBBL
2004/05	518	84	14587	6269	3.56	1.34
2005/06	635	104	19347	7769	3.28	1.34
2006/07	674	170	23342	10557	2.89	1.61
2007/08	746	175	31915	12774	2.34	1.37
2008/09	1031	261	37348	15711	2.76	1.66
Mean					2.97	1.47
Standard Deviation					0.63	0.15



Coefficient of Variation	21.21	10.35
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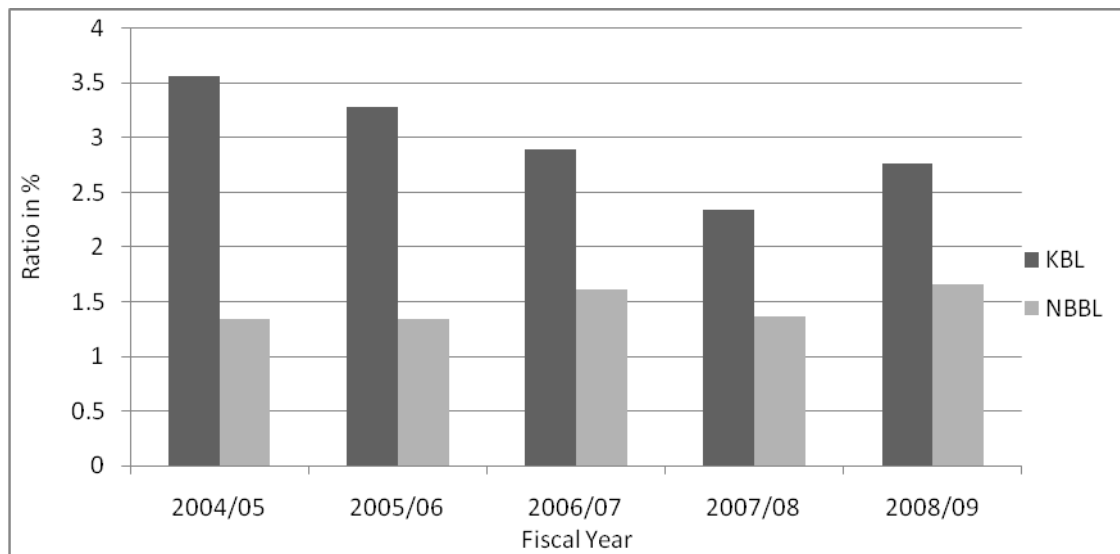
Source: Annual Reports of KBL & NBBL from FY 2004/05 to 2008/09

Above table shows the return on total deposit of KBL and NBBL. The ratios of both banks are in fluctuating trend. The ratios in NBBL remained 1.34%, 1.34%, 1.61%, 1.37%, and 1.66% in the study period. Similarly the ratios in KBL came 3.56%, 3.28%, 2.89%, 2.34% and 2.76% in the study period. The mean Standard Deviation and CV net profit to total deposits of NBBL are 1.47, 0.15 and 10.35% respectively. Similarly mean, standard deviation and CV of KBL are 2.97, 0.63 and 21.21%. The average ratio of KBL is higher than that of NBBL. Similarly CV of NBBL is lower than that of KBL, which mean that there is more consistency in the ratio than KBL in respect of return to total deposit. Finally it can be concluded that NBBL had utilized its outsider's fund in better way to generate return and it is increasing its profit every year.

It can be clearly shown by the following chart

**Figure 4.13**

**Net Profit to Total Deposit Ratio**



Source: Table 4.13

**4.1.4.3 Return on Common Shareholders' Equity**

This ratio is calculated by dividing net profit by common shareholders equity. This ratio measures the return on shareholders investment in the bank. The higher ratio of return on

equity is better for shareholders. It builds trustworthiness to the customers as well as reputation of the bank.

$$\text{Return on Common Shareholders' Equity} = \frac{\text{Net Profit}}{\text{Shareholder's Equity}}$$

**Table 4.14**  
**Return on Common Shareholder's Equity (ROE)**

(Rs. In Million)

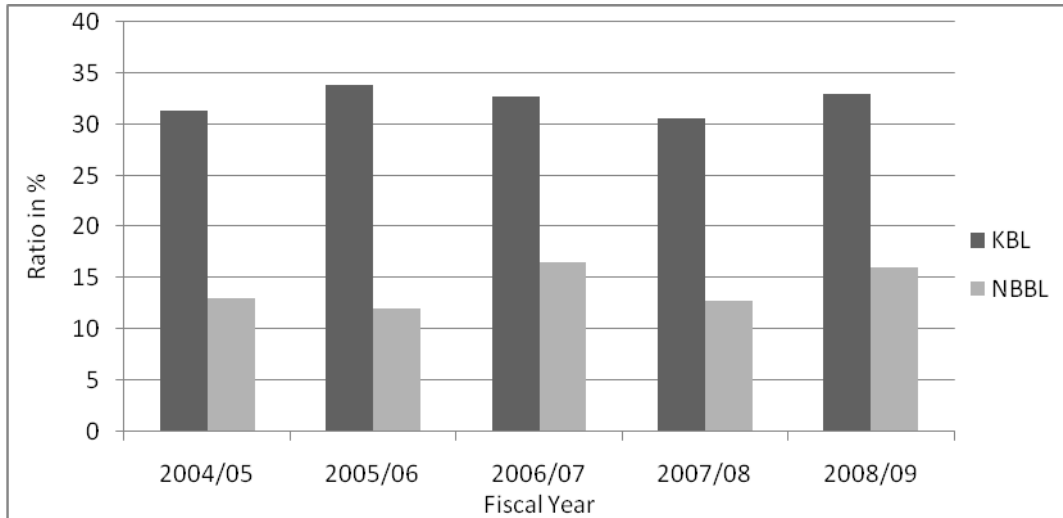
F.Y.	Net Profit		Shareholder's Equity		Ratio (%)	
	KBL	NBBL	KBL	NBBL	KBL	NBBL
2004/05	518	84	1658	645	31.30	13.02
2005/06	635	104	1875	864	33.87	12.04
2006/07	674	170	2057	1026	32.77	16.60
2007/08	746	175	2437	1365	30.65	12.82
2008/09	1031	261	3130	1625	32.94	16.06
Mean					32.31	14.11
Standard Deviation					1.31	2.07
Coefficient of Variation					4.05	14.67

*Source: Annual Reports of KBL & NBBL from FY 2004/05 to 2008/09*

Above table shows the return on shareholder equity of NBBL and KBL. The ratios of NBBL in the study period are 13.02%, 12.04%, 16.60%, 12.82% and 16.06% Similarly the ratios of KBL are 31.30%, 33.87%, 32.77%, 30.65% and 32.94 % respectively for the study period. Mean standard deviation and CV for the return on shareholders equity of NBBL is 14.11, 2.07 and 14.67% and 32.31, 1.31 and 4.05% respectively of KBL. The average ratio of KBL for return on shareholders equity was higher than that of NBBL. Likewise the CV was higher than NBBL. This shows the return on shareholders equity of NBBL was more consistent to its average ratio. The above table can be presented in the following chart.



**Figure 4.14**  
**Return on Common Shareholder's Equity (ROE)**



Source: Table 4.14

#### 4.1.4.4 Return on Working Capital

This ratio is calculated dividing net profit after tax by working capital. This ratio measures the proportion of net profit after tax and working capital. Working capital is obtained by subtracting current assets from current liabilities. The higher ratio is better which shows little working capitals utilized properly.

$$\text{Return on Working Capital} = \frac{\text{Net Profit}}{\text{Working Capital}}$$

**Table 4.15**  
**Return on Working Capital Ratio**

(Rs. In Million)

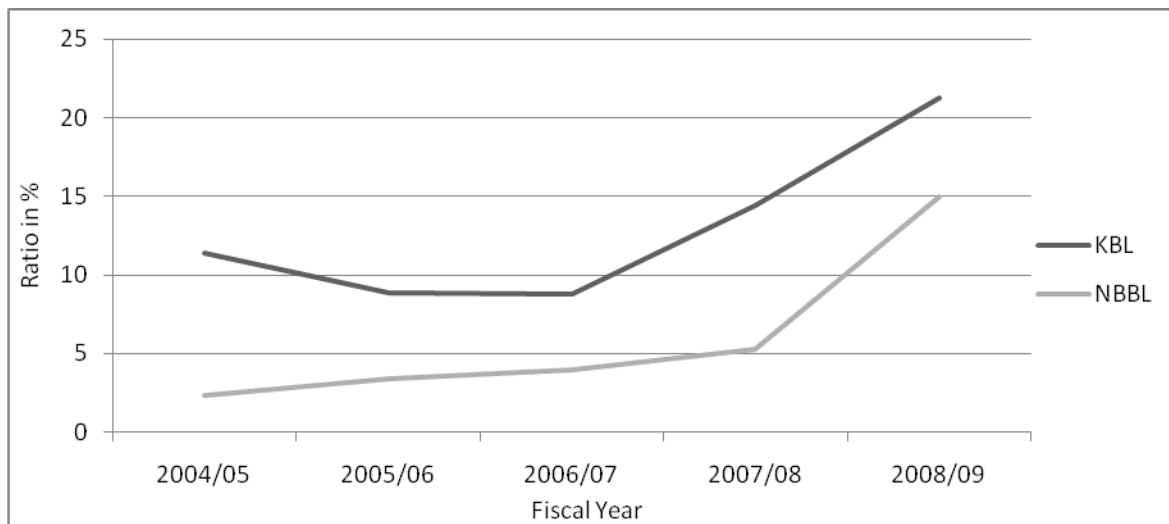
F.Y.	Net Profit		Working Capital		Ratio (%)	
	KBL	NBBL	KBL	NBBL	KBL	NBBL
2004/05	518	84	4573	3684	11.35	2.30
2005/06	635	104	7196	3106	8.82	3.35
2006/07	674	170	7696	4356	8.76	3.90
2007/08	746	175	5198	3318	14.37	5.27
2008/09	1031	261	4859	1740	21.22	15.00
Mean					12.90	5.96
Standard Deviation					5.19	5.16

Coefficient of Variation	40.23	86.63
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Source: Annual Reports of KBL & NBBL from FY 2004/05 to 2008/09

Mean Standard deviation and CV for the return on working capital of KBL is 12.90, 5.19 and 40.23% respectively and 5.96, 5.16 and 86.63 % respectively of NBBL for the study period. The mean ratio of KBL was higher than that of NBBL which shows that KBL has higher return on working capital. Return on working capital was considerably higher in NBBL, which signifies that KBL was more successful to utilize the working capital for making profit. C.V of NBBL is more than that of KBL which reveals the consistency to its average.

**Figure 4.15**  
**Return on Working Capital Ratio**



Source: Table 4.15

#### 4.1.4.5 Invisibility Ratio

##### Earning Per Share (EPS)

It measures the profit available to the common shareholders as per share basis i.e. the amount they get from every share company cabs decide whether to increase or reduce the number of share issued. This decision will automatically alter the earning per share. The earning per share can be calculated by dividing the profit available after tax to the shareholders by the number of outstanding shares.

$$\text{Earning Per Share} = \frac{\text{Net Profit Available to Equity Shareholders}}{\text{Number of Share Outstanding}}$$

**Table 4.16**  
**Earning per Share**

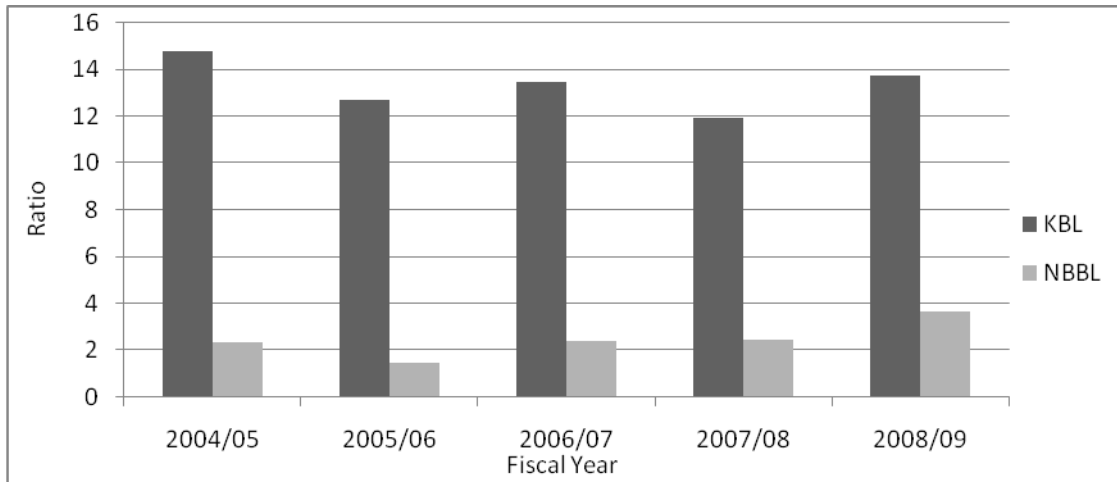
(Rs. In Million)

F.Y.	Net Profit		No. of Share		Ratio	
	KBL	NBBL	KBL	NBBL	KBL	NBBL
2004/05	518	84	3500	3599	14.80	2.33
2005/06	635	104	5000	7198	12.70	1.44
2006/07	674	170	5000	7198	13.48	2.36
2007/08	746	175	6250	7198	11.94	2.43
2008/09	1031	261	7500	7198	13.75	3.63
Mean					13.33	2.43
Standard Deviation					1.02	0.72
Coefficient of Variation					0.076	0.29

*Source: Annual Reports of KBL & NBBL from FY 2004/05 to 2008/09*

Above table shows the EPS of NBBL and KBL. The ratios of KBL in the study period are 14.80, 12.70, 13.48, 11.94 and 13.75 similarly the ratios of NBBL are 2.33, 1.44, 2.36, 2.43 and 3.63 respectively for the study period. Mean standard deviation and CV for the EPS of KBL is 13.33, 1.02 and 0.076. on the other side, the mean, standard deviation and CV for the EPS of NBBL is 2.43, 0.72 and 0.29 respectively. The average ratio of KBL for EPS was higher than that of NBBL. Likewise the CV was higher than NBBL. This shows the EPS of NBBL was more consistent to its average ratio. The above table can be presented in the following chart.

**Figure 4.16**  
**Earning per Share**



Source: Table 4.16

### Dividend per Share (DPS)

Dividend implies that portion of Net Profit, which is allocated to the shareholders as return on their investments on cash. The net profit after taxes belongs to shareholders. But the income, which they really receive, is the amount of earning distributed as cash dividends. The earning per share implies what the owner are theoretically entitled to get from the company while dividend per share is that portion of earning which is allocated to shareholders divided by total number of share outstanding. Thus, DPS is computed by dividing the total amount of dividend paid by the number of share outstanding.

$$\text{Dividend per Share} = \frac{\text{Earning Paid to the Shareholders}}{\text{Number of Common Shares}}$$

**Table 4.17**

### Dividend per Share

(Rs. In Million)

F.Y.	Earning paid to Ratio		No. of Shares		Ratio	
	KBL	NBBL	KBL	NBBL	KBL	NBBL
2004/05	100	195	3500	3599	2.80	5.42
2005/06	100	250	5000	7198	2.00	5.00
2006/07	369	430	5000	7198	7.40	8.60
2007/08	443	520	6250	7198	6.93	8.32
2008/09	830	850	7500	7198	11.01	11.81
Mean					6.03	7.83
Standard Deviation					3.29	2.47
Coefficient of Variation					1.83	0.31

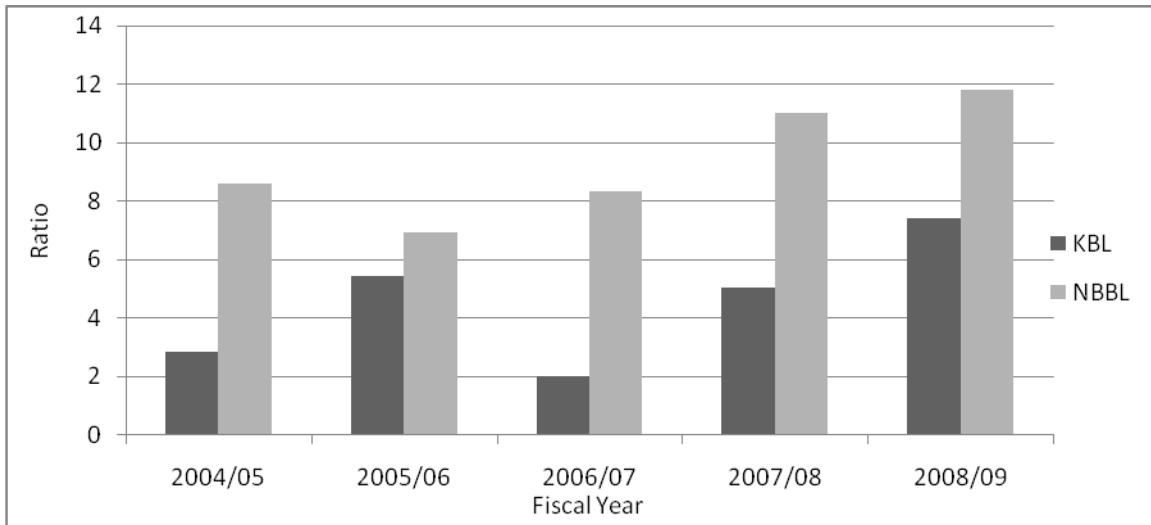
Source: Annual Reports of KBL & NBBL from FY 2004/05 to 2008/09

Above table shows the DPS of KBL and NBBL. The ratios of KBL in the study period are 2.80, 2.00, 7.40, 6.93 and 11.01 similarly the ratios of NBBL are 5.42, 5.00, 8.60 8.32 and 11.81 respectively for the study period. Mean standard deviation and CV for the DPS of KBL is 6.03, 3.29 and 1.83 .on the other side, the mean, standard deviation and CV for the DPS of NBBL is 7.83, 2.47 and 0.31 respectively. The average ratio of KBL for DPS was higher than that of NBBL. Likewise the CV was higher than NBBL. This shows the



DPS of NBBL was more consistent to its average ratio. The above table can be presented in the following chart.

**Figure 4.17**  
**Dividend per Share**



Source: Table 4.17

## 4.1 Statistical Analysis

Various financial tools mentioned above were used to analyze the cash and liquidity management of Commercial Banks. Similarly, the relationship between different variables related to the study topics were drowning out using statistical tools.

### 4.2.1 Mean or Average

The mean or average value is a single value within the range of the data that is used to represent all the value in the series. Since an average is somewhere within the range of the data, it is also called a measure of central value. Average value is obtained by adding together all the terms and dividing this total by the number of items. The formula is given below:

$$\text{Mean} = \frac{\sum X}{N}$$

Where,

$\bar{x}$  = Arithmetic Mean

N = Number of Observations

$\sum X$  = Sum of Observations

#### 4.2.2 Standard Deviation (S.D.)

The standard deviation is the square root of man squared deviations form the Arithmetic mean and denoted by S.D. or  $\sigma$ . It is used as absolute measure of Dispersion or variability. It is calculated:

$$\text{S.D. } (\sigma) = \sqrt{\frac{\sum x^2}{N} - \left(\frac{\sum x}{N}\right)^2}$$

Where,

$\sigma$  = Standard Deviation

$\frac{\sum x^2}{N}$  = Sum of Squares of Observation

$\left(\frac{\sum X}{N}\right)^2$  = Sum of Square of Mean

#### 4.2.3 Coefficient of Variation (CV)

Co-efficient of variance is the relative measure of dispersion comparable across distribution, which is defined as the ratio of the standard deviation to the mean express in percent (*Levin and Rubin; 1994: 144*).

Co-efficient of variance denotes by C.V. is given by:

$$\text{C.V.} = \frac{\text{S.D.}}{\text{Mean}} \times 100 = \frac{\sigma}{\bar{x}} \times 100$$

#### 4.2.4 Correlation Coefficient (r)

Correlation analysis in the statistical tools generally used to describe the degree which our variable is related to another. This tools is used for measuring the intensity or the magnitude of linear relationship between two variable X and Y is usually denoted by 'r' can be obtained as:

$$r = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

Where,

N = no of observation in series X and Y

$\sum X$  = Sum of observation in series X

$\sum Y$  = Sum of observation in series Y

$\sum X^2$  = Sum of square observation in series X

$\sum Y^2$  = Sum of square observation in series Y

$\sum XY$  = Sum of the product of observation in series X and Y

#### 4.2.5 Coefficient of Determination ( $r^2$ )

It explains the variation percent derived in dependent variable due to the any one specified variable; it denotes the fact that the independent variable is good predictor of the behavior of the dependent variable. It is square of correlation coefficient.

#### 4.2.6 Probable Error of Correlation

The probable error of the co-efficient of correlation helps in interpreting its value; it is obtained the following formula.

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

It is used in interpretation whether calculated value of 'r' is significant or not.

4. If  $r < P.E.$ , it is insignificant. So, perhaps there is no evidence of correlation.
5.  $r > 6 \times P.E.$ , it is significant.
6. In other cases nothing can be concluded.

#### 4.2.7 Trend Analysis

Trend analysis is very useful and commonly applied tool to forecast future event in quantitative term on the basis of tendencies in the dependent variable in the past period.

The linear trend values from a series in arithmetic progression.

Mathematically,

$$Y = a + bX$$

Where,

Y = Value of dependent variable

a = Y- intercept

b = slope of trend line

X = value of the dependent variable i. e. time

Normal equation of the above are:

$$\sum Y = Na + \sum X$$

$$\sum XY = a \sum X + \sum X^2$$

#### 4.2.7.1 Trend Analysis of Loans and Advances

Table 4.18

#### Comparative Trend Analysis of Loans and Advances

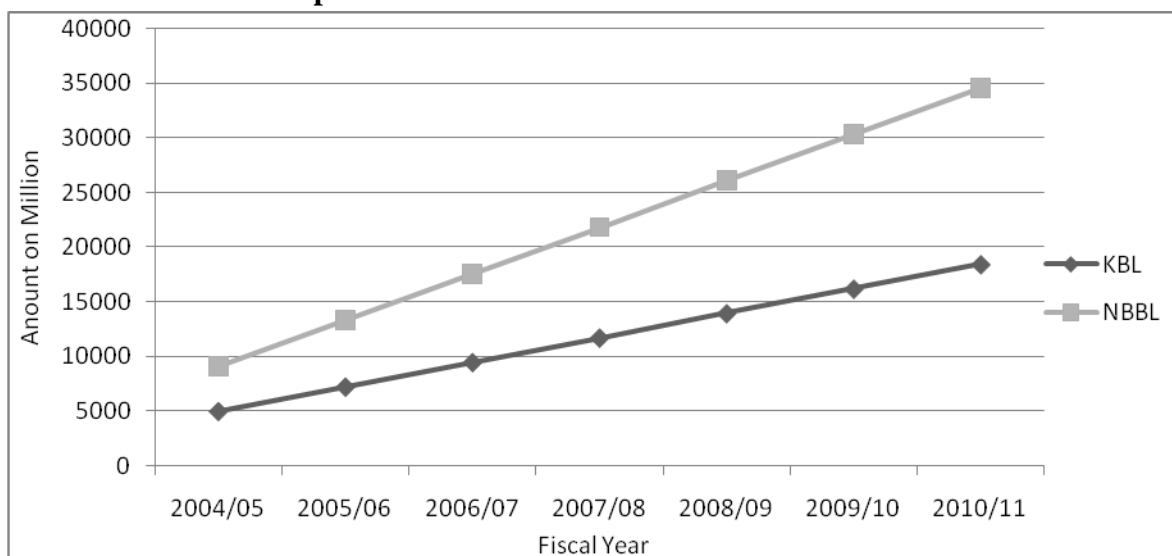
(Rs. in Million)

Year	Banks	
	KBL	NBBL
2004/05	4978	9110.4
2005/06	7222.9	13355.2
2006/07	9467.8	17600
2007/08	11712.7	21844.8
2008/09	13957.6	26089.6
2009/10	16202.5	30334.4
2010/11	18447.4	34579.2
Mean	9467.8	17600
Rate of Change (b)	2244.9	4244.8
Trend Equation(Y)	9867.8 + 2244.9 X	17600+4244.8 X

Source: Appendix- I-A

From the table 4.18 it has been found that the loans advances and bills purchased of sampled banks are in increasing trend. The rate of change of NBBL is higher than KBL. If other things remaining the same the expected total investment of KBL and NBBL will be 18447.4 and 34579.2 respectively in the year 2010/11. Trend line of loan and advances and bills purchased of sampled banks are shown as follows.

**Figure 4.18**  
**Comparative Trend Line of Loans and Advances**



Source: Table 4.18

#### 4.2.7.2 Trend Analysis of Total Deposit

Under this topic, an effort has been made to calculate the trend value of total deposit of KBL and NBBL, with comparatively five years study period and project the trend for next two years. The following table describes the trend values of total deposit of sampled banks for seven years.

**Table 4.19**  
**Comparative Trend Analysis of Total Deposit**

(Rs. in Million)

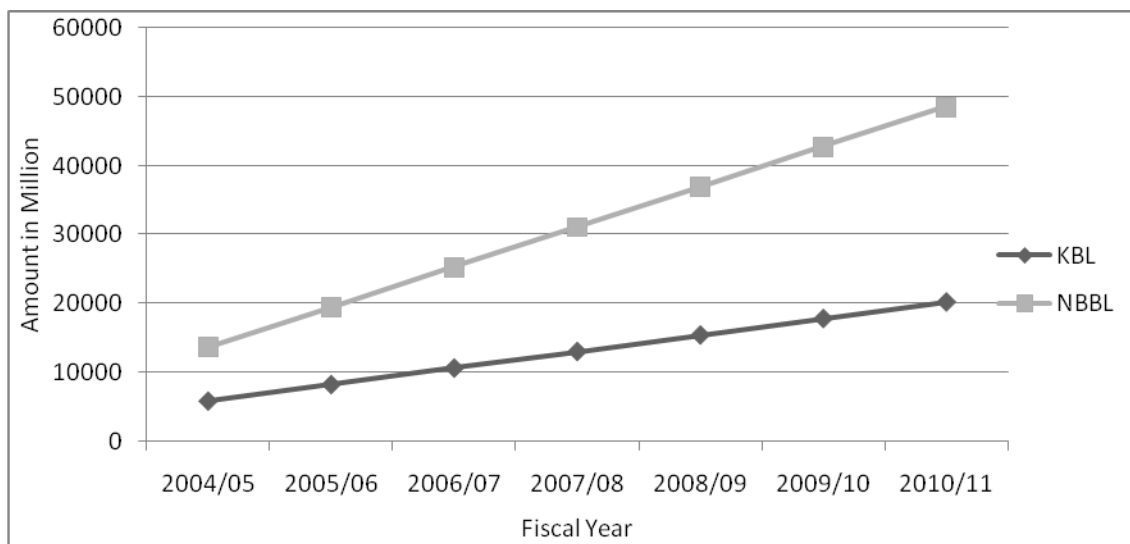
Year	Banks	
	KBL	NBBL
2004/05	5838.2	13689.8
2005/06	8227.1	19498.8
2006/07	10616	25307.8
2007/08	13004.9	31116.8
2008/09	15393.8	36925.8
2009/10	17782.7	42734.8
2010/11	20171.6	48543.8
Mean	10616	25307.8
Rate of Change (b)	2388.9	5809

Trend Equation(Y)	$10616+2388.9 X$	$25307.8+ 5809X$
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Source: Appendix-I-B

The above table shows that the trend line of total deposit is in increasing trend in all sampled banks. Comparatively the slope of equation of NBBL is high and its trend line is sloping upward rapidly. If other things remaining the same, the amount of Total Deposit of KBL and NBBL will be 20171.6, and 48543.8 respectively in the year 2010/11. Trend line of Total Deposit of sampled banks is presented below.

**Figure 4.19**  
**Comparative Trend Line of Total Deposit**



Source: Table 4.19

#### 4.2.7.3 Trend Analysis of Total Investment

Under this topic, an effort has been made to calculate the trend value of total Investment of KBL and NBBL with comparative under five years study period and project the trend for next two years. The following table describes the trend values of Total Investment of sampled bank for seven years.

**Table 4.20**  
**Comparative Trend Analysis of Total Investment**

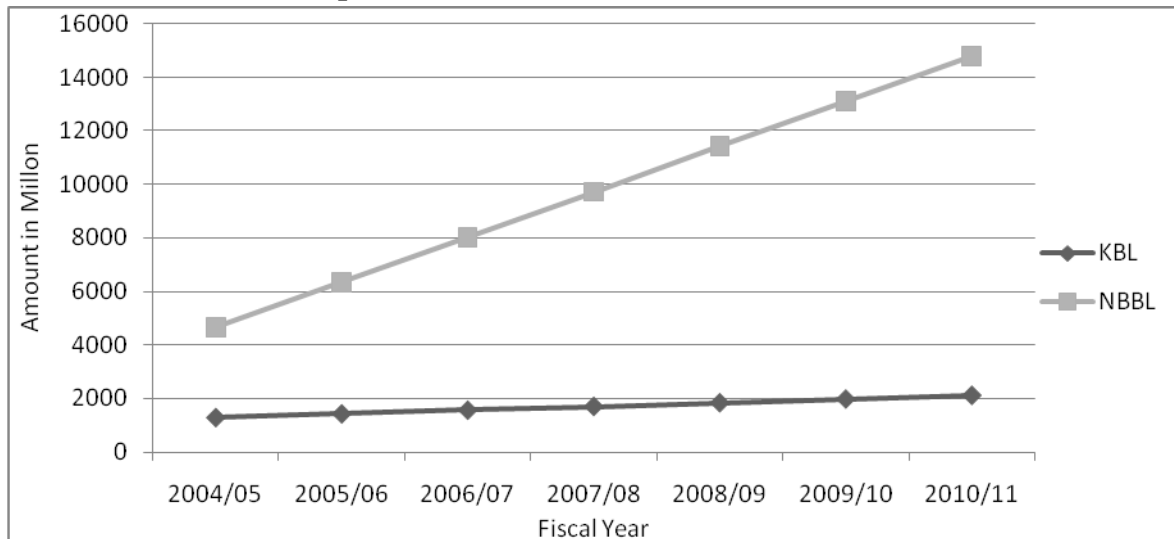
(Rs. in Million)

Year	Banks	
	KBL	NBBL
2004/05	1305.2	4661
2005/06	1443.6	6347.1
2006/07	1582	8033.2
2007/08	1720.4	9719.3
2008/09	1858.8	11405.4
2009/10	1997.2	13091.5
2010/11	2135.6	14777.6
Mean	1582	8033.2
Rate of Change (b)	138.4	186.1
Trend Equation(Y)	$1582+138.4X$	$8033.2+1686.1X$

Source: Appendix- I-C

From the above comparative table, it has been found that the total investments of sampled banks are in increasing trend. The slope of equation of NBBL is high and its trend line is upward sloping than KBL respectively if other things remaining the same the expected total investment of KBL, and NBBL will be 2135.6, and 14777.6 respectively in the year 2010/11. Trend lines of total investment of sampled banks are shown below.

**Figure 4.20**  
**Comparative Trend Line of Total Investment**



Source: Table 4.20

#### 4.2.7.4 Trend Analysis of Current Ratio

Under this topic an attempt has been made to analyze the trend of Current Ratio of sampled banks with comparative under five years study period and project the trend value for next two years. The following table describes the trend value of Current Ratio of sampled banks for seven years.

**Table 4.21**  
**Comparative Trend Analysis of Current Ratio**

Year	Banks	
	KBL	NBBL
2004/05	2.05	2.08
2005/06	1.80	2.08
2006/07	1.61	1.71
2007/08	1.34	1.44
2008/09	1.12	1.17
2009/10	0.88	0.90
2010/11	0.65	0.63
Mean	1.57	1.71
Rate of Change (b)	-0.23	-0.27
Trend Equation(Y)	$1.57-0.23X$	$1.71-0.27X$

Source: Appendix-I- D

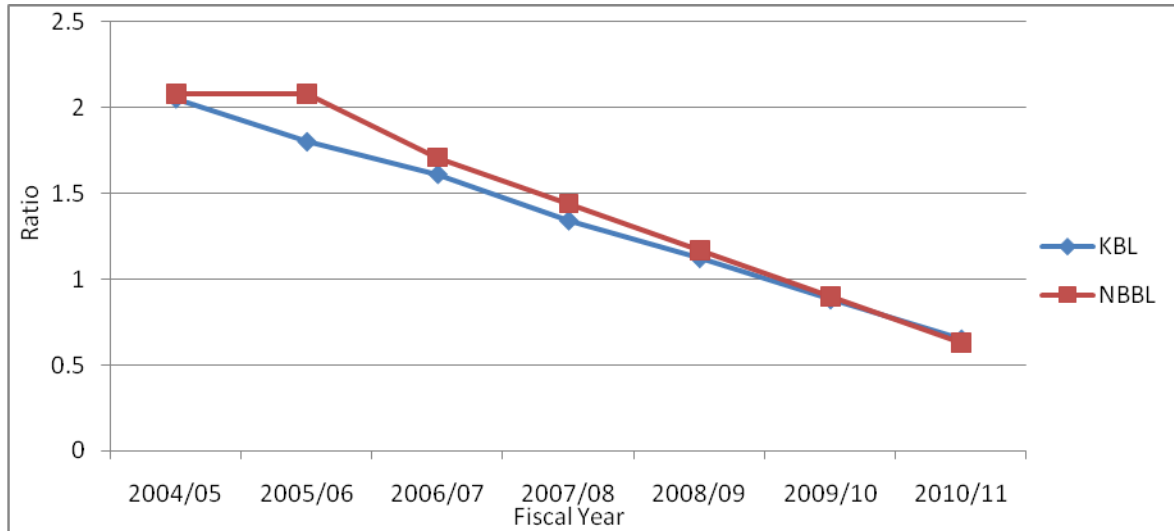
From the table, it has been found that Current Ratios of sampled banks are in decreasing trend. The rate of change of KBL is higher, (i.e.0.23), than NBBL (i.e.0.27) respectively.

If other things remaining the same the expected Current Ratio of KBL and NBBL will be 0.65, and 0.63 respectively in the year 2010/11.Trend line of Current Ratio of sampled banks are shown as follows.



**Figure 4.21**

**Comparative Trend Line of Current Ratio**



*Source: Table 4.21*

#### **4.2.8 Coefficient of Correlation Analysis**

Karl Pearson's co-efficient of correlation is the most commonly used measure of the relationship between two or more two variable. The value of co-efficient of correlation denoted by 'r' and it always lies between +1 and -1. + 1 indicate that there is perfectly positively correlated and -1 indicate perfectly negative correlated. The significant of coefficient of correlation (r) is tested with the help of probable error of r (i.e. P.E). If coefficient of correlation r is less than probable error P.E., it is insignificant. So, perhaps there is no evidence of correlation. If coefficient of correlation r is greater than six times of probable error P.E.(r), it is significant and the other cases, nothing can be concluded.

##### **4.2.8.1 Relationship between Deposit and Investment**

Coefficient of correlation measures the degree of relationship between other two variables, deposit and total investment. Deposit is independent variable (X) and total investment is dependent variable (y). The purpose of computing it is to find out whether deposit is significantly used is investment or not.

**Table 4.22**  
**Correlation between Deposit and Total Investment**

<b>Banks</b>	<b>KBL</b>	<b>NBBL</b>
r	0.56	0.95
r <sup>2</sup>	0.31	0.90
P.E.(r)	0.20	0.03
6 P.E.(r)	1.25	0.18

*Source: Appendix-II-A*

From the Table, the values of coefficient of correlation(r) of KBL and NBBL are 0.56 and 0.95 respectively which shows that there is a closer positive correlation between Deposit and Total Investment, therefore the value of coefficient of determination (r<sup>2</sup>) is 0.31 and 0.90 which shows that 31% and 90% of the total variation in dependent variable (Investment) is explained by independent variable (Deposit).

The coefficient of correlation 'r' of KBL is less than six times of probable error P.E.(r) (i.e.  $0.56 < 1.25$ ), therefore it reveals that the relationship between Deposit and Total Investment is nothing can be concluded. If  $P.E. (r) < r < 6P.E. (r)$ , then we can not draw any conclusion. The coefficient of correlation 'r' of NBBL is greater than six times of probable error P.E.(r) i.e.  $0.95 > 0.18$ . Therefore it reveals that the relationship between Deposit and Total Investment is highly significant.

#### **4.2.8.2 Relationship between Deposit and Loan and Advances**

It measures the intensity or magnitudes or degree of relationship between the two variables, Deposit and Loans and Advances. In the analysis deposit is independent variable(x) and loan and advances is dependent variable (y). The purpose of computing coefficient of correlation(r) between the two variables is to justify whether deposit is significantly used as loan and advances or not.

**Table 4.23**  
**Correlation between Deposit and Loan and Advances**

<b>Banks</b>	<b>KBL</b>	<b>NBBL</b>
r	0.98	0.99
r <sup>2</sup>	0.99	0.98
P.E.(r)	0.01	0.00

6 P.E.(r)	0.07	0.036
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Source: Appendix- II-B

The values of coefficient of correlation(r) of KBL and NBBL are 0.98 and 0.99 respectively or closer to +1 which shows that there is high degree of positive correlation between Deposit and Loan and Advances.

The coefficient of correlation 'r' of KBL is more than six times of probable error P.E. (r) (i.e.  $0.98 > 0.07$ ), therefore it reveals that the relationship between Deposit and Loan and advances is significant. The coefficient of correlation 'r' of NBBL is greater than six times of probable error P.E.(r) (i.e.  $0.99 > 0.036$ ), therefore it reveals that the relationship between Deposit and Loan and Advances is highly significant.

#### 4.2.8.3 Relationship between Current Assets and Current Liabilities

It measures the degree of relationship between the two variables, Current Assets and Current Liabilities. In the analysis Current Liabilities is independent variable(x) and Current Asset is highly dependent variable (y). The purpose of computing coefficient of Correlation (r) between the two variables is to justify whether Current asset is significantly maintained for Current Liabilities or not.

**Table 4.24**  
**Correlation between Current Assets and Current Liabilities**

Banks	KBL	NBBL
r	0.99	0.97
r <sup>2</sup>	0.98	0.95
P.E.(r)	0.60	0.01
6 P.E.(r)	0.05	0.09

Source: Appendix- II- C

The values of coefficient of correlation(r) of KBL, and NBBL are 0.99 and 0.97 respectively which shows that there are highly positive correlation between current liability and current asset. The coefficient of correlation r of KBL and NBBL is greater than six times of probable error P.E.(r) i.e.  $0.99 > 0.05$ ,  $0.97 > 0.09$  therefore it reveals that the relationship between current asset and current liabilities is highly significant.

### 4.3 Major Findings of the Study

During the study, all the secondary data has been analyzed by using financial as well as statistical tools. This topic focused on the major findings from the secondary data analysis. Which are derived from the analysis of liquidity management of two commercial banks named KBL and NBBL with comparatively applying five years data from FY 2004/05 to 2008/09. The major findings of the study drawn from the analysis of secondary data of sampled banks are given below.

1. The mean ratio of KBL is greater than that of NBBL. KBL has maintained high Cash and Bank Balance in relation to Total Deposit. The Standard Deviation of KBL is high which is also shown by line diagram fluctuating from year to year. The ratio of KBL is increasing trend. The ratio of NBBL is slightly decreased in the FY 2005/06 and increased in next following year. NBBL is more consistent or less variable than KBL. CV of KBL is higher than NBBL which reveal the inconsistency to its average ratio.
2. The ratio of current asset and current liability of both banks could not maintain the conventional standard of 2:1. The average ratio of NBBL was greater than that of KBL, which signified that NBBL was more capable of meeting immediate liabilities in compare to KBL.
3. In general, Saving Deposit to Total Deposit Ratio seems likely to equal in FY 2006/07. S.D. of KBL is greater than NBBL i.e.  $7.02 > 4.22$ . It indicates that KBL has higher fluctuation or higher risk on this ratio comparing with NBBL. Mean of saving Deposits to Total Deposit of NBBL is greater than that of KBL.
4. The standard deviation of the same ratio of KBL is 6.13 and 4.82 for NBBL. Which indicates NBBL is low variability than KBL. The ratios of both banks revealed fluctuating trend over the period.
5. Liquidity position of NBBL regarding with this ratio is better than that of KBL during the study period. Standard Deviation & CV of KBL is greater than NBBL i.e.  $2.32 > 2.20$  &  $67.25 > 50.46$  respectively, which means that KBL has more fluctuation in ratios compared with NBBL.

6. The ratios are in fluctuating trend for KBL and NBBL. The ratio of NBBL is also fluctuating trend deviating 3.78% from the average ratio of 31.94%. Since its CV is 11.83% it is consistent to average ratio. Between these two banks NBBL is in strong position in investment to total deposit ratio. It has invested more than 38.32% in 2006/07. Its average investment ratio is 31.94%. The investment position of KBL is lower than NBBL. NBBL is satisfactory level.
7. Average ratio of KBL seemed to be greater than that of NBBL, which indicates that KBL has mobilized its saving deposits in term of loans and advances more successfully. But CV shows the ratios in NBBL were more consistent than that of KBL. Similarly, the standard deviation is higher in KBL which indicates that line diagram fluctuating from year to year.
8. KBL is more successful in utilizing the resources in profitable sectors than NBBL. S.D of KBL is lower than NBBL which indicates that KBL is less variable than NBBL. CV of NBBL is higher than KBL which reveals the inconsistency to its average ratio.
9. An analysis of five periods the average ratio of KBL is higher than NBBL, the higher average ratio indicates that KBL has strong and highly capital adequacy position to contribution to investor.
10. The return on total assets of NBBL and KBL. The average ratio of KBL was higher than that of NBBL, which implies that KBL has more efficient operation of optimal utilization of the resources in comparison with same period of NBBL. Like wise CV of NBBL was less than that of KBL, which indicates that, the variability of the ratio of NBBL was more uniform than that of KBL. S.D of KBL is more than that of NBBL which indicates line diagram is more fluctuating from year to year than KBL.
11. An analysis of five periods the average ratio of KBL is higher than NBBL, the higher average ratio indicates that KBL has strong position to contribution to investor.
12. It can be concluded that NBBL had utilized its outsider's fund in better way to generate return and it is increasing its profit every year.

13. The expected total investment of KBL and NBBL will be 18447.4 and 34579.2 respectively in the year 2010/11.
14. The return on shareholder equity of NBBL and KBL. The ratios of NBBL in the study period are 13.02%, 12.04%, 16.60%, 12.82% and 16.06% Similarly the ratios of KBL are 31.30%, 33.87%, 32.77%, 30.65% and 32.94 % respectively for the study period. Mean standard deviation and CV for the return on shareholders equity of NBBL is 14.11, 2.07 and 14.67% and 32.31, 1.31 and 4.05% respectively of KBL. The average ratio of KBL for return on shareholders equity was higher than that of NBBL.
15. The expected total investment of KBL and NBBL will be 2135.6, and 14777.6 respectively in the year 2010/11.
16. The relationship between Deposit and Loan and advances is significant. The coefficient of correlation 'r' of NBBL is greater than six times of probable error P.E.(r) (i.e.  $0.99 > 0.036$ ), therefore it reveals that the relationship between Deposit and Loan and Advances is significant.
17. The relationship between Deposit and Total Investment is insignificant. If P.E. (r)  $< 6P.E. (r)$ , then we can not draw any conclusion. The coefficient of correlation 'r' of NBBL is greater than six times of probable error P.E.(r) i.e.  $0.95 > 0.18$ . Therefore it reveals that the relationship between Deposit and Total Investment is significant.
18. The coefficient of correlation r of KBL and NBBL is greater than six times of probable error P.E.(r) i.e.  $0.99 > 0.05$ ,  $0.97 > 0.09$  therefore it reveals that the relationship between current asset and current liabilities is significant.

## **CHAPTER - V**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

In this chapter, summary and conclusion of the research as well as recommendations are presented separately. After summarizing and concluding the research, recommendations are suggested for the financial performance of Nepalese Commercial Banks. The researcher has tried to give suggestions and recommendations to the commercial banks based on this research.

#### **5.1 Summary**

Basically, the entire research work has focused on the comparative study on financial performance in Nepalese commercial banks. For the study, two commercial banks (i.e. KBL and NBBL) are taken as sampled and analyzed their financial performance practice by taking five years secondary data from FY 2004/05 to 2008/09. The objective of the study is to find out and analyze the financial performance in Nepalese Commercial banks. To fulfill the research objectives the study is divided into five chapters.

The first chapter, it is an initial phase of the thesis that includes general introduction, a brief review of Kumari Bank Limited and Nepal Bangladesh Bank Limited, focus of the study, statement of the problem, significance, objectives and limitations of the study.

In second chapter, the researcher has found various studies regarding the financial performance of the financial institution and banks. So in this study the researcher is trying to review the importance and relevant aspect of banking, which have been conducted by previous researchers.

In third chapter, reveals the methodology adopted in carrying out the research work. It includes introduction, research design, sources and nature of data, period covered, research variables, research tools used and research questions for the study.

It will be concerned with the presentation and analysis of data that has been collected through various sources. It will mainly consist of interpretation and analysis of data with the help of various analytical tools and techniques and major findings regarding the study will also be included.

Five chapters, includes summary and conclusions of the study and also recommends some suggestions. The researcher have divided the study in 3 main chapters; among which, first chapter includes introduction portion. The second chapter includes the calculation of the necessary data and major findings. The third chapter includes the conclusions of the study and some package of recommendation based on the major findings.

## **5.2 Conclusions**

The mean ratio of KBL is greater than that of NBBL. KBL has maintained high Cash and Bank Balance in relation to Total Deposit. The Standard Deviation of KBL is high which is also shown by line diagram fluctuating from year to year. The ratio of KBL is increasing trend. The ratio of NBBL is slightly decreased in the FY 2005/06 and increased in next following year. NBBL is more consistent or less variable than KBL. CV of KBL is higher than NBBL which reveal the inconsistency to its average ratio. The ratio of current asset and current liability of both banks could not maintain the conventional standard of 2:1. The average ratio of NBBL was greater than that of KBL, which signified that NBBL was more capable of meeting immediate liabilities in compare to KBL. In general, Saving Deposit to Total Deposit Ratio seems likely to equal in FY 2006/07. S.D. of KBL is greater than NBBL i.e.  $7.02 > 4.22$ . It indicates that KBL has higher fluctuation or higher risk on this ratio comparing with NBBL. Mean of saving Deposits to Total Deposit of NBBL is greater than that of KBL. The standard deviation of the same ratio of KBL is 6.13 and 4.82 for NBBL. Which indicates NBBL is low variability than KBL. The ratios of both banks revealed fluctuating trend over the period. Liquidity position of NBBL regarding with this ratio is better than that of KBL during the study period. Standard Deviation & CV of KBL is greater than NBBL i.e.  $2.32 > 2.20$  &



67.25 > 50.46 respectively, which means that KBL has more fluctuation in ratios compared with NBBL. The ratios are in fluctuating trend for KBL and NBBL. The ratio of NBBL is also fluctuating trend deviating 3.78% from the average ratio of 31.94%. Since its CV is 11.83% it is consistent to average ratio. Between these two banks NBBL is in strong position in investment to total deposit ratio. It has invested more than 38.32% in 2006/07. Its average investment ratio is 31.94%. The investment position of KBL is lower than NBBL. NBBL is satisfactory level. Average ratio of KBL seemed to be greater than that of NBBL, which indicates that KBL has mobilized its saving deposits in term of loans and advances more successfully. But CV shows the ratios in NBBL were more consistent than that of KBL. Similarly, the standard deviation is higher in KBL which indicates that line diagram fluctuating from year to year. KBL is more successful in utilizing the resources in profitable sectors than NBBL. S.D of KBL is lower than NBBL which indicates that KBL is less variable than NBBL. CV of NBBL is higher than KBL which reveals the inconsistency to its average ratio.

An analysis of five periods the average ratio of KBL is higher than NBBL, the higher average ratio indicates that KBL has strong and highly capital adequacy position to contribution to investor. The average ratio of KBL was higher than that of NBBL, which implies that KBL has more efficient operation of optimal utilization of the resources in comparison with same period of NBBL. Like wise CV of NBBL was less than that of KBL, which indicates that, the variability of the ratio of NBBL was more uniform than that of KBL. S.D of KBL is more than that of NBBL which indicates line diagram is more fluctuating from year to year than KBL. An analysis of five periods the average ratio of KBL is higher than NBBL, the higher average ratio indicates that KBL has strong position to contribution to investor.

It can be concluded that NBBL had utilized its outsider's fund in better way to generate return and it is increasing its profit every year. The expected total investment of KBL and NBBL will be 18447.4 and 34579.2 respectively in the year 2010/11. The ratios of NBBL in the study period are 13.02%, 12.04%, 16.60%, 12.82% and 16.06% Similarly the ratios of KBL are 31.30%, 33.87%, 32.77%, 30.65% and 32.94 % respectively for the study

period. Mean standard deviation and CV for the return on shareholders equity of NBBL is 14.11, 2.07 and 14.67% and 32.31, 1.31 and 4.05% respectively of KBL. The average ratio of KBL for return on shareholders equity was higher than that of NBBL. The expected total investment of KBL and NBBL will be 2135.6, and 14777.6 respectively in the year 2010/11.

The relationship between Deposit and Loan and advances is significant. The coefficient of correlation 'r' of NBBL is greater than six times of probable error P.E.(r) (i.e.  $0.99 > 0.036$ ), therefore it reveals that the relationship between Deposit and Loan and Advances is significant. The relationship between Deposit and Total Investment is insignificant. If  $P.E. (r) < 6P.E. (r)$ , then we can not draw any conclusion. The coefficient of correlation 'r' of NBBL is greater than six times of probable error P.E.(r) i.e.  $0.95 > 0.18$ . Therefore it reveals that the relationship between Deposit and Total Investment is significant. The coefficient of correlation r of KBL and NBBL is greater than six times of probable error P.E.(r) i.e.  $0.99 > 0.05$ ,  $0.97 > 0.09$  therefore it reveals that the relationship between current asset and current liabilities is significant.

### **5.3 Recommendations**

Suggestion is the yield of the whole study. It helps to take corrective action in their activities in future. Different analyses are done to arrive at this step.

After completing the research entitled “A comprehensive financial performance of commercial banks” and presenting, analyzing, concluding the data and related topics, some recommendations are presented below.

1. Both banks have very low liquidity position because the current ratios are below the standard. Both banks cannot pay short-term liability at the time of its creditor's demand. It may create difficult situation in future. So, both banks should keep sufficient level of current assets to maintain its liquidity position.
2. The investment positions of KBL and NBBL, out of its total deposit are not satisfactory because the investment to total deposit ratio are too much low. The study shows minimums of total deposits are used for investment. So, it is

recommended that both banks should have to give priority to invest in profitable investment opportunity than providing maximum unsecured loan.

3. Both banks have provided more loans and advance from it's saving, fixed, and total deposit. So, both banks should review their loan policy and suggested to advance the loans only after the proper analysis of customers.
4. Government should formulate plans and policies and launch various programs for the growth of development banks focusing on private sector development banks.
5. Satisfied employees are the backbone of the bank. So, necessary steps should be step forwarded to develop satisfied and well-trained employees, which may reduce the problems of bank debtors and frauds.
6. Rules and regulations are the guidelines of things to do or not to do. So, its effects can be seen after the implementations.
7. This research may be helpful to fulfil the gap of proper research in financial performance of commercial banks. It may provide the knowledge about financial analysis in Nepalese commercial banks. This study may be the guideline to other researchers.

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